Management

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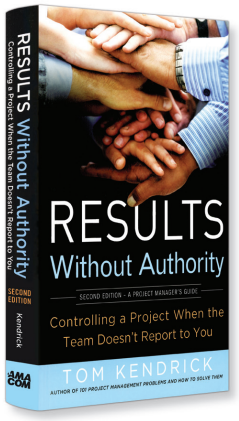
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Results Without Authority

Controlling a Project When the Team Doesn't Report to You



by **Tom Kendrick**

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THE SUMMARY IN BRIEF

When you're a project manager with a team of people who don't technically report to you, your challenge is to get Results Without Authority. This book delivers proven techniques for controlling projects and managing diverse teams in a wide variety of situations and bringing those projects to a successful closure. The concepts are essential for all project managers, with and without authority, because they offer a productive alternative to "command-and-control" management techniques that can easily backfire.

Tom Kendrick's system will help you get successful project results from diverse, cross-functional, virtual, outsourced and other types of project teams. Packed with invaluable guidance for projects of all scopes and in any field, Results Without Authority will help novice and experienced project leaders get the best from their project teams.

IN THIS SUMMARY, YOU WILL LEARN:

- The key project management processes, infrastructure and the role of the project office.
- Productive leadership styles that encourage reciprocity and collaboration.
- Tips for controlling a project through quantitative diagnostic metrics.
- How to create a collaborative planning process to provide a foundation for project control.

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Control of Projects

Increasingly today, projects are undertaken in environments where the project leader has little formal authority. Even for projects managers with formal authority, significant portions of project work are done by contributors who work for other managers, often for a different company. Projects where no one is in charge are almost certain to fail. As the leader of your project, you must assume control, whether or not you possess organizational authority. Here is a list of things that project leaders can (and should) take control of, regardless of their position or power in an organization:

- Measurement
- Reporting cycles
- Milestones
- Communication
- Project reviews
- Change management
- Rewards and recognition
- Constructive criticism
- Reciprocity and exchange
- Risk monitoring

Project managers can use these means to enhance their control in any project.

Elements of Project Control

Every project leader has a number of levers available that increase project control. Three principal elements of control are

1. **Project processes** provide the structure necessary for control and can serve as an effective substitute for organizational authority.
2. **Influence**. Getting cooperation is much easier when you have a two-way relationship of trust and respect with your team members. The surest path to cooperation starts with establishing strong social relationships in which people don't want to disappoint each other. Another way to enlist willing cooperation is to involve your project staff in activities that they want to work on.
3. **Metrics (measurement).** Measuring a few key things on a project and publishing the results powerfully affect your project's progress. A small set of well-defined project metrics gives the project leader a powerful tool for managing project initiation, execution and closure.

Project control starts at project initiation, and it requires your full attention all the way to the end. Applying these concepts will carry you safely to your destination: project success.

Control Through Process

Successfully managing a project involves at least three separate activities: achieving project objectives, managing the project processes and leading the team. Project leaders who collaboratively fine-tune the project processes used by their teams gain control in two ways. Using processes that project contributors and stakeholders participate in defining augments the trust and collaborative environment that successful projects depend on. In addition, getting voluntary commitment to use well-defined processes encourages appropriate behavior.

Before doing a lot of work defining (or redefining) processes, assess where your organization stands on project management generally. It doesn't matter a great deal what specific processes you adopt as long as they make good business sense, have meaningful support from your team and stakeholders, and are actually used.

Life Cycles and Methodologies

Life cycles serve primarily to coordinate related projects and provide defined checkpoints, whereas methodologies drive to ensure consistency in how project work is done. Mandatory process aspects of either (or both) may be used to significantly enhance your project control.

Nearly all projects have at least an informal life cycle that provides an overall structure and consistency for major project milestones. There are two main families of project life cycles. One is the waterfall type, made up of a single arc through a series of sequential phases. The other is the agile type, in which projects are comprised of a succession of step-by-step, iterative cycles, each delivering an incremental result that approaches the final deliverable. The specific details must be customized to meet particular business, project and customer needs. For each requirement in a life cycle, ask two questions:

- Why is this necessary?
- How might I use or modify this particular requirement to enhance my control over my work?

Life-cycle requirements are also a powerful tool for managing potential conflicts among different functional groups with contradictory interests. If everyone commits to meeting well-defined project life-cycle requirements, there will be fewer conflicts over what is due and when.

In addition to specifying project milestone and review requirements, methodologies provide explicit guidance for how work is to be done. The process definitions generally include templates, checklists, forms and other materials that project leaders are either required or strongly encouraged to use.

Project Definition and Charter

Clear, unambiguous, high-level project documentation is essential for project control. Developing and communicating a thorough description of your project set the stage for all subsequent work. Get team buy-in for structured project management processes, and clearly document how you will use them. A project charter is a living document that may grow and evolve over the course of the project, but maintaining an unambiguous, easily accessed description of the project is a very powerful tool that you can use to keep your project under control.

Change Management

Change management processes that contribute to your ability as leader to keep things under control have several things in common:

- Specific requirements for submitting change requests
- A bias against accepting changes
- Standards for timely response on change requests
- A review process for changes
- Unambiguous authority for the owner of the process to make final decisions

Simply having a process that your team, sponsor and project stakeholders all accept is a powerful tool for overall project control. It puts people on notice that changes will be carefully examined before being accepted, and establishes the hurdle of adequate documentation of changes being proposed.

The project leader is best served by a process that clearly defines how the proposed scoping for future phases will be evaluated and prioritized, using objective standards and delegating unambiguous authority for final decision making.

Project Infrastructure

One way to begin establishing an infrastructure for your project is to list key questions that you would like to answer, working with your team. Review past projects for problems related to structure, and work with your team to make project infrastructure decisions to resolve them. Take advantage of organization expertise and project office capabilities, but resist surrendering control over your own project.

Control Through Influence

Project leaders need to determine what operating style works best for their project teams. Adopt a leadership style that works with your team members, and strive to deliver on what people care about the most. The leadership style that you adopt will determine how members of the team perceive you. Most of the time, this perception matters more than actual authority.

The fundamental basis for getting what you need relies, as it always does, on exchange: giving something in return for something requested. Build your awareness and skill for influencing others. A few things are common among successful influencers. They approach others one on one. Successful influencers also identify and use common ground and shared interests early. They are also generally well liked and seem to have a knack for closing the deal.

An overall process for influencing involves 10 steps:

1. Document your objective.
2. Identify who could do the work.
3. Evaluate your options, and select the best person.
4. Consider the other person's perspective.
5. List possibilities for exchange. These strongly correlate with motivating factors.
6. Meet with the other person.
7. Verify your assumptions, and determine what to exchange.
8. Request a commitment.
9. Document the agreement.
10. Deliver on your offer, and track the work to completion.

Negotiate credible commitments with contributors by discovering what they want that you can offer to them and by using exchanges.

To build influence in your team, lead by example, use random positive reinforcement, remove barriers, always provide positive reasons, coach, mentor, and assist, be inclusive, and practice credibility and integrity. Work to increase your influence through your actions and demeanor.

Building Influence with Your Manager, Project Sponsor and Stakeholders

To be successful, you also need to influence upward. You can improve your influence with your management by ask-

ing revealing questions and collaborating with your peers. Recommendations that come from a task force or a council of leaders carry a good deal more weight than those that originate from just one person.

Building influence with managers is largely about relationships; keeping your sponsor and stakeholders involved and supportive throughout your project is always a good investment of your time.

Control Through Project Metrics

Metrics can be used to better understand your project, to adjust the project's objectives, to improve your processes and working methods and to motivate team members. Project assessment metrics that use numerical data can show what you are getting into.

Measurement is also central to decision making. For the project leader with little real authority over team members, measurement is also an essential tactic for motivating project contributors. Used well, such metrics are a force for good that will significantly increase your ability to keep things under control and moving ahead.

Types and Uses of Project Metrics

Identify metrics that align with the project objectives and the desired behaviors. Of the three basic types of metrics, each plays a different role in project management:

- Predictive project metrics are based on definition and planning information and help set realistic expectations for the project.
- Diagnostic metrics are based on current status and serve as indicators of progress and as timely triggers for risk response, problem solving and decision making.
- Retrospective metrics assess how well the work you completed was done and provide insight into process issues and recurring problems.

Projects are complicated, and selecting the right measures for your project may be challenging. Defining the desired behaviors and objectives before considering the question of what to measure leads to more consistent, appropriate results.

Designing Individual Metrics

Methods for defining metrics include

- **Goal question metric.** A systematic process based on a three-tiered hierarchy. The first tier is at the top and defines the desired outputs and results. The second tier is composed of questions through which you can determine whether you have achieved those objectives. The third and lowest level contains measures that can be used in answering the questions.
- **Balanced scoreboard.** Robert Kaplan and David Norton devised a four-quadrant view that provides tension between the measures and helps to ensure that the metrics are less likely to result in dysfunctional behavior. Kaplan's four quadrants are customer, finance, internal process, and learning and growth.
- **Behavioral methods.** Metrics tied to rewards are nearly always defined starting with a behavior that is viewed as desirable and associating monetary payment, recognition or some potential for reward with specific behavior.

Select a small set of key measures, and obtain team support for them. Whatever process you use, the final steps of the process require you to evaluate your measures for appropriateness, consistency and potential dysfunction. Test the metrics, and establish a measurement baseline. Finally, use the metrics to monitor and control your project.

Control Begins With Project Initiation

Troubled projects frequently have tentative beginnings. You can avoid a lot of late project anguish by asserting control as soon as the project begins, ideally with a fully engaged project team ready to hit the ground running. To do this, you need the support of your sponsor, solid documentation and a project startup workshop.

Sponsorship

Your project sponsor has considerable organizational authority, at least enough to initiate your project. One of the first things you can do to ensure ongoing support and attention from your sponsor and other influential stakeholders is to set expectations right away and get specific commitments. Shortly after you assume responsibility for your project, use your influencing skills to extract commitments from your sponsor (and other key stakeholders) in exchange for your agreeing to lead the project.

Ask your sponsor to describe to you why, from his or her perspective, the project is being undertaken, and capture that rationale using your sponsor's words. However, avoid getting your sponsor too involved with the day-to-day execution of your project. You want your sponsor's support, not his or her detailed involvement; after all, it's your project.

Project Vision

Project vision is about why the project matters, and although this could be the same for everyone, some aspects may be personal and unique for each individual. For longer, more complicated projects, investing some time in the "vision thing" can be what differentiates a successful project that everyone cares about from a chaotic disaster.

An inspiring project vision increases your influence, particularly during project initiation. Work to understand your sponsor's expectations for the project. Your sponsor's motivations are the foundation for your overall project definition, and understanding the genesis for your project helps you uncover assumptions and constraints that you need to manage and control your project.

Develop a compelling project vision, and fine-tune it as needed to inspire and motivate your team.

Project Launch

With a sense of who wants the project and why, the project leaders can begin defining a foundation for project control by documenting and defining the project. Some of the documentation that you need to assemble for the initial project communication are

- **Project charter.** One way to collect initial high-level information. What matters most for project control is that you capture initial project expectations in writing.
- **Project priorities.** Documented priorities help you assess trade-offs and develop alternatives during project planning, minimize controversy over decisions throughout the project, negotiate project changes and support disciplined change control for your project. Setting priorities is equivalent to the old adage, "Fast, cheap, good — pick two."
- **ROI analysis.** Project ROI (return on investment) analysis requires two separate predictive metrics: monetary inflows and monetary outflows. Overall, focusing on the value of the project inherent in your vision is better than getting too wrapped up in financial ROI analysis.
- **Initial scoping.** One of your most important objectives in initiating a project that you can control is to get an early, solid fix on what "done" looks like. Changes, particularly late-project changes, are the enemy of control. You need to define deliverables, verify requirements, test the limits, validate initial scoping and get agreement on success criteria.
- **Project staffing requirements.** Following your analysis of preliminary scoping (or in parallel with it), confirm your project staffing. Particularly for leaders who do not directly manage the contributors on the project team, early identification and commitments for staffing are essential to project control.

Startup Workshops

Conduct an effective project startup workshop to get your project off to a healthy start. A project startup workshop serves to build teamwork and to establish a solid, shared understanding of what the project is about. Both the influence and control aspects of a well-run startup workshop are substantial.

Building Control Through Project Planning

Planning is a collaborative process that establishes buy-in and ownership of project work and motivates your whole team.

Plan Collaboratively

Plan your project thoroughly with your team, and integrate their inputs, suggestions and perspectives all through your planning documents. Collaborative project planning builds on the project charter, initial scoping and other documentation. Work for consensus, and document the decisions as you make them. Make your infrastructure decisions visible to your stakeholders and to others involved in your project.

Breaking Down the Work with Your Team

A project work breakdown schedule (WBS) is essentially the equivalent of a to-do list for your project. A project WBS is best developed by a team that includes a wide spectrum of perspectives — the more the better. Use planning data to set a realistic project baseline, negotiating required changes to initial objectives with your sponsor and stakeholders.

Defining the work is one challenge you face in controlling your project. Obtaining reliable commitments for every part of the work is the next. As your project's work takes shape, determine which member of your team is the most appropriate owner for the lowest-level activities in the structure. Develop a list of all project activities, noting the commitments that emerge during the development of your WBS. The commitments made by your team are only half the story. Also write down any commitments that you made to your team members, and schedule any work that you need to do to deliver on them. Commitments offered willingly are always much more reliable than those we try to force.

Collaborative Estimating

Estimating is one area where all the elements of control outlined in this book come together. Processes and metrics matter a great deal because estimates that aren't based on a good process and measured history are just wild guesses. Also, collaborative estimating provides excellent opportunities to build teamwork and influence.

Some ideas for developing estimates that help you understand and control your project include using your plan details, learning from history and approaching estimating as a team activity. Collaborative estimating is a well-established way to tap into the "wisdom of teams" and more deeply engage your team in the project. All collaborative estimating techniques create estimates based on team inputs. Because the estimates are produced by the same individuals who will do the work, they are motivating, and contributors generally do their best to deliver on them.

Constraints and Plan Optimization

As your project plan detail comes into view, much of what it reveals is not good news. The initial schedule is usually too long. The staffing, resources and budgets available are often far below what your cost analysis requires.

Spending at least a small amount of time exploring opportunities is both good business and one of your most potent levers for control. Consider opportunities for doing work in parallel (fast-tracking) to shorten the timeline. Determine whether a larger investment or staff will allow you to meet the timing and scoping goals. Once you have a plan, work to optimize it. Based on your project priorities, figure out how to meet the most important part of the scope-time triple constraint by relaxing the least important factors.

Throughout your project planning, maintain a list of risks that emerge. Keeping risks and their consequences visible is itself an effective mitigation strategy because people tend to work to avoid serious problems if they are aware of them. Collaborative risk planning also tends to build teamwork, enhances interpersonal relationships and can increase overall confidence in the project.

Measure Your Plan

You can use predictive metrics to assess your project as a whole, identify unrealistic assumptions, uncover significant potential problems and more clearly communicate what your project is up against. Because predictive measurements are primarily based on speculative rather than empirical data, they are generally less precise than diagnostic and retrospective metrics.

Useful metrics require a baseline, and baselines for predictive metrics are best set using retrospective information and metrics from recent comparable projects. Use these measures to further review your plans.

Use Your Plan

Once a credible plan is in place and agreed to, project control shifts to execution and tracking. Begin execution of your project with a credible, understandable plan that is available to all the members of your team. Once you set the project baseline, maintaining control now depends on keeping your plans up to date and visible.

Maintaining Control Through Project Execution

Initiation tells everyone what your project is doing, and planning shows how you intend to get it done. With everything clearly defined, project execution ought to be straightforward. Unfortunately, even the best-planned projects rarely run smoothly.

Define diagnostic project metrics that enhance control of your project; then get buy-in from your team. Diagnostic metrics in particular can show

- Critical activity slippage
- Adverse resource consumption and timing trends
- Chronic issues
- The need to modify project plans or execute contingency plans
- When to reset the baseline for the project

You need to select a small number of metrics that are likely to be useful enough to justify the effort it takes to collect them. All diagnostic metrics, even those you intend to collect only infrequently, have an ongoing cost. Select your metrics carefully, choosing ones that provide useful data that you can use to guide and control your project without inappropriate cost.

Status Collection

One of the most important and visible jobs of a project leader is communicating project status. This communication depends on a repeating cycle of information collections, analysis, response planning and outbound reporting. The tracking and reporting cycle repeats throughout your project, typically weekly.

If you are a project leader without a great deal of authority, you need to work to obtain meaningful commitments from your team to provide the information that you need. To do this, discuss with each individual on your team how the information will be used and what the benefits are.

Be dogmatic and disciplined in collecting project status. Whatever mechanism you select, do it the same way throughout your project. Email provides a simple, unambiguous way to collect status, and it leaves an audit trail for your records. Thank people for providing status, especially extended members of your team.

Informal Communication

Communication is arguably the most important job for any project leader. For project leaders who don't have a great deal of actual authority, informal communication can be substantially more critical to project control than formal communication. Informal communication — conversations, social exchanges, even nonproject interactions — forms the basis for the trust, teamwork and durable relationships that are essential for efficient project execution and the prompt resolution of difficulties. Use informal communication to collect soft data, and work to maintain relationships and trust within your team.

Maintaining Relationships and Keeping Your Team Focused

You can and should do a number of things to maintain good relationships with your team for the remainder of your project. Some methods include building on common interests, using team activities, tailoring your interactions, staying positive, interacting socially and using humor.

Use team-oriented activities throughout your project to encourage and sustain effective teamwork. One way to strengthen interpersonal connections right at the beginning of a project is to work as a team to name your project. Forging a project identity draws the team together by providing an easy, shorthand way to refer to the project as a whole.

Nonproject-related activities, such as going to a movie, a sporting event or some other type of outing, can be a significant boost to building team relationships. Likeable project leaders have more influence over their teams and more control over their projects. Cultivating an appropriate sense of humor is a good way to increase your likability.

For most project work, progress depends on people having substantial blocks of time to work without distraction. Do what you can to establish an environment where your contributors have protection from needless noise and interruptions. Getting results requires quiet, no matter how much we may believe otherwise.

Tracking and Monitoring for Project Control

Project scope depends heavily on scrupulously managing scope for your deliverables. Failure to control scope is about the most common reason projects fail to achieve their objectives. If you don't have a great deal of formal authority, a robust process for managing scope changes may be all that stands between you and complete chaos. If a good process exists in your organization, adopt it and use it. If not, write one, and get your team to provide feedback. Draft a process that has a default answer of reject for changes, with all changes treated as unnecessary until proven otherwise. Also include explicit criteria to be used in making a decision for each change.

Always answer two questions about every proposed change: **1.** What does it cost? **2.** What is it worth?

If the cost of a change appears to exceed its potential value, there's a good argument against the change. Finally, always consider four possible decisions for any change: rejected, approved, approved with modifications and deferred for future consideration.

When changes are approved, communicate them. Notify your team and others who need to know, and promptly update all affected project plans and documents. Use reports and other formal communication to keep people in sync with your project and aware of its progress.

Control Challenges

Projects of all types encounter barriers. To meet these challenges, you need to use your influence to establish relationships and trust with your team members, and maintain good team cohesion through your loyalty, personal interactions and good humor. Because most control problems are easiest to resolve face-to-face, meet one-on-one with your contributors as frequently as practical. Motivate your team using frequent thanks and recognition and rewards when appropriate.

Periodically review longer projects to validate objectives and plans and to revitalize the project vision. Deal with barriers to progress, and promptly resolve project conflicts. To remain in control, you need to manage barriers, resources challenges and conflicts.

Enhancing Overall Control Through Project Closure

Closing a project well involves some time and work, but it

is essential to the control of future projects. Getting agreement from your sponsor and from all your stakeholders that your work was satisfactorily completed is necessary before you can transition to new projects. Archiving your completed project documents provides information necessary for defining and planning similar future projects.

Employing Retrospective Project Metrics

In general, the role of retrospective metrics is to evaluate a process following execution. Retrospective metrics are especially useful for a project leader with limited power and authority. Whether your project ends successfully, with difficulty or even if it is cancelled, backward-looking project measurements reveal much about what you did well and what you need to improve.

Celebration and Team Rewards

One of the best (and certainly the easiest and least expensive) things that project leaders can do to motivate people and reinforce their influence is to thank team members for their contributions to the project. Thank people face-to-face if possible. Find at least one thing in particular to comment on for each individual as a way to reinforce your appreciation. Also, express your thanks in writing. Be generous in giving credit for project accomplishment to your team members in presentations, discussions with management and in other conversations.

As a project leader, you have another final task: arranging to commemorate the end of your project with some sort of event. Set up a small get-together to end your project on a positive note.

Capturing Lessons Learned

A post-project retrospective analysis provides you an opportunity to discuss all aspects of the project and allows you and your team to put it securely in the past and move on to whatever is next. The overall process is structurally very similar to a project review, except a retrospective analysis is, as the name suggests, primarily backward looking. Your tasks are to prepare for the retrospective, to meet to review project results and processes, and then to document and follow up on recommendations.

Document your retrospective meeting, and summarize the recommendations you and your team have made. Circulate your key findings to other project leaders. Follow up on your key recommendations. Capture and apply the lessons learned.

Conclusion

If you are asked to lead a project, someone believes that you are capable of doing it. If you believe it too, then you are both probably correct. Succeeding with any project is all about gaining the cooperation of the people involved. Controlling your projects when you have little authority comes down primarily to aligning your project activities and goals with those of your sponsor, your team and your stakeholders — getting by with a little help from your friends.

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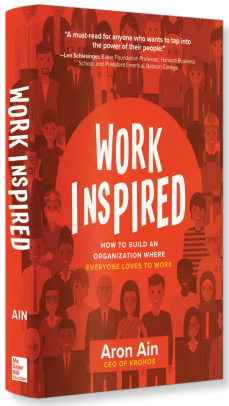
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WorkInspired

How to Build an Organization Where Everyone Loves to Work



by **Aron Ain**

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THE SUMMARY IN BRIEF

Imagine a company where everyone loves to work, where employees feel not just "satisfied" but truly cared for, respected and energized. Think of the impact this would have on recruitment, retention, customer satisfaction, innovation and overall performance.

Aron Ain, the award-winning CEO of Kronos, a global provider of workforce management and human-capital management cloud solutions, believes that anything is possible when people are inspired. By embracing employee development and engagement as a growth strategy, Ain transformed his company's culture and built a billion-dollar business. ***WorkInspired*** takes leaders and managers inside Kronos' highly admired WorkInspired culture, showing them the surprisingly simple rules they can follow to replicate that success.

Many executives talk about how "their people are their greatest asset." Ain challenges leaders to "walk the talk" and put people first, whether they oversee a team of five or an organization of 500,000. When they do, employees won't be the only ones who thank them. Customers and shareholders will, too. This is what it means to WorkInspired.

IN THIS SUMMARY, YOU WILL LEARN:

- How "un-leaders" inspire their people by adopting the right mindset.
- The importance of trust and over-communication.
- How to make work both fun and productive.
- How a culture of caring fosters innovation throughout the organization.

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Introduction

I've spent my career working at Kronos® Incorporated, the Massachusetts-based, billion-dollar global software firm founded in 1977 by my brother Mark. You might not have heard of us, but chances are we're touching your daily life. Our initial product was the first microprocessor-based time clock, a device that recorded, totaled and reported employee hours.

Today, under the banner Workforce Innovation That Works™, approximately 5,500 Kronos employees — or "Kronites," as we call ourselves — around the world create, sell and service software that helps organizations track the time their employees work to ensure that everyone is paid properly; that employees are scheduled based on skills, preferences, seniority, availability and historic business data; and that organizations are better able to comply with complex labor regulations.

We believe that great businesses are powered by great people and that to be a great business you need to create and manage an engaged workforce. Lots of executives claim to put employees first, but when I became our company's CEO in 2005, I had a chance to put my philosophy to the test.

From "Like" to "Love"

Although people seemed to like working at Kronos, employees didn't ***love*** Kronos, and they didn't see our organization as a unique and extraordinary place to build a career. That's what we changed.

Our drive to institutionalize a great culture got a boost in 2010 when we hired a seasoned executive with a strong quantitative background as our chief people officer. We performed a quantitative and qualitative analysis of the main drivers of engagement, identifying development and innovation as the biggest factors — and after further refinement, we discovered that manager effectiveness and a feeling of connectedness to the company's mission and strategy were also critical.

Walking the Talk

Then we rolled out a slew of new programs, processes and benefits that our people wanted, branding them so employees around the world understood and valued them. We defined and branded our culture itself, calling it WorkInspired and linking it to three core competencies: character, competence and collaboration.

We've since tied these competencies to our business strategy, leadership, performance goals, competency assessments, selection practices, reward and recognition programs, and merit and incentive programs and processes. We called our culture WorkInspired because we think of our company as a partnership built on inspiration: We provide an inspiring place to work, and we ask that employees perform their work tasks in an inspired way as well.

Our embrace of a strong people-strategy has paid off. Employee engagement has soared, with 87 percent of employees now reporting strong engagement, far above the global IT industry norm of 68 percent. In 2014, the ***Boston Globe*** named us the top large employer in the state of Massachusetts.

Taking care of people first — so they can in turn delight our customers and boost our sales — isn't rocket science. ***Any*** company or team can do it.

We need to stop taking employees for granted. Engaged employees lead to more innovative products and happier customers, which leads to stronger performance. That holds no matter your industry, and whether you're a manager overseeing a team of five or a leader running an organization of 500,000.

Each of the following sections presents a principle that we've deployed to nurture engagement and help people become "work inspired."

Become an Un-Leader

There's a name for the kind of humble CEO I aspire to be. I'll call him or her the "Un-Leader." No matter where in an organization you reside, try regarding yourself as an "Un-Vice President," an "Un-General Manager," an "Un-Sales Supervisor" and so on.

Let's unpack the mentality that defines "Un-Leaders." First, such leaders appreciate that their team or organization's success doesn't owe all to their personal efforts. Some executives and managers like to think they're indispensable. But Un-Leaders harbor no illusions about the unique value of their own contributions. As CEO of Kronos, I think of myself as just another team member. As I see it, the reason we have thousands of people in our organization is because we need thousands of people. It isn't all about me, nor is it about other highly visible members of our leadership team.

A second feature of Un-Leaders' mentality is an ability to put their work and their title in perspective. Being a CEO doesn't define how I think about myself. As a result, I don't

When we are humble, and when we project that humility outwardly in our behavior, team members notice. They come to feel that their leaders respect them. . .

spend a lot of time obsessing over my title, my authority, my power. Instead, like every other Un-Leader out there, I have more time and energy to think about what really drives the business forward: employees and customers.

Humility Is Power

When we are humble, and when we project that humility outwardly in our behavior, team members notice. They come to feel that their leaders respect them, are dedicated to their welfare and are approachable.

Several years ago, when we were transforming ourselves into a company with cloud offerings, we set forth key desired behaviors for Kronites everywhere to focus on and embrace. One of these was humility. As we defined it, humility meant assuming "positive intent" and competence on the part of others, engaging others by asking questions and listening, and putting your own "agenda aside to operate in the best interests of the customer and company." We also clarified that humility and "bold" leadership were not opposites but, rather, went hand in hand.

Precisely how you define humility for your people is up to you. What's important is to

- Set a baseline standard with your own behavior.
- Lay out clear, formal expectations about how people throughout the organization are to behave.
- Infuse policies and processes with an ethic of humility.

Overcommunicate

I chat with everyone: employees, customers, prospective employees, vendors who happen to be visiting our offices. There's a Yiddish word for this behavior: "kibitzing."

At Kronos, I think of myself as the kibitzer-in-chief, and I recommend kibitzing to you as a powerful means of building a more engaged and inspired team or workforce.

CEOs of billion-dollar companies tend to converse primarily with their carefully chosen leadership team and nobody else. To inspire people and create a workplace they cherish, I believe you must build personal relationships with them and establish a culture throughout the company of open and honest communication. Communicating frequently with employees and other stakeholders, preferably face-to-face, can help you accomplish both objectives. In fact, don't just communicate — ***over*** communicate. You really can't do it enough!

For the best results, you have to ask plenty of questions and really listen to employees' responses. As I go about my day, I ask employees a variety of open-ended questions about their work and personal lives, simple queries like, "What are you working on?" "How was your weekend?" "How is your family?"

Questions Are Key

When chatting with employees, I gain new insights into our business that I never would have learned otherwise — details about struggles teams are having, new opportunities that are cropping up in various corners of our company, big victories that teams have notched and so on. Just as valuable, I gain an intuitive sense for the personalities, needs and desires of our employees.

Over time, I forge personal relationships, creating a general atmosphere of free-flowing communication. Employees feel more comfortable coming to me with their problems or concerns, which affords me new opportunities to help drive our business forward.

You can conduct these conversations virtually, using tools such as email and social media. I strive to overcommunicate using every digital medium at my disposal.

Frequently during the year, I send out company-wide emails with personal messages from me. I also create "aron@ work" videos, short, low-budget blogs that capture me speaking impromptu about company performance, year-end objectives, product launches — whatever is on my mind. Our employees in locales around the world tell me how much they appreciate these messages as a way to feel part of the Kronos family.

Trust Them (Again and Again)

For a more engaged, higher-performing workforce, start by assuming competence, and then demonstrate to people over and over again that you trust them. Toss micromanagement out the window!

In managing my own team, I don't just refrain from micromanaging — I trust enough to ***require*** independence. If you run an organization or team, you have the power to create broader, more formal mechanisms to instill trust. Here are several important techniques we use at Kronos:

Set expectations around trust. Instilling trust organizationally begins with clarifying the behavior you expect of all employees. Several years ago, we introduced under the framework of our three core competencies (character, competence and collaboration) a larger set of desired behaviors that apply to Kronites at all levels. One behavior we emphasized was "establishing trust," which we defined as "Gains the confidence and trust of others through principled leadership, sound business ethics, authenticity and follow-through on commitments. Establishes open, candid, trusting relationships; treats all individuals fairly and with respect; maintains high standards of integrity."

Deploy tools to help your people get to know one another better. Like many companies, we have prospective hires complete a behavioral assessment — in our case, a tool called Predictive Index (PI) — that reveals traits such as how detail-oriented a person is, how extroverted, how patient and so on. The results of this assessment allow us to increase the chances that personalities will mesh well within teams, which facilitates trust building as well as overall performance.

Infuse the principle of trust into your policies. At Kronos, employees can decide when and how much time off they wish to take, so long as they discuss their plans with their managers, get their work done, and coordinate with them to minimize any disruptions to our business and to the service we provide to our customers. By showing trust in this way (we also show it through our longstanding openness to flexible, work-at-home arrangements), we further cement its importance within our culture.

Teach managers to nourish trust in their teams. Manager training and accountability offer another important vehicle for trust building at the organizational level. First, we ask managers to be both "bold" and "humble." Don't jump to conclusions, and don't point fingers. Humbly accept that you don't have all the answers, boldly look to your people for insight and expertise, and ask questions that others dare not ask.

Hold Managers Accountable

Employees might join organizations because of the company and the compensation package, but they ***leave*** organizations because of their manager.

How do you improve the quality of your managers? The standard answer is training — lots of it. Most large companies offer some kind of training program for their managers, as do we. But training alone isn't cutting it.

What managers need, in addition to training, is accountability, including performance metrics and benchmarking. Otherwise, their efforts will diminish over time, and any formal training they receive will do little good.

In 2015, we launched Courage to Lead as a one-time training course, setting out a three-part behavioral model for all Kronos managers. This model sought to describe both the organization we were at the time and the organization we aspired to be even more fully going forward.

We asked managers to be bold yet humble, to challenge Kronites but also support them, and to disrupt existing practices but also make efforts to engage and connect with people.

How MEI Came to Be

Building off of our Courage to Lead model, we researched the behavior of outstanding managers, contacting other companies for their perspective, studying the specific practices employed by top Kronos managers, and querying a group of Kronites about actions they associated with excellent managers.

Compiling all of this research, we created a concise profile of a great Kronos manager, refining it in employee focus groups to build a new model focused on the manager-employee relationship.

Out of this work, we created the Manager Effectiveness Index, or MEI, a survey that captured employee judgments about managers' performance, specifically in the areas of communication, development, empowerment and support.

We didn't just throw MEI out there, leaving managers to make sense of it on their own. First, we only shared the initial batch of MEI scores with the manager being

evaluated, not his or her manager. This would give managers time to digest their scores and think about forming a personal action plan.

Second, to protect anonymity, we only shared employee MEI feedback with managers who had three or more direct reports respond to the questions. Third, since we expected these managers to use the feedback to create and implement development plans for themselves, we provided them with materials that helped them understand MEI's format and purpose, interpret the data and identify areas for improvement.

Fourth, we gave managers access to one-on-one coaching and a set of training materials to help them hone their skills. These training programs spelled out a range of possible actions managers could take to develop specific skills in which they might have shown weakness. The training also helped managers discuss their evaluation results with team members, giving them sample agendas for conversation and suggesting ways that they might frame key ideas.

Get Serious About Strategy

Many leaders and managers underestimate the links between strategy and creating a workplace that employees love. When I became CEO, I decided to make our corporate planning much more rigorous, data-driven and inclusive than ever before.

It takes us four to five months each year to "work the strategy" for the upcoming year. Starting in February, an external facilitator interviews me, other members of my leadership team, and five to 10 additional leaders within Kronos from areas such as product development, sales, services, marketing and strategy, to identify our strategic priorities and areas of interest.

On the basis of these interviews, we decide on a small number of key themes that we'll discuss during a three-day strategy off-site. We'll then spend a number of weeks collecting data relevant to the strategic questions and briefing all participants on the topics we plan to cover.

The strategy session typically takes place in May and results in a list of initiatives and guidelines for their implementation. A few months later, we meet again to refine this list before proceeding to the next phase, creating budgets around our strategic priorities.

My goal throughout our strategy process is to assure that we understand the truth of our business. If an existing strategy or tactic isn't working, we need to know that so we can change course.

Resource and Evangelize the Strategy

Once you have a smart, clear strategy in hand, you might think you're all set. You're all revved up, eager to execute — what else is there to do? Well, you have to actually follow up on the strategy. A couple months after our planning retreats, I'll review the budgets our leaders have drafted for the following year, comparing them to our strategies.

At Kronos, we also focus on communicating the strategy from its very inception. On the final day of our retreat, we typically spend time figuring out how best to summarize our decisions and communicate them to the rest of the company. From there, we mount a months-long internal campaign to communicate the strategy to every corner of the organization. I assume a lead role, talking about the strategy wherever I go as if it were my full-time job (which it is!).

To create an environment in which people love what they do, you don't need to embrace a strategy planning process that replicates the one I've outlined here. Simply focus on talking about strategy with others in your organization in a productive and inspiring way.

> If you truly want to build engagement, be yourself each day at work. Have fun.

Have Fun

To create a culture and a workplace that people love, it's important to humanize the organization and infuse it with levity and personality. So many companies seem gripped by excessive formality. Why does work have to be so serious?

Yes, we want employees to work hard and perform, and daily operations at Kronos and in most other organizations will involve a certain amount of drudgery and tedium. But why can't we make it ***fun*** to come to work?

If you truly want to build engagement, be yourself each day at work. Have fun. Let your hair down a little, even if it means sometimes breaking the rules. And always tell the truth. Your people will appreciate the authenticity of your words and actions. They'll believe in you because they'll feel they know you — the real you. Your personal brand and the company's brand will become humanized. Employee engagement and affection for the company will increase in turn.

The Many Faces of Fun

An obvious place to start is with your workplace and lifestyle amenities. When designing our new headquarters, we dedicated an entire floor to fun and collaboration — what we call "we" space. There's a gaming area, a park-like space complete with swings, a high-end coffee and smoothie bar, a library, a variety of food options, board games, walking workstations and fitness classes.

As Kronites are discovering, it's a lot easier to lighten up and let your personality out when you're sipping a mocha latte with your teammates or enjoying a game of air hockey.

Wellness programs provide another opportunity for the building of authentic work relationships. We offer an array of initiatives under our global LiveInspired wellness program, not just the usual options focused on diet, exercise and smoking cessation but seminars on the healing power of laughter, a "March Madness" exercise challenge (which I did not win), a "Virtual Torch Walk Around the Globe" walking competition, an obstacle course challenge, company-sponsored running races, a chance to play on our cricket team (at our locations in India) and numerous seasonal events.

Collectively, the stream of events, initiatives and programs convey that Kronos is a different kind of company — a place where each employee can be him- or herself and where work isn't always so serious. Kronos itself takes on a "personality," one of friendliness, authenticity and relaxed sociability.

Astonish Them With Kindness

In 2017, a Kronite named Adam used our internal collaboration platform to contact fellow Kronites with an important request. A month earlier, his 15-year-old-nephew Sullivan had been diagnosed with leukemia. To cheer up his nephew, Sullivan's mother thought that it might be nice if he received postcards from all 50 U.S. states. Adam wrote asking his fellow Kronites for help. Would his colleagues, located throughout the country and the world, be willing to send a postcard to Sullivan?

The answer was a resounding yes. Within minutes, Kronites in states such as California, Illinois, New Hampshire, North Carolina, Texas and Wisconsin wrote back promising to send postcards, as did employees in countries such as Canada, Germany and the United Kingdom.

Every organization has its share of good, caring people who help their colleagues. But you don't often find a strong, cohesive ***culture*** of caring. What's noteworthy about Adam's request and the response it elicited is precisely how ***unremarkable*** they are at Kronos.

How to Cultivate Caring

One of the most important steps you can take to cultivate norms of caring is to articulate firm expectations about behavior at every turn. We present "care for each other" to new employees as one of the signature values of the Kronos workspace.

Our emphasis on caring is reflected in numerous employee benefits the company offers. But mostly, we focus on creating a corporate environment where we simultaneously care for one another and produce great results. Our bonus program, for which all Kronites are eligible, rewards Kronites for behaving well toward their colleagues in the course of their daily work.

Specifically, in calculating a Kronite's job performance, we allocate 40 percent of the score to reflect how well a Kronite displayed our core values of character, competence and collaboration.

Leaders also have a strong role to play. If employees need help, and there's a way that Kronos can offer support, we're going to do that. And if there's a way that I personally can become involved, I'm going to do that, too. I take great satisfaction in lending a hand. But I also know that modeling such generosity through my personal conduct does a great deal to infuse a kind, giving ethos throughout the organization.

Give Employees Their Time Back

What would you do if your daughters were offered roles in a national touring theater production? Would you quit your job so you could spend months on the road with them? Would you have someone else accompany them? Or would you tell your daughters that they couldn't participate?

One of our employees, Kristen, might have faced this predicament had she worked at another company. In 2016, her two talented school-aged daughters were offered roles in the musical ***Annie***. The tour would take place over

If you want to maintain high engagement levels, then you must empower workers to prioritize their families and bring their whole selves to work.

eight months, stopping in over 90 cities throughout North America. The production company required that a parent or guardian accompany the girls.

Kristen wanted to accompany her kids, but she wasn't sure what that would mean for her job. Kristen didn't have to worry because Kronos was among the few U.S. companies to offer employees open time off. In 2016, we implemented an open time-off policy that featured no preset limit on how many days off employees can take.

myTime In Action

Called myTime, the program, along with our general commitment to flexibility, allowed Kristen to accompany her children on the ***Annie*** tour while still working full time. She handled her Kronos responsibilities while her daughters were performing, communicating closely with her team about her schedule.

Many companies seem to want employees to prioritize their jobs above all else. To maximize performance, they try to keep employees in the office for as long as possible, providing all kinds of perks to make that kind of lifestyle possible and even attractive.

We empower employees to put their families first, above the company. Our corporate values require this — and it's great for business. Productive employees are, first and foremost, ***engaged*** employees. If you want to maintain high engagement levels, then you must empower workers to prioritize their families and bring their whole selves to work. Because we enable Kronites to sustain their relationships at home, they come to work happier, treat their colleagues better and perform better.

Many employees today are used to working ridiculously hard and putting their families second. They might reasonably assume that their employers expect this level of commitment, even if companies move to open time off and affirm family's primacy. For this reason, leaders and managers need to make a company's family-first philosophy ***personal***, affirming and modeling it with their own words and actions.

Celebrate to Motivate

Many organizations and teams have programs in place to reward outstanding performance, offering trips, bonuses and the like. Yet these standard programs might not go far enough, especially when leaders don't become personally involved in extending recognition and gratitude.

To build engagement and enhance performance, managers have to make legends out of their most deserving employees, and organizations must create an array of formal mechanisms to recognize the greatness of individual employees and to mark turning points in their lives. It's about creating a ***culture*** of gratitude and acknowledgment.

Create forums for employees to thank one another. One Friday morning in 2017, shortly before her team relocated to our new headquarters in Lowell, Massachusetts, one of our employees, Melissa, stopped by the new offices to take a look. She was blown away by how beautiful and functional the space was, and felt moved to say thanks to the dozens of Kronites who in one way or another had helped design and outfit the new headquarters. For Melissa, it was easy: Just jump on our internal collaboration platform and write a post.

Kronites thank one another all the time on our collaboration tool, and they have also used 5HIFT Shout-Outs, a global peer-to-peer recognition program that allows employees to acknowledge the efforts of colleagues cross-functionally and in any region.

Provide public recognition, not just rewards. "Career Spotlight" is a special feature we produce that profiles Kronites and their career stories. Any Kronite at any level can nominate a fellow employee. Our communications team then interviews the person nominating the employee, the nominee, and the nominee's manager and writes an inspiring story. This recognition not only raises the profile of the featured Kronite within the organization but also promotes our culture of caring.

Practice mass gratitude. We hold events that allow us to express gratitude to large groups of Kronites all at once. Each summer, more than 1,500 Kronites at our cor-

porate headquarters take an afternoon off from work to attend an employee appreciation picnic. It's an enormous BBQ extravaganza, with music, carnival games, volleyball, corn hole toss and a basketball tournament. Departments often plan team meetings around the picnic, too, so Kronites from other regions can attend.

Put Yourself Out of Business

If you want to engage your workforce, you can't just nurture them, trust them, communicate with them, show respect for them and manage them in the ways discussed. You also have to give them the opportunity to put their ***own*** stamp on the business. You have to give them permission to take risks and innovate.

Further, you have to make innovation part of the culture, extending it to every part of your business, not just technology and products. In addition to investing more than $500 million over the past five years on product innovation, we've adopted an array of programs over the past decade designed to empower Kronites to take risks and think creatively.

In our products and technology group, for instance, employees until recently participated in "Kronovation Days" several times a year. At these designated times, they worked on projects that normally fall beyond the scope of their daily jobs. They had the time and freedom to explore new ideas and push their own boundaries. At the end of the Kronovation event, employees presented their ideas to their peers, and managers offered awards for the most promising ideas, some of which we incorporated into our products as features.

Another step to take to instill innovation in your culture is to support employee communication and collaboration. Although it took some adjustment on the part of Kronites, our internal collaboration platform has become a vibrant place for employees around the world to connect with one another and share new ideas.

Aside from implementing organizational policies and programs that encourage a culture of innovation, leaders and managers should also adopt a number of key behaviors: listen to and implement employee ideas; give employees the space to develop ideas on their own; model the reasonable risk-taking you wish to see in your people; and encourage innovation in every part of your business.

What if employees and former employees were going out of their way to rave about your culture? What if they loved your company so much that they couldn't imagine ever working anywhere else? What if they consistently pushed your company's performance to new heights?

Take care of your people, support them, inspire them — and they will.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***Next is Now: 5 Steps for Embracing Change – Building a Business that Thrives into the Future*** by Lior Arussy.
- ***How to Create a Team of Leaders by Shifting INward*** by Jeffrey Manchester.



Aron Ain is the CEO of Kronos, a global provider of workforce management and human-capital management cloud solutions, which are used by more than 40 million people every day in more than 35,000 organizations in more than 100 countries. He is a multiyear recipient of Glassdoor's Highest Rated CEO honor and has earned Ernst & Young's Entrepreneur of the Year award, the Mass Technology Leadership Council's CEO of the Year award, and the inaugural Ray Stata Leadership and Innovation award by the Massachusetts High Technology Council.

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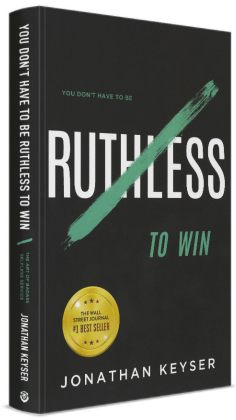
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You Don't Have to Be Ruthless to Win

The Art of Badass Selfless Service



by **Jonathan Keyser**

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THE SUMMARY IN BRIEF

Nice guys finish last. Do whatever it takes to win. These are all accepted business mantras. In some industries, this includes lying, leaving out details, and playing both sides of a contract to increase revenue.

In ***You Don't Have to Be Ruthless to Win,*** Jonathan Keyser begins by sharing his personal story and journey to selflessness. In part two, he introduces The Keyser Way and details his 15 Core Operating Principles that any business can incorporate and embody to create their own long-term success, while being happy and satisfied with the world—and their role in it.

Keyser teaches how any business can achieve extraordinary levels of success by selflessly helping others. "That's the best business strategy I have ever seen for creating long-term sustainable success," Keyser writes. "I don't have to sell. I don't have to persuade. I don't have to convince. I just serve, and more business comes my way than I can handle."

IN THIS SUMMARY, YOU WILL LEARN:

- A detailed strategy for sustainable success to act on today.
- How to plant seeds of service that produce future rewards.
- How to build a network of people who want to help you.
- How to use the 15 Core Operating Principles of The Keyser Way.

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Sarah T. Dayton, Editor-in-Chief • Meghan Kozak, Director of Content • Kylie O'Connor, Graphic Designer

The Three Levels of Reinvention

Each of the core principles outlined in The Keyser Way are embodied on three specific levels: Self, Company, and Clients. All three levels must be addressed and incorporated into your overall strategy to achieve the level of success desired, without having to be cutthroat, brutal and selfish.

Reinventing Yourself

Recounting experiences while working in the competitive commercial real estate industry, Keyser explains how he became someone he did not want to be. In order to implement drastic changes in his personal and professional life, he found that first he needed to reinvent himself. He needed to strip away all of the negative, bad habits that he'd created in the conventional business world, in order to begin serving others.

Reinventing Your Company Culture

A second level of reinvention is needed for your company culture. In the commercial real estate industry, it was common for team members to treat each other as enemies and someone that needed to be beat. This creates an environment that does not attract top talent, nor contribute towards success. In order to foster the proper environment of encouragement, learning and growth, you must make changes within your company and your team.

Reinventing Your Approach to Clients and Collaborators

The final level of reinvention involves changing how you interact with and treat your clients and collaborators. By serving them selflessly, your clients trust and support you. This evolves into word of mouth advertising and strong networks of people who want to help you.

Each level of reinvention is highlighted in the 15 Core Principles, and Keyser shares many examples through his own stories and anecdotes.

Plant Seeds for Future Rewards

The Many Faces of Service

It's important to understand from the beginning that service does not necessarily equal charity. There are many ways to provide service with no actual money involved. Providing service on a variety of levels plants seeds that grow towards the success of your business.

When Keyser first launched his business, for instance, a client offered to let the company use spare space until they could afford their own offices. Other stories speckled throughout the book include introducing someone to a top-tier oncologist, helping people find jobs, and taking gasoline to someone stuck on the side of the road.

Leave Expectations Behind

When you provide service, it is imperative to do so without expectations of reciprocity. When you do something because you believe it will benefit you, that is not true selflessness and it can limit your progress. To truly benefit from The Keyser Way, you must provide service for the sake of helping and nothing else. If you have underlying motives, you are actually being manipulative and inauthentic, which hinders your overall progress.

Seeds Evolve into a Powerful Network

People Respond in Kind

By serving others without underlying motives, you plant seeds for the future. Over time, those seeds grow into a powerful network of people who want to help you in kind. By default, humans have the desire to return favors. This instinctual reaction is much more powerful when the favors are unsolicited and not manipulated.

Word of Mouth is Powerful

When you are a truly selfless person who helps others at every turn, that makes a deep impression on them that they want to share. They can't help but sing your praises to others, and consciously or unconsciously they will look for ways to help you in return.

15 Core Operating Procedures

Selflessly Serve

Becoming selfless starts with concerning yourself with the well-being of others without consideration for personal gain. Selfless service means doing things for others that add value to their lives, either personally or on a business level.

Outwork the Competition

You must be willing to outwork the competition in order to win. This requires personal commitment and drive because there is no instant gratification. Ten thousand hours of determined effort toward a singular cause, with-

> And don't be afraid to make mistakes. . . Fear of mistakes makes people timid instead of bold and you must be bold to win.

out quitting, is the key to mastery. The effort you put into serving your clients and prospects will quickly develop your reputation as someone who goes above and beyond the standard job performance in your industry. This reputation is priceless in acquiring future clientele.

Take Bold Action

And don't be afraid to make mistakes. Bold action is where successful people live. You want to live there. Fear of mistakes makes people timid instead of bold and you must be bold to win. Focus on learning from and seeing mistakes for what they really are—opportunities to grow.

Exceed Expectations

Analyze what customers expect from someone in your profession and brainstorm ways to exceed these expectations. Always set extraordinarily high standards for your service levels to your clients, work crazy hard, and commit to doing everything you do to the very best of your abilities. This commitment will create a solid reputation for your company that competitors will find very difficult to overcome.

Expect to Win

By being the best. When you can honestly say you're the best, you know without question that you will win. Being the best is a mindset that is intentionally created and perpetuated—don't waste your valuable time feeling insecure. Assume you already have a prospect's business, and show up committed to serving them to the best of your ability.

Truly One Team

Encourage your team to commit to helping every other team member become extraordinarily successful. Instead of working from a hierarchy and titles, consider creating a more collaborative environment that focuses on skills.

If you met a Navy SEAL, you would not ask, "What rank are you?" You would just say, "Wow, you are a SEAL!" The membership is all you need.

Give First

In order to put selfless giving in motion, you have to make the first move. When people realize that you truly care about them, with no thought for yourself, they feel a deep appreciation. Give something thoughtful and meaningful to them. Give your time; give someone the credit; give a relationship; give empathy.

Be Your Word

"Integrity means consistency between what comes out of my mouth and what my body does." It simply means doing what you say you will do. It is very tempting to say the things a client wants to hear, even if we don't know whether we can keep our promises. Be completely honest and do what you say you are going to do.

Have Fun

Choose to have fun personally, in your corporate environment, and with your clients. Being lighthearted and playful helps you respond more effectively to whatever you need to handle in that moment.

Succeed Through Self-Improvement

Self-improvement is the ultimate long-term success strategy. For those who truly want to be great, everything in your life is subject to change and open for improvement. Utilize books, coaching, feedback and courses. Be open to hearing hard truths and willing to make improvements.

Treat People Like Family

Treat everyone in your company like family. People crave camaraderie and want to be loved, accepted, and nurtured, and treating them like family creates an environment built on trust. Support interests, go on outings together, and create company traditions.

Be 100 Percent Coachable

Coachability is the key to becoming the best you can become. Keyser states that this is the hardest principle to

master yet also the most critical. Opening up to feedback from others helps us to identify blind spots and enables us to make changes. Have a coachable mindset, welcoming criticism in yourself and in your corporate culture.

Be 100 Percent Present

Commit all of your mental energy to what you're creating and do not allow yourself to be distracted by anything: technology, other people, or your own thoughts. If you want to be the best, you need to be fully present in what you do.

To be 100 percent present in whatever you are doing, you may need to change your environment. Leave the phone behind, put down your pen, close the door. Put your full attention and efforts into that moment and maximize each and every opportunity that comes your way to the fullest.

Care for Yourself

Without health, none of the other Principles contained within this book can be lived or experienced. Having a healthy body is essential to creating long-term, sustainable success in any industry. Much of your ability to get or remain healthy starts with your own personal commitment, and it can be motivated and encouraged at the corporate level in many different ways. Have competitions, schedule athletic activities with your team and clients, and stock healthy snacks in the lounge.

Be Disruptive

And embrace change. Never rest on your laurels. Continually seek out new technologies, methodologies, and ideas to stay relevant and keep ahead of market trends. Having a disruptive mindset is ongoing and never quits. It is constantly looking for different ways to see and do things. The pace of change has increased, and individuals and organizations that do not stay on the cutting edge of innovation will be swiftly left behind. Embracing new technologies and figuring out new strategies keeps an organization relevant and alive.

Use these Core Principles as the guiding force for your team. The process of developing the Principles that will be your compass is heavily dependent on you and your team, and they must embody the values you want to emulate. Your company principles will be the most critical piece of your successful transformation. They will need to be tailored to you and your industry.

Once you have created your own, do not let them degenerate into mere statements and become nothing more than lip service. Your entire leadership team must be completely aligned in both living and implementing your principles. Your principles should become so well known that they get buried in the subconscious of every team member—becoming second nature to each of you.



Jonathan Keyser launched KEYSER in 2013 with the mission of reinventing and transforming the commercial real estate brokerage industry through selfless service. A best-selling author, national speaker, regular media contributor, and strong supporter of the Conscious Capitalism movement, Jonathan is actively working toward the upcoming launch of The Keyser Institute to inspire, train, and equip the next generation of selfless leaders.

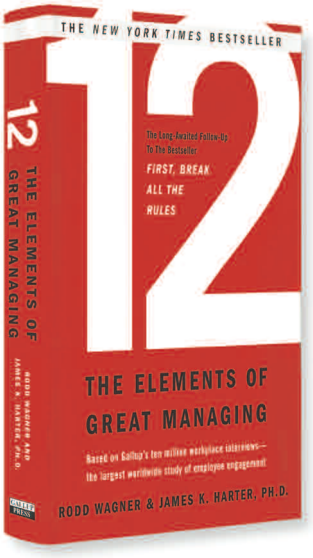
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12 Elements

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12: The Elements of Great Managing



by Rodd Wagner and James K. Harter, Ph.D.

THE SUMMARY IN BRIEF

How do great managers inspire their employees to achieve top performance? In *12: The Elements of Great Managing*, authors Rodd Wagner and James K. Harter, Ph.D., challenge conventional ideas about managing for corporate success and delve deep into the motivating factors behind a worker's productivity. Using data collected and analyzed by The Gallup Organization, the authors are able to show how employee responses to 12 simple statements about work life directly correlate to the most important aspects of a company's success.

Wagner and Harter convincingly demonstrate that to effectively manage a company's "human resources" requires more than hiring talented people to "do a job." Written for managers and employees of companies large and small, *12* explains what every company needs to know about creating and sustaining employee engagement. Ultimately, it is only through great management that a company can see measurable results in its productivity, profit, attrition rates, customer satisfaction, work-related absence and on-the-job accident rates.

More than a decade ago, The Gallup Organization combed through its database of more than 1 million employee and manager interviews to identify the elements most important in sustaining workplace excellence. These elements were revealed in the 1999 bestseller *First, Break All the Rules*. This summary covers the long-awaited sequel.

IN THIS SUMMARY, YOU WILL LEARN:

- What the 12 Elements of Great Managing are and how they relate to profitability.
- How having a friend at work can be extremely beneficial to corporate productivity.
- Why it's not just about having the right materials for the job but also about having a choice.
- Why it's crucial for employees to feel that someone cares about them.
- How productivity and financial success are correlated to employee engagement.
- What it takes to be a great manager.

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THE COMPLETE SUMMARY: 12: THE ELEMENTS OF GREAT MANAGING

by Rodd Wagner and James K. Harter, Ph. D.

The authors: Rodd Wagner has worked for The Gallup Organization since 1999. As a principle of Gallup, he interprets employee engagement and business performance data for Fortune 500 companies. James K. Harter, Ph.D. is The Gallup Organization's chief scientist and has authored or co-authored more than 1000 research studies. Harter has been with Gallup since 1985 and his research was popularized in the book *First, Break All the Rules* and has been featured in such publications as *USA Today, The Wall Street Journal* and *The New York Times*.

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For additional information on the authors, go to http://www.summary.com.

The History of 12

More than a decade ago, The Gallup Organization assembled a select group of social scientists to examine the 1 million employee interviews in its database, the hundreds of questions that had been asked over the preceding decades, and every variable on business-unit performance that organizations had supplied with their employee rosters. This data was analyzed to find which survey questions — and therefore which aspects of work — were most powerful in explaining workers' productive motivations on the job.

Ultimately, 12 elements of work life emerged as the core of the unwritten social contract between employee and employer. Through their answers to the dozen most important questions and their daily actions that affected performance, the million workers were saying, "If you do these things for us, we will do what the company needs of us." These "things" are represented in the 12 Elements of Great Managing and are directly correlated to employee performance and company health. ●

The First Element: Knowing What's Expected

Because so much of an enterprise's efficiency depends on the seamless combination of personal responsibilities, the First Element of great managing is job clarity.

When Gallup researchers went in search of ("agree or disagree") statements most predictive of performance, one of the most straightforward turned out to be one of the most powerful: "I know what is expected of me at work." Groups that have high scores on this item are more productive, more profitable and even more creative. Substantial gains on the First Element alone often correlate with productivity gains of 5 percent to 10 percent, thousands more happy customers and 10 percent to 20 percent fewer on-the-job accidents.

"Knowing what's expected" is more than a job description. It's a detailed understanding of how what one person is supposed to do fits in with what everyone else is supposed to do, and how those expectations change when circumstances change. A good team, some say, is a lot like a great jazz band in which each player listens to the other instruments while playing their own. The better they pay attention to the rest of the band and work their way into the music, the better the result.

It's More Than Talent

Superior performance is dependent on more than individual talent and knowledge of the job alone, it is dependent on teamwork. Consider what can be learned from professional basketball: Viewed through a business statistician's eyes, the National Basketball Association (NBA) is a perfect laboratory to study not just teamwork in basketball, but teamwork itself.

Three management professors dove into NBA statistics to see whether, above and beyond individual talent, playing together improved a team's performance When they analyzed the data from 23 NBA teams from 1980-1994 they found that the greater the stability of a team's roster — fewer trades moving players on and off the team — the better they played.

More than each player knowing his or her job in isolation, a better team record also depends on the players learning hundreds of nuances and patterns in their teammates' play. This "tactic knowledge," wrote the professors, is a keen awareness of each others' styles and "must be learned

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Toni Cannon**, Contributing Editor

through experience," and "It is only through actually playing together that each member of the team accumulates the stock of tactic knowledge about the game play of other members of the team that enables such synchronicity."

The Second Element: Materials and Equipment

The importance of the Second Element of great managing, ensuring employees have the materials and equipment they need to do their work well, is best illustrated by its converse. When employees lack the means to do their work well, frustration with their inability quickly follows, as does anger with the company for placing them in such a difficult spot. From a purely functional perspective, having the right tools makes a job safer, easier and more productive. Equally important, the employees' perception that the company backs them up with the equipment they want and need serves as a powerful psychological motivator.

Workgroups for which materials and equipment are managed most effectively average higher customer engagement and higher productivity than their peers. They also have significantly better safety records and their employees are less likely to flee to other organizations. Those managers with bottom quartile Second Element scores average 20 percent to 40 percent higher employee attrition than top quartile managers, representing millions of dollars in direct and indirect turnover costs.

It's Not Just About the Materials

In the database, less than one-third of employees strongly agree that they have the materials and equipment they need to do their work well. There is a wide range on this item: the most engaged workgroups are nearly unanimous in their positive responses to the question, while the least engaged have no one who feels well equipped for the job. The most peculiar wrinkle in the data is that even in highly legislated environments where nearly identical workgroups are given the same machines, cash registers, office supplies and tools, the opinions of the employees vary.

The secret lies in the involvement, judgment and action of front-line managers. Less-engaged workgroups typically say that they were supplied with the standard toolkit in a standardized fashion: "Here's what you get. Make the best of it." The most engaged employees say their manager made what turned out to be relatively minor accommodations, aggressively petitioned for more expensive tools when the business case was strong and was generally vigilant in looking for new ways to make the team more effective.

Solving Second Element Issues

It's not unusual for a workgroup to have one or more Second Element issues that can be fixed only with the authority or money from corporate headquarters. In other circumstances, managers are able to manage Second Element concerns by making individual accommodations to employees. This allows employees to pick from a variety of choices: the cell phone that works best for them, for example; or a modification of the standard software in a laptop to meet an employee's working style, talents or work demands.

The Third Element: The Opportunity to Do What I Do Best

Matching a person to the right job, or a job to the right person, is one of the most complicated responsibilities any manager will face.

The Third Element emerged from the ability of a straightforward statement to predict the performance of a given worker and entire teams: "At work, I have the opportunity to do what I do best every day."

When employees talk about what they do best, they rarely frame the discussion in terms of a job description. Certainly people can form attachments to their professions to the point that being a salesperson, professor or nurse becomes part of their self-image. Their talents, however, being more an instinctive part of them than any specific job, are transferable from one position to another, even across industries.

Commonly, two people in ostensibly identical roles who, by virtue of "doing what they do best," perform in quite different fashions — one a banker who loves the business because he gets to work closely with people in his town; another a natural capitalist who can't imagine not being involved in the constant movement of stocks, interest rates and precious metals prices.

Maximizing Employee Talent

To get the most from a team, a manager must help each employee mold the job around the way he or she works most naturally, maximizing the frequency of optimal experiences in which the worker loses him- or herself in the work, is internally motivated and is naturally gifted. The manager must also realize that as long as the employee accomplishes the goals for which he or she is responsible, without any harm along the way, how it gets done does not matter. Acknowledging one's greatest

natural talents and weaknesses does not mean accepting a narrow set of career possibilities. Rather, it means each employee will succeed in a relatively unique way, applying his or her own style to the accomplishment.

Predicting Profitably

The Third Element is powerful in explaining not only productivity, but also the future profitability of teams within companies. Business units in the top quartile of Gallup's database on the "do what I do best" statement exceed the profits of those in the bottom quartile by an average of 10 percent to 15 percent. A recent analysis of multiple studies reveals that managers whose talents are aligned with their job demands achieve, on average:

- 15 percent more in sales
- 20 percent more in profit
- 24 percent fewer unscheduled absences
- 13 percent lower employee turnover.

But for all the evidence that this approach is good for business, only about one in three employees can strongly agree that they "have the opportunity to do what they do best every day." ●

The Fourth Element: Recognition and Praise

To reach their full potential, employees need recognition and praise, the Fourth Element of great managing. Generally, in the perception of employees, praise is painfully absent from most companies and the workgroups within them. Less than one in three employees can give a strongly positive answer to the statement, "In the last seven days, I have received recognition or praise for doing good work."

Employees who do not feel adequately recognized are twice as likely to say they will leave their company in the next year. Those who score the Fourth Element highest are two-and-a-half times more likely to agree that "from my most objective viewpoint, I am paid appropriately for the work I do" than those at the other end of the recognition scale. Variation in the Fourth Element is also responsible for 10 percent to 20 percent differences in productivity and revenue, and the acquisition and retention of thousands of loyal customers to most large organizations.

Positive Words and Dopamine

Dopamine is a neurotransmitter (a chemical that sends a signal from one part of the brain to another) that creates a feeling of enjoyment and satisfaction. Studies have implicated that dopamine is part of the mechanism behind enjoying good tastes and smells, receiving money and even seeing a pretty face. "At a purely chemical level," said *Time* magazine, "every experience humans find enjoyable — whether listening to music, embracing a lover or savoring chocolate — amounts to little more than an explosion of dopamine in the nucleus accumbens, as exhilarating and ephemeral as a firecracker."

People who alter their behavior to get those delightful bursts and positive words specifically have been found to activate the regions of the brain related to reward. This chemical release not only makes healthy employees feel good when they get praise, it is also crucial to memory and learning. It creates an internal reward system that makes employees want to repeat needed behaviors, if doing the right things earns recognition. ●

The Fifth Element: Someone Cares About Me as a Person

There are limits to how much can be accomplished through directives, financial incentives, fear of discipline and intense scrutiny of people's work. One of the crucial questions for a team leader trying to get the most from the team is whether they form a cohesive, cooperative, self-sacrificing, motivated crew. Such attributes are the essence of the Fifth Element of great managing and are measured by an employee's reaction to the statement, "My supervisor, or someone at work, seems to care about me as a person."

Social Capital

Team effort depends on the degree to which employees feel like a real part of a group, cohesiveness sometimes called "social capital." Authors Don Cohen and Laurence Prusak wrote, "Social capital bridges the space between people. Its characteristic elements and indicators include high levels of trust, robust personal networks and vibrant communities, shared understandings, and a sense of equitable participation in a joint enterprise — all things that draw individuals together in a group. This kind of connection supports collaboration, commitment, ready access to knowledge and talents, and coherent organizational behavior."

People treat each other differently when they form a personal connection, and they give more effort in a group when they feel that they are more than just a number. One of the best predictors of an employee's trustworthiness is his or her perception of whether the company "cares about my personal well-being." Compared with those who feel their company is looking

out for them, "a disproportionate number of the workers who view the employer as unfair and uncaring" will cheat when they think they can get away with it.

The correlation between not feeling someone cares about them and resigning has been observed repeatedly in studies of individual companies in the Gallup database and in analyses where data from many organizations are combined. In high-turnover companies, workgroups in the lowest quarter of the "someone at work cares about me" statement average 22 percent higher turnover than their top quartile counterparts. In organizations where resignations are less common, the difference rises to 37 percent.

The Sixth Element: Someone at Work Encourages My Development

The notion of a personal guide is an ancient idea that perpetually re-emerges in forms such as the relationships between master craftsman and apprentice, doctoral candidate and thesis supervisor, and resident physician and intern. There is something about working closely with someone who supervises the less experienced person's progress that cannot be accomplished as well in any other way. From this fact stems the Sixth Element of great managing, measured by the statement, "There is someone at work who encourages my development."

The Sixth Element requires a high degree of personal investment by the counselor in the education of his or her charge. Without a mentor, it is difficult for employees to achieve real engagement (less than 1 percent) with their employer. Conversely, two-thirds of employees who report having someone at work who encourages their development are classified as "engaged," while one-third are "not engaged" and less than 1 percent are "actively disengaged."

In its broadest usage, as captured by the Sixth Element, a mentor is anyone who, in the eyes of the employee, ensures he or she successfully navigates the course. The important aspect is not which term this protector goes by — friend, coach advisor, sponsor, counselor, supporter — but whether the employee feels supported inside the business.

The Seventh Element: My Opinions Seem to Count

Although there is always a need for expertly designed systems that help maximize production, nearly every system depends on the motivation of the people who run it. That motivation, it turns out, requires workers to strongly agree that "At work, my opinions seems to count." This is the Seventh Element of great managing.

The mechanism that connects this element with better business performance appears to be a greater sense of responsibility for or psychological ownership of those things over which one has a say. No matter how strong the external incentives, they never seem to measure up to the internal drive of advancing something that is at least partially one's own idea. Nearly half of employees who say their opinion counts at work also feel their current job brings out their most creative ideas. Among those who are neutral or negative on the Seventh Element, only 8 percent feel their creativity is well employed.

Benefits of Improving Scores

Improving the proportion of employees with high Seventh Element scores from one in five to one in three has a substantial impact on customer experience, productivity, employee retention and safety, all of which create, on average, a 6 percent gain in profitability.

Incorporating employee ideas pays back twice. First, the idea itself is often a good one. Second and equally powerful, that the idea comes from the employees themselves makes it much

The Twelve Elements of Great Managing

1. I know what is expected of me at work.
2. I have the right materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission or purpose of my company makes me feel my job is important.
9. My associates or fellow employees are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities at work to learn and grow.

more likely that they will be committed to its execution. Welcoming employee opinions also produces greater feelings of inclusion among workers. When the 12 elements are compared against a number of statements to test perceived racial or gender bias, the "opinions count" statement is most highly correlated with feelings that employees are always treated with respect and the company treats its workforce fairly. ●

The Eighth Element: A Connection With the Mission of the Company

The Eighth Element of great managing is captured by the statement, "The mission or purpose of my company makes me feel my job is important." Business units in the top quartile of Gallup's engagement database on this element average from 5 percent to 15 percent higher profitability than bottom-quartile units. Mission-driven workgroups suffer 30 percent to 50 percent fewer accidents, and have 15 percent to 30 percent lower turnover. Employees who feel connected to the mission of their company are also more likely to report that humor or laughter plays a positive role in their productivity.

The strange thing about the Eighth Element is how extraneous it is to the job itself and the employee's material well-being. The absence of many of the other elements — job clarity, the proper equipment, a match with one's talents, consistent feedback — become real obstacles to actual production. It's easy to see why they're required to get the job done. The same cannot be said for the Eighth Element, which is strictly an emotional need, and a higher-level one at that, as if the employee can't be energized without knowing how his or her job fits into the grand scheme of things.

More Than a Job

It's not uncommon for employees of highly engaged workgroups, from entry level to senior executives, to mention having turned down higher pay to join or remain with a company they believed would provide more meaningful work with a more enjoyable team. No matter how employees make sense of the world and their role in it, if they see a connection substantial enough to consider their work a calling, they get more out of work and the organization gets more out of them.

Because of this connection, workers more strongly identify with the team, have less conflict, trust management more, are more committed, work through things better and put in more time at work, whether compensated or not. Here, the job doesn't determine its meaning. For example, "A school teacher who views the work as a job and is simply interested in making a good income does not have a calling, while a garbage collector who sees the work as making the world a cleaner, healthier place could have a calling," wrote researcher Amy Wrzesniewski.

It Starts at the Top

The most highly motivated and productive employees push hard because they feel their work makes a difference to attaining those worthy goals. Despite the high correlation between senior leadership and front-line commitment to the mission, this element loses the most power along the way. While two-thirds of executives in a typical company strongly agree with the mission questions, less than one-third of street-level associates do. ●

The Ninth Element: Co-Workers Committed to Doing Quality Work

Phoning it in. Free-riders. Cheaters. Hitchhikers. Deadwood. Slugs. Drones. Asleep at the switch. Cowards. Barnacles. Slackers. Con artists. Deserters. They go by dozens of scornful labels. During a career, everyone encounters at least a few of the people who strive to do the least they can without getting reprimanded. The Ninth Element is measured by the statement: "My associates or fellow employees are committed to doing quality work," and few factors are more corrosive to teamwork than the employee who skates through life taking advantage of the much harder work of others.

The frustration is evident in a comment of an employee who gave a low score to the associates-committed-to-quality-work statement. "I dislike having to constantly tell people how to do their job. It becomes my job to fix what they neglected to do correctly in the first place." Another complained about "no one wanting to take responsibility for anything." If a team lacks a strong work ethic and a sense of responsibility to its members, the group becomes a convenient place to hide a little slothfulness, to push a little work to the other guy, or to point fingers when a project doesn't hit its deadlines.

In an average team, about one in three employees strongly agrees that her team members are committed to doing quality work. But the Ninth Element is highly sensitive to the presence or absence of one or more slackers. When a team perceives that one of its mem-

bers is dragging his or her feet, the proportion that rates the Ninth Element high drops to one in five. If a team is free of deadwood, the proportion that strongly agrees with the statement jumps to half of the team, with most of the rest giving positive, although slightly less emphatic responses. The many companies' performance data matched to Ninth Element scores show that people who feel part of a solidly committed team are routinely safer, better with customers, less likely to quit and more productive.

The Tenth Element: A Best Friend at Work

Responses to the Tenth Element, "I have a best friend at work," predict performance. Something about a deep sense of affiliation with the people in a team drives employees to do positive things for the business they otherwise would not do.

Early research revealed a very different social bond among employees in top performing teams. Subsequent large-scale, multi-company analyses confirmed that the Tenth Element is a scientifically salient ingredient in obtaining a number of business-relevant outcomes, including profitability, safety, inventory control and — most notably — the emotional connection and loyalty of customers to the organization serving them. A little less than one-third strongly agree that they have a best friend at work.

Friendship and Performance

Numerous qualitative studies of employee engagement suggest customers not only sense the level of camaraderie where they shop, but that it makes a large difference in their experience, if for no reason other than its natural contagiousness. In the service industries, the customer ratings of workgroups with strong Tenth Element levels are 5 percent to 10 percent higher than those of impersonal or acrimonious groups, explaining the difference between success and failure in many organizations.

Other connections between the "best friend" statement and business outcomes are less intuitive, at least at first blush. At one electric utility, friendships among team members proved to be responsible for lower accident rates. When the workers were asked for the reason, they said the answer is simple: People look out for their friends. A team that has two-thirds of its members strongly agreeing they have a best friend at work averages 20 percent fewer accidents than a team with only one in three strong on the Tenth Element.

Friendship is not without hazards for productivity, nor is it effective without the other elements, such as coworkers being committed to doing quality work or clear expectations for each member of a team. Without clear direction, tight-knit teams can lose themselves in socializing and ignore customer or business needs.

It's Easier to Work With Friends

Research on workers in various settings has shown that friends are more likely to invite and share candid information, suggestions and opinions, and to accept them without feeling threatened. Friends tolerate disagreements better than those who are not friends. The good feelings friends share make them more likely to cheer each other on. Friends are more committed to the goals of the group and work harder, regardless of the type of task. Group members who identify most closely with the team are more likely to monitor its performance against the goal.

Bunglers vs. Slackers

Gallup asked a random sample of U.S. workers which made them more frustrated: a colleague who tries hard but doesn't have much ability (a bungler), or a colleague who has the ability and doesn't try (a slacker). By a margin of six to one, workers are more upset with a slacker than a bungler.

The Eleventh Element: Talking About Progress

For all the complexity of performance appraisals — the balanced scorecards, the 360-degree feedback, the self-evaluations and forced grading systems — the statement that shows the best connection between perceptions of evaluations and actual employee performance is remarkably simple: "In the last six months, someone at work has talked to me about my progress." The statement does not specify that the discussion be an official review, but that the employee understands how he or she is doing and where his or her work is leading. In some ways, this statement is a long-term compliment to the Fourth Element of managing, which focuses on more immediate "recognition and praise."

Where a manager is regularly checking in with an employee, that employee is more likely to consider him- or herself properly compensated for the work, more likely to plan on staying with the company, and more than twice as likely to recommend the company to others as a great place to work. When compared with business results, the Eleventh Element turns out to be partic-

ularly powerful in driving productivity and safety.

Business units in the top quartile on this element realize 10 percent to 15 percent higher productivity and 20 percent to 40 percent fewer accidents than bottom-quartile business units. Yet less than half of employees in the global database strongly agree that someone talked with them about their progress in the last six months. Even among executives and senior managers, the proportion is only one-half.

Opinion Always Matters

On a purely functional level, an employee appraisal is quite simple. In practice, a good performance evaluation is a form of interpersonal art that requires managerial talent and careful preparation. A manager must maintain a delicate balance between giving candid, objective feedback and not crushing the employee's spirit and confidence. The research indicates that positive feedback charges up a worker, but negative comments sap the job of some of its intrinsic motivation. Comments from peers or subordinates must be interpreted carefully, and filtered of grudges, jealousy and erroneous observations. And, most of all, the discussion must be tailored to the personality, circumstances and potential of the employee. ●

The Twelfth Element: Opportunities to Learn and Grow

For many people, it is progress that distinguishes a career from employment that is "just a job." The Twelfth Element is measured by the response to the statement, "This last year, I have had opportunities at work to learn and grow." Employees who have an opportunity to learn and grow at work are twice as likely as those on the other end of the scale to say they will spend their career with their company.

When employees feel that they are learning and growing, they work harder and more efficiently. This element has a particularly strong connection to customer engagement and profitability. On average, business units in the top quartile on the Twelfth Element surpass their bottom-quartile counterparts by 9 percent on customer engagement and loyalty measures, and by 10 percent on profitability. These superior customer relationships and profits may occur because employees who are learning and are genuinely interested in their work have better ideas — which is another demonstrated correlation to the Twelfth Element.

Employees are Naturally Drawn to Progress

"Despite the fact that humans are liberally endowed with intrinsic motivational tendencies," wrote University of Rochester professors, "the evidence is now clear that the maintenance and enhancement of this inherent propensity requires supportive conditions, as it can be fairly readily disrupted by various nonsupportive conditions."

That's exactly what happens to many employees. Raised through a childhood in which each new year brought novel opportunities, playing at ever more difficult levels of sports, growing physically, educated in a system of cleanly delineated grades, many employees find themselves several years into their career wondering what happened to the momentum they used to enjoy.

Sitting in the same cubicle, doing the same job in much the same way without any meaningful new challenges causes employees to languish personally and professionally. A study of more than 3,000 adults between the ages of 25 and 74 found that 12 percent of the population is "languishing" and only 17 percent are "flourishing." "Languishing is associated with poor emotional health, with high limitations of daily living, and with a high likelihood of a severe number of lost days of work" and, when at work, lower productivity, wrote study author Corey Keyes.

What Great Managers Need

Some of what makes a great manager perform so well is pure talent — a natural ability to discern an employee's mind-set, a persistent optimism or a strategic acumen difficult to duplicate. Some of it is a deeply held personal mission to change the world for the better. Much of it requires that a front-line supervisor have the same experience with the 12 Elements as those he or she directs. One of the most fundamental needs of a great manager is … a great manager.

The level of engagement of managers ebbs and flows just as much as it does for anyone else. Moreover, the engagement level of managers correlates strongly with the attitudes of their team and before a person can deliver what they should as a manager, they must first receive what they need as an employee. ●

RECOMMENDED READING LIST

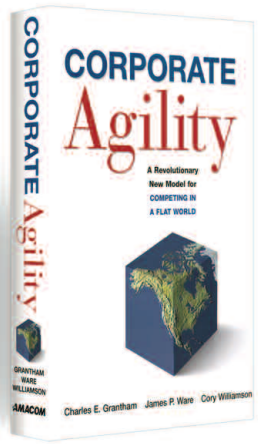
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1. ***Great Business Teams* by Howard M. Guttman.** Renowned business consultant Guttman offers practical ways to develop high-performance teams in your organization through insight into the dynamics of successful teams.
2. ***Satisfaction* by Chris Denove and James D. Power IV.** This book unlocks a vault of years of closely guarded research data, survey and feedback collected by J.D. Power and Associates on how to satisfy customers.
3. ***The Soul of the Corporation* by Hamid Bouchikhi and John R. Kimberly.** Discover how your firm's identity is related to — and different from — its organizational culture, brand positioning and reputation. Learn how to manage the unconscious shared beliefs that give your organization coherence.

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SOUNDVIEW Executive Book Summaries®



by Charles E. Grantham, James P. Ware and Cory Williamson

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A Revolutionary New Model for Competing in a Flat World

CORPORATE AGILITY

THE SUMMARY IN BRIEF

Early in 2002, a modest research project called the *Future of Work* gathered a small group of corporate thought leaders from such companies as Agilent Technologies, Cisco Systems, Intel, PeopleSoft, Capital One and Herman Miller to survey both labor and management in an attempt to discover how new technologies, the changing work force and economic globalization were changing how and where people worked, and what those changes meant to the future of work in the Information Economy.

In this summary, you will learn the results of the groundbreaking *Future of Work* research project and the forward-thinking strategies that have grown out of this new knowledge.

Filled with case studies of companies that have learned to stay ahead of the curve and advice from their top executives, this summary will help every company ensure that it stays profitable and sustainable for years to come. The stories, case studies, experiences and research results serve to make the future of work — where all of us will spend the rest of our professional lives — both more productive and more humane.

IN THIS SUMMARY, YOU WILL LEARN:

- How to reduce fixed operational costs to remain competitive in the global marketplace.
- How to institutionalize the innovation process to quickly react to a changing marketplace.
- How to confront the coming talent gap for creative and knowledge-based workers.
- How to pick and choose concepts that can assist you in reaching your current strategic goals.
- How to recognize changing marketplace conditions you may be forced to confront in the near future.
- How to deal with the increased mobility of the work force.

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by Charles E. Grantham, James P. Ware and Cory Williamson

Introduction

The initial results of the *Future of Work* project confirmed that although the global economy had undergone a series of rapid, model-shattering changes, most businesses were unable or unwilling to adapt their traditional management styles to new conditions. Prisoners of their own outdated business practices and assumptions about how work gets done, businesses found themselves losing ground to competitors who had not even been on the map a decade before. They became victims, rather than beneficiaries, of advances in information technology. And at a time when the attraction and retention of qualified employees had become an even more critical factor in a business' success or failure, they found themselves out of touch with a work force that had undergone a dizzying transformation in attitudes, abilities and ambitions.

Together, these factors resulted in a crippling loss of corporate agility.

Dinosaurs and Jaguars

How does a business evolve from a slow and unwieldy dinosaur to a nimble jaguar? The process is a collaborative, strategic approach to management that acknowledges and leverages the growing interdependence of human resources (HR),information technology (IT) and corporate real estate (CRE), a process called *collaborative strategic management* (CSM).

Each of these three functional areas has its own disciplines, its own values and its own challenges. Yet no business can operate effectively unless HR, IT and CRE are in sync, aligned both with one another and with the organization's broader strategic goals. For all these reasons, businesses today desperately need a clearly defined methodology that allows them to align their HR, IT and CRE strategies, and thus achieve that all-too-elusive corporate agility. ■

More Corporate Agility, Less Corporate Real Estate

In the summer of 2006, senior managers from Hewlett-Packard and Sprint-Nextel sat down at a Global Workplace program workshop in Dallas, Texas, sponsored by Jones Lang LaSalle's Workplace Strategies (WS) team, a relatively new but fast-growing division of Jones Lang LaSalle's Strategic Consulting Group. At the time, Hewlett-Packard's Global Workplace team was overseeing the completion of the first phase of its Workplace Transformation program, aimed at supporting HP's increasingly mobile work force and significantly reducing its CRE holdings worldwide.

The growing mobility of the work force, due more to naturally evolving work styles than to company policy, had left the lights burning above thousands of unoccupied desks, and the company, as a result, was scrambling to *right-size* its real estate holdings. For an organization with approximately 150,000 employees and 65 million square feet of real estate, the logistics were daunting.

By the summer of 2006, with the program's first phase well under way, the Global Workplace team had come to Dallas to share its experiences, to learn what it could from other companies' best practices and to discuss the opportunities for outsourcing specific program responsibilities to service providers such as Jones Lang LaSalle.

Jones Lang LaSalle

Jones Lang LaSalle's own WS pilot program was motivated by the same primary goal that had caused HP

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The authors: Charles Grantham and Jim Ware are the founders of the Work Design Collaborative and the *Future of Work* program, whose members include Boeing, Accenture and Intel. Cory Williamson is an author and talent agent.

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More Corporate Agility, Less Corporate Real Estate

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to reorganize its businesses — the reduction of fixed operating costs. Almost as important, however, was management's desire to increase agility and innovation by encouraging greater cooperation between its business units, which had been scattered throughout the four floors occupied by the company in its headquarters at Chicago's Aon Center.

Convinced that the lack of communication between these units was causing the company to miss opportunities to offer clients a greater variety of its services, management turned to the reorganization of its new space in the Aon Center. The new design, an Open Office Environment, was intended to increase cooperation by greatly reducing the number of offices and corridors, encouraging collaboration through random, spontaneous contact. The approach began to yield results almost immediately.

Workplace Transformation

Every effort to increase agility and/or reduce cost through workplace transformation necessarily involves significant effort in all three key support areas: HR, IT and CRE. You can't trim or enlarge one piece of the puzzle without affecting the others. The agile corporation is one whose senior executives know how to *collaborate* with their peers in order to achieve such strategies.

When a prominent business magazine named Jones Lang LaSalle as one of the best companies to work for, it noted that the near total absence of interior walls led to the increased availability of senior executives — and to greater employee satisfaction. ■

The Three Major Business Challenges

The workplace programs of today will age just as surely as the work force will. It is only by continually reviewing market conditions, re-examining corporate strategies and reallocating resources accordingly that businesses can prosper in a volatile and unpredictable global economy. The three major challenges facing business today are:

1. **Reducing fixed operating costs.**
2. **Confronting the coming talent shortage.**
3. **Institutionalizing innovation.**

Corporate agility can be achieved only through the continuous, collaborative management of HR, IT and CRE.

Collaborative Strategic Management

CSM means putting processes and practices in place that will allow HR, IT and CRE managers to create a unified approach to the organization's business imperatives, and to resolve them while respecting a core of shared corporate values.

CSM is *strategic* in the sense that it anticipates — in fact, even expects — continual change in the broader business environment. It is about management *over time*, because continuous environmental change demands continuous organizational and managerial change. CSM is the dynamic and ongoing process of internal decision making that is the essence of corporate agility. ■

Reducing Fixed Operating Costs

Reducing fixed operating costs in order to increase corporate agility is *the* central business challenge of the 21st century. In an ever-more dynamic global economy, businesses must move from a fixed-cost to a variable-cost business model in order to remain competitive and to increase their ability to react quickly to changing conditions.

The primary opportunities for reducing fixed operational costs include the following:

• **Reducing the corporate real estate footprint.** Given the increased mobility of the work force and the changed nature of its work styles, management has begun to realize that a great deal of its costly real estate is unused. Meaningful change in a corporate real estate portfolio must begin with the accurate assessment of conditions, behaviors and needs, and then must be followed by the right-sizing of the real estate portfolio.

• **Reconfiguring corporate real estate.** If the retained space is not configured to support recent shifts in employee attitudes and work styles, as well as technological advances, costs will remain higher than necessary.

• **Green building.** Green building, or sustainable design, is yet another method of reducing fixed operational costs, and one that bears on other issues of corporate agility as well.

• **Choosing a location.** No longer limited to the local labor pool, a more distributed work force and online recruiting allow companies to throw out a wider net for new hires, but these realities also force companies to accept more flexible work patterns.

The work environment is ultimately about connectivity, or how a company utilizes a network of places, both virtual and physical, to enable its employees to connect with one another, and with customers and suppliers, no

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Reducing Fixed Operating Costs

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matter where they are. *Strategy of place* involves identifying the people who you need to hire, knowing where they are and predicting where they will want to be in the future as they move through their careers. ■

Attracting and Retaining Human Talent

Attracting and retaining qualified, engaged employees is the second of the three primary business challenges of the 21st century. There simply isn't enough human talent to meet the current needs of business, much less the constantly expanding global economy. The bottom line here is that in a few years — say, 2010 — the United States will have 10 million more jobs than it will have qualified people to fill them.

Where will companies go to get the talent? About one-third of the total will come from retirees remaining in the work force, though most likely not in a full-time capacity; one-third will come from outsourcing or moving work to interior population centers within the United States; and the remaining third will come from retraining workers displaced from lower-skilled and lower-paying jobs.

Meaningful Work

From the beginning, furniture manufacturer Herman Miller's founder made it clear to all those who worked for him that the quality of his employees' lives was as important a part of his company as the machinery that produced its furniture. Eighty years later, that spirit survives in Herman Miller's intentional Employee Experience.

Built on its founder's belief that *people are what companies are made o*f, and that demographic and cultural shifts are changing the face of the modern work force, Herman Miller began to build its Employee Experience program in 2004 to ensure that the company remained an employer of choice for the future.

In order to coordinate the program with the company's evolving business strategies, its designers first assembled a cross-functional core team composed of upper-level managers from HR, IT and CRE, all of whom reported to a chief administration officer. The team then defined key ideas and integrated these ideas into the following themes:

• **Meaning.** Most people want more from work than just a paycheck.

• **Choice.** Intelligent, qualified employees don't like being told what to do.

• **Opportunity.** Opportunity is necessary for employees to satisfy their need for growth.

• **Engagement.** When meaning, choice and opportunity combine to give employees the feeling that they are "owners" of the company, employees will be engaged.

• **Leadership.** Leadership makes employees feel trusted and encouraged.

As the relative supply of creative labor shrinks, the pressure to achieve agility will grow. ■

Innovation and Survival

Institutionalizing innovation is the last of the three major challenges facing businesses in the 21st century. To innovate means to make new, and most companies that fail, fail to develop not only new products and services, but also processes to promote agility.

What was missing from U.S. automakers' business plans, if not innovation? While Japanese, Korean and European carmakers saw that market forces favored smaller, more fuel-efficient vehicles, General Motors, Ford and Chrysler continued to manufacture automobiles whose fuel ratings came ever closer to being measured in gallons per mile.

Institutionalizing innovation means changing more than the minds of management or union leadership. It is rooted in the relationship between innovation and these other factors:

• **Technology.** IBM's On Demand Workplace (ODW) was built as a collaborative, personalized online workplace that delivered relevant content and tools to employees no matter where or when they were working. The program linked thousands of previously disparate resources into a single portal through which employees could access the information and services necessary to do their jobs. By 2003, the ODW programs had reduced IBM's annual costs by $683 million.

• **Company culture.** In 1991, Herman Miller launched its Supplier Diversity Program to increase opportunities for minority-owned and women-owned businesses. In 1993, the company became a founding member of the U.S. Green Building Council, the only office furniture manufacturer on the association's initial roster.

• **The workplace of the future.** Creative spaces are a product of a conscious and continuous design process that has a beginning, but no end.

• **The work force of the future.** Walk into a dim, hushed, compartmentalized space, and you feel creativity in retreat. Walk into an open, busy, naturally lighted

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Innovation and Survival

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interior, and you feel a rise in your energy level and sense that you are once again in a community.

The lines between these areas of inquiry, just like those between HR, IT and CRE, are no longer drawn as clearly as they once were. They have a tendency to overlap, so it is important to have a companywide strategic approach to institutionalizing innovation. ■

The Virtual Work Force

In the past, labor was brought to the workplace and inserted into an existing, unquestioned framework. Then, the work defined the work force; now, the situation is changing. The work force of the future, by virtue of its skills, attitudes, ambitions and scruples, is now in the process of recreating the workplace of the future.

There are at least six solid reasons to establish distributed work programs, and each contributes to corporate agility:

1. **Reducing basic work force support costs**
2. **Increasing work force productivity**
3. **Attracting and retaining talent**
4. **Reducing the business risk of disruption from terrorism or a natural disaster, or defending business continuity**
5. **Reducing traffic congestion, air pollution, and more generally, the impact of business on the environment.**
6. **Moving work to where workers want to live.** ■

For additional information on resistance to the distributed work force, go to: http://my.summary.com

Offices Without Walls

It is the nature of the work itself — whether in sales, client services, work force support or facilities management — that ultimately dictates both *where* the work should be done and by *whom*. Or, in the words of Accenture's Corporate Real Estate Workplace team, "Work is not a place you go, it's something you do."

That is certainly the case with CorasWorks, a software company founded in 2003, with hundreds of customers spread across 24 major industries, in 20 countries whose software has more than 500,000 regular users — but that has only two employees reporting to the office on a daily basis.

It's a description that fits Agilent's Fieldscape program too, where supermobile employees rarely utilize company workspace, working instead out of their homes, in clients' facilities or in *third places*.

These examples are familiar to anyone responsible for corporate real estate planning or involved in workplace strategies today. They demonstrate once again the way real estate, human resources and information technology all come together in the future of work.

Third Places

One of the most striking findings of the original *Future of Work* research program was the discovery of the demand for "third-place" work locations for mobile knowledge workers. Within the next couple of years as many as 20 million people will be choosing to work one or more days a week in third-place facilities — that is, public or private spaces built specifically for the temporary, or semi-permanent, business purposes of companies and individuals.

Workplace Strategy

In reviewing the ways in which a number of very different organizations have created new work environments or adapted old ones to the requirements of today and tomorrow, several themes evolve. In every case where the transformation was reasonably successful, all three of the critical support functions — HR, IT and CRE — were actively and strategically involved in both the planning and the execution of the change. In addition, there was extensive end-user involvement.

Workplace strategy includes the active coordination of all resources required to enable work wherever and whenever it takes place. The workplace of the future will be highly agile, mobile and distributed across time and space. How do you develop a comprehensive corporate strategy to deal with this changing environment? From a project management point of view, five sequential steps must be undertaken to make this vision come alive:

1. **Assess business requirements, capabilities and audit processes.**
2. **Define a workplace strategy, complete with a vision of its business value and impact.**
3. **Make specific tactical and operational recommendations for change.**
4. **Implement a staged plan of action.**
5. **Evaluate outcomes and make additional changes as needed.** ■

For additional information on workspace resident involvement, go to: http://my.summary.com

The Well-Designed Workplace

The General Services Administration (GSA) has produced one of the finest, most comprehensive and codified approaches to workplace design, exemplified by its program *Leading by Example: A Demonstration Toolkit for Creating a GSA World-Class Marketplace*. This is a result not only of the organization's leadership and staff, but also of the lessons learned from the vast number and varied characteristics of the projects undertaken by the organization over the years.

The Seven Hallmarks of the Productive Workplace

The GSA toolkit is meant to help the GSA design, construct, occupy and maintain workplaces for its associates in a manner that is optimal for the nature of the organization's work; that fosters its business strategy; and that expresses the agency's mission, values and culture. Its guidelines and processes are drawn from the Seven Hallmarks of the Productive Workplace, first introduced in the GSA's Integrated Workplace. Its principle features are:

1. Spatial equity. Design the workplace to meet the functional needs of the users by accommodating the tasks to be undertaken without compromising individual access to privacy, daylight, outside views and aesthetics. Requirements include natural daylight, views, fairness and multiple work settings.

2. Healthfulness. Create workplaces with a clean, healthy building environment free of harmful contaminants and excessive noise, with access to clean air, light and water. Requirements are air, water, ventilation, ergonomics, restrooms and amenities that provide a greater level of healthfulness and community.

3. Flexibility. Choose workplace configuration components that can be easily adapted to organizational or work process changes, and that can be readily restructured to accommodate key functional changes with a minimum of time, effort and waste. Requirements include furniture strategy, workstations that allow user adjustment, fluid layouts based on function, technology with integrated cable management and remote work capabilities.

4. Comfort. Distribute workplace services, systems and components that allow occupants to adjust thermal, lighting, acoustic and furniture systems to meet personal and group comfort levels. Requirements include thermal control, lighting control, ergonomically sound workstations, multiple work settings, adequate space and security.

5. Technological connectivity. Enable full communication and simultaneous access to data among distributed co-workers for both on-site and off-site workplaces. Specific requirements include coordination, plug-and-play systems that allow occupants to easily make connections, data sharing, telephone services, network access, virtual meeting needs and wireless accommodations.

6. Reliability. Support the workplace with efficient, state-of-the-art heating/ventilating/air conditioning (HVAC), lighting, power, security, and telecommunication systems and equipment that require little maintenance and are designed with battery and/or greater back-up capabilities to ensure minimal loss of service or downtime. Requirements include clean air ventilation, proper lighting, effective HVAC, instructions on the use of systems, security, maintenance and confirmation of the systems' intended benefits.

7. Sense of place. Endow the workplace with a unique character, appropriate GSA image and strong business identity to instill a sense of pride, purpose and dedication among individuals and within the workplace community. Requirements include providing well-designed signage; ensuring connectivity; demonstrating brand, values and beliefs; providing a sense of ownership; using desirable color schemes and finishes; and preserving original design quality. ■

Collaborative Strategic Management

In ideal situations, we attempt to move communication from an impersonal level toward a level of intimacy, which means an *increasingly common understanding of values and respect for differences*. This occurs when groups move from simply coordinating their activities to acting in a truly collaborative fashion. In this sense, the structure of the communication network is the foundation upon which you can build task structures and therefore, organizational effectiveness.

The Workplace/Work Force Transformation Program

With the advent of truly global markets; the continuing revolution in information technology; the globally distributed work force; and the growing, worldwide human talent gap, senior managers are beginning to understand that they may no longer be able to hit their own targets without the strategic cooperation of the company's other business units. It seems increasingly clear that those corporate entities unable to adapt their management practices to the growing interdependence of HR, IT and CRE will soon find themselves marginalized by their more strategically coordinated competitors.

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Collaborative Strategic Management

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The first order of business is the creation of a task force made up of upper-level executives from the departments of real estate management, human resources and information technology. Without sufficient, well-advertised involvement from upper-level management, the momentum necessary to overcome a company's natural resistance to change cannot be achieved.

Align Goals

The first task is strategic alignment of goals. It is imperative that any workplace strategy be completely aligned with the core business mission and plan. That means knowing the product development strategy for both production and market channels; the work force staffing plans; the financial management strategy; an overview analysis of the branding program; and how the technology deployment plan will support all these.

The optimal method of doing this review is a short series of executive roundtables where the external team brings information on the state-of-the-practice and the resources that are present. Briefings center on key questions regarding such issues as business drivers, competitive threats, strategy development and decision processes.

The result of this first step is a *statement of the business problem* and specification of the results desired. This statement is then used for an internal return on investment (ROI) analysis prior to proceeding with the next steps. This allows for creation of a set of recommended tactical programs that, when executed, will lead to the results required.

A New Workplace Strategy

At this point, the leadership team should assemble a task force to lead the job of defining a new workplace strategy. Once assembled, the task force will follow four simple, quantifiable steps:

1. Assessment. Deconstruct departmental activities. Map work processes. Conduct a task/activity analysis. Assess organizational readiness. Conduct a work force survey of needs and expectations. Develop alternate scenarios.

2. Recommendation(s). The key here is a comprehensive analysis of where suboptimization is occurring, where money can be saved and where funds should be reinvested to reach a set of collaborative strategies. The task force's recommendations will almost certainly include a series of gradual reductions in total square footage under company management, taking into account each division's needs given the company's new work force/workplace strategies, and a geographic realignment of the company's real estate assets.

3. Implementation. During this critical stage, the focus turns to IT, without which the attempt to distribute the work force will fail. The task force must ensure that these steps have been taken: division of IT has been prepared well in advance of any changes in staffing and real estate, the company's internal communications have been reconfigured *before* organizational change occurs, and coming changes in technology and the infrastructures this will require have been thoroughly considered before the company's systems are revamped.

4. Evaluation. The task force will be required, in conjunction with upper-level management, to continually re-examine the company's core goals and strategies, in order to recommend adjustments in work force/workplace strategy.

Management must consider these factors: establishment of units within each division for prototype testing; a linked training and development plan for initial program participants; a mechanism by which customers and suppliers can respond to the changes; and making permanent a new business model team that continuously looks for more effective, and efficient, ways to organize the business. ■

Achieving Corporate Agility

Achieving agility requires executives and managers to adopt fundamentally new ways of thinking. They have to shift away from the old linear, industrial model toward a more collaborative, systemic and holistic view of the world and their role in it. There must be a significant shift in how decisions are made in agile corporations, as opposed to a more traditional organizing and governance style.

Preparing for the Next Wave of Change

There are eight major categories of questions that you should be asking — simultaneously and continuously. There is no magic or best way to sort these questions, and of course, there is always some overlap. But if you are devoting resources to continuously investigating these areas, you will be prepared for the next wave of change:

1. Meta forces of change. What are the global sociopolitical forces that impact how we work? What are the possible alternative futures, given those forces?

2. Public policy issues. What are the workplace/work force effects of trade policies, employee benefit requirements, environmental laws and labor laws? What will these public policy issues be in five years, and how will

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Achieving Corporate Agility

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they affect your business and your customers?

3. Demographic dynamics. What are the multigenerational dynamics of demography, especially in underdeveloped countries? What factors influence generational cultures and values? What are the long-term trends in educational funding, in the United States and elsewhere?

4. Geography or talent pools. Close on the heels of the demographic questions, where will the most desirable talent be living in five, 10, 20 and maybe even 50 years? Why? What is the psychology that underlies mobility?

5. Work process and collaboration styles. What motivates humans to collaborate? How do compensation and reward systems affect work behaviors? More research is needed, as we really don't yet understand these areas very well.

6. Social and intellectual capital metrics. How should work force performance in a distributed work environment be measured and audited? How do you capture increased social capital on your balance sheet? What is that social capital worth in the marketplace?

7. Challenges and difficulties of managing a distributed work force. What are the specific competencies required to manage distributed workers successfully? What do leaders of the future look like? How do they develop these competencies?

8. Deeper understanding of barriers and sources of resistance to the new models. What are the cultural barriers to the fundamental changes that the future of work will bring — and demand? What kind of change management processes must be put in place? How do we get senior management on board?

Disposing of Unneeded Real Estate Assets

A significant part of the cost savings associated with collaborative strategic management (CSM) comes from shedding that 30 to 50 percent of unnecessary real estate. The quicker you can get that fixed cost asset off your books, the sooner you realize bottom-line gains.

Firms that represent tenants looking for good deals — and therefore bypassing traditional brokers — are already emerging in the market. The traditional broker is losing his or her place as a mediator, a development that is already underway in the automotive, airline and banking industries with the advent of e-commerce.

There should be a special, identifiable group of people within the organization who are tasked with answering these questions, over and over again.

A New Way of Looking at Organizations

Organizations contain three levels — or, more appropriately, *spheres* — of work. In the *activity* level, products or services are produced and distributed. In the *administration* level, different activities are coordinated. In the *policy* level, general direction is set. The point here is to locate the forward-looking role, the "futures group," at the policy level.

The three spheres of work — activity, administration and policy — represent a minimum set of necessary levels of an organization in the traditional sense. Executives set policy, middle managers coordinate action and non-managers do the work of the enterprise. You have to know where you are in the organization to understand how you fit into the overall scheme of things as well as how and what you can do to increase the organization's agility.

Core Issues at Each Level

The core issue for the activity sphere is "What are we doing?" These people are concerned about efficiency, resources and getting things completed.

Administrators are concerned with "How will we get it done?" They are characterized by control issues, methods of work and maintaining the status quo. Administrators are interested in survival.

Policy makers look at the question "Why are we doing this?" Their concerns center on issues of direction, effectiveness, the creation of new abilities for the organization and renewal.

An agile organization is one that strategically integrates the management of its real estate, human resources and technology assets. It does that in a collaborative fashion that requires a change from the decision-making processes and styles that rely on today. Finally, an agile enterprise organizes itself into three (and only three) levels that center on completion, survival and renewal. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Corporate Agility*, you'll also like:

1. ***Green to Gold*** **by Daniel C. Esty and Andrew S. Winston.** The authors show how companies can generate lasting value by building environmental thinking into their business strategies.
2. ***Firms of Endearment*** **by Jagdish Sheth, Rajendra Sisodia and David B. Wolfe.** From Costco to Wegmans, today's best companies are becoming the ultimate value creators, generating every form of value that matters: emotional, experiential, social and financial.
3. ***The Starfish and the Spider*** **by Ori Brafman and Rod Beckstrom.** Brafman and Beckstrom provide a look at the decentralized companies that are taking the business world by storm.

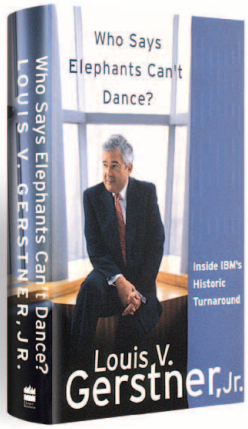
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SOUNDVIEW Executive Book Summaries®



By Louis V. Gerstner, Jr.

Inside IBM's Historic Turnaround

WHO SAYS ELEPHANTS CAN'T DANCE?

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THE SUMMARY IN BRIEF

When Lou Gerstner took the helm of IBM as its CEO in 1993, the company was a shambles — hemorrhaging money, drained by an insular corporate culture, and rapidly falling prey to smaller companies that could make the same products better, faster and for less money. Wall Street was calling for its breakup into small, independent business units, but Gerstner had other things in mind — to keep the company together, change the way it (and, eventually, its entire industry) did business, and show it could keep up with and even surpass the startups and small businesses presenting its biggest challenges. Lou Gerstner thought the enormous corporate elephant could dance as gracefully as its much smaller competition. He was right.

What You'll Learn In This Summary

✓ **Always be ready to fight.** Analysts took one look at the disparate units that comprised IBM and how much they were costing the company and its shareholders, and demanded they be broken out into their own businesses. Gerstner said "No", engaging in his first battle with "The Street."

✓ **If it's broken, fix it.** IBM had an anemic economic model, a host of revenue-draining assets, and even problems with its own internal information technology tools (an oddity in the information technology industry). IBM was in serious trouble when Gerstner took over. Yet, with the right vision and strategy (not to mention the valued resources that followed them), he was able to breathe new life into the moribund organization.

✓ **If it's not broken, fix it anyway.** Some aspects of the business could have probably been safely ignored or set aside. Gerstner improved them anyway.

✓ **Make a personal commitment to leading.** True leadership — the kind that makes companies special, that can turn them around, that can make elephants dance — requires commitment, determination and passion for life, for business and for winning.

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WHO SAYS ELEPHANTS CAN'T DANCE?

by Louis V. Gerstner, Jr.

— THE *COMPLETE* SUMMARY

Laying Down Expectations

Shortly after Lou Gerstner was introduced as IBM's CEO in the Spring of 1993, he met with the company's Corporate Management Board — roughly the top 50 people in the company. He laid out for them a number of troublesome areas in the company:

- Loss of customer trust, supported by low customer ratings on quality.
- The mindless rush for decentralization.
- Slow response to cross-unit issues.
- Tension over control of the marketing and sales processes.
- A confusing and contentious performance measurement system, resulting in serious problems when closing sales with customers.
- A bewildering array of questionable, even senseless, alliances.

Gerstner announced a program called "Operation Bear Hug." Each of the 50 members of senior management would, within three months, pay a personal visit to a minimum of five of IBM's biggest customers, find out first-hand what their needs and concerns were, and report back to Gerstner. The Bear Hug meetings became the first step in reducing the customer perception that dealing with IBM was difficult.

Gerstner also disbanded the Management Committee (MC), the small board of executives who okayed every major decision at IBM — a group that, in Gerstner's view, gave only rubber-stamp approval and was more of a figurehead panel than an actual decision-making body.

Within the first weeks on the job, Gerstner also met with various leaders in the computer and telecommunications industry, including Andy Grove of Intel, Bill Gates of Microsoft, and John Malone of TCI, many of whom encouraged Gerstner to get IBM out of the PC or chip business, hinting the company was too slow to compete. He even conducted individual interviews with major publications, like the *New York Times, Wall Street Journal* and *USA Today*, which, nonetheless, gave IBM and its new chairman mediocre grades for their initial performance after Gerstner came aboard. ■

Gerstner's Greatest Accomplishments

If you ask Lou Gerstner today what was his greatest accomplishment in all his years at IBM, he would say it is that his successor is a longtime IBMer, as are the heads of all the company's major business units. He didn't "clean house" of managers and executives when he came aboard; IBM was too big and complex for such a move, and there were too many talented people with unique expertise.

What he did do, shortly after disbanding the Management Committee, was create an 11-member Corporate Executive Committee (CEC) to help him make big-stakes decisions. The CEC would not accept delegation of problem solving, nor would it sit through presentations or make decisions for business units. Its focus was solely on policy issues that cut across multiple units.

Gerstner also reduced the size of IBM's board of directors, from 18 to 12 members, then rebuilt it with some of the best and brightest minds in all of the day's business communities. The board, as a result, has been a strong, involved, effective and important contributor to IBM's success.

Holding the Vision

After only 100 days on the job, and with major news outlets and analysts alike calling for some visible, tangible proof of a turnaround at IBM, Gerstner went public with four key strategic initiatives:

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The author: Louis V. Gerstner, Jr., was chairman and CEO of IBM from April 1993 until March 2002, when he retired as CEO.

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Holding the Vision

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1. Keep the Company Together

Gerstner decided very early on to keep IBM one unified enterprise, in the face of an increasingly diversified computer market. While IBM was slow to deliver distributed computing (delivering increased computing power to individual users), other companies moved in, supplementing IBM's basic systems with add-on applications and hardware that provided the powerful systems both business and home computer customers wanted and needed.

Gerstner recognized that no one company was positioned to be an integrator of all these disparate parts. Before the components reach the consumer, someone must sit at the end of the line and bring it all together in a manner that creates value for customers. Gerstner saw IBM as being uniquely positioned to be that company, the one that could apply complex technologies to solve business challenges. He knew the company had to be saved, had to remain together. What he didn't know was how exactly to deliver on the potential of the company as a unified enterprise.

2. Change the Company's Fundamental Economic Model

In simplest terms, if a company's revenue, gross profit, and expenses are all moving in the right relationship, the net effect is growing profits and positive cash flow — the makings of a successful business. In 1993, those relationships at IBM were all wrong — revenue was slowing (due to the company's reliance on declining mainframe sales); gross profit margin was sinking (due to the discounted prices it had resorted to in order to sell mainframes); the company's expenses were out of control.

Expenses were, however, the first issue tackled — $8.9 billion was slashed out of the budget. This required an employment reduction of 35,000 people (in addition to the 45,000 jobs cut in 1992 — the first such layoff in the company's history).

3. Reengineer How the Company Did Business

Gerstner saw IBM's business processes as cumbersome and highly expensive, requiring a reengineering program of gargantuan proportions, a top-to-bottom overhaul of its basic operations. Gerstner focused on six core initiatives: hardware development, software development, fulfillment, integrated supply chain, customer relationship management, and services. These were the processes most visible to external customers, and they were soon joined in reengineering efforts by several internal processes, including human resources, procurement, real estate, and, oddly enough, information technology. From 1994 to 1998, the total savings from these reengineering projects was $9.5 billion.

4. Sell Nonessential Assets to Raise Cash

Only a handful of people understand how close IBM came to bankruptcy in 1993. Gerstner noted then that there were a number of assets that could be sold to make the company solvent again, and, thus began a wholesale jettisoning of nonessential assets:

- Much of the corporate airplane fleet was sold.
- The corporate headquarters in New York City was put on the block.
- The bulk of the company's fine art collection was auctioned off.
- IBM's Federal Systems Company (which primarily handled government contracts) was sold to the Loral Corporation.

These sales went on for many years — even after the need to raise cash dwindled. As the years went by, Gerstner continued streamlining the company in an effort to achieve and maintain focus in essential operations. ■

IBM's Internal IT Woes

Gerstner's greatest shock upon starting at IBM was the state of the company's internal information technology (IT) infrastructure. He found the company spending $4 billion a year on IT alone, yet people still didn't have the basic information they needed to run the business. The systems were antiquated and couldn't communicate with one another. IBM had hundreds of data centers and networks scattered around the world, many of which were dormant or being used ineffectively.

The company saved $2 billion in IT expenses by the end of 1995, going from 155 data centers to 16, and consolidating 31 internal communications networks into a single one.

For Additional Information on IBM's disparate internal efforts, go to: http://my.summary.com

Reinventing Big Blue

To understand the extent of IBM's turnaround under Lou Gerstner, it is necessary to understand a bit about the company's history, particularly the company's success under Thomas Watson, Jr., who succeeded his father as CEO in 1956 and who was at the helm when the company introduced System/360, its wildly success-

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Reinventing Big Blue

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ful mainframe family. System/360 was the Microsoft Windows of its era — an era IBM led for three decades. Both IBM and Microsoft seized upon major technology shifts and brought to market entirely new capabilities for customers.

Standing on Top

In IBM's case, the big technology shift came with the advent of the integrated circuit, or semiconductor chip. Watson and his colleagues knew that those chips could handle massive amounts of work, placing the computing power that used to require a room full of machines into a box that sat in a corner (and, eventually, on one's desk). At great research and development cost, IBM fashioned a family of computers — from very small to very large processors — and peripheral devices that would enable customers to grow their systems as their business needs grew.

IBM built its entire business around mainframes — all hardware, software, sales and services were tied to System/360. Competitors reeled; many disappeared. The company appeared invincible, until the advent of the UNIX "open" operating environment in the early 1980s showed chinks in IBM's armor. Customers finally had a viable alternative to IBM's mainframe products and pricing, and the open, plug-and-play nature of the environment meant that other companies — many other companies — could gain entry into the once locked realm of information technology solutions.

The Faltering Foundation

After UNIX cracked the foundation, PC makers came along swinging wrecking balls. IBM barely put up a fight; because it didn't see PCs infringing on its enterprise computing franchise, it surrendered control of the two most valuable PC components — its operating system and microprocessor — to competitors (Microsoft and Intel, respectively). By the time Gerstner arrived, those two companies had ridden their successes to the very top of the computer industry.

Gerstner's strategy to get IBM back on top hinged on two risky bets: first, that the IT industry's disaggregation into thousands of niche players would make a *services-led* business model a huge growth segment of the industry; and, secondly, that standalone computing would give way to *networks*, allowing computing functions to be performed from a wide range of hardware — from cell phones to handheld devices, to household appliances. Gerstner then worked, over time, to align IBM's strategic efforts in four key areas: services, software, Original Equipment Manufacturer (OEM) business and e-business.

Services

The key to Gerstner's turnaround — to winning the bet and establishing his vision at IBM — was transforming IBM's service entity from one that dealt solely with IBM products, to one that was truly focused on serving customer needs. Along with Dennie Welsh — the head of IBM's service subsidiary — Gerstner transformed IBM's entire philosophy, from one that essentially sold IBM solutions to one that could, if the customer's needs were right, suggest competitive products as well, and help maintain the total solution after purchase.

Once he established the new service philosophy, Gerstner broke the service unit out as a separate company — IBM Global Services. Problems were myriad at first — IBM was essentially building a labor-based business inside an asset-intensive company. But Gerstner and Welsh built the unit into a solid success, because they were able to do the following:

- **Use its balance sheet.** Such a unit must be willing to carry the infrastructure and loss until long-term contracts become profitable.
- **Drive economies of scale.** One must consolidate a lot of customer data centers into smaller units, and use fewer resources to do so.
- **Build recruitment, training, compensation and HR processes.** The unit had to bring in a bulk of people (1,000 or more) every month — something it had never done before.
- **Be disciplined.** The unit's leadership had to learn how to negotiate profitable contracts, price their skills, assess risks, and walk away from bad contracts and bad deals.

Software

When Gerstner arrived at IBM, the company was locked in a pitched battle over operating system (OS) superiority — the company's OS/2 system versus Microsoft's Windows. It only took a short period of time for Gerstner to realize that in the networked world, desktop operating systems were yesterday's battle.

What IBM's software unit focused on was computer middleware — the largely invisible layer of databases, systems management software and transaction-management programs that connect front-end applications with the operating systems behind them (in other words, the tools a user sees and uses, and the stuff that makes the tools run). Gerstner instructed the unit to engage in a massive, multi-year effort to make IBM's middleware applications more open and network-enabled. That

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Reinventing Big Blue

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effort, combined with several strategic acquisitions, made IBM's Software Group one of the most powerful software companies in the world.

OEM

The announcement in April 1994 that IBM would mount a serious push to sell its technology components on the open merchant (or Original Equipment Manufacturer — OEM) market was equal parts pragmatism and risk. The reasons for the decision were compelling:

- The company had been underutilizing its Research Division, a fertile and creative asset.
- Dispersing its technology more broadly would drive the company's ability to influence the definition of the standards and protocols that underlie future industry development.
- Selling its technology would recoup some of the company's R&D expenditures, as well as open up a new income stream.
- In a post-PC world, there would be high demand for components to power network-accessible devices.

The company's Technology Group started out simply enough, selling simple memory chips (called DRAMs). This served as an entry point; once IBM proved its mettle in this segment, customers were less worried about their reliability as a supplier, a fact that has been an asset to the company as it moves into the emerging opportunity of providing chips to service the growing networked products industry.

E-business

The term *convergence* had been on the tongues and minds of technology professionals for years before Lou Gerstner came aboard IBM. Simply put, convergence is the melding of traditional analog technologies (like telecommunications or consumer electronics) with their digital kin.

In the early 1990s, inside IBM the concept took the form of "the cloud" — a graphic representation of a network that could enable and support incredible amounts of communications and transactions among people, businesses, and institutions. Gerstner recognized that if the cloud became the focus of all such interaction, it would cause a revolution in computing (moving emphasis away from the PC, toward larger enterprise systems inside the cloud) and one in business (interactions between individuals, groups, governments and other entities would be revolutionized by massive, global connectivity).

IBM was uniquely positioned to benefit and lead in this new, convergent environment, in part because it had embraced open, standards-based computing, including important Internet standards and protocols. To succeed, the company had to do the following:

- In software, recognize middleware applications would be the integrating glue of networked applications.
- In service, a new business was built around Web hosting, including consulting and implementation components.
- In component technology, it had to maintain and grow the foundry of specialized chips that were in high demand.
- Get the entire company on board and moving together.
- Deal with the confusion over what exactly made an e-business company. IBM's focus — middleware applications, service and chip technology — were not as visible to the online public at large as products such as browsers.
- Revamp all marketing communications, to communicate the real value inherent to the Internet, and how IBM did fit into that equation.

Lou Gerstner considers IBM's e-business campaign to be one of the finest jobs of brand positioning he has ever seen. ■

Mr. Watson Pays a Visit

A special moment occurred for Lou Gerstner in the first few weeks of his tenure at IBM:

"I walked out of my house one morning at my usual early hour," he explains. "However, when I opened my car door, I suddenly realized there was someone sitting in the back seat. It was Thomas Watson, Jr., former IBM CEO and son of IBM's founder. Tom literally lived across the street and had walked up my driveway to surprise me and ride to work with me. He was 79 years old.

"He was animated and, perhaps better stated, agitated. He said he was angry at what had happened 'to my company.' He said I needed to shake it up 'from top to bottom' and to take whatever steps were necessary to get it back on track.

"He offered support, urged me to move quickly, reflected on his own career, and, in particular, the need he had seen over and over again to take bold action. At the end of our ride together, I had the feeling he wished he could take on the assignment himself!"

For Additional Information on Dennie Welsh, go to: http://my.summary.com

Addressing Corporate Culture

Lou Gerstner came to see that culture isn't simply one aspect of the game — it is the game. An organization is nothing more than the collective capacity of its people to create value. Taken on their own, concepts like vision, strategy and financial management can only take a company so far; it is only when those elements are ingrained into the very fiber of an organization that that organization has the chance to be great. The values a company claims to have (teamwork, customer service, shareholder value and the like) do not necessarily translate into the day-to-day behavior of an organization's employees.

Successful institutions almost always develop strong cultures that reinforce the elements that make the institution great. They reflect the environment from which they emerged. When that environment shifts, the culture tends to impede the organization's ability to adapt.

Such was the case at IBM, which seemed to exist in the shadow of its founder, Thomas J. Watson, Sr., a self-made man who engendered a culture of respect, hard work, and ethical behavior at his company.

Watson deliberately and systematically institutionalized three Basic Beliefs that had made IBM successful under his stewardship:

- **Excellence in everything we do**
- **Superior customer service**
- **Respect for the individual**

These Beliefs were baked into the company's compensation and benefits systems, its management schools, its training programs, its marketing and customer support. They formed the doctrine of the company.

At the same time, companies need to change — as the world changes, the rules, guidelines and customs lose their connection to what the enterprise is all about. What the Beliefs had meant in 1962 (when Watson's son, Thomas J. Watson, Jr., introduced them) was not the same as what they meant in 1993, when Lou Gerstner took the helm.

When IBM was at the early height of its market share, "superior customer service" essentially meant "servicing our machines on the customer's premises." Over time, however, the idea of service became deeper, more layered — the needs of IBM's customer base had changed, and the company had no way of knowing what those needs were, because they didn't know how to ask. Customer service became more of an administrative task than a nuanced approach to individual clients.

Over the course of 30 years, as the Beliefs became further ingrained in the company culture, a sense of entitlement among employees made them feel immune to such external forces as competition, price wars, and the like. They believed that anything important started inside the company, and were essentially disinterested in customer needs. As this happened, employees shifted their attention away from external forces, toward insular, internal politics. There was general permission to stop projects dead in their tracks (the infamous "nonconcur" system), a bureaucratic infrastructure that defended turf instead of promoting collaboration, and a management class that presided, rather than acted. ■

The Culture of "No"

The aspect of IBM's culture that Lou Gerstner found most remarkable was the ability of any individual, and team, any division, to block agreement or action. The Belief "Respect for the individual" had dissolved into a pervasive institutional system for nonaction, one that supported something as extraordinarily restrictive as the nonconcur system, in which IBMers, when they disagreed with a position taken by their colleagues, could announce they were "nonconcurring."

The net effect was unconscionable delay in reaching key decisions, duplicate efforts (as units focused solely on their own pet approaches) and bitter personal contention, as hours of work would be jeopardized or foiled by lone dissenters. Years later, Gerstner heard it described as a culture in which no one *would* say yes, but everyone *could* say no.

Principled Leadership

In order to breathe some fresh air into the organization, Gerstner did away with the Basic Beliefs, pointing instead to eight principles:

1. The marketplace is the driving force behind everything we do. Gerstner recognized that IBM was guilty of producing confusing technology, then making it instantly obsolete. Under the first of Gerstner's principles, the company vowed to focus on serving customers and, in the process, beating the competition.

2. At our core, we are a technology company with an overriding commitment to quality. Technology was always IBM's greatest strength. Under Gerstner, the company needed to funnel that knowledge into developing products that served customer needs above all else.

3. Our primary measures of success are customer satisfaction and shareholder value. No company is a success, financially or otherwise, without satisfied customers.

4. We operate as an entrepreneurial organization with a minimum of bureaucracy and a never-ending

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Principled Leadership

(continued from page 6)

focus on productivity. The warp-speed marketplace demands that the company accept innovation, take risks, and pursue growth, both by expanding existing businesses and finding new ones.

5. We never lose sight of our strategic vision. Every business, if it is to succeed, must have a sense of direction and mission, so that it knows what is important, and how it fits into any given situation.

6. We think and act with a sense of urgency. Planning and analysis should never be carried out to the extent that the job that needs to be done now does not get done.

7. Outstanding, dedicated people make it all happen, particularly when they work together as a team. The best way to end turf wars is to cherish and reward teamwork, particularly teamwork that delivers customer value.

8. We are sensitive to the needs of all employees and to the communities in which we operate. People must have the room and resources to grow, and the communities in which we do business must become greater because of our presence.

Some questioned the need to do away with the Basic Beliefs, in favor of these new principles. For Lou Gerstner, the reasons were clear — the Basic Beliefs had morphed from wonderfully sound values to something virtually unrecognizable.

Lou Gerstner used these principles first to serve as a wake-up call to his leadership team — to motivate them to focus its talents and efforts outside the company, not on one another. Gerstner noticed almost immediately upon taking the CEO job that so few of those in his employ talked with passion about a competitor; on the contrary, many spoke with passion about other parts of IBM. He couldn't believe competitors and critics alike were saying IBM was through, that those competitors had taken so much market share from IBM, and yet, all the company's leaders could worry about was their own little internal turf.

Win, Execute, Team

Gerstner set company leaders on a new path, based on the eight principles and focused on three simple key concepts:

- **Win.** Business is a competitive activity — there are winners and losers. In the new IBM, there would be no place for anyone who lacked zeal for the contest. The opponent is out there; the marketplace must be the driving criterion for all actions and behaviors.
- **Execute.** Speed and discipline must supersede the obsessive perfectionism that caused IBM to miss market opportunities, allowing others to capitalize on the company's discoveries.
- **Team.** Everyone must commit to acting as one IBM, plain and simple.

"Win, Execute, Team" began as a mantra, and eventually took the form of a new performance management system, based around these three concepts (dubbed Personal Business Commitments, or PBCs), and the actions employees were going to take in the forthcoming year to fulfill those commitments.

The Moon Shot

Yet, even with this new focus, Gerstner knew he needed something more, something to shake his company out of its complacency. IBM had been averse to change for so long that its management and employees never saw the external challenges coming that wound up shaking the company to its core. Gerstner used the near-collapse of the company as a focal point for bringing about change, but he knew the memory of that would not last forever. There came a time when it was clear to all that the company's life-or-death crisis was over.

In order to maintain the momentum of change and keep the company focused on a singular goal, Gerstner decided to declare e-business as IBM's "moon shot," its galvanizing mission, the purpose that would be incorporated into everything the company did from that point forward, the new ground for its behaviors and operating practices — in other words, its culture. In moving focus from crisis to mission, Gerstner shifted the internal discussion from "What do we want to be?" to "What do we want to do?" ■

For Additional Information on Gerstner's IBM leadership group, go to: http://my.summary.com

Lessons Learned

Lou Gerstner has often been asked what he has learned over the course of his three decades in business. Although he notes that each individual's circumstances are different, there are fundamentals that characterize successful enterprises and successful executives.

They Are Focused

Lack of focus is the most common cause of corporate mediocrity. Some companies stray too far outside their realm of expertise, taking a "grass is greener approach" — Xerox going into financial services; Coca-Cola into movies; Kodak into pharmaceuticals. Others determine acquisition is the best way to grow their business, rather than working hard to fix or build their base business. Quite often, such deals not only fail to work; they wind

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Lessons Learned

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up sinking the acquiring entity further into the morass of their growth problems.

At the end of the day, a successful, focused enterprise is one that has developed a deep understanding of its customers' needs, its competitive environment, and its economic realities. Vision statements might make a company's employees feel good or revved up, but they cannot turn a goal into reality. Vision is not the same as strategy.

Intelligence wins wars, whether on the battlefield or in the marketplace. Deep competitive insight is critical to success. A company might want to believe its products are the best available, but facts are facts — that company will never know how valuable or valued its products are without examining them for cost, features and functionality, and comparing those findings with those of the competition.

That analysis feeds directly into corporate strategy — insightful action plans built on clearheaded thinking and analysis, long on detail and short on vision, that are reviewed regularly, becoming, in a sense, the driving force behind everything a company does. From there, resources are applied to the most important elements of the strategy; this, on occasion, will require reprioritization of some resources, taking them away from one task or project to put them on a more important phase of a strategy. While this is rarely easy (and, often, not done very well), it is nonetheless necessary in some instances.

They Are Superb at Execution

Execution — getting the task done, making it happen — is the most unappreciated skill of an effective business leader. It is extremely difficult to develop a unique strategy for a company; if that strategy is truly different from what others in the industry are doing, it's probably highly risky. Industries are, after all, defined by economic models, explicit customer expectations, and competitive structures that are known to everyone and impossible to change in a short period of time.

Execution is really the critical part of a successful strategy. Getting it done, getting it done right, getting it done better than the next person is far more important than dreaming up new visions of the future. According to Lou Gerstner, effective execution is built on three attributes of an organization:

● **World-class processes.** Every industry has five or six key factors that drive leadership performance; the best companies build processes that enable them to outperform competitors vis-à-vis these success factors. If your company has antiquated, disconnected, slow moving processes — particularly those that drive success in your industry — you will end up a loser.

● **Strategic clarity.** Companies that out-execute their competitors have communicated crystal-clear messages to all their employees on mission and strategy, but this does not automatically lead to perfect execution. Superb execution is more about values and commitments, the reinforcement of communicated strategies in everything a company does.

● **High-performance culture.** Superb execution is not just about doing the right things, but doing the right things faster, better, more often and more productively than your competitors do. This type of high-performance culture is full of leadership-driven, self-starting executives and committed employees; it makes first-rate products; it also maintains a culture in which excellence is praised, cherished and rewarded.

> ***The best leaders don't hide behind staff; they don't simply preside over the work of others. They are visible every day with customers, suppliers and business partners.***

They Abound with Personal Leadership

In Lou Gerstner's mind and experience, personal leadership is the most important element of institutional transformation. Great institutions are not managed; they are led. The best leaders create high-performance cultures, with demanding goals, measured results and full accountability. They don't hide behind staff; they don't simply preside over the work of others. They are visible every day with customers, suppliers and business partners.

The finest CEOs of our time — the Sam Waltons and the Jack Welches, and the Andy Groves — are all passionate about winning. They urge their colleagues to win. They hate to lose, and when they do lose, they demand that what caused them to lose be corrected. Leadership is not cold or intellectual — it's personal. The passion exhibited by these leaders was not a substitute for good thinking or good people or good execution. Rather, it is the electricity that courses through a well-made machine that makes it run, makes it hum, makes it want to run harder and harder.

Leaders must also possess the highest level of integrity, of fairness and even-handedness. Playing favorites or excusing some while others hang for the same offense, destroys morale and the respect of colleagues. There are almost always good arguments to be made for bending the rules, but the executive that allows too many exceptions will find his leadership eroded, the trust of his colleagues evaporated. Leaders must demand uniform and fair adherence to good principles and policies in order to be effective. ■

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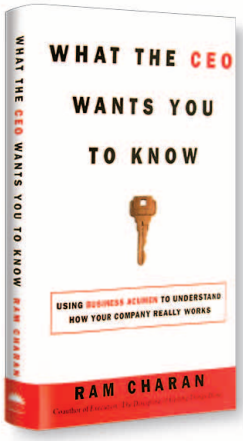
Fruit Stands and Fortune 500 Companies

How Universal Laws of Business Apply to a Company of Any Size

by Chris Bachler

What the CEO Wants You to Know is a small, unpretentious-looking book that could easily be overlooked on the shelves by readers who look for big things in big packages. But this little book is compact because its message is equally compact — and purposefully so.

Author and management consultant, Ram Charan, sets out to accomplish a limited, yet important objective. That specific objective is to help business professionals — from the board room to the mail room — understand that underneath it all, business is basic, simple and adheres to universal fundamentals. To make this point, Charan draws upon his earliest memories of life in India.



What the CEO Wants You to Know
by Ram Charan
Published by Crown Business, Copyright 2001, 137 pages, $19.95

Fundamentals of Business

The book is autobiographical in some respects, with Charan reminiscing about his early years in India where he learned the basics of business firsthand by working in his family's simple shoe shop, along with 12 other members of his extended family.

Though business was a struggle (their nearest competitor was right next door), the shop prospered enough to subsidize Charan's engineering degree, then later his MBA and Ph.D. in business at Harvard Business School.

It was in India, as a child — long before Harvard Business School — that Charan learned the most important things about business. It would take many more years of formal education and working closely with the finest business leaders in the world before Charan would fully grasp how basic and fundamental business is at its foundation.

In other words, while some people clearly have a greater knack for business than others, there is nothing complicated about those fundamental principles that, if followed faithfully, can bring almost any businessperson success.

He strongly emphasizes this point, even touching on some of the mundane details of running a shoe shop or a fruit stand. However, it's clear that Charan's purpose is to immerse his readers in the world of the small business in order to reorient their perspective from the ivory tower to the nuts-and-bolts wisdom of the small entrepreneur.

But what is so special about the small entrepreneur? Perhaps just one thing: The small entrepreneur is able to see and understand the business in its entirety. He has a panoramic view of buying and selling, marketing, customer service, bookkeeping and every other aspect of the business.

In addition, he learns to peer deeply into all the minutiae. With little complexity and no bureaucratic layers to hack through, the small-business person is blessed with the ability to understand his business as well as he knows his own mind. According to Charan, this entrepreneurial perspective is needed at all levels of even the largest companies.

This panoramic view, however, is typically lacking within today's imperial corporations. With so much size, variety, complexity, bureaucracy and change, it is hard enough for someone to firmly grasp his own responsibilities in his own little niche, let alone to comprehend the inner nature of the entire mega-enterprise.

Rather than encouraging a comprehensive view of the company, today's business world tends to promote greater specialization. Henry Ford's assembly line lives on.

We are urged and rewarded to learn as much as we can about one very specific field. Aren't specialists generally prized more and paid better? Don't organi-

"Today's business leaders need both range and depth. They need to understand every dimension of the enterprise, and they need to understand every part right down to its essence."

zations usually prosper by pulling together a broad mix of specialists, each assigned to a very specific task in one isolated corner of the company?



What is the cost of specialization to enlightened leadership? According to Charan, the downside shows up in leaders who move up through their silos because of their brilliance in their own areas of specialty, then, reaching the top, fail because they cannot cover all the necessary bases.

Today's business leaders need both range and depth. They need to understand every dimension of the enterprise, and they need to understand every part right down to its essence. How else can they make the right decisions and make them quickly? How else can they keep their vast enterprises afloat in the age of industrial world war? How else can they keep investors interested and customers loyal?

Nevertheless, what opportunity does the typical corporate employee, raised and stuck in his special department, or "chimney," have to get even a marginal glimpse of the bigger picture? How much does the sales manager know about manufacturing, purchasing or any other division of the company when he's always been in sales and moved vertically in that division alone?

Imagine the problem he would have were he to become CEO or COO and suddenly need to run a whole company — most of which is strange to him. In this situation, that once-brilliant sales manager might wash out.

Here is where Charan's emphasis on "shoe shop" thinking comes into play.

The Best CEOs

The most interesting parts of the book are Charan's descriptions of the qualities of great leaders. These observations are offered throughout and include supporting examples of such business giants as Jack Welch, Sam Walton, Michael Dell, Jac Nasser and Larry Bossidy.

A great CEO, Charan maintains, must have good "business acumen." By this, he means someone who "has a way of bringing the most complex business down to the fundamentals. ... The most successful business leaders never lose sight of the basics ... [and have] an insatiable desire to cut through the complexity to the fundamental building blocks of money making."

A leader with true business acumen will focus on just a few realistic business priorities that are designed to retain customers and build income.

He or she will also look for ways to get up close and personal with customers. The late Sam Walton, founder of Wal-Mart, was known for mixing freely among employees and customers. Bob Nardelli, CEO of Home Depot, frequently visits stores, puts on the orange apron and waits on customers.

On leadership, Charan offers some good — sometimes even surprising — insights. Mastering both the business and people sides, he says, is crucial for CEOs to deliver results.

Charan writes, "Being a leader of people is not the same as being a people person. ... Personality alone is not what makes a company deliver. It takes insight into how the organization really works and how to link people's actions and decisions to the right priorities. It is this ability, in fact, that sets the superstar CEOs apart from the rest."

In short, the world's best CEOs possess "street smarts" or common-sense wisdom. They're plain thinkers; and if they're brilliant, they don't advertise it. Instead, they're quite willing — as Jack Welch was — to play the role of the student, thus encouraging others to pour out the bounty of their wisdom.

According to Charan, the main difference between running a fruit stand and a multinational corporation is one of size.

Of course, the big companies are more variegated and complex, but they can forget that the fundamentals are always the same.

Moreover, much of the complexity that seems inevitable for the modern enterprise is needlessly created by business leaders who are locked into a mindset that simplicity is for simpletons and complexity is a badge of distinction.

However, Charan thoroughly disagrees with this mindset.

Image, Income and Growth

Charan reminds readers that company image and perception are every bit as important as income generation. He points out the great importance of investor confidence in a company's performance and explains the formula used in their favorite yardstick, the Price-Earnings multiple.

"When a company misses expectations," he writes, "investors begin to question the company's discipline. Doubts arise about whether the company can deliver on its commitments going forward. ... They begin to panic when one of their investments misses the expected money-making target more than two times in a year."

Charan boils down the often overlooked or misunderstood basics of income generation, which depend not only on profit margin but also on "velocity," or product turnover. He expresses this in the following simple formula:

Return = Margin x Velocity

Products must move through a business as quickly as possible, he says.

Growth is another essential that should concern every employee. For the average employee, growth might mean a slightly greater opportunity for promotion. Yet real corporate growth is necessary for business survival and essential to avoid being overtaken by competitors. Charan offers Westinghouse, a company once comparable to GE, as an example.

Still, the author is quick to concede that sloppy growth can be dangerous. Size is not a measure of success, according to Charan. He asks, "Are you growing in a way that is generating or consuming cash?"

Personal Coaching

Charan identifies the single biggest problem that managers have to confront when coaching employees — their reluctance to be straightforward when tackling unpleasant matters.

This tendency toward avoidance goes back to an innate trait in human nature — a reluctance to stir up conflict. Most often, the instinct serves us well. But leaders must be able to see beyond short-term unpleasantries to head off long-term disasters.

Charan dismisses the value of performance reviews as a means of developing personnel.

"Coaching is not a performance review," he writes. "It's not about what someone did last year, and it's not about money. It's very personal. You're hitting the person between the eyes. You're helping him face his blind sides and learn to do things better. The feedback has to be honest and direct. No sugar coating."

A manager coach needs to think beyond an employee's short-term behavior — at least if he wants to groom the employee for advancement. "Most often, when leaders try to coach others, they focus only on behavior," Charan points out. "Don't forget the business side. Can the person cut through the complexity? Is the person selecting the right business priorities?"

When hiring, Charan also encourages managers to look beyond the resume and other routines and to probe for personal qualities that are of paramount importance.

Here Charan takes another page from Sam Walton. "Sam Walton defined the most important criterion for hiring in his business: common sense. He carefully selected people who met the criterion

"When hiring ... look beyond the resume and other routines, and probe for personal qualities that are of paramount importance."



and developed and trained them. Employees were taught to watch sales, price, inventories and customers like a hawk. And they had considerable autonomy to make decisions and take action."

Examples From Major Companies

To support each key point, Charan offers numerous real-life examples of how CEOs of major companies have applied good business acumen with remarkable success. These anecdotes are refreshingly brief and to the point. He recounts most of them from firsthand experience.

A few of these anecdotes include:

- How Dell found success through stunningly low inventories.
- How Ford bolstered lackluster sales by streamlining its product lines.
- How GE's Jack Welch turned to the Internet to reduce transaction costs from $1 to 2.5 cents.
- How Wal-Mart's Sam Walton kept his regional managers in tune with minute-by-minute developments in the business by requiring them to pay weekly visits to both company stores and competitors.

"None of these successes," Charan maintains, "could have been achieved without business acumen on the one hand, and leadership of people and the organization on the other. Business acumen provides the road map and clarity. But unless you want to be a one-person shop, you must learn how to link business priorities and people."

What Does the CEO Want You to Know?

It is not immediately clear why Charan titles his book *What the CEO Wants You to Know*, nor does he state his reasons. A safe assumption might be that CEOs want all their people to better understand the fundamentals of business.

Certainly the rationale is plain enough. Better-informed employees are better performers. Moreover, even lackluster employees will better appreciate the sometimes complex and always stressful challenges that their CEOs face every day.

Charan's reflections on his childhood in the family shoe shop are a bit overdone, though he leaves those behind after the first couple of chapters. The flaw is forgivable when viewed in the greater context of the book itself and its intention to cut through the barriers of 21st-century business thinking, reminding readers how simple business philosophy should be.

Charan's purpose is not to present revolutionary ideas. He wants readers to think beyond their day-to-day routines; he wants them to see their roles within the framework of a broader context and to awaken their dormant entrepreneurial instincts.

The result is analogous to the experience we have whenever we hear about a new idea that sounds so shockingly simple that we upbraid ourselves for having overlooked it.

Final Examination

Charan repeatedly urges his readers to "cut through the complexity." To do that, however, you must know something about it. Otherwise, you won't know what to cut through.

So Charan provides a laundry list of areas that he recommends should be examined, including such broad topics as underutilized capacity and competitive changes.

Imagine you are a street vendor looking at your business. Charan suggests that you answer questions such as these about your company:

- What were last year's sales?
- What is the growth picture?
- What is the profit margin? Is it growing?
- What is your inventory and asset velocity?
- What is your return on assets?
- Is your cash generation increasing or decreasing?

"If you can answer these questions for your company," he concludes, "you are speaking the universal language of business. You're getting a picture of your company's total business, the kind a shopkeeper would have." ■

The author: Ram Charan heads his own business consulting company, Charan Associates, in Dallas, Texas. He earned his MBA and Ph.D. from Harvard Business School, and for 30 years he taught at GE's prestigious Crotonville Business Center. Charan has also written eight books, including *Know-How*, which will be released in January 2007.

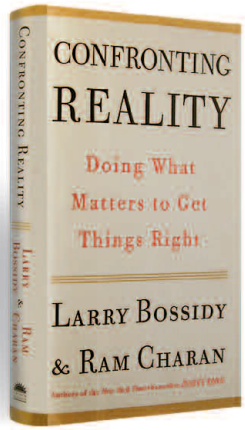
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By Larry Bossidy and
Ram Charan

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Doing What Matters to Get Things Right

CONFRONTING REALITY

THE SUMMARY IN BRIEF

Any plan for a business has to answer three questions: What's the nature of the game? Where's it going? How do you make money in it? Yet, in many organizations today, they rarely get asked — much less answered — adequately.

It takes unflinching realism to get such answers, but the established methodologies for defining the purpose of a business have drifted steadily away from realism. Many people today are boxed in by dysfunctional practices and habits that more often than not obscure reality, rather than expose it. Fewer companies will succeed in the future because the business environment is becoming far less forgiving of mistakes.

In their previous book, Execution, *the authors focused on the gap between strategic plans and outcomes, pinpointing execution as the missing element. In* Confronting Reality *they explain that the gap originates with the nature of how people conceive the purpose and direction of their businesses.*

This summary reveals how organizational processes are flawed. People don't fully understand the game they're playing because they don't look at it hard enough. Specifically, they don't analyze and link the three fundamental components that determine a business's success or failure: the environment it operates in, the financial targets it needs to meet and the internal activities and capabilities it depends on to meet those targets.

In addition, you will learn:

- ✓ ***How to implement the business model the authors developed to achieve a robust, reality-based process for thinking about the specifics of your business in a holistic way.***
- ✓ ***How to use a process called "iteration" to debate and harmonize your external environment and financial targets with your internal capabilities.***
- ✓ ***How companies like EMC, Cisco, 3M and The Thomson Corporation used this business model to decide what they needed to change.***
- ✓ ***How you can anticipate future events, condition your culture for the changes required and develop leaders who can succeed in this tumultuous environment.***

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CONFRONTING REALITY

By Larry Bossidy and Ram Charan

— THE *COMPLETE* SUMMARY

When Reality Bites

The most widespread unrealistic behavior when the game changes drastically is to violate the First Law of Holes (when you're in one, stop digging). They often achieve heroic results — which are, alas, almost as often pointless, because they fail to confront the new realities.

To lead successfully in today's environment, you need to employ a business model based on the world's new reality. Such a business model answers the following questions:

- Is the "how" of making money in my business and industry changing?
- Who is winning in my industry, who is not winning and why?
- How, specifically, are winners making money?
- If my business is a winner, what do I need to do to stay on top?
- If I change my game, what, specifically, should I be doing?
- Am I in a growth industry or not? If not, and I want to continue playing in the game, how do I change or play it better than the competition?
- Is my organization moving quickly to spot and take advantage of growth opportunities generated by these changes?

The Six Habits of Highly Unrealistic Leaders

1. Filtered Information — They may get information only from people with the same point of view. Or the information may be distorted by people because of their own biases or agendas.

2. Selective Hearing — Leaders practice selective hearing for several reasons. The most common reason for this is preconceived notions or past experience, e.g., looking into the rearview mirror, the arrogance of success and refusal to confront a problem because they can't see a solution.

3. Wishful Thinking — This is the root of much selective hearing and seeing, e.g., the acquisition will work because we need it to. Information to the contrary doesn't make it through the screen. Wishful thinking can take the form of rhetorical statements based on experiences, such as "The market will come back — it always does."

4. Fear — Fear may be embarrassment over saying the wrong thing at a meeting, or a necessity in a culture of fear. Some tyrants fire people for disagreeing with them. More common and pernicious in companies that force-rank executives, people who make superiors uncomfortable risk being downgraded to a lower performance percentile.

5. Emotional Overinvestment — People can accomplish great things with deep commitment. The downside is that emotional investment in a project may blind them to its weaknesses. Some of the most poignant victims of emotional overinvestment are companies with great histories of innovation. Nobody has the courage to say that the splendid history is just that — history.

6. Unrealistic Expectations of Capital Markets — It's vital to create value for shareholders. The downside: Many leaders become captive to unrealistic performance expectations, notably the pressure for steady, predictable quarterly improvements. They respond by making unrealistic promises, which often they can keep only by bending their businesses totally out of shape. ■

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Upended: Why the World Is Changing

Virtually every business is now a player on the global stage. Understanding how the world business environment affects you starts with distinguishing between cyclical and structural change.

While cyclical changes are a part of business life's normal ups and downs, structural changes are fundamental, long-term alterations in the basics of making money. Structural changes are usually hard to differentiate from cyclical ones in their early stages — when you really need to see them. By the time they're obvious, your odds of adjusting well to them are sharply lower.

Three structural changes drive today's explosion of intensifying worldwide competition:

1. **Increasing integration of business activity across borders, accelerated by the Internet.**
2. **Worldwide overinvestment, fueled by a vast credit expansion and immense free flow of risk capital.**
3. **A global buyer's market that has shifted power from owners and managers of capital to consumers and giant retailers.**

Also, beware of the wild card: Government regulators around the world are getting more aggressive and coming at different issues without coordination or rationalization of their policies.

Why Don't Companies See These Things Coming?

Planners typically put their time into studying strengths and weaknesses of important rivals, which are usually traditional competitors in their home markets, and seeking ways to beat them. This is far too narrow a focus and may allow other players to set the direction of the game. You are dealing with something very close to the hypothetical butterfly of chaos theory, whose beating wings in China can ultimately generate a tornado in Iowa.

The challenges of a changing environment inferred by the butterfly beg the questions:

- Can you see growth in your industry?
- Is it profitable?
- Are supply and demand in balance?
- How far are the products of your industry from being commoditized?
- Is it structurally defective or heading that way?
- How do you stand in relation to your competitors?
- Where is the technology going? Can you foresee making breakthroughs with either one product or a series of products or a division?
- How does your talent compare with that of your competitor, and is it equal to what the customer needs?
- Do you have legacy costs that can sabotage your competitive advantage? ■

Redefining the Basics of Management

Rising competitive intensity forces a return to basics, but in a far more fundamental way than the operationally focused 1980s. Getting down to basics today means focusing on how you can create intrinsic or fundamental value for your business.

Fundamental value is a combination of real profit, real return on investment, appropriate cash generation and growth that is sustainable based on continuing differentiation of your products in the marketplace. Your ability to create fundamental value rests on how good you are at finding the right balance between your external and internal realities and your financial aspiration — how skillfully you develop and use your business model.

Leaders hoping to grow their way to success through mergers and acquisitions had better think again. Studies repeatedly show that companies that grow mainly through acquisitions are less successful than those that earn most of their growth organically. Consolidation cannot return an industry's dynamics to "normal" if the player's business models have been overtaken by structural change. The only good reason for an acquisition is to enhance the fundamental value of an enterprise. In other words, it must complement and strengthen the business model.

Another old practice ready for the scrap heap is that 1990s holdover, maximizing shareholder value in the short run. As the dot-com phenomenon made clear, market valuations aren't necessarily connected to the fundamental value of a company. ■

The New Model for Confronting Reality

The business model proposed in this book offers an organized, rigorous way of looking at the health and profitability of a business, now and in the future. It is a statement of your current reality and its probable — as opposed to hoped for — future direction. It is also an early warning system for real-world changes that pose threats or provide glimpses of opportunities. Finally, the model is a blueprint for taking action. By using it to test the actions you want to put in place, you gain a better understanding of what will and won't work.

How Does a Business Model Work?

The model starts with a logical breakdown of many elements that make up a business, from its markets to

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The New Model for Confronting Reality

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income statement to leadership development programs. These group into three components: the environment you business lives in; your financial targets; and business activities.

The Financial Targets

As you search to determine the right relationship between each component of the model, you develop a basis for adjusting financial targets to reality. The purpose of these targets is not to strive for precision over, say, three years, but to recognize that the changes in the external environment, as well as most changes in internal activities, have consequences that must be recognized in the financials.

Strategies, Operating Activities, People and Organization

Only when you've crystallized the realities of the external environment and linked them with your chosen set of financial targets can you think about strategies, operating activities, selection and development of people and organizational processes and structure.

Questions to ask when thinking about strategy in the context of a business model:

- If your industry is delivering financially attractive results and you aren't, what are the reasons?
- If the industry is underperforming, is there something you can do to overcome the root causes?
- How can you develop flexible plans that provide directions rather than specifics? Many strategic plans are rigidly linked to fixed projected numbers for three to five years. Instead, you have to plan directionally: What mix of actions do you plan to take, and what's the range in which your resource allocation will take place? When any variable changes, you have the flexibility to respond.
- What productivity initiatives, such as enterprise resource planning (ERP) systems or outsourcing, will make you more competitive by lowering your costs?
- Do you have the resources to finance the strategies and initiatives you identified?
- How good are your operating activities? Do they ensure that your strategy provides distinctive experience to your customers and delivers one or more financial targets?
- Do you have the right people to pull off the introduction of new initiatives? Are they properly deployed?
- What obstacles in your business stand in the way of reaching your goals?
- Are you focusing on the right initiatives for growth? To grow at a faster rate than your industry, you need some edge — a cost advantage that enables you to sell at a lower price, new and better distribution channels, serving parts of the world not yet served, a breakthrough technology, better knowledge of the customer, a more effective organization.

Iterating the Model

As you work through the external environment and your internal activities, your financial targets will change according to the realities you've identified. Each iteration depends on understanding what you can and cannot reasonably expect to accomplish. You identify areas where you may be able to improve your performance — or ones you thought held promise but which, under scrutiny, do not after all. You learn whether of not all the moving parts of the plan mesh with each other. Each of these discoveries is a new iteration of the business model.

The iteration process is where you make tradeoffs. ■

Assessing External Realities

The four elements of making a realistic assessment are the following:

- ✓ **The broad business environment:** existing and potential competitors; economic, demographic and technological trends; regulatory issues; and structural and cyclical changes
- ✓ **Financial history of your industry and its players:** the attractiveness of your industry
- ✓ **Your customer base:** arguably your most precious asset
- ✓ **Root-cause analysis:** underlying causes of trends and issues you've identified.

Getting to Reality

When Michael Wisbrun was appointed head of KLM Air Cargo in 2000, its management team foresaw that companies would develop more and more worldwide networks and supply chains. The team wanted to position Air Cargo as a leader in this emerging trend. But Wisbrun had serious reservations about the business model he inherited.

When he examined financial targets, he saw that the division had flat revenues and was barely breaking even. Cash flow was negative and the return on investment was approaching zero — not a great foundation for a bold, unproven strategy.

Worse, his external analysis of the new model turned up a major flaw in the vision. Large integrators such as

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Getting to Reality

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FedEx and UPS were already serving the market; not many customers were looking for similar service from an airline, and those who were didn't seem willing to pay for it. "The business model clearly wasn't anchored in reality; its parts didn't mesh," says Wisbrun.

Modeling the Solution for KLM

External Realities: The marketplace was not ready for the logistic services the strategic planners hoped to offer. But there was opportunity in the core air cargo business, where some of KLM's competitors were making money.

Financial Targets: Cash flow was negative and return on capital close to zero, revenues were flat and the division was barely breaking even on margins.

Internal Activities: The idea people who were advancing the strategy lacked operating skills and didn't pay enough attention to their financial targets. Their huge, long-term logistics project was consuming resources without generating growth.

Iteration: Searching for the right mix of elements in the three components, Wisbrun pinpointed flaws in the existing strategy: It was out of step with current market realities and imposed a prolonged drain on financial resources.

In his first iteration he assessed prospects for a new strategy — return to the core business — and focused on people, creating a new management team to help him determine requisite changes in people and operations. He and his team then established realistic financial targets and revisited the model every six weeks.

Within a year, cash flow and margins improved. By early 2004, KLM Cargo was a leading player in the industry and gaining market share. Improved financial performance allowed it to acquire new and more efficient freighters to further increase market share and improve margins, asset utilization and cash flow. Because the management team practices the business model drill regularly, all of its members are not merely masters of their functional silos but well versed in the totality of the business. ■

What to Change and What Not to Change

There is no one-size-fits-all plan of action. The ability to zero in on precisely the parts of the business that need attention and leave the rest alone is just as much a sign of great leadership as is reinventing the business model when radical action is needed. The business model brings rationality to the issue of change. Use it to identify and anticipate external realities and make realistic, positive change.

Facing Crisis: What EMC and Cisco Did That Sun Didn't

All three companies were successful during the tech boom. Then EMC and Sun found themselves facing structural change in their external environment. While EMC chief Joseph Tucci faced facts and reinvented his business model, Sun's Scott McNealy struggled to keep his old course. Cisco's John Chambers realized that his problem was not structural but cyclical and operational. He put his company through profound change, but his business model remained intact.

Modeling the Solution for EMC

External Realities: After the tech crash, purchasers of storage systems cut back on expenditures and switched from EMC's high-cost products to cheaper ones. Competitors were also developing machines for the high end, at lower cost.

Financial Targets: Revenues, margins, profits, cash flow and ROI were all falling precipitously.

Internal Activities: EMC was geared toward producing premium-priced products with proprietary software and high margins. Its technologists strove to design and build highly sophisticated machines and its salespeople, operating as loners, were aggressive because they had the most desirable products on the market.

Iteration: Tucci's external analysis showed that the old strategy was obsolete because market changes were structural. Financial targets could not recover without a new business model. He started with a new strategy: Recapture and expand the customer base by selling lower-cost hardware, software — open, not proprietary — and solutions.

He and his management team met often to iterate in the search for solutions. The first iteration left too much high-end product to meet targets for costs, margins and products, leading to further efforts to produce for middle and lower markets. Subsequent iterations revealed the need to replace people who couldn't adapt to new conditions and to restructure the organization. Financial targets were revised upward as the action plan produced results.

Modeling the Solution for Cisco Systems

External Realities: Demand plunged as customers cut back on purchases and confronted mounting industry overcapacity. But Cisco's cutting-edge products were still desirable.

Financial Targets: Revenue growth stalled, margins shrank and cash generation slowed.

Internal Activities: Cisco's operations and organizational processes were designed for high growth. Product prolif-

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What to Change and What Not to Change

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eration and controlling costs were not a high priority.

Iteration: Chambers correctly analyzed the market downturn for Cisco; it was cyclical, not structural. He kept financial targets and strategy intact and modeled ways to align them with new and future marketplace realities.

After establishing the likely volume of sales, he searched repeatedly for ways to lower costs and get his desired margins. In subsequent iterations, Chambers saw opportunities to get into new markets and segments vacated by fallen competitors; with plenty of cash, he moved to exploit them.

Modeling the Solution for Sun Microsystems

External Realities: As with EMC, Sun's customers deserted its high-priced, high-performance products after the bubble burst, seeking cheaper alternatives.

Financial Targets: Revenues plunged and margins collapsed. Cash generation slowed drastically.

Internal Activities: Sun maintained its technological leadership with intense R&D efforts. Its people and organizational processes were geared to selling unique and demonstrably superior products.

Iteration: Judging the market change as cyclical, McNealy at first stuck to his original strategy and focused on cutting costs. As it became apparent that changes were structural, he went through many iterations to find other ways to meet the targets, including broadening his market with lower-priced models, pooling his resources with other technology suppliers and moving toward open architecture in some product lines.

Simultaneously, he continued his traditional course, spending heavily on R&D to develop dazzling new technologies.

While Tucci, Chambers and McNealy responded differently to the industry shakeup they faced, there are common lessons to be learned from their experience:

- In times of crisis, it's essential to understand the environment as it has become and is likely to be, rather than what it has been.
- Thoroughly refresh your understanding of your customer base before you decide what actions to take.
- Ruthlessly assess your organization.
- Be rigorous in measuring the progress of your turnaround, keeping an eye out for any sign of slippage from the chosen path.
- Approach any crisis without preconceptions. This is the time when relying on the past or on conventional wisdom can lead you rapidly to disaster. ■

Innovating for Growth: The New 3M

When Jim McNerney became CEO of 3M in 2000, the company had been ambling along with unremarkable earnings, little revenue growth and a lethargic stock price. As a transplant, he could have brought in a prepackaged solution, raising financial targets and driving people to meet them. But he was a master of business-model thinking, so he took a different course.

3M had a basically sound model. McNerney recognized it would be important not to damage a strong culture built on innovation that did many things well. Defining the situation as "a build rather than a teardown," he concentrated on the third component of the

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Rebuilding the Foundation: Home Depot

Home Depot roared its way through the 1990s, but then the rocket fizzled out. In 2000, same-store sales declined, the company issued a profit warning and the stock plunged. Robert Nardelli was brought in to straighten out the company.

Nardelli used the business model as his mental framework, scrutinizing each of the three components. The external environment didn't seem problematic, but the financial component was badly out of balance. Home Depot had relentlessly pursued top-line growth to make its earnings-per-share targets. But cash was getting soaked up by inventories and capital expenditures, and sales at stores open more than a year had begun to decline. Expanding beyond 200 store openings a year, he concluded, was not realistic unless cash and recruiting of qualified store managers could keep pace.

Connections between financial targets and internal activities gave Nardelli much to ponder. Home Depot was an operational free-for-all. The company needed leadership development. As Nardelli iterated the model, connections between internal activities and financial targets became clearer. He rapidly and massively accelerated investment in information technology. Once he had the right kind of people in place, he made bold moves in operations.

Changes were anything but smooth. Between May 2001 and early 2003 the stock price fell from $52 to $22. Acknowledging that he'd made some mistakes, Nardelli stuck to his business-model targets. By spring 2004, people were finally noticing his accomplishments. In three years, annual sales, net earnings and cash had grown. The stock price had climbed back to the $30s.

Innovating for Growth: The New 3M

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business model to uncover weaknesses in operations — the people and organization processes that kept the company from realizing its full potential.

Modeling the Solution for 3M

External Realities: Markets in general were growing well, and there were no dramatic threats on the horizon.

Financial Targets: 3M was meeting all of them, but they were modest and well below the company's potential.

Internal Activities: Talented people made the company an innovation machine. But new product development was disconnected from customers and took too long. Operations lacked discipline.

Iteration: During six months of meetings with senior management, McNerney searched for ways to improve financial results without damaging 3M's culture of innovation. He repeatedly iterated his approach to change until he was satisfied that he had the right mix and sequence of actions.

He then set higher financial targets, transparent both inside and outside the company, and began to change organizational processes, combining many businesses and centralizing things like purchasing. After conditioning his people for change by introducing a Six Sigma initiative, he overhauled the innovation processes to speed them up and connect them more closely with the marketplace.

The results have been clear: 3M shortened the new product introduction cycle by a year and a half. Revenues grew by $1.5 billion from 2000 to 2003, and operating margins rose several percentage points during that period, just shy of the goal McNerney originally set. The stock price has nearly doubled since he took over. McNerney is admired both inside and outside the company. ■

Seizing Opportunity: How the Thomson Corporation Transformed Itself

The Thomson Corporation didn't appear in need of transformation when Richard Harrington took over as CEO in 1997. The U.S. $8.8 billion business had enjoyed an almost legendary status for its empire of newspapers and professional publications. It also owned a travel and resort business in the U.K. Overall, revenues were growing about 8 percent a year, compounded.

But Harrington's central question was whether a model dependent on regional newspapers would run out of gas no matter what new strategy might be conceived and executed. His analysis exposed a simple but crucial question: If the model is not adequate for the future, what fundamentally needs to change? What arena can we play in where the business model will create long-term value?

Modeling the Solution for Thomson

External Realities: The newspaper and travel businesses were currently profitable, but the future looked less promising. By contrast, Thomson's smaller professional publishing business appeared to have enormous growth potential.

Financial Targets: Thomson was currently meeting its long-run targets. But with the newspaper business, that would not necessarily be the long-term case.

Internal Activities: People, operations and organizational processes were well harmonized for existing businesses.

Iteration: Harrington recognized that structural changes would erode the newspapers' profitability. He and his board agreed that Thomson should create an entirely new business model that would achieve desirable financial targets by publishing information for professionals such as financial services people and lawyers. Harrington first modeled the relationships between different sale prices for businesses to be sold and investment required to build professional publishing. Arriving at a balance that would not require heavy borrowing, he proceeded with the plan. Moving forward required continual changes in people and organizational processes, with results weighed constantly against the progress on financial targets.

Over its transformation period, Thomson grew its total revenues at a compounded annual rate of 7.4 percent and organic revenues at about 5 percent. Thomson was listed on the NYSE in 2002 with an initial market capitalization of $19.5 billion; in May 2004 it stood at $21 billion. It is widely recognized as the industry leader in transforming itself into a provider of value-added electronic solutions. ■

How to Prepare for Change

Succeeding in today's business world requires skills and abilities that haven't been given much weight in the past. Acute radar is one: You need to "look around corners" and discern parts of the external environment that will affect the future of your business.

In most businesses, people put most of their time into studying the strengths and weaknesses of major rivals. They look for ways to beat competitors.

But you constantly have to ask bigger questions:

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How to Prepare for Change

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- Can you see profitable growth in the industry?
- What could commoditize it?
- Can you foresee a technology change that could alter the rules of engagement?
- Who else might become a competitor?
- What government policies are brewing that could affect you for worse or better?
- Is the industry structurally defective, or heading that way?
- Most important, what do your customers think?

To know and anticipate these things, you must take information gathering to the next level. It must be a real-time process: a social mechanism with frequency and consistency.

If you do it just during the planning session, it's too late. It has to inform the business model and all the daily decisions people make about their direction and processes. Mostly you need to converse proactively by asking questions, listening and keeping your mind open about answers. You do it not just in routine meetings, but when you're meeting with people from different parts of the business or at a trade show or at lunch with a supplier. ■

Getting Ready: How to Condition Your Culture for Reality

The more change your organization can handle, the more freedom you have in adjusting your business model. The readily available tool for conditioning your organization to change is the initiative — a specific, high-impact project that requires cooperation across the entire organization, such as enterprise resource planning, Six Sigma or digitization.

How to Lead an Initiative

If an initiative is important enough to launch, it cannot be allowed to fail. The leader's follow-through keeps the initiative alive and encodes it into the organization's DNA. Before you start, ask yourself:

- Do you understand the initiative well enough to develop metrics to evaluate its implementation?
- Are you willing to commit necessary resources for education?
- Do you have the focus and discipline to drive it through the organization?
- Do you have the stamina to repeatedly convey the importance of the initiative through your actions as well as your words?
- Do you have the courage to confront those who are standing in the way?
- Is cynicism changing over to excitement? ■

Leading for Reality

Companies are full of talented, hardworking people whose time-honored leadership qualities have taken them to the top but aren't adequate for the task now at hand. Two leadership qualities have become absolutely indispensable:

Business savvy — People with business savvy know how to make money. They have business models in their minds and understand all three components and their relationships. They have a gut feel for the external environment.

A need to know — Leaders relentlessly pursue critical information that can make all the difference to their business prospects.

Identifying and Developing the Right Kind of Leaders

The processes most companies use to spot potential leaders aren't geared to finding those with the qualities needed most today. In addition to business savvy and intense curiosity, these include flexibility of mind, perpetual adaptability, willingness to change and courage to risk failure.

What does the person you're watching talk about in meetings? What sparks her curiosity? How broad is her scope? Does she have a natural tendency to search for root causes? Does she shape a set of options before doing anything? You can learn a lot about a person by watching how he solves problems. Does he diagnose a situation based on what's worked in the past, resorting to familiar solutions, or search for new and creative approaches?

Are the people you're looking at broad thinkers? Listen to the options they propose and notice whether they sit or act on them. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Confronting Reality*, you'll also like:

1. ***Taking Advice: How Leaders Get Good Council and Use It Wisely*** **by Dan Ciampa.** An important book that teaches leaders how to open up to advice from others.
2. ***What Got You Here Won't Get You There*** **by Marshall Goldsmith.** The corporate world is filled with executives, but only a handful of them will ever reach the top.
3. ***The Five Dysfunctions of a Team*** **by Patrick Lencioni.** This fictional tale unambiguously but painlessly delivers some hard truths about critical business procedures.
4. ***Silos, Politics and Turf Wars*** **by Patrick Lencioni.** So-called "turf wars" turn outwardly unified companies into groupings of uncommunicative "silos."
5. ***Coaching for Leadership*** **edited by Marshall Goldsmith and Laurence S. Lyons.** The best executive coaches offer a basic understanding of how coaching works, why it works and how leaders can make the best use of the coaching process.

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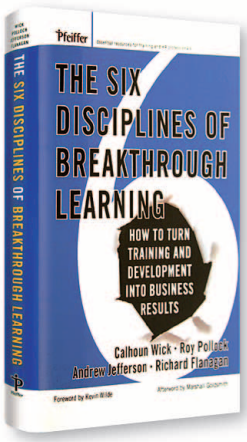
How to turn training and development into business results

by Tom Moore

The Six Disciplines of Breakthrough Learning reminds its readers of the age-old management dilemma: "What if we train our employees and they leave?" To which noted leadership consultant and author Mark Sanborn replies, "What if we don't and they stay?"

Learning agility (the ability to learn, unlearn and relearn rapidly) has become one of the most critical survival skills for both individuals and companies. Yet all too often, companies pay lip service to training. Proclaiming "employees are our most important asset," these firms trot out misguided programs that fall into one of the following traps:

- **Poor planning.** Too often programs are assembled and rushed to the market to satisfy the whims of top management.
- **Poor intent.** Learning programs are often positioned on the moral high ground.
- **Poor measurement.** Too many corporate learning and development departments still report the number of people taught, the hours of instruction and the number of courses offered as though these were results.
- **Poor design.** Too often programs lack relevance. They are assembled entirely within the human resources or training departments and are implemented with little or no input from the line leaders that will be trained.
- **Poor accountability.** Too many training and development departments focus on the learning experience itself. Rarely are there the necessary follow-up systems to ensure the learning is put to constructive use on the job.



THE SIX DISCIPLINES OF BREAKTHROUGH LEARNING
by Calhoun Wick, Roy Pollock, Andrew Jefferson and Richard Flanagan
Published by Pfeiffer, an Imprint of Wiley, Copyright © 2006, 233 pages, $40.00.

Shining the Accountability Spotlight

The Six Disciplines of Breakthrough Learning sets out to avoid these pitfalls by holding the training and development function accountable for the transfer and application of corporate learning. It's a guide about bridging the "learning-doing" gap and keeping score; in fact, adopting these disciplines provides a road map to link training to business goals.

The authors comprise the leadership team of Fort Hill, a company that provides training tools and resources. They have condensed years of experience into six disciplines; these strategies constitute a breakthrough in training that converts a much higher proportion of learning into personal and professional transformation and leads to demonstrable business results.

Learning enterprises are willing to invest in programs provided they see results in measurable outcomes, such as greater effectiveness, improved productivity, enhanced customer satisfaction and other objectives. But the authors warn that "the reality of corporate life is that there are always more good ideas for investments — in research, training, marketing, sales or manufacturing — than even the most affluent company can afford." That stark admonishment provides further impetus to get training right from the start.

Keeping Score

While it would be easy to take issue with the number of disciplines embodied in the book, one cannot

"No corporate education should be conducted without first understanding the nature and drivers of the business, the business needs and the environment in which it operates."

deny the defining message: Breakthrough programs are the result of a disciplined and systematic approach to learning and development, executed with passion and excellence and held accountable for accomplishing specific business objectives.



Not surprisingly, the book reads more like a textbook than a novel, engaging the reader on multiple detours for reflection and planning. Following the formulaic approach of telling the audience what you're going to tell them, telling them and then telling them what you told them, the authors march through each of the six disciplines in a provocative fashion that compels our attention and consideration of change.

Each chapter begins with a broad philosophical overview, followed by a more granular treatment of each of the disciplines before ending with a bulleted summary — a practical implementation guide for learning leaders.

The authors take pains to include graphics, scorecards and templates divined from their practice and research that not only aid in digesting the material but also provide valuable take-aways for any organization.

In addition, the authors intersperse their treatment of the disciplines with relevant case studies from thought leaders such as Honeywell, AstraZeneca, the British Broadcasting Company and the University of Notre Dame, among others, providing a glimpse of what success looks like.

Sony's Talent Management Councils

One such case study details the investments that Sony, a global leader in electronic components and entertainment, makes in its workforce of more than 150,000 employees. Sony understands that in order to survive and thrive in the highly competitive and rapidly changing market in which it operates, it must continue to enhance its talent pool, introduce new leadership skills and increase its bench strength. The company has created "talent management councils" to ensure that training and development programs are transferred to the business.

"At the start of each cycle, we talk to the talent management council and we review the current business objectives and the direction in which we are trying to take the company," the authors quote Debby Swanson from Sony, national director, talent and organizational development.

The councils not only ensure linkage between business objectives and learning, but also serve as the faculty — creating a learning, teaching, and ultimately, profitable enterprise. Council members also review results reported by participants three months after the residential portion of the program.

The Sony example distills the essence of *The Six Disciplines*: While training initiatives traditionally have focused on what takes place in the classroom, what goes on before and after the actual training itself can be equally — if not more — important.

Begin With the End in Mind

No corporate education should be conducted without first understanding the nature and drivers of the business, the business needs and the environment in which it operates. This knowledge ensures complete congruence between the desired business outcomes and the planned learning experiences.

The essential goal should always emphasize improved performance. Ultimately, every program must produce a positive financial return, directly or indirectly.

According to the authors, training is essential in the areas of diversity, ethics and leadership; however, this training must also "pay dividends" when it

comes to decreasing operating costs, increasing productivity, improving consumer confidence and enhancing innovation. They write, "Programs that help participants improve their personal performance pay dividends in greater job satisfaction, motivation and retention."

In the initial stages of program design, learning leaders should also direct their efforts toward getting the right people in the room; they should gear the training around the attendees, their prior level of knowledge, belief structures, natural learning styles and emotional states.

"What participants take away from a learning and development program, what they are able to transfer and, therefore, ultimately the results they are able to achieve, are influenced by what happens during the preparatory period, long before the formal coursework begins," the authors say.

The way learning enterprises strengthen this initial phase is to ensure high expectations by creating programs perceived as integral to the business and essential to the participant's career. Strong management support also greatly increases the probability of success.

In the Classroom

During the traditional instructional phase of the program, the authors challenge the traditional "sausage stuffer" approach — transmitting as much information as possible and filling every waking moment of a program with activity and instruction. This "compromises the quality of learning and its transferability," they write. The organization as a whole will benefit more if its employees exit the program doing several things *well* instead of a number of things *poorly*.

They encourage instructors to ensure that learners know how to apply the new information and skills to their work roles. Learning activities must stimulate the kind of thinking and actions that will be required on the job. Thus, if the objective is to improve the ability of the participants to analyze business or personnel situations, they must be given the opportunity to practice their analytical skills. It is not sufficient for the instructor to simply talk about it.

They embrace action learning — a powerful learning component, provided it is planned with the same level of attention to detail as other forms of instruction. To make connections between actions and learning, the authors suggest allowing participants time to practice their new knowledge, reflect on lessons learned, and write down how they intend to apply their new knowledge.

"New insights and skills must be recalled before they can be adapted and applied," the authors explain. "We are able to remember new information when it is associated with or linked to existing ideas, patterns and knowledge already stored in long-term memory. To forge these links, participants must be given sufficient guidance and enough time to reflect on what they have learned."

"Learning creates value only when it is transferred and applied to the participant's work environment. Education is a process ..."

Beyond the Classroom

The real work begins when the course ends. Learning creates value only when it is transferred and applied to the participant's work environment. Education is a process, not an event like a performance or a concert. Unfortunately, in most conventional corporate education initiatives, little or no attention has been paid to what happened after the instruction was completed.



Understanding that corporate learning and development is now being judged by the business results it generates, the authors develop a new definition of the "finish line" from the last day of instruction to the documented delivery of business results. One golden nugget the authors convey is that the last item on most agendas reads "Program Ends" or "Adjourn." A better ending would be: "Begin Transfer and Application."

Indeed, the post-instructional transfer and application period is a particularly rich opportunity for a breakthrough that will ultimately benefit the organization.

Managers can support programs by encouraging their direct reports to apply what they have learned in the classroom in their day-to-day jobs.

In the nation's leading learning enterprises, the training and development department supplies information about course content and objectives and how managers can contribute to the process through coaching. In addition, senior management should create support for learning transfer as a part of every manager's job — one that is monitored, recognized and rewarded.

The authors' experience suggests that breakthrough learning and development programs that provide ongoing support for learners — especially during the first few crucial weeks of the transfer phase — "enjoy a greater return on their educational investments." The idea is that trainers should redefine their role from "strictly trainers/presenters to facilitators of behavioral change on the job."

You Can't Manage What You Don't Measure

All the work by designers, facilitators, participants, coaches and managers is for naught unless it manifests as demonstrable results of importance to the business. Credible, reliable measures are needed to determine whether the training investment is paying dividends and what refinements are needed to further improve the program's effectiveness.

According to the authors, "The only way to prove that the resources have been well used is to document relevant results." The other reason to assess outcomes is to drive continual improvement in learning and development. Effectiveness and efficiency are increased by rigorously assessing the quality of the current output, implementing ideas for improvement, measuring the impact and repeating the procedure.

From the outset of training through its delivery and, ultimately, utilization on the job, there must be clear agreement on what is expected and how success will be measured. Anything less puts the learning enterprise at risk, because the criteria for success or failure becomes a matter of opinion.

Producing a Rich Harvest

The value delivered by a corporate educational program is proportional to the extent to which new knowledge and skills are applied to the work of the organization. Nothing more. Nothing less.

The job of corporate learning and development is not merely to impart knowledge, but to be sure that it is put to work so that its benefits can be harvested.

Creating a fertile and receptive environment begins at the top. Senior executives can set the tone that learning and development is a strategic priority. Senior management support must be manifested in deed as well as in word. It needs to be backed up by systems of accountability to ensure that managers embrace the importance of their role in learning transfer, since a person's immediate supervisor has profound influence on whether learning is transferred and applied or abandoned.

The inherent beauty of the book is that the six disciplines provide an effective road map not just for training and development, but for any department within the organization — marketing, distribution, information technology — to follow to ensure transparency and alignment between the goals, objectives and needs of the business.

Fred Harburg, senior vice president of leadership and management development at Fidelity Investments, puts it this way: "We are not in the business of providing classes, learning tools or even learning itself. We are in the business of facilitating improved business results." ■

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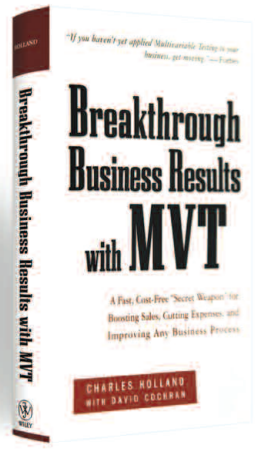
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by Charles Holland and David Cochran

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A Fast, Cost-Free "Secret Weapon" for Improving Any Business Process

BREAKTHROUGH BUSINESS RESULTS WITH MVT

THE SUMMARY IN BRIEF

Every executive wants the same thing — improved results: more profit, less cost, better quality and higher customer satisfaction. But what business improvement ideas will produce these results, and how can you be sure that plans that look good on paper will actually work in the real world?

Testing ideas one at a time is too slow and too expensive — and it doesn't always give managers the direction they need. *Breakthrough Business Results With MVT* describes and details the one revolutionary method that offers a powerful, fast and inexpensive way to prove with certainty that ideas will have the biggest impact on your bottom line. Multivariable Testing (MVT®) uses advanced statistics to test the real-world effects of dozens of business improvement ideas, discover the synergies between them, and identify those ideas that are the most powerful and profitable under real-world conditions.

IN THIS SUMMARY, YOU WILL LEARN:

- How MVT creates practical, fast, cost-free solutions to any business problem.
- How MVT uses data to take the guesswork, politics and emotions out of major business decisions.
- The proven methodology for implementing an MVT business improvement project in your company.
- How leading companies like Lowe's and DuPont have achieved breakthrough MVT successes.
- How MVT improves corporate culture.
- The four-phase process for implementing MVT on an organization-wide basis.

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The Power of MVT

Let's start with an outlandish claim: Multivariable Testing (MVT) is the greatest business improvement methodology ever devised. A lot of evidence will be required to prove that statement, but a strong case can be made for it. Clients who have implemented MVT will provide much of the evidence.

QualPro has tested the real-world impact of over 150,000 business improvement ideas over the past three decades and discovered that most business ideas do not work. The experience of over 1,000 companies shows that no matter the source, 75 percent of their ideas will not improve results, and nobody can accurately predict which 25 percent are the most powerful ideas.

The only way to avoid making seat-of-the-pants guesses at which ideas and solutions will make the biggest impact on your organization's performance is to test them. The only way most professionals know to test ideas and solutions is to test one idea at a time, measure the results, and hold all other conditions constant. Unfortunately, this method has some severe shortcomings in the real world:

- It is highly inefficient.
- It cannot identify synergies.
- Test results often cannot be consistently repeated in the real world.

The alternative is MVT, which offers a powerful, inexpensive, efficient way to use statistics to test dozens of business improvement ideas, discover the synergies between them, and prove with certainty which ones are the most powerful and profitable under real-world conditions. Businesses that use MVT regularly generate millions of dollars in cost savings or new revenues as a direct result.

MVT basically entails testing a lot of different variables/solutions/business improvement ideas all at the same time. When applied to a business problem, it is a 12-step process that starts with dozens of practical, fast, cost-free ideas for improvement and uses advanced statistics to quickly sort out the ideas that will help from the ideas that will hurt or make no difference. The essence of an MVT improvement project is *rigorous, quantifiable, accelerated learning*.

Breakthrough Improvements

The MVT process begins with the idea that you can do better with the people, equipment and processes you already have; and you can do it quickly, without spending any money. In the MVT process, good ideas are just as likely to come from front-line employees as they are from experts, managers or senior managers.

The MVT process typically yields dramatic breakthrough improvements — often beyond what anyone imagines. In more than 13,000 projects involving more than 1,000 companies, MVT has never failed to identify actions that measurably improve results. MVT successes often can be generated in very short periods.

Twenty-two years of experience indicates that MVT does wonders for the morale of the organization. The fact that the process allows everyone who could possibly have worthwhile suggestions to make those suggestions is the key.

If everybody is allowed to make suggestions for

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The authors: Charles Holland, Ph.D., developed the MVT process in a nuclear weapons plant to solve critical problems using advanced statistics. In 1982, at the urging of quality guru W. Edwards Deming, Holland founded QualPro, an MVT training and consulting firm. Over the last two decades, QualPro consultants have assisted clients in implementing MVT at more than 1,000 companies, including many of the Fortune 500. Many clients have improved business results directly linked to MVT valued in the hundreds of millions of dollars. QualPro conducts seminars on MVT throughout the U.S., and its work has been profiled in most major business publications.

David Cochran is Vice President of Operations for QualPro.

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The Power of MVT

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improvement, results and the morale of the people in the organization always improve. Often surprising, counterintuitive suggestions provide the biggest sources of improved performance.

The MVT process has worked in every organization on every process encountered. Experience proves that the results of any process can be improved using MVT if two criteria are met: (1) the process has a measurable output and (2) the people in the organization have ideas about how to improve performance. ■

How MVT Works

QualPro — an MVT training and consulting firm — and its clients have tested over 150,000 ideas in over 13,000 MVT projects. Of all the business improvement ideas that were tested, only about 25 percent (one in four) actually produced improved results; 53 percent of the ideas tested made no difference; and 22 percent (that would have been implemented otherwise) actually hurt the results that they were intended to help.

The really amazing finding supported by QualPro's data is that there is no correlation between what people in the organization *think* will work and what actually *does* work. This does not mean that people in an organization are not knowledgeable about their processes or that they are unintelligent. It simply means that the business world is much more complicated than most people realize.

No one in a business can reliably predict which business ideas will work. MVT is powerful because it eliminates guesswork first. The outcome of an MVT project is an objective measure of the impact of each idea and combination of ideas on important business measures. Management can make key decisions based on statistically valid data and facts rather than on opinions, instincts and organizational clichés.

Just as important, MVT eliminates the emotions and politics often involved in decision making by measuring the impact of an idea, rather than its source. ■

Why MVT Is Much More Effective Than Other Methods

- MVT is fast.
- MVT makes the organization more efficient. MVT projects seek out improvements that the organization can make right away, using its same equipment and people.
- MVT eliminates wasted effort. Eliminating wasted effort improves business results with less energy and money expended.
- MVT is better science. The MVT method tests far more factors in a fraction of the time to obtain accurate, verifiable results.
- MVT boosts organizational morale. There is no better team-building event than a successful MVT project.
- MVT provides organizational focus. MVT provides focus for chaotic organizations by scientifically narrowing the range of business options to the few best ideas on which management needs to focus. Because of this, management can stop directing resources, organizational energy and time to other issues.

Using MVT to Increase Sales, Cut Costs and Improve Customer Satisfaction

Companies often become consumed by issues that are urgent and that need to be addressed in the short term. These issues may not, however, be truly high priorities from a financial or strategic standpoint. MVT should not be utilized to address such issues. MVT is a very powerful tool that works best when directed toward large, important business problems that have a significant financial impact.

MVT is able to improve the financial performance of an organization in three major ways:

1. Increased sales
2. Reduced costs
3. Improved customer satisfaction.

Increased Sales

MVT has a long history of helping companies increase sales by improving retail store sales or salesforce effectiveness.

Citibank used MVT to improve call center effectiveness. They had hoped MVT would help them achieve a stretch goal of a 50- to 75-basis-point increase in net sales. By using MVT they actually achieved a 205-basis-point increase that translated into millions of dollars per year.

Actions identified by the MVT process showed Citibank how they could significantly increase their net sales rate and at the same time reduce call-handling time and increase employee satisfaction.

Ten improvement ideas, generated in part by call cen-

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Using MVT to Increase Sales, Cut Costs, and Improve Customer Satisfaction

(continued from page 3)

ter representatives themselves, were tested across several sites. The MVT tests showed that the most powerful factors leading to increased sales were attributed to five of these ideas.

Reduced Costs

MVT frequently has been used to improve the efficiency of things ranging from advertising to chemical processes to paper machines to labor. It also has been used frequently to reduce waste, to decrease defects and to reduce rework.

Deluxe Corporation is one of the largest check printers in the world; using MVT, it was able to reduce waste by $11 million as a result of changes in its production scheduling, staffing strategies and the type of paper stock it used.

Improved Customer Satisfaction

MVT improves customer satisfaction by enhancing product design and improving the quality of products. Additionally, MVT frequently has been used to optimize service levels and even to improve the ability of companies to react to service failures.

American Express used MVT to improve its process for preventing customer attrition. Using MVT, American Express tested potential solutions to credit card cancellations. These included using different call scripting, applying sales goals, and changing the type of questioning during calls. The changes to the process resulted in an 18 percent reduction in customer attrition, a 7 percent increase in credit card spending, a 12 percent increase in transaction volume, and a 5 percent increase in loyalty program participation.

Improved Organizational Culture

MVT raises morale because it involves the entire work force in finding solutions to important problems, and the process improves corporate culture by promoting innovation. When MVT is used in an organization, employees learn that there is no such thing as a bad idea. MVT enhances corporate culture by helping to establish a can-do attitude. ■

MVT Compared to Six Sigma and Other Popular Improvement Approaches

• **Six Sigma** has helped many companies, yet most top managers are not overwhelmed by their Six Sigma results. Companies commonly use the MVT process as their primary improvement approach. However, there are also many situations in which MVT has been used in conjunction with a Six Sigma effort. MVT has demonstrated the ability to take Six Sigma results to a whole new level.

• **Data mining** has been used by many companies to analyze historical data, to try to determine conditions to incorporate into their activities to immediately improve results. Used in this manner, data mining is unlikely to yield the types of breakthrough improvements achieved by MVT because most of the improvement ideas that are investigated in an MVT experiment have never been in place in the company's history.

• The basic idea of **lean manufacturing methods** is to speed up the process, to turn out more, and to reduce waste. Many manufacturing companies have adopted such methods. In every case where the MVT process was used in "lean" companies, it reduced setup times and increased throughput over and above what the company had accomplished with its lean manufacturing efforts.

Other improvement approaches include Total Quality Control (TQC), Total Quality Management (TQM), Statistical Process Control (SPC), reengineering, ISO benchmarking, and organizational psychology-based approaches. However, none of them have demonstrated over the long term that they have the consistent improvement power of the MVT process.

Implementing an MVT Business Improvement Project in Your Company

The MVT process involves 12 steps, regardless of the business, industry or process being tested for improvement.

Step 1: Choose a high-payoff goal and create the environment. The following actions are important to take at the beginning of every project:

- Select an important, high-payoff project.
- Get the right people involved.
- Provide training to allow people to execute their roles.
- Ensure that project participants are motivated to succeed.

Step 2: Define how you will measure success and validate your measurement system. In this step, key measures of success are identified. Choosing correct measurements, defining them properly, and assuring that the numbers are precisely accurate are critically impor-

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Implementing an MVT Business Improvement Project in Your Company

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tant steps to improving results. Never underestimate their importance.

Step 3: Use control charts to hunt for good ideas to test. Statistical Process Control (SPC) charts identify instances in which a process goes out of control. MVT process improvement factors developed using SPC charts have a significantly higher probability of helping results than do test factors developed through brainstorming. Test factors that are identified using SPC charts are helpful about 50 percent of the time.

First, you must construct the appropriate SPC chart for each key measure of success. The charts are used to identify instances of uncontrolled variation in historical data. Once these are identified, investigate each special cause to identify its source. Use suspected special causes as a basis for MVT test factors.

Step 4: Use data mining and other statistical techniques to find good ideas to test. Analyzing historical data can be very useful in identifying high-potential improvement ideas for MVT experimentation. However, reliance on data mining or other forms of historical data analysis for immediate implementation will rarely, if ever, provide breakthrough results.

Step 5: Brainstorm for improvement ideas with everyone who could have worthwhile suggestions. Brainstorming is valuable because it can generate ideas that have not been implemented previously or that have been implemented, but do not show up in historical data analysis. Brainstorming should include the local, front-line work force, management, technical personnel, customers or those who interact with customers, suppliers or those who interact with suppliers, and naïve observers who are not too close to the problem.

Step 6: Select improvement ideas that are practical, fast and cost-free. After steps 3, 4, and 5 have resulted in many dozens of suggestions for improving results, the next step is to categorize the ideas as: (1) practical, fast and cost-free, or (2) impractical, slow or costly. MVT experiments are done only with those ideas that met all three aforementioned criteria.

Step 7: Design an MVT Screening Experiment to Test Many Ideas with Only a Few Tests. It is strongly recommended that you do not attempt to design an MVT screening experiment without the aid of an experienced MVT consultant. Designing an MVT screening experiment involves defining the MVT test matrix, choosing the experimental units, randomly assigning the experimental units to test recipes, determining the replication and reflection strategies, setting the size and duration, and playing the game (determining if each factor-pair combination can be tested).

Step 8: Execute the MVT screening experiment and measure test results. Two things should be expected while an MVT experiment is being executed: improved results and problems. Two types of execution problems commonly seen are: (1) lack of compliance (when factors or recipes are not executed as planned) and (2) situations in which it is not possible to execute a factor or combination of factors as those factors were defined.

Execution of an MVT experiment involves the following steps:

1. Develop an action plan.
2. Prepare factor materials and training.
3. Communicate the plans, roles, procedures, logistics and importance.
4. Create and execute a monitoring process to measure recipe compliance.
5. Act to remedy any execution flaws.
6. Collect data.

Step 9: Analyze screening test results to determine which ideas help, hurt or have no impact on performance. After executing the MVT screening experiment and gathering data for each recipe on the key measure(s), analyze the data to determine the impact of each test factor. Examine the measurements, calculate factor effects, calculate control limits and calculate effects on variability.

Step 10: Design and execute an MVT refining experiment to optimize results. One major purpose of a refining experiment is to increase confidence in the findings. Confidence increases 20-fold if a process change exceeds the control limit in a refining experiment as well as in a screening experiment.

Another major purpose of a refining experiment is to identify conditions even closer to the optimum. Approximately 70 percent of the improvement is revealed in the initial screening experiment, and another 30 percent of the possible improvement is revealed in the refining experiment.

A third purpose of the refining experiment is to determine useful synergies between factors. Refining estimates interaction effects with more confidence.

Step 11: Analyze the results and decide which ideas will make the biggest impact on your business. As the

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Implementing an MVT Business Improvement Project in Your Company

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MVT refining experiment progresses, it's necessary to examine the data to confirm they represent what they should. Once the results of the MVT refining experiment are assessed, they can be consolidated into a predictive equation. This allows for the prediction of key measure improvement results based on the factors that will be implemented.

The company's managers should be shown the improvement factor effects from the screening and refining experiments. Review the effect of each improvement factor and help the managers, process experts, process owners and decision makers to buy into and make sense of the results. Help management decide what to do, and which process changes to implement.

Step 12: Carefully implement the most powerful ideas, calculate the bottom-line impact, and take the money to the bank. The steps used in implementing findings from MVT experiments are virtually identical to those used in the process of executing MVT experiments. (See Step 8.) The difference is that, during implementation, there is only one recipe, with only one set of conditions to be executed. The recipe represents the best conditions to achieve the company's objectives.

Flawless execution is just as important during implementation as it was in testing MVT recipes. During implementation, however, every percentage point of noncompliance may directly cost the company thousands or even millions of dollars. Therefore, it is vitally important to create and execute an effective monitoring process to measure factor execution and to identify shortcomings in compliance. The target for factor compliance is 100 percent.

If the results achieved are below the expectations that were indicated by the MVT, lack of compliance in implementing the factors is almost always the cause.

Time and time again, experience shows that additional improvement is almost always possible. Your organization is likely to surface more ideas for the second and third rounds of MVT than it did for the first one. Additional MVT experiments often achieve larger results and gain momentum, making even larger gains than those of the first round.

What It All Adds Up To

Proper, dedicated application of the MVT process will yield staggering improvements. The typical result of using the MVT process is a little bit of improvement during the screening experiment, considerable improvement during the refining experiment, and dramatic improvement when the results are implemented.

Case Study: Implementing an MVT Project

A nationwide retailer with over a thousand locations had been experiencing falling sales. An MTV project was launched to identify actions which could turn around their sales decline. The plan was to test factors that included ideas from operations, advertising, merchandising and human resources.

After discussion, it became clear that there was actually another important objective — increasing profitability. To allow a valid comparison between large and small stores, "comp" sales and profits were used as the measures of success. Comp sales and profits were operationally defined as the difference between this year's sales or profit dollars and the sales or profit dollars for the same store for the same time period during the previous year.

More than 100 potential improvement ideas were narrowed to those that would be included in the MVT screening experiment. Only 23 ideas were then found to be practical, fast, and cost-free, so only these ideas were included.

A recipe matrix of 24 recipes was created. Each of the recipes would be executed in two different stores, so 48 of the company's 1,000 stores would be included in the MVT screening experiment. Specific stores and the specific recipe to be executed for each store were determined. Then an execution plan was created.

After analysis, six of the 23 factors had significant individual effects on sales. A predictive equation was constructed that would forecast the collective impact of the test factors on sales and profit. Management was extremely excited by the potential of a 10 percent comp sales impact.

Every one of the factors was implemented, but the rate of compliance was only 53 percent. When this was adjusted, improved comp sales increased revenue by more than $20 million per month, or about $250 million per year. The stock price doubled over the next quarter. ■

How Lowe's Reduced Advertising Expenses by $50 Million While Increasing Sales

Dale Pond, executive vice president of marketing at Lowe's, the home improvement retailer, was looking for ways to improve the business. Pond wanted a reliable

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How Lowe's Reduced Advertising Expenses by $50 Million While Increasing Sales

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method for measuring the impact of advertising on sales.

Pond was convinced that the MVT methodology could help him at Lowe's.

Lowe's decided to undertake two initial projects: the first involving the cover design and effectiveness of its newspaper circulars, and the second to determine the most effective media mix (television versus radio versus print ads) to fully exploit the $100 million annual media buy. The key measure was defined: sales at each store — pure, raw, simple sales.

Twenty-nine design or process ideas made the cut, based on the criteria of practical, fast, and cost-free. The mathematics in the screening MVT provided most of the knowledge of the effects of each of the factors — with just 36 versions of the cover. Testing 36 different covers in different markets with local pricing with different product patches with multiple vendors was not easy to pull off, but the Lowe's project participants made it happen. The paring of the list of ideas for the media-mix project resulted in 16 factors to be tested.

Using sales data collected from each of the markets executing an MVT recipe, the analysis of the experiment made it clear which changes improved sales results and which changes hurt results. Lowe's performed MVT refining experimentation that further clarified which ideas made an impact on sales.

A key discovery that ultimately saved both prep time and printing costs was that more product pages in the circular did not sell additional products. Cutting the size of the circular from 72 pages to no more than 48 pages saved millions of dollars annually in printing and postage expenses and did not hurt sales.

The results of the MVT projects led to dramatic changes. In the next year, Lowe's saved millions of dollars in advertising and marketing expenses, and improvement in sales directly related to the MVT-acquired knowledge added millions of dollars in new revenue. ■

How DuPont Achieved $26 Million in Increased Production With No Capital Investment

Dupont makes many different materials that consumers call "plastics" but which are actually far more specialized and differentiated than that term implies. One particular line of products is called *engineering polymers*; these are used primarily to replace metal in applications in which rigidity, stress tolerance and weight reduction are key goals.

In the mid-1950s, DuPont developed a material that was a tough, heat-resistant metal substitute and patented it as Delrin®. Today, Delrin is a mainstay of DuPont's engineering polymers line.

DuPont had a problem in the Delrin production process, however. Over a very short production time (often a few days), the buildup of particulates in the pipelines caused the polymer to begin forming within the pipes that fed the gas to the polymerizer, and the company was forced to take the machine offline to clean the pipes. With the resulting loss of production, minimizing the time for the cleaning process was critical. The downtime was costing DuPont an estimated $8 million annually.

DuPont had spent $1 million on having four teams conduct 22 different plant tests, based on the traditional one-factor-at-a-time experimental method. The tests were not successful, and the problem was considered, at least informally, to be unsolvable.

DuPont eventually could not make enough Delrin. They were anxious to find a solution and enthusiastic about the opportunity to try MVT. A cross-functional project team was formed and a key measure was defined. The conclusion was that "run life" — the amount of time that a polymerizer could operate continuously between cleanings — was the key measure that had to be extended. The goal of the MVT project was to increase the amount of time the polymerizer could operate.

The project team collected over 300 valid ideas. As in all MVT projects, the ideas were subjected to the practical, fast, and cost-free criteria review. This cut the list to 23 testable ideas. A 23-variable, 24-run experiment would take four months to complete. Because a 12-run experiment would meet the time requirements, the team leader asked for each operator's input on the 23-item list, and from the results, he identified 11 items to test.

Of the 11 test factors, three had significant impact. After testing, the team changed seven factors – the three that had significant impact and four where the changed level was easier for the operators to perform. A few months into the effort, the run life was extended from an average of 72 hours to an average of 139 hours, almost double the starting point and well above the 120-hour goal the team had set.

The changes produced a 15-percent increase in the amount of Delrin produced, which generated an additional $18 million annually in new revenue. With the additional revenue generated by this new level of production, the

annual (and recurring) benefit of this project to DuPont was $26 million — without any capital investment. ■

The Four Phases of Using MVT to Spread Breakthrough Results Throughout Your Company

Implementing the MVT process on a broad basis can transform an organization — competitively, financially and culturally. QualPro has constructed a standardized process to help clients implement MVT on an organization-wide basis.

Phase I: Complete two high-impact MVT projects with breakthrough results.

The purpose of Phase I is to prove to senior management and the rest of the organization that the MVT process will work in that particular organization. Phase I consists of the completion of two, high-priority MVT projects that will clearly demonstrate the benefits of the MVT process to the organization.

Project teams, guided by MVT consultants, apply the MVT process to financially significant opportunities. These initial successes pave the way for improvements on a broad scale. Often, the financial benefits from these Phase I projects more than fund the organization-wide MVT process efforts for the first several years.

Phase II: Commit to an organization-wide rollout — a senior management function.

The purpose of Phase II is to plan the organization-wide rollout of the MVT process. During Phase II, senior management creates and communicates an action plan that (1) prioritizes MVT projects to align with corporate objectives, (2) provides appropriate training, resources, and involvement to management, technical, and front-line personnel and (3) monitors process-improvement activities to ensure that success is rapid and quantifiable. MVT consultants support Phase II efforts through assessments and executive sessions.

Phase III: Execute MVT projects throughout the organization.

The purpose of Phase III is to expand the benefits of the MVT process across the entire organization. MVT projects are launched to address every major improvement opportunity. The objective is to produce results like those achieved in Phase I and to achieve dramatically improved results in all the organization's priority processes. Often, this broad application of MVT process-improvement techniques rapidly improves corporate financial performance.

Phase IV: Maintain the Gains, Prioritize MVT Opportunities, and Continuously Improve.

The purpose of Phase IV is to involve all personnel in maintaining the gains made in Phases I and III while also working to further improve results. As new challenges and opportunities are identified, additional projects are initiated. New hires and promoted personnel are involved appropriately in new or existing MVT efforts. ■

The Payoff

The MVT process is an amazingly powerful tool. The following breakdown shows a quick look at exactly the benefits of its use.

- It yields big results.
- It works every time.
- It improves any process.
- It provides counterintuitive learning.
- It translates to the real world.
- It accomplishes fast improvement.
- It has a great track record.

An organization-wide rollout can generate incredible accomplishments for business. The use of MVT creates a can-do culture as well as greater satisfaction. Higher revenue can be generated, while reducing costs and improving profitability. Lastly, the use of MVT can result in increased shareholder value.

The greatest impacts of the MVT process have yet to be realized. The process is an underutilized resource due to the fact that very few people know of its existence, much less its power. MVT is a process that should be used in every business, no matter what its product or service.

Finally, MVT is a process that should be used for the public good. Many of the problems that affect society could be solved using the MVT process. As with business processes, every public-interest process could be made more effective. The bottom line is that all of our lives could be better. ■

SOUNDVIEW *RECOMMENDED READING LIST*

If you liked *Breakthrough Business Results with MVT*, you'll also like:

1. ***Exceeding Customer Expectations*** **by Kirk Kazanjian.** Kazanjian provides a thorough case study of the success of Enterprise Rent-A-Car and offers an in-depth look into the practices that have boosted the company to the top of its industry.
2. ***Know-How*** **by Ram Charan.** The author presents eight skills that separate top performers from nonperformers in the corporate world.
3. ***Blueprint to a Billion*** **by David G. Thomson.** This is a valuable guide to the seven essentials that top companies need in order to achieve exponential growth.

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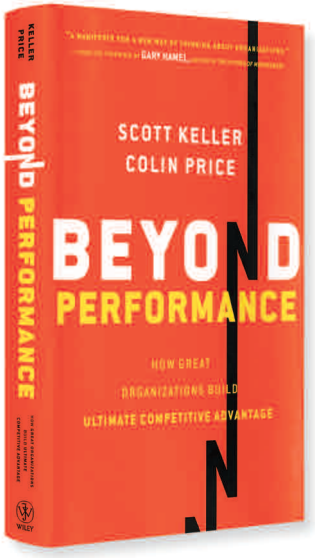
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Management

Beyond Performance

How Great Organizations Build Ultimate Competitive Advantage



by Scott Keller and Colin Price

THE SUMMARY IN BRIEF

The greatest invention of all time isn't the wheel, it's organization. By working together effectively, people can achieve feats far beyond anything they could accomplish individually. At a time of unprecedented economic, political and social change, organizations need more than ever to operate at peak levels of performance. In order to do so, they need leaders who understand both how to achieve organizational excellence and how to sustain it.

Evidence shows that only a third of organizations that achieve excellence are able to maintain it over decades. Even fewer manage to implement successful transformation programs. These statistics have devastating implications. In business, most of today's companies will falter within 20 years. In government, the majority of reform programs will fail. So will most efforts to create broader social change.

Co-authors Scott Keller and Colin Price wrote *Beyond Performance* for people who intend to beat these odds. Based on one of the most extensive research efforts ever undertaken in the field of management, *Beyond Performance* shows how leaders can deliver performance today while ensuring that their organizations stay fit for the future.

IN THIS SUMMARY, YOU WILL LEARN:

- The secret of achieving and sustaining organizational excellence.
- Everything you need to build an organization that can execute in the short term and prosper over the long term.
- Why the health of an organization is equally as important as its performance.
- How to determine the mutually reinforcing combination of management practices that best fits your organization's context.

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THE COMPLETE SUMMARY: **BEYOND PERFORMANCE**

by Scott Keller and Colin Price

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Introduction

Almost three decades ago, McKinsey's Tom Peters and Robert Waterman published what was to become one of the best-selling and most influential business books of all time, *In Search of Excellence: Lessons from America's Best-Run Companies*. in which they examined 43 of the Fortune 500 list of top-performing companies in the United States.

Since *In Search of Excellence*, there has been a torrent of business titles providing accounts of organizational excellence and theories about what drives it. One of the best-known examples is Jim Collins and Jerry Porras' 1994 book *Built to Last*, which analyzed patterns among 18 successful companies.

Unfortunately, it seems that the recipes for excellence offered by these landmark publications provide no guarantee of staying power. It's revealing to look at what has become of the "excellent" companies lauded in the pages of *In Search of Excellence* and *Built to Last*. By 2006 — well before the recent financial crisis — 20 percent no longer existed, 46 percent were struggling and only 33 percent remained high performers. Why was this?

Changes in Fortune

Not all of these changes in fortune can be attributed to the companies themselves, of course. Performance is partly driven by macroeconomic forces, industry attractiveness and sheer luck. But it's also driven by the decisions leaders make, what they do and don't do, and the way they lead, which are things under every leader's control.

Our research suggests that many companies fall from grace because of an excessive bias toward a static view of managing performance instead of taking a more dynamic view that encompasses not only their company's performance, but also its health: its ability to align, execute and renew itself faster than the competition.

So if organizations need to take a more dynamic view of excellence, how can they achieve it? This takes us to the question of how leaders make rapid, large-scale change happen, and how they develop cultures of continuous improvement.

We don't claim to have all the answers, but at this point in our research efforts, we're confident that we do have insightful (beyond common sense) and pragmatic (readily applicable) advice that will help leaders beat these odds and achieve sustained organizational excellence. In fact, we've observed so many successes in so many industries and from so many different starting points using the approaches we describe that we regard successful transformation and sustained excellence as a real possibility for almost any organization. ●

PART I: WHY PERFORMANCE IS NOT ENOUGH

Perhaps surprisingly, we have found that leaders of successful and enduring companies make substantial investments not just in near-term performance-related initiatives, but in things that have no clear immediate

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

benefit, nor any cast-iron guarantee that they will pay off at a later date. At IT and consultancy services company Infosys Technologies, for instance, chairman and chief mentor N.R. Narayana Murthy talks of the need to "make people confident about the future of the organization" and "create organizational DNA for long-term success."

So why is it that focusing on performance is not enough — and can even be counterproductive? To find out, let's first look at what we mean by performance and health.

Performance is what an enterprise delivers to its stakeholders in financial and operational terms, evaluated through such measures as net operating profit, return on capital employed, total returns to shareholders, net operating costs and stock turn.

Health is the ability of an organization to align, execute and renew itself faster than the competition so that it can sustain exceptional performance over time.

For companies to achieve sustainable excellence, they must be healthy. This means they must actively manage both their *performance* and their *health*. Our 2010 survey of companies undergoing transformations revealed that organizations that focused on performance and health simultaneously were nearly twice as successful as those that focused on health alone and nearly three times as successful as those that focused on performance alone.

The Five Frames of Performance and Health

Leaders can bring about significant and mutually reinforcing improvements on both of these fronts at the same time by following a structured process.

We've chosen to describe this process in terms of five basic questions that must be answered in order to make change happen. Here they are:

- *Aspire:* Where do we want to go?
- *Assess:* How ready are we to go there?
- *Architect:* What do we need to do to get there?
- *Act:* How do we manage the journey?
- *Advance:* How do we keep moving forward?

Our goal is to provide rigorous and proven methods that enable leaders to answer each of these questions as they relate to both performance and health. While both aspects are critical, we go into much more depth on health. Why? Because that's where the greatest need exists. When surveyed as to which areas they wish they had better information to help them design and lead transformation programs, only 16 percent of leaders chose "determining what needs to be done to generate near term performance." On the other hand, more than 65 percent chose "determining what needs to be done to strengthen the company's health for the longer term." ●

The Science: Hard Facts Behind the Soft Stuff

You'll remember that we identified three key attributes of good health: internal alignment, quality of execution and capacity for renewal. Working from these attributes, we've determined that organizational health can be broken down further into nine elements that combine in different ways to support and sustain them:

1. **Direction** is a clear sense of where the organization is heading and how it will get there that is meaningful to all employees.
2. **Leadership** is the extent to which leaders inspire actions by others.
3. **Culture and climate** is the shared beliefs and quality of interactions within and across organizational units.
4. **Accountability** is the extent to which individuals understand what is expected of them, have sufficient authority to carry it out and take responsibility for delivering results.
5. **Coordination and control** is the ability to evaluate organizational performance and risk, and to address issues and opportunities when they arise.
6. **Capabilities** is the presence of the institutional skills and talent required to execute strategy and create competitive advantage.
7. **Motivation** is the presence of enthusiasm that drives employees to put in extraordinary effort to deliver results.
8. **External orientation** is the quality of engagement with customers, suppliers, partners and other external stakeholders to drive value.
9. **Innovation and learning** is the quality and flow of new ideas and the organization's ability to adapt and shape itself as needed. ●

PART II: THE FIVE FRAMES ASPIRE: WHERE DO WE WANT TO GO?

The first step towards organizational excellence is setting clear objectives for performance and health.

Performance: Setting strategic objectives

The performance aspirations your organization chooses will depend, to a great extent, on your starting point. They will also depend on your industry or sector. A

bank's performance aspirations will be quite different from those of a mining company, a hospital or a government department.

All the same, there are three lessons that almost any organization can apply when setting its performance targets: focus on your medium-term future, balance facts and intuition, and set tough but achievable goals.

Health: The Four Archetypes

On the health side, organizations will do best by starting with the knowledge that 37 specific management practices make up the nine elements of health.

Our research shows that healthy organizations need to excel at no more than six, if they're the right six. We've been able to determine how these practices complement, or impede, one another, and defined four archetypes that around four-fifths of healthy organizations fit into.

The Four Archetypes

How do we find those six? When we analyzed the complementarities among the practices underpinning organizational health, we found there are *four* recipes that can be used as a foundation on which to build. For simplicity, we've labeled each recipe as an "archetype" of a healthy organization. They are:

- **Leadership Driven.** Companies that fit this archetype believe that leaders are the catalysts for performance, setting high expectations and supporting the organization in achieving them.
- **Execution Edge.** Companies that fit this archetype believe that discipline, sound execution and continuous improvement are the foundation for great performance.
- **Market Focus.** Companies that fit this archetype believe that shaping market trends and building a portfolio of strong and innovative brands keep them ahead of the pack.
- **Knowledge Core.** Companies that fit this archetype believe that their pool of talent and knowledge represents their most important asset, and that their success depends on developing it effectively.

It's important to note that these four recipes are not a mere analytical construct, but a deeply ingrained fact of organizational life. Further, the knowledge that there are four reinforcing recipes should make it clear to leaders that they need to think systemically about health rather than adopting individual "best practices" from other organizations. What works in one recipe may spoil another.

Assess: How Ready Are We to Go There?

For most leaders, once they've set their performance and health goals, it's tempting to move straight into action. That is a mistake. Organizations that succeed take the extra time to assess whether they have the capabilities and mindsets to fulfill their aspirations.

Performance: Determining the Capabilities That Matter

Assessing the capability platform of your organization takes place in a two-step process: determining the capabilities that matter most in terms of your performance aspirations and then evaluating the state of these capabilities in your organization today.

This is a vital part of the transformation process: Our survey indicates that organizations that explicitly assess their current capabilities against those required to fulfill their performance aspirations are 6.6 times more likely to succeed in their transformation.

Consider an organization that needs to do something to stop its margins being squeezed. Its natural response will be to cut costs. But what capabilities will it need to implement this strategy? The answer will depend on where it intends to achieve the savings. Will it look to lean manufacturing? Better procurement? Supply-chain redesign? A review of overhead costs? Having targeted one or more areas, the organization faces another question: How good does it need to be at these areas to capture the savings? And looking further ahead, which of them is worth investing in strategically? In other words, which might yield competitive advantage in the future?

Answering questions like these will give you a clear view of the institutional capabilities you'll need.

In our experience, genuinely institutional capabilities are supported by three systems within an organization: technical, management and behavioral.

Health: Discovery Process

If we find symptoms of ill health, how can we trace them back to root causes? The place to look is at underlying mindsets. Mindsets drive behaviors and behaviors support (or obstruct) the management practices that lead to good (or bad) organizational health.

Bringing these mindsets to the surface and working with them explicitly is the only way to make sustainable change happen. Missing this step will doom any transformation to failure. In our 2010 survey, none of the companies that did no work on diagnosing mindsets rated their transformation programs as "extremely successful."

Moreover, companies that did go below the surface to identify deep-seated mindsets were four times more likely than those that didn't to rate their transformations as "successful."

Architect: What Do We Need to Do to Get There?

By this stage, you know your aspirations and the facts about your capability platform and vital shifts in mindsets, so it's time to work out exactly what you need to do to get from where you are now to where you want to be.

To make the transformation manageable, you'll need to break it down into a portfolio of change initiatives.

Performance: Identify the Right Set of Initiatives

Identifying the right set of initiatives is not always straightforward. Again, there's a close analogy with human health. When you feel ill and visit your doctor, he or she will ask about your symptoms, conduct an examination, eliminate possibilities and, if necessary, use tests to form a judgment on your disease or condition, the course it will take and the treatment most likely to prove effective.

Translated into a business context, this might sound something like: "This is where we are heading if we carry on as we are. Unless we address X and build on Y, we won't be able to get to where we want to go."

To help companies devise a holistic set of actions to meet their performance goals, we've developed an approach that we call the "portfolio of initiatives." To follow it, organizations develop a list of potential initiatives to take and then plot them on a grid with two axes: time and familiarity. The grid they produce will reveal at a glance whether the initiatives are balanced or unbalanced.

A portfolio of initiatives should embody all the actions your organization needs to take to meet your medium-term performance aspirations.

Health: The Influence Model

In the "Assess" phase, you decided on the vital few shifts in mindset that you need to make to achieve your performance and health aspirations, so your next priority in this, the "Architect" phase is to devise a set of interventions to influence those mindsets. The key to influencing mindsets lies in making meaningful changes to the context in which people work.

Through years of research and practical application, we have developed what we call the "influence model." It identifies four major levers that leaders can use to shift employee mindsets on a wide scale:

- **A compelling story.** The key elements in a compelling story are its content, the way it is communicated and the embedding of its message through rituals.
- **Reinforcement mechanisms.** Organizations need to link performance and health with rewards and consequences, leverage non-financial incentives and adjust their management processes, structures and systems.
- **Skills required for change.** The right skills can be developed by adopting a "field and forum" approach, working on the required relational and technical skills, and refreshing the talent pool.
- **Role modeling.** Effective approaches to role modeling include having the top team undergo a visible transformation, taking symbolic actions and selecting and nurturing influence leaders.

Using these levers to influence mindsets doesn't mean adding further initiatives to the slate of things to do. Instead, it means ensuring everything already on the slate is done in a way that maximizes their impact on the desired shifts in mindsets.

Act: How Do We Manage the Journey?

As with any journey, lessons are learned along the way, unforeseen events call for the plan to be adapted and energy levels must be managed to make it over the long haul. Having the right delivery model and change engine enables this to happen during transformational change.

Performance: Choosing the Right Delivery Model

Too often, organizations are impatient to get a pilot under their belt so they can press on with the rest of the implementation. However, driving it too fast or without sufficient care and attention can quickly lead to unintended consequences.

The first pilot is a *proof of concept* designed to establish whether the idea you are testing truly creates value. Conducted properly, this pilot will make considerable demands on your attention and resources. After all, if an initiative has made it into your portfolio, that must mean you expect it to deliver significant value, so investing in a field trial will be very important.

Let's say the first pilot goes well. What's to stop you

jumping straight from proof of concept to scaling up? We'd strongly advise against it. Instead, we recommend you complete a second pilot — a *proof of feasibility* — to work out how you can capture the bulk of the desired impact in such a way that it is fully replicable.

This pilot needs resources on par with those you'd dedicate to the real scale-up effort, plus a sustainable level of senior management attention (not an initial surge of interest that fades as time goes on).

Health: Creating the Change Engine

To help leaders generate and manage energy in their organization during the hectic execution stage, we've developed a tool called the change engine. It applies equally to performance and health initiatives, and consists of three linked elements:

- **Structure.** Bringing order and clarity to transformation activities by structuring the program at three levels: the transformation headline, performance and health themes, and specific initiatives. Programs are more than six times more likely to be considered successful if they are well structured according to our 2010 *McKinsey Quarterly* survey.
- **Ownership.** Building broad ownership for the transformation by combining formal governance and accountability with viral tactics to unleash self directed change. The same survey found that programs that energize employees through communications and personal involvement are twice as likely to be considered extremely successful.
- **Evaluation.** Regularly collecting robust data on progress in order to correct course quickly when necessary and celebrating achievements. Programs that rigorously track progress and impact through clear metrics and milestones are more than seven times more likely to be considered extremely successful.

Advance: How Do We Keep Moving Forward?

Building the capacity for continuous improvement requires as much energy and focus as any other stage in a transformation. The key to embedding a capacity for continuous performance improvement in your organization is to hardwire it into the infrastructure.

According to our 2010 survey, companies that build the capacity for continuous improvement into their organization are 2.6 times more likely to consider their transformation program a success over the long term.

Performance: Continuous Improvement Infrastructure

The transformation program will already have helped develop many of the mindsets and competencies that are needed to support continuous improvement: stronger functional and problem-solving skills, confidence that improvement can be achieved, the breakdown of silo thinking and so on. But the organization will also need to take specific steps to put a continuous improvement infrastructure in place. This comprises four main elements:

- Systems for sharing knowledge and best practice to ensure that improvements in one area are quickly adopted in relevant areas across the organization.
- Processes to identify and capture opportunities for improvement that enable employees at any level to change things for the better.
- Methods to facilitate continuous learning that give an organization a chance to pause and take stock of what's working, what isn't and what to do about it.
- Dedicated expertise to ensure continuous improvement activities get the attention they deserve.

Health: Centered Leadership

The core requirement on the health side is the right kind of leadership. The centered leadership model comprises five elements, which, when combined, give leaders the resilience and emotional capacity to continuously improve themselves as they continuously improve their organization. These elements are:

- **Meaning:** finding and communicating personal meaning in work, and enabling others to tap into their own sources of motivation and purpose.
- **Framing:** discovering opportunities in adversity by viewing even the most difficult problems in a way that opens up constructive and creative solutions.
- **Connecting:** taking active steps to build a web of internal and external relationships.
- **Engaging:** generating the confidence to step up and act, involving themselves and others in the face of uncertainty and risk.
- **Energizing:** investing systematically in one's own physical, mental and emotional energy, and creating the practices and norms needed to energize others.

A *McKinsey Quarterly* survey of 1,147 executives found that the five elements of centered leadership are mutually reinforcing. Respondents who reported that they frequently practiced four or all five gave high ratings to their passion for their work, their effectiveness as leaders and their satisfaction with life.

We discuss centered leadership last because it is a destination. By the end of any transformation you should have a broad base of centered leaders to take the organization forward. The journey to centered leadership, however, should start from day one.

PART III: PUTTING IT ALL TOGETHER

The senior leader's role is unique. The person at the top of the pyramid provides cues for everyone else in the organization as to what really matters. Furthermore, by learning what the senior leader's role in a transformation should be, readers at lower levels of an organization — and would-be leaders, too — can help their own senior leader fulfill it.

What Only the Senior Leader Can Do

There are four roles the most senior leaders should play during transformational change: making the transformation meaningful, role-modeling, building the team and relentlessly pursuing impact.

- **Make the transformation meaningful.** The impact of the change story depends on the extent to which the senior leader makes it personal, openly engages others and spotlights successes as they emerge. Senior leaders should consider themselves the "Chief story teller" in the organization.
- **Role model desired mindsets and behaviors.** Successful senior leaders typically embark on a personal transformation journey of their own. Through their actions, they not only show what the new behavior looks like, but also role model the ability to change.
- **Build a strong and committed top team.** To harness the transformative power of the top team, senior leaders must make tough decisions about who has the capability and motivation to make the journey, and spend real time ensuring alignment at the most senior levels.
- **Relentlessly pursue impact.** Where significant customer impact, or financial or symbolic value is at stake, there's no substitute for senior leaders rolling up their sleeves and getting personally involved. "I was an outrageous champion of everything we did," Jack Welch said of his involvement in numerous GE transformation initiatives including Six Sigma, the Workout program, reinventing Crotonville and the A-Class leadership initiative.

While playing each of these roles, the senior leader must also ensure that the organization strikes the right balance between performance and health, and doesn't allow one to overshadow the other. Daniel Vasella, CEO of Novartis, warns that, "Once you become dominated by the pressure of making the quarter, even unwittingly … you'll begin to sacrifice things that are vital for your company over the long term."

The Five Frames in Action: One Company's Story

On becoming president of the US financial services company Wells Fargo, John Stumpf inherited an organization with a strong culture that already led the industry in many products and customer segments. With no burning platform to drive change, he wondered how he could define his era of leadership, so he commissioned a review of current performance and future trends. This exposed worrying developments on the horizon: opportunities for acquisition were few, regulation was getting tighter, credit quality was deteriorating and customer preferences were changing.

Further analysis revealed that the bank had a healthy execution-edge archetype. It committed itself to pursuing historic growth rates despite the adverse trends, and decided to focus on capturing value by "mining the seams" between its traditional silos to boost cross-selling and customer loyalty. This would involve shifting to a market-focus archetype, but without losing the strengths and disciplines of the execution-edge archetype.

The bank followed the five-phase approach to make these aspirations a reality. Two years later, thanks to the equal emphasis on a portfolio of performance initiatives and a health-oriented spirit and way of thinking — on top of continuing efforts within lines of business to outexecute the competition — Wells Fargo's cross-sell rate was up by 18 percent to an extraordinary 5.2 products per customer. Customer loyalty measures in the community bank, where the bulk of the initial efforts were targeted, had jumped from 34 percent to 45 percent, and customer attrition had dropped from roughly 20 percent to less than 10 percent. Total returns to shareholders grew by 5.5 percent compared with 2.6 percent for industry peers, and net revenue grew by 31 percent compared with 11 percent for industry peers.

On the health side, the number of team members who felt that their way of working helped make things easy for customers had increased by 23 percent, and those feeling that collaboration across businesses was benefiting customers had increased by 16 percent. Moreover, the ratio of engaged to disengaged employees in the community bank had leaped from an already high 4:1 to a truly distinctive 7:1.

'One Wells Fargo'

Wells Fargo's merger with Wachovia has made the rallying cry of One Wells Fargo all the more important. The work on integrating the two companies continues and is expected to take until the end of 2012. What then? The organization is already gearing up for the next round of One Wells Fargo performance and health initiatives that will equip it to stay ahead of the competition long into the future. For now, though, the bank's experience over the period of 2005-2008 stands as a vivid illustration of how to make change happen at scale in an organization.

When asked to look back and identify the key ingredient in the effort, Stumpf — now chairman, CEO and president — nominates "getting the right balance between the initiatives we were driving from the top of the house with creating the right spirit, ways of thinking and ways of working throughout the organization." In the end, what mattered was "our 150,000 team members making the right One Wells Fargo decisions day in and day out." Ever true to his company heritage, however, Stumpf adds, "And having a time-tested set of vision and values to build upon and a great team to make it happen didn't hurt either!"

That brings us back to our central theme. The "vision and values" and "great team" that Stumpf credits as key factors in Wells' success are hallmarks of an organization that places as much weight on sustaining its health as on delivering performance and financial results. Getting that "and" into performance and health is what gives organizations ultimate competitive advantage. Not only does it enable them to make a successful transformation, it enables them to stay on top from then on.

Making It Happen: Do You Have What It Takes?

As we come to the end, we'd like to reiterate three of the principles that sit behind everything you've read. They are right at the heart of our findings and we'd encourage you to keep them in mind so that you stay grounded in the fundamentals of performance and health as you embark on and progress through your own journey.

Performance and Health Matter Equally

The first principle is that *performance and health matter as much as one another — and can be measured and managed with equal rigor.* The most important word in performance and health is "and." In all the decisions you make and actions you take as a leader, we encourage you to address both dimensions at once whenever you can. But bearing in mind that it's the health aspects that are most often neglected, we suggest you put extra emphasis on that side of the equation.

For most leaders, doing what we recommend will mean stepping outside their comfort zone. When we leave our comfort zone, we enter a learning zone.

Manage Performance and Health Today

The second principle is that *performance and health are both things you should be managing today.* Just as performance requires a quarter-by-quarter, month-by-month, day-by-day focus from leaders, so does health. Sometimes people equate health with the long term (something to manage tomorrow). This thinking couldn't be more flawed. Our research shows that the way you manage your health today is responsible for at least 50 percent of your ability to continue to perform in the future. And we'd add a word of warning: the higher an organization is riding in its performance, the more likely it is to be complacent about its health. Leaders of today's high-performing organizations would be well advised to watch out for this tendency and deal with it quickly should it arise.

It All Comes Down to Behavior Change

The third principle is that nothing changes unless behavior does. In the end, improving an organization's performance and health comes down to getting people to do things in a different way. That requires us to understand why we behave the way we do, and to be aware of the things that can stop us from achieving the impact we're striving for. We need to accept the predictable inherent biases that make us human, no matter how irrational they may seem in the cold light of logic. The approaches and tools we use should always be viewed through the lens of "How does this help us to understand and influence the behaviors we need to achieve our aspirations?"

A Proven, Rigorous Approach

Our research and experience indicate that by putting the three principles above into practice through the five frames approach, your organization will be well on its way to sustaining high performance and company health no matter what its industry or field may be.

RECOMMENDED READING LIST

If you liked *Beyond Performance*, you'll also like:

1. ***How Companies Win*** **by Rick Kash and David Calhoun.**
2. ***Leading Outside the Lines*** **by Jon Katzenbach and Zia Khan.**
3. ***Change the Culture, Change the Game*** **by Roger Connors and Tom Smith.**

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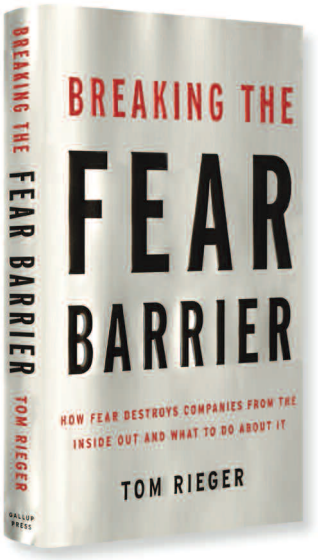
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Management

Breaking the Fear Barrier

How Fear Destroys Companies From the Inside Out and What to Do About It



by Tom Rieger

THE SUMMARY IN BRIEF

In companies, fear can take many forms: fear of not meeting a goal, of not getting a bonus, of losing decision rights and respect. Fear compels employees and managers to protect themselves by creating seemingly impenetrable barriers fortified by rules and practices that benefit one group while harming others.

If this sounds familiar, then you know that, left unchecked, fear-driven barriers can spread at an alarming rate in a company. Workgroups start to define success not by reaching the company's overall goal, but by fulfilling their part of the process. Restrictive policies pile up until managers start to exert extreme control over headcount and resources. Other managers feel compelled to build empires — taking over other departments' functions to regain or enhance their self-sufficiency. In the midst of these counterproductive activities, employees suffer, success deteriorates and efficiency dies.

While these barriers might seem insurmountable, they are not. By learning from the real-world lessons in Tom Rieger's book, *Breaking the Fear Barrier*, leaders, managers and employees can overcome the barriers that plague their company. It takes courageous leadership and can be difficult, but the result will be nothing less than transformational.

IN THIS SUMMARY, YOU WILL LEARN:

- How your worst enemy is not always your competition.
- Why so many organizations plague themselves with cumbersome, lumbering bureaucracies that can't quickly respond to market changes.
- How some of your rules could be hurting your company's overall success.
- How to find the courage to fix what's wrong in your organization.

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THE COMPLETE SUMMARY: **BREAKING THE FEAR BARRIER**

by Tom Rieger

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Breaking the Fear Barrier: How Fear Destroys Companies From the Inside Out and What to Do About It by Tom Rieger.
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Introduction

In the aftermath of the Great Recession, while organizations are dealing with widespread loss and fear, it's easy for them to give up hope that they can get back that edge, that swagger and that fierce pride that drove success in the past. But it's still out there. That hope still lives inside every employee, manager and leader. To unleash that hope, organizations must utterly destroy the fear barrier. The first step is to understand how fear works, and how barriers are constructed and sustained so that the underlying root causes can be destroyed one by one. The second step is to create an environment where courageous behavior can flourish and thrive.

This is a difficult journey, but one that can mean the difference between success and utter failure; between dreams realized and hopes dashed. It is a journey we can't afford *not* to take. ●

Fear of Loss

Why do so many organizations plague themselves with barrier after barrier and create cumbersome, lumbering bureaucracies that can't quickly respond to market changes or new conditions? By creating internal barriers, countless organizations damage themselves with red tape, interdepartmental conflict, inefficient processes, restrictive policies, or too much or too little information.

My colleagues at Gallup and I worked with several companies that had "stalled." No matter what they tried, no matter what they did, they just could not stop a slow downward slide. To determine the root cause of this problem, we conducted extensive background material reviews of policies and procedures, and conducted several thousand in-depth interviews with people at different organizational levels, from CEOs to front-line employees in different industries, functions and job types in both the public and private sectors, across a dozen countries spanning six continents.

The focus of this research was to identify policies, practices and procedures that hindered success — often without an apparent good reason — and then to trace the origin of the problem. In every case, the problem was a barrier: something put in place internally that was intended to help one group, but harmed another. When we examined the data, we found that one root cause for those barriers far overshadowed all others. It existed in every organization that we studied and was generally the driving force behind the most damaging and most severe barriers. It was fear — fear of loss.

An Endemic Sense of Entitlement

What largely drove that fear of loss, we discovered, was an endemic sense of entitlement. Whether the issue was pay, a bonus, a promotion, decision rights, a big office, headcount or a budget, people would go to great lengths to protect something they felt they were entitled to — even if doing so was not in the best interest of the organization as a whole. The victims of these protective decisions often knew how harmful these behaviors were, but they were powerless to do anything about them.

People often face a basic dilemma between what is best for them personally versus what is best for the organization. Barriers inevitably spring up when these two dynamics are in conflict, but when they are in perfect alignment, organizations can avoid these barriers.

If these two forces are not managed properly, fear of loss can become a self-fulfilling prophecy. ●

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Parochialism

When functional silos create protective policies and rules, defining success by focusing on only what happens in their own little world, and losing sight of the ultimate outcome, a company has reached the first level of bureaucracy: Parochialism.

Sustaining parochialism isn't easy. It takes a lot of effort. So to deal with incessant interruptions, exceptions and problems, parochial departments (and often whole companies) make new rules to protect themselves: rules that control actions, rules that restrict the flow of information, rules that limit and define how others will deal with that department, rules about the rules for changing the rules — all to serve the parochial needs of a local "ruler."

Rules tend to enforce parochialism when they are absolute. General Motors (GM) used to have a rule that senior executives had to review presentations three times: They'd read the presentation before the meeting, sit through the presentation and read the minutes of the presentation afterward. This is part of the reason why GM executives routinely read 600-700 pages of documents a day, ranging from divisional performance results to lease agreements, leaving them with little time for selling cars.

Managers and leaders who are acting in a parochial manner don't think they're doing anything wrong. Often it is the contrary: They strongly believe that they are taking a courageous stand for what is best. They may even have been rewarded for their actions even though those actions are clearly harming the organization.

Doing Something Wrong But Thinking It Is Right

Behavioral economist George Loewenstein's study on behavioral decision theory and business ethics helps to explain this phenomenon of doing something that is clearly wrong but thinking it is right. He found that "whenever individuals face tradeoffs between what is best for themselves and what is morally correct, their perceptions of moral correctness are likely to be biased in the direction of what is best for themselves." In other words, if your self-interests are in conflict with those of the greater good, it is simply human nature for you to adjust your view of the greater good to match the context of what is best for you.

If organizations do not aggressively work to prevent situations in which one individual or group succeeds at the expense of others, the leaders of those groups may feel compelled to act in a parochial manner. If an organization is holding leaders accountable to hit certain goals, and others appear to be getting in the way, then it is logical for leaders to feel justified putting up walls and barriers to prevent those interruptions or distractions from having any effect — even if doing so ultimately hurts the broader organization. ●

Territorialism

Often, managers feel that they have no choice but to maintain the tightest level of control possible over people and budgets to ensure that no penny is wasted and no assets are lost, especially to other departments. They may pressure front-line workers to meet short-term goals at the expense of meeting their specific departmental goals. By doing so, these managers create even thicker barriers to protect their turf.

These barriers institutionalize the problem of fear. If managers are worried enough, they may feel forced to start controlling resources, projects and people just to maintain control. They believe this is a solution to a temporary problem, but it rarely is. What starts out as a fear-based reaction can soon become standard operating procedure. Tight control becomes more and more prevalent, and it inevitably affects interdepartmental behavior. The whole scenario creates a low-grade siege mentality.

The Second Level of the Pyramid of Bureaucracy

This condition is the second level of the pyramid of bureaucracy: territorialism.

To be clear about terms, parochialism and territorialism differ in various ways. They are the result of different dynamics and they have different manifestations: While parochialism is about protection from *outside*, territorialism is about control over what is *inside*, regardless of the impact on front-line staff or other departments. While parochialism and territorialism are not the same thing, they are not mutually exclusive. A parochial manager can also be territorial, and vice versa.

Territorial Managers

Here are some of the many ways territorial managers exercise control:

- **Taking away freedom.** Low empowerment, despite high levels of accountability, is a serious barrier that exists to some degree in virtually all organizations.
- **Taking away extra time.** Every job requires a certain amount of time to perform. Territorialism systematically fills every minute with bare-minimum tasks,

leaving no time for outstanding performance and certainly none for personal empowerment.

• **Eliminating opportunities to gain knowledge or skills.** In times of scarcity, training is often the first thing to go, even though that training may help prepare employees for transfers, advancement or new ways of doing things.

• **Restricting information flow.** By keeping employees in the dark — about issues as major as strategy or as minor as office supply entitlements — managers limit employee participation and effectiveness.

• **Withholding support.** Perhaps the most insidious way for a territorial manager to limit empowerment is to implicitly or explicitly express that employees are empowered at their own risk and that they will not be supported if things go wrong. ●

Empire Building

Territorial managers and leaders can control their fiefdoms unchecked as long as they don't have to deal with other departments. But when they do, fear of loss of their ability to maintain control can drive them to spread their sphere of power over others. Fear reaches its apex in an organization when individual departments start building empires. Empire building is the pinnacle and most extreme level of the pyramid of bureaucracy.

Empire building occurs when one group attempts to regain or enhance its self-sufficiency by encroachment or by expanding its span of control even when that is not in the best interest of the organization. There are several signs that empire building has begun: Departments compete for IT initiatives. Recruiting may become backlogged. Leaders either directly or indirectly control other independent groups by "speaking for them"; by claiming the right to prioritize time or resources for different departments; or, in empire building's most severe form, by creating duplicate functions of their own.

Empire building cannot exist without parochialism and territorialism. The preconditions for empire building are endemic fear, different views of success, tight control over resources and lack of shared accountabilities — the bricks and mortar of parochialism and territorialism. When faced with parochial and territorial colleagues and the barriers they build, managers might feel that they have no other choice *but* to build empires.

Empire Building Is About Acquisition and Expansion

But empire building is not the same as parochialism and territorialism. Parochial managers do not necessarily want to take control over other departments. Instead, they build walls against others' empire building attempts to keep outsiders from interfering with their own local focus and viewpoint. Territorialism is about keeping things just the way they are. Empire building is about changing the balance of power. While territorialism seeks to impose limits on what people can do inside the silo, empire building seeks to change the focus of what those in *other* departments do. Territorialism is about defending the current span of control, but empire building is about expanding it.

Empire building can take many forms, but it's fundamentally about acquisition and expansion. Empire builders are driven to take over headcount, information, budgets, decision rights and other resources. When they do, it increases inefficiency, conflict and disengagement, and wastes resources. Instead of worrying about a competitor taking over a segment of the market, empire builders worry about asserting control within their own companies. Time and money end up being directed at internal turf wars rather than at the competition. Empire building is not the valid consolidation of oversight, but rather the deliberate attempt to improve one group's self-sufficiency at the expense of another group's success. The costs to an organization can be enormous. ●

The Cost of Fear

When a manager behaves in a territorial manner — controlling staff through low empowerment or misguided accountability — employees have trouble assisting with or even seeing what's happening in the organization as a whole.

To discover how prevalent territorial behavior is in American workplaces, Gallup conducted a nationally representative study of 2,634 U.S. working adults. We asked respondents about various aspects of empowerment and accountability in their workplace as an indication of how much they were controlled versus how they were judged.

Four Groups of Workers

From the resulting data set, we categorized workers into four groups based on their levels of empowerment and accountability: Top Performers, Loose Cannons, Broken Spirits and Prisoners.

Top Performers are the kinds of employees who approach a customer problem by saying, "I am here to help," who are *able* to help and who expect their manager to know about it and approve. Top Performers represent about one-fourth of the U.S. working population.

Loose Cannons have great power but very little responsibility. They have no objective metrics, don't receive feedback on their performance and/or face no consequences for their actions. Loose Cannons make up 21 percent of the U.S. working population.

Broken Spirits are held highly accountable but have little, if any, empowerment. Members of this group have firm metrics and face consequences for falling short of performance targets. However, they are unable to make decisions or adapt to new situations. Broken Spirits represent the smallest proportion, accounting for 5 percent of the U.S. working population.

Prisoners lack any empowerment and live in a world of shifting rules and subjective accountability. Prisoners are the ones most likely to be found in a parochial or territorial environment. Shockingly, *one out of every two* American workers is a Prisoner.

So what does all that imply for business performance? The average engagement level for Top Performers is at the 87th percentile, making that group among the most engaged employees Gallup has studied. They are also the most productive. The average level of engagement for Prisoners is at the 8th percentile, making them among the least engaged and least productive employees.

Ultimately, parochialism, territorialism and empire building make a company less successful, less able to innovate and more prone to high levels of internal distrust. While the barriers that Prisoners and Broken Spirits face may seem insurmountable, it is important to keep in mind that others did not impose these internal barriers. Because people inside companies build barriers, they can be the ones to destroy them, clearing the way for success. To effectively combat fear-based bureaucratic barriers, a company must be ready and willing to attack the problem on all fronts. ●

Overcoming Parochialism

There are two steps to addressing parochialism: treating the symptoms and curing the disease. The symptoms of parochialism are rules that prevent more than they protect, making life easier for those within the silo at the expense of the broader organization's success.

Conducting an audit of these rules is a critical part of addressing the symptoms of parochialism.

To identify the rules that you need to audit, start by asking which rules sometimes get in the way and are not mandated by law. Different people from different parts of the organization will have different views about whether a rule is good or bad. Those who benefit from the rule will like it. But those who have to live with its negative repercussions may have several examples of how the rule hurts the overall success of the organization more than it protects it against loss or liability.

Once the organization has identified the debatable rules, the audit can begin.

Six Steps of a Rule Audit

A rule audit follows six sequential steps:

1. Identify the need that the rule is supposed to fulfill, and evaluate the validity of that need. Every rule should have a clear, established and valid need that it fulfills.

2. Assess ownership of the rule. Assessing rule ownership should be easy, and in many cases, it is. Accounting owns accounting rules, customer service owns customer service rules and so on. When no one owns a rule, no one is accountable for deciding whether it's good or bad.

3. Determine how effective the rule is in meeting its intended need. If the rule doesn't demonstrate that it improves performance, then the rule needs to be scrapped in favor of a different one to meet the intended need.

4. Find unintended consequences of the rule. To determine if a rule has unintended consequences, auditors need input from a wide range of employees, inside and outside the department that owns the rule, as well as from internal and external customers.

5. Establish the type of rule it is and the type it should be. Rules that make up the bricks and mortar of parochialism are usually *gospels*, or rules that must always be followed without exception. Some rules are *guidelines*. Some rules establish a boundary that should not and cannot be crossed. These are *ground rules*. The most elusive rules are *ghosts*. Ghosts are rules that are not really rules. Most ghosts start off as a practice to cope with a specific situation. But over time, those situations change or simply cease to exist. And yet the rule survives because old habits can be hard to break.

6. Adjust and communicate. Leaders must clearly communicate changes and adjustments to rule types, owners, needs and other pertinent information to the entire organization. ●

Overcoming Territorialism

Territorialism is about maintaining control over people and resources inside a silo. So overcoming territorialism involves addressing what the people within that silo

are — or, more importantly, are not — empowered to do and how they are held accountable.

The first step to creating appropriate levels of empowerment is to determine the factors that are limiting it. To find out, companies can conduct an employee survey in which workers indicate how much they agree or disagree with empowerment issues. Once organizations establish which aspects of empowerment are a problem, they can take appropriate corrective action.

Freedom to make decisions. If employees lack the freedom to make decisions, it's probably because of their workgroup's territorial manager. Determining the appropriate level of employee's decision-making freedom comes down to establishing a shared, unifying, mission-oriented company goal and a reasonable set of ground rules. That goal should then become the ultimate barometer of good and bad decisions.

Time. The most common empowerment killer is lack of time. To address this problem, organizations must determine what the administrative task capacity (time left over after mission-critical work) for a particular function actually is. Once you know that time capacity, prioritize tasks based on the overall business.

Training opportunities. Training criteria should be as objective as possible. And companies should expect and encourage managers to ensure that their staff continues to learn and grow.

Access to information or resources. A culture of information sharing should be a deliberate strategy, along with rewards for sharing and penalties for hoarding.

Employee participation and innovation. Mapping the communication flow in an organization can shed light on where information is flowing well, where it is blocked, where it is vulnerable and where it is too many layers removed.

Managerial support. Holding employees accountable for the overall success of the organization and empowering them to succeed in furthering these objectives, including placing them with a talented manager, can help prevent territorial behavior from reaching a critical mass.

Overcoming Empire Building

Decisions that foster empire building are typically a result of short-term thinking. One type of short-term thinking is a *sin of omission*, when decisions are made for short-term benefit without a full realization of the ultimate effect. A sin of omission is a barrier created by a hasty decision or a badly planned move, such as pulling resources off one project to save another, thus making it impossible for the first project to succeed. This becomes a problem when there is collateral damage to the broader organization.

Another type of short-term thinking is a *sin of commission*, when people realize that there will be long-term consequences, but they sweep those concerns under the rug. When unpleasant consequences are well-known but brushed aside, dismissed or minimized until it's too late, organizations are creating a sin of commission.

Companies Cannot Ignore the Short-Term Impact of Decisions

To avoid these types of problems, organizations should evaluate the guiding principles based on long-term *and* short-term impact on business success. Companies can't ignore the short term; doing so could put them out of business. But ultimately, the most important thing is the long term. Organizations will be better off making decisions that carefully consider long-term outcomes.

Courage Enablers

Removing barriers is only the first step. Leaders must give employees the encouragement, energy, commitment from above and support to try new things and to focus on the greater good of the overall organization. Leaders need to give special attention to courage enablers to ensure that new barriers aren't built. Once rules, empowerment, accountability, information flow and resources have all been addressed, managers need to foster courageous behavior through four types of actions:

- **Aligning vital courage and moral courage.** Shane Lopez and the late C.R. Snyder are perhaps the foremost experts in research regarding hope and courage. They defined vital courage as the "inspiration for actions that improve one's lot in life or that ultimately promote survival." Moral courage is "the authentic expression of one's beliefs or values in pursuit of justice or the common good despite power differentials, dissent, disapproval or rejection." While vital courage is inwardly focused (survival), moral courage is outwardly focused (ideology). Vital courage is about what's best for the employee. Moral courage is about what's best for the organization.

- **Matching responsibilities with strengths.** Organizations that effectively create individualized career paths for talented employees have seen dramatic benefits. One heavy equipment manufacturer began to use a strengths-based approach to determine eligibility for a fast-track manager training program. The failure rate for

those going through the program dropped from an unacceptably high level to virtually zero within six months.

• **Engaging employees.** Engaged employees are good for business. In a financial services company, higher levels of engagement meant stronger productivity. In a manufacturing firm, greater engagement resulted in fewer accidents. In a hospital, increased engagement led to improvements in patient outcomes and safety rates. Other businesses saw increased sales, lower turnover, better customer relationships and higher market share. What all of these organizations found is that engaged employees are a prerequisite for courage and success.

• **Rewarding courageous behavior.** The reward doesn't have to be a trophy or a bonus; it could be a note from a manager, a pat on the back or a story told at a department meeting. Whatever the vehicle, leaders should reinforce and celebrate courageous behavior. And the reward should be meaningful to the person you are rewarding and clearly linked to the types of new behaviors you are seeking. ●

Beware of Courage Killers

Managers who lack the talent to do their job effectively are at the source of many courage killers. There are many ways for these managers to discourage courageous behavior in an organization. Some of the more common courage killers are:

• **Inconsistency.** To reduce inconsistency and create courageous behavior, organizations must have clear and objective rules that they communicate well and that everyone in the organization fully understands. They should enforce those rules as consistently as possible, based on hard outcome metrics rather than opinion.

• **Playing the blame game.** This courage killer tells workers that they are empowered *at their own risk*. But failure results in recriminations, regardless of whether the employee has the support and blessing of his or her manager.

Managers who are not willing to support employees who are acting within the rules or with the manager's consent send a message that they cannot be trusted. But managers who publicly stand behind their employees and encourage intellectual energy and initiative are tremendously beneficial to their companies.

• **Hoarding information.** To be empowered, employees must have access to the information and resources they need to do their jobs properly.

Ultimately, unless there is a compelling legal or regulatory reason to keep information from employees, companies should not tolerate information hoarding.

• **Public floggings.** A technical analyst in an industrial products company joined the organization with high hopes and expectations. However, her optimism was quickly dashed. When the manager of her workgroup was disappointed in an employee's performance, that manager would get an inch from the offending employee's face and scream at him or her in front of the entire group during meetings. After witnessing a few of these episodes, the new employee quit and took another job, even though the pay was lower.

• **Subjectivity/rewarding subservience over service.** When organizations base performance metrics on clearly communicated and achievable targets that pertain to objective outcomes, then everyone knows exactly what they need to do.

• **Excessive control.** Organizations must set ground rules for the types of decisions employees can make. As long as employees stay within those parameters and there is some accountability for results, they should be free to make decisions. ●

The Leadership Imperative

There are no fearless leaders, but there are courageous ones. Everyone has fears they need to face. The key is to learn to overcome those fears. Mark Twain said, "Courage is resistance to fear, mastery of fear — not absence of fear." To create a fearless company, leaders must master fear — their own and others'. They have to have the courage to fix what's wrong.

Mission success must be the ultimate barometer of everything that happens in the organization. Anything that contributes to it should be encouraged; anything that detracts from or has an unknown relationship to it should be discouraged or eliminated. However, the mission is unlikely to succeed unless the entire leadership team aligns itself with the shared goal, and achieving that degree of unanimity takes work. The leader needs to present the vision and discuss it with each member of the senior team one by one. Members should have the opportunity to voice their concerns and objections. Some objections will be valid; some will not. The final judge and arbiter must *always* be mission success. The leader should embrace suggestions that further the mission; suggestions that don't are irrelevant background noise.

Once leadership has achieved agreement and alignment with the mission, the next step is to determine how each department and function companywide will

contribute to mission success. Recognition, budgets, advancement, hiring strategies and other decisions should start and end with mission. Every department must consider its role in these decisions as well as how it will support other departments.

Goals, Budget Allocation and Resource Distribution

Specific goals, budget allocation and distribution of resources should be based on these guiding principles:

- Improving financial performance
- Improving the workplace
- Strengthening customer relationships
- Limiting liability
- Avoiding catastrophic failure

These issues are best decided locally. The overall *direction* of the strategy, however, should be driven by leadership and based on mission. ●

The Fearless Company

Parochialism, territorialism and empire building may seem like iron-clad barriers that cannot be torn down. But it is critical to remember that these walls were built internally, one brick at a time, out of fear. They weren't there when the company was started. They don't have to be there now.

If leaders are bold enough to see through the fear and dissect the root causes that make up this destructive pyramid of bureaucracy, they will see that these barriers can be overcome. Barriers that were built internally can be destroyed internally.

Barrier Busting Takes Courage

Barrier busting takes a great deal of courage. Executives and managers need to look in the mirror and say that absolutely everything is on the table. This will create tension and may cause some to leave. It can also mean the difference between success and failure. Removing barriers starts with understanding what people are trying to protect and shifting their reference points toward the greater good rather than local processes. Leaders should structure rules and policies to prevent walls from forming, instead of using them as the bricks and mortar that parochial managers need to build their dream castles.

As competition over resources increases, companies must take great care to manage the territorialism that will inevitably follow. Aggressively protecting empowerment, focusing on outcomes and holding people accountable for the right things are absolutely critical to maintaining an open and collaborative environment. Organizations can limit empire building through better management of information, focusing on the long term and having an outcomes-based resource prioritization process.

Company leaders must also properly manage information flow across departments to help ensure that they are enabling courageous behavior and that empowerment levels remain high. Information flow should be relevant and balanced: not enough information and people can't do their jobs; too much and mission-critical work will suffer as people become buried in e-mails, meetings and memos.

Focus on Total Company Success

Organizations can optimize resources by allocating them based on guiding principles that are focused on total company success rather than on one group's parochial or territorial attempts to trump another group. At the same time, leaders must beware of fear-based decisions that are focused on short-term needs rather than a long-term vision.

This journey can be difficult, challenging, exhilarating and cathartic. It is a fundamentally emotional experience for the employees who finally have the chains of bureaucracy removed. Completing the journey is nothing less than a celebration of freedom and the first step on a path toward greater success. ●

How Mistakes Help Employees Learn and Grow

One progressive manager told an employee who was terribly upset after making a mistake, "I don't expect you to never make mistakes. If you never make mistakes, you never learn. If your intentions are good and you act within the rules, I will back you up. I do, however, expect you to not make the same mistake over and over again."

RECOMMENDED READING LIST

If you liked *Breaking the Fear Barrier*, you'll also like:

1. ***Stop Workplace Drama* by Marlene Chism.** Chism shows how to implement effective management strategies in a drama-filled organization and find new solutions that create positive growth for everyone in your company.
2. ***The Adversity Advantage* by Erik Weihenmayer and Paul Stoltz.** Stoltz and Weihenmayer teach you how to use adversity as a force for superior achievement, resilience, agility, innovation, energy and happiness.
3. ***Silos, Politics, and Turf Wars* by Patrick Lencioni.** Lencioni offers solutions to a key leadership issue — the impact of turf wars and political infighting on organizational effectiveness.

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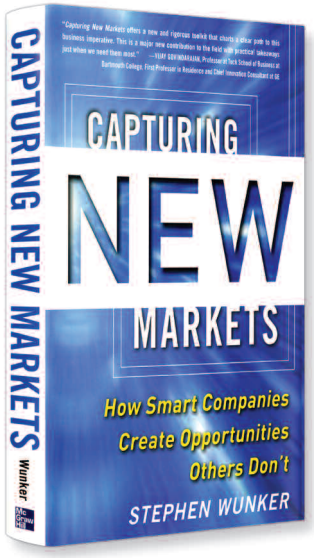
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Management

Capturing New Markets

How Smart Companies Create Opportunities Others Don't



by Stephen Wunker

THE SUMMARY IN BRIEF

New markets have powered the greatest business successes in history, from Standard Oil to Facebook. How can you discover and pursue new markets to make your business thrive?

In *Capturing New Markets*, world-renowned business strategist Stephen Wunker argues that the first step is to stop applying traditional formulas of success and understand the unique dynamics in fast-changing new markets. He guides you through the process of creating counterintuitive strategies, such as treating competitors as collaborators, timing market entry and targeting narrow niches before big customer segments.

Whether you work for a huge corporation or for yourself, *Capturing New Markets* helps you find new sources of growth. Based on Wunker's groundbreaking work with Clayton Christensen — the Harvard Business School legend who coined the term "disruptive innovation" — plus Wunker's extensive experience in the trenches, this practical and fascinating guide shows you how to turn new markets into the drivers of growth — propelling you and your company into a whole new world of opportunity.

Capturing New Markets upends traditional thinking about business strategy, showing what will work in a new economy marked by turbulence and change.

IN THIS SUMMARY, YOU WILL LEARN:

- How to identify, create and dominate new markets.
- How to find new ways to grow.
- How to sustain new sources of growth into the future.
- How to anticipate customer demands and meet emerging needs before anyone else does.
- How to lead new markets while your competitors are just waking up to the opportunity.

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THE COMPLETE SUMMARY: **CAPTURING NEW MARKETS**

by Stephen Wunker

The author: Stephen Wunker's accomplishments include developing dozens of new growth platforms for clients in a decade of consulting for both start-up and large firms across six continents, establishing new growth businesses for Africa's largest cellular network and creating the first mobile Internet device marketed outside Japan. Wunker has been published frequently in journals such as *Forbes, BusinessWeek, Managed Care* and *U.S. Banker.*

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Preface

The rise of Apple to become one of the world's most valuable firms is often credited to the elegant simplicity of the products envisioned by its co-founder and CEO, Steve Jobs. But the roots of Apple's accomplishments lie deeper. Apple visualizes how technology can lead to new markets. As Apple has shown, new markets are potent sources of growth. Not only do they generate new revenues, but they often create opportunities for firms to lead new industries, earning a price premium for their offerings while building up strengths that limit their competitors' ability to make inroads.

Credit cards, air travel, video games and television — all giant industries today — were once new markets. Big companies often get their start this way. In fact, 42 of America's 50 largest firms are based on exploiting markets that once were new.

New markets can be deceiving. While they can create vast new growth, they may seem small and irrelevant today. Winning in new markets requires taking a disciplined, dispassionate view of where opportunity lies. It may necessitate embracing new ways of engaging with customers, channel partners and other stakeholders. Frequently, it entails adopting an unfamiliar way of making decisions. Yet the payoffs can be immense.

Why New Markets Matter

A new market might cannibalize some of the old, but it also expands overall consumption — cars significantly hurt the makers of buggy whips, but they greatly expanded the use of transportation. If fighting competitors for share is a zero-sum game, new markets are about positive sums that create economic growth. There are two general ways in which new markets create growth:

• *New customers.* A new market often will lead to people or institutions buying products or services that they had not purchased before. Sometimes these products may be new-to-the-world, such as Apple's iPad, whereas in other circumstances they might be newly affordable or accessible, like cell phones have become in developing countries.

• *New consumption occasions.* A new market also may result from new consumption occasions. Colgate created a new market with its Wisp toothbrush, an ultra-portable single-use brush meant to be used on the go. E*Trade enabled consumers to trade stocks far more frequently than they could with traditional brokers. New products, services or technologies do not necessarily lead to new markets. The key distinction is whether they ultimately lead to new consumption.

Why New Markets Matter Now

New markets are particularly relevant in today's economy. As firms emerge from the "great recession," they are seeking new ways to grow. The [2008] downturn has left little appetite to take on the high costs of competing head-on against entrenched competitors, and so it is compelling to pioneer businesses with low costs of entry but high potential rewards. Aside from the short-term economic climate, several long-term trends are also converging to force new markets onto companies' strategic agendas:

• *Globalization.* For many firms, emerging markets are new territory. If firms do not play offense in emerging markets now, they soon may be playing defense against globalization's winners.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

• *Information*. Thanks to innovations such as the Internet, e-mail, social networks and cheap telecommunications, information flows far more rapidly today than ever before. The easy availability of information enables markets to form quickly.

• *Virtual sales channels*. As well as enhancing information flows, the Internet has created virtual channels that link pioneers with target customers, bypassing the middlemen who often neglect new markets because of their focus on short-term sales quotas.

• *Open platforms*. Many new markets build on innovations that originally had an entirely different purpose. Global Positioning System (GPS) technology underlies industries such as car navigation devices, vehicle tracking and location-based advertising.

• *Discontinuities*. While change can shut down growth prospects for some firms, such as Blockbuster, it can open up potential for others willing to embrace new markets, such as Netflix.

The economic history of the 20th century frequently was the story of new markets. Industry after industry arose to expand consumption, from household cleaning products to information technology services. If this was the case over the past century, what will happen in this one? The trends that made new markets a powerful engine of growth are even stronger today. Businesses that seize the opportunity of new markets may grow enormously. They also can stay vibrant as the economy changes around them. ●

Finding New Markets

The precursors for any market will depend greatly on the idiosyncrasies of that industry. Generally, there are six categories to monitor, which are quite distinct from the factors to monitor in established markets:

1. Platform Technology. Given the accelerating rate of technological advancement, platforms are constantly emerging to enable new markets. These platforms can build on each other to create expanding frontiers of potential. New platforms build on previous ones, and they enable a cascade of future platforms and associated new markets. As a result, the number of new markets keeps expanding.

2. New Business Systems. George Eastman was a skilled amateur chemist, but his invention of celluloid film was not sufficient to make photography mainstream. Consumers were worried about how to handle the film — the original Kodak camera, while relatively inexpensive, still cost consumers more than $5 in today's money to develop a single exposure. Eastman's coup was inventing a business system in which consumers never had to touch the film. The camera was sent back to Rochester, NY for the film to be removed, developed and reloaded. Eastman also depended on the mass marketing enabled by the rapid growth of newspaper and periodical publishing during this time; the business model of a relatively cheap camera sent to Rochester for developing may not have provided local dealers with big motivations to create the market on their own.

How One Platform Technology Continues to Build New Markets

The integrated circuit made the cell phone possible. Integrated circuits gradually took on more computing functions until they became microprocessors. As microprocessors gained increasing power and cellular standards made fast transmission speeds feasible, the smartphone was born. As smartphone operating systems, such as Google's Android, took root, software developers could develop hundreds of thousands of applications for these machines. As these applications enable smartphone users to interact in new ways, still more new markets will bloom.

3. Changing Customer Capabilities. Almost 11 percent of the world's population, or 740 million people, live in India's countryside. Collectively, they spend about $148 billion on consumable products each year, including both food and nonfood items. Their per-capita consumption is growing at about 2.2 percent per year. While this translates into a little more than $16 per person per month, the sums add up to significant amounts. Moreover, consumer spending in urban India is growing by 5.4 percent per annum. These are already large markets and they are quickly getting bigger. As Indian consumers grow wealthier, new markets form.

4. Changing Customer Behaviors. One of the most difficult market triggers to scout for is a change in customer behavior. The challenge lies not in finding new behaviors — they can be readily observed — but in resisting the urge to proclaim optimistically that the tipping point is at hand. Behavior change takes a while and it is hard to rush.

5. Changing Business Partner Incentives. Sometimes the incentives within an industry's ecosystem of firms can change to make companies more receptive to buying a new category of products. For example,

doctors have long had the ability to buy health care IT systems that computerize their medical records and enable them to download data from other physicians and even patients' home monitoring equipment. These systems have the potential to improve care, yet the U.S. market has emerged slowly. Recently, the market has changed. Medicare — by far the nation's largest health insurer — will now pay physicians bonuses if they meaningfully use electronic records in their practices. As a result, this industry is expected to grow at more than 10 percent per annum for the next several years.

6. Changing Regulations. Regulations can change quickly and affect the fortunes of new markets overnight. While lobbyists sometimes focus on the costs of regulations to existing businesses, this money can go into the coffers of firms prepared to lead the newly formed markets that result due to these changes.

Assessing What Doesn't Exist

How can you evaluate something that doesn't exist? Borrowing techniques used in established markets is often folly. Past trends cannot be extrapolated, growth estimates are wild guesses and competitors are unknown. Additionally, potential customers may think new business ideas to be a bit weird. While some firms can move fast to launch experiments in a market, others require more intensive cost-benefit assessment.

Gauging a Market's Value

To get to the stage of detailed assessment, a new market should seem significant. It may provide either a modest value to a large number of customers (social networks) or a large value to a modest number of customers (biotech drugs). Ideally, it will do both.

To determine the number of target customers, the value created by a new offering and the extent to which a firm can capture that value, companies should take traditional approaches as far as they can. For instance, the medical device manufacturer Becton, Dickinson and Co. (BD) was able to estimate the potential market for health care worker safety at more than $500 million based on the number of workers using needles, as well as the cost and consequences of infection through accidental needle sticks. This estimate helped to justify a hugely successful product-development program to make the company the new market's leader.

Signs That an Industry Can Quickly Grow

Why is it that some great ideas take forever to take root, whereas others flourish fast?

Eight factors explain the difference. Lacking any of these variables can be enough to slow down a market. In combination, their absence can be devastating.

1. Physical Infrastructure. If an innovation relies on others laying groundwork, a firm might wait a long time for change to happen.

2. Business Infrastructure. Groundwork can be economic as well as physical. Sushi needed no building projects to become popular, but it did require (at least initially) a restaurant with highly trained sushi masters, almost all of them Japanese.

3. Few Decision Makers. The growth of indoor plumbing required an army of decision makers to agree on a need and a solution. Urban planners, architects, builders and families all had to align. Trying to coordinate diffuse decision makers is very difficult.

4. Depth of Need and Relative Performance. To get noticed, a new offering has to excel over competitors on at least some important criteria.

5. Behavior Change. Customers often start using a new offering by applying current behaviors and subsequently discover that it enables new behaviors as well.

6. Speedy Sales and Use Cycle. An innovation's penetration into the market is directly related to how fast prospective customers can understand whether it is really useful for people like themselves.

7. Low Switching Cost. Switching costs make it more difficult for potential adopters of an innovation to sign on.

8. Low Risk of Failure. Customers also will proceed slowly if the result of an innovation's failure would be far worse than its potential benefit, no matter how slight the risk of that event might be. Risks make potential customers want to see others adopting the innovation first, lengthening the overall penetration process.

The First Customers

Launching into a new market is different from pumping out offerings in the core of an established company. Usually, people who are being honest with themselves will recognize that there is a tremendous amount they do not know. Do people really want our product? Will they use it as intended? Will they pay what we require? Did we plan our costs correctly? How will the competition evolve in a year's time?

Only the very brave will rush confidently into such murky waters. They may be under substantial pressure from senior management and investors to get big fast. Or, in other contexts, they may have grown

used to creating detailed project plans and executing them ruthlessly.

The Power of Footholds

Staging growth is an element of a foothold strategy, but it is not the same thing. Firms could limit their investment in a business while spreading small bets across diffuse market segments. They could focus solely on research and development (R&D) up front and defer actual product launch. By contrast, a foothold approach focuses investment on creating an offering for a very small number of market niches, and it seeks to get out into the marketplace early to obtain the sort of real-world feedback that countless hours at a whiteboard never can achieve.

- **Speed.** While getting big fast is a hazardous proposition, new businesses do need to move quickly. The return on investment earned by a venture is a direct function of how fast profits are realized. Footholds accelerate action. By focusing money and people on a small, well-defined target, footholds enable rapid decision making.
- **Gaining "Scale."** One of the iron laws of business is that firms are more profitable the larger they are relative to their competition in a given marketplace. Scale allows companies to save through purchasing more cheaply. It spreads costs, such as technology, marketing and management, across a larger sales base. Scale also can enable firms to price higher because customers like to buy from a leader in the industry and the leader can afford to create product features that followers lack.
- **The Sociology of Innovation.** Sociologists have long studied how innovations diffuse within a population. Starting with a 1943 landmark examination of how Iowa farmers adopted novel seed corn from 1928 to 1941, they have traced how innovations tend to take root in a small sliver of a population that is prone to consider new approaches because they are desperate for a solution, have processes to assess these offerings or are simply intrigued by new things.

In a foothold market, customers often will know each other, even if they compete. They may hire people from rival firms, meet at industry events or golf at the same country club. Even if they do not know each other personally, they will be keenly interested in what their competitors are doing.

- **Competitive Signaling.** While it is illegal in many countries for companies to collude on price, it is well-established practice to signal intent to lead a particular market. In this way, firms can limit their head-to-head, price-based competition and instead dominate particular market segments based on their unique offerings for that customer set. ●

Paths to Market Penetration

The emergence of the mobile marketing industry shows how new markets often start through early movers integrating a set of offerings and selling directly to customers, only to have the industry disaggregate into specialists and sales channels as the market matures. Sales channels often dislike new markets, yet eventually they can be critical to making the market big. The process of moving from direct to channel sales holds many perils.

A company's choice of commercialization strategy can be likened to deciding between driving on a superhighway or country road, and a firm's circumstances can point the way to the best route.

Both the superhighway and the country road contain many dangers for early movers in a market, but the risks can be mitigated on either path.

Switching to the Country Road from the Superhighway

It is a courageous and sometimes foolish move to exit a traffic jam on the superhighway and instead try your luck on the country road. A company will lose its channel sales quickly and may have to create a whole new set of competencies. Yet this is precisely how Vanguard Group became one of the world's largest asset managers. In 1977, the company disposed of its traditional broker-dealer distribution network and established the mutual fund industry's first "no load" funds, where there was no sales charge for customers moving into the funds — and therefore no money to pay sales commissions. Direct sales also were the best way to market low-cost index funds, a category that Vanguard pioneered in 1976. The company escaped the highly competitive structure of a fund industry selling through brokers who pocketed big fees and instead raced through open space, growing quickly as a result. Vanguard was able to make the switch because it had little choice; it was losing money otherwise. It also had an idea that catered to a readily identifiable market segment and an easy means of reaching those customers through advertisements in publications targeted at them. ●

Entering at the Right Time

"The pioneers are the ones with arrows in their backs." This business saying captures the feeling of many toward new markets: They generate immense value, but

not for the people who create them. Building a market can take more money and time than pioneers bargain for. Once these firms have laid the groundwork for an industry's growth, well-funded companies can swoop in to scale up and capture most of the profits. Yet there are endless counterexamples to this hard-bitten sentiment, including more than 450 startups that have grown to the point of becoming publicly traded companies in the past decade in the United States alone.

We can learn from a huge range of case studies. VisiCalc, Friendster and Diners Club each helped to create their respective industries yet faded away, sometimes swiftly, as their industries matured. Yet, in many instances, businesses that were early entrants became long-term winners; Zipcar today looks unassailable as the leader in car-sharing services. What explains the difference in outcomes? What do those findings imply about timing when a company should enter a particular market?

While *first-mover advantage* has become a common business term, it can be hard to define who is actually first; there is ample debate, for instance, about who can claim to have invented the automobile. Companies also may not know in advance if they will be first to market because competitors' initiatives are often opaque to the outside world until they are nearly ready to launch. Usually what matters is not being first, but being early.

Timing the Market

Companies that have a basic thesis about the advantages and disadvantages of their market timing should be able to avoid many missteps. The thesis is straightforward — it is better to be early when a company can:

- Preserve an early market lead stemming from barriers that later entrants will face
- Build resources and competencies that larger firms eventually could imitate, but which they will prefer to acquire
- Avoid becoming locked in to inappropriate technologies or business models before the market is deeply understood
- Avoid incurring large upfront costs because it is early to market.

If a company cannot meet at least two or three of these conditions, then it may be better off as a fast follower that learns from others' mistakes.

The Challenges for Fast Followers

Followers need the discipline to hold back and then to move quickly before an industry's competitive order becomes set in stone. But there is a critical caveat: *For many companies, it is impossible to be a fast follower. By the time they get to market in a significant way, they will be late.* Because of factors such as decision-making time frames, product-development cycles and the length of the sales process, a company's eventual entry into a quickly moving market may be so delayed as to be irrelevant.

There are some circumstances, however, in which being a fast follower makes sense. If a company has strong local market power, such as a grocery or newspaper, it can learn from experiments happening in other territories and then copy the winning formulas. ●

Fulfilling the Potential of Emerging Markets

Developing countries contain some of the most enticing new markets. With 80 percent of the world's population, they already account for 48 percent of the world's economy. The International Monetary Fund predicts that they will generate two-thirds of global economic growth from 2011 to 2016. Companies seeking growth would be foolish to ignore the opportunity.

The potential of emerging markets is widespread. Many people would think first of the $4.4 trillion expansion of China's gross domestic product over the past 30 years — a sum that constitutes more than 7 percent of today's global economy. The nation's tremendous growth has led it to become the world's largest consumer of construction equipment, automobiles and more. As impressive as China's growth has been, it presents just one facet of the story. Look at sub-Saharan Africa. More often associated with development aid than high-growth industry, the region nevertheless has seen an explosion in the field of cellular technology. Mobile communications is now a huge multi-billion dollar business throughout the continent.

Despite all this opportunity, emerging markets are still a sideshow for most large companies. A big impediment to aggressively targeting these countries has been the pesky issue of profits. For many companies, emerging markets historically have been a black hole of investment. Customers can be keenly sensitive to price and local competitors may be ferocious. Given the big money that some firms spend to begin operations in these countries, the prospect of enduring bleak returns makes many companies remarkably consistent about when they will consider a serious move — next year.

Yet an alternative scenario is quite plausible. When Celtel started in 1998 with a vision of becoming the

AT&T of Africa, it had to turn to government-backed financial institutions to raise much of its capital. Despite investors' initial hesitations, the company grew very quickly, with 98 percent of subscribers being lower-income prepaid customers. It was sold seven years later for $3.4 billion, creating enormous returns for those courageous first backers and making the company founder a billionaire. Along the way, the firm made major contributions to economic growth in the countries it served.

Advantages That Can Transfer Across Countries

With developing countries being so diverse, firms need to map out what advantages translate effectively between national markets. After all, customers in Uruguay are not going to care all that much about a company's leading position in Bangladesh. Advantages that can transfer across countries may include:

- *Brand*. The allure of global brands is somewhat overstated, given that in consumer products they tend to concentrate in sexy industries, such as sport and fashion, that have worldwide stars. However, in business-to-business markets, there can be more potential. Software companies, for example, make good use of implementation case studies to illustrate their impact.
- *Specialized skills*. For Celtel, a key competitive advantage lay in a small cadre of technical specialists who could support the rollout of new telecom infrastructure, billing systems and other critical but arcane elements of the business.
- *Economies in research and development (R&D) and production*. Nokia and other global manufacturers have exploited their scale economies to provide relatively advanced handsets to even the bottom tiers of the market.
- *Technology pipeline*. When company leadership pushes staff to stay customer-centric in their thinking, technology pipelines from developed nations can convey real advantages.

Enabling the Corporation

Sony Corp. became a titan of the consumer electronics industry through pioneering new markets: the transistor radio, the Walkman, the camcorder and much else. The company's co-founder and long-time chairman, Akio Morita, was legendary for his close observation of consumer habits and brilliant insights about potential new-product categories. His retirement in 1994 was a tragedy for the company — since then, Sony's stock price has been essentially unchanged. How can firms create a corporate competency around finding and exploiting new markets?

One decision to make early on is how widespread these new competencies need to be. While innovation programs can be broadly based, targeting both new ventures and better execution of existing businesses, new-market programs may be more focused. They may be walled-off efforts that draw minimally on the organization's core but nonetheless derive some advantage from that legacy.

The Great Challenge of New Markets

The great challenge of new markets is often not the idea — exciting and sometimes even obvious. Instead, companies struggle with creating the new while executing faithfully on the old. There are no magic tactics to make this happen seamlessly. Instead, sophisticated managers use disciplined techniques, balance between competing objectives and think carefully about how their goals mesh with corporate and business-unit strategies. While ventures must be highly adaptable, a program to create these businesses needs upfront planning about its mission, portfolio, governance and a host of other factors. It is all too easy to succumb to expediency, making small but continuous compromises that lead to where so many have gone before — failure.

How Companies Should Attack New Markets

Venture capitalists are role models for how companies should attack new markets. They combine blank-slate strategy with portfolio planning, a tailored approach to financial analysis and a deliberate sequencing of risks.

VC firms (VCs) succeed because they are strategic opportunists. They follow a strategy suited to the moment, not to yesteryear when an established company first entered a market. They focus resources on what has high growth potential today, not on sustaining businesses that already may have passed their peak. Because the canvas for VCs is so broad and open, they have to be very clear about what they are seeking.

In some environments it is possible for companies to enter new markets by creating dedicated business units, but in other industries this makes little strategic sense. Balancing separation and integration is a delicate act requiring substantial forethought.

Although companies need to be flexible in how they address the external world, internally they need to lay out clear rules of the road for internal audiences about how they will organize their efforts around new markets.

A Catalytic Role for Government

Democratic institutions hobble the potential of government as a venture capitalist, but their legitimacy and transparency create opportunity to lay essential groundwork for the growth of new markets.

Nascent industries are an obvious way to create economic growth and good jobs, and they can be a long-term antidote to underlying ills in health care, energy and many other fields. Yet government has a very mixed track record in supporting new industries. The political process can favor trendy, inflexible and inconsistent programs that spread cash broadly. New markets need just the opposite approach.

Public policy should have an important role in ensuring openness in four key areas. This role costs little and involves no political ideology.

- **Open Information.** Information undergirds a huge number of new markets ranging from geophysical analysis to hedge funds. The availability of data allows specialists to emerge in assessing and acting on that information. The result is better decision making, more efficient resource allocation and higher-quality products.
- **Open Platforms.** Open platforms create a basis for new markets. These platforms might stack on top of each other — integrated circuit, cell phone, Android Operating System and so forth — to enable uses that the originators of the underlying platforms scarcely could imagine. Many of these platforms are commercially attractive and need no government support. However, some initiatives are not viable as businesses but are important and well handled by a trusted intermediary, such as government.
- **Open Experimentation.** The barriers to new markets' success frequently lie not so much in creating new solutions as in getting them broadly adopted. To take perhaps the most dramatic example, during the 18th century, the British Navy lost more men to scurvy than to the enemy. It was a tremendous boon to the Navy once ships started including citrus in sailors' diets in the 1790s. Alas, the solution had first been published — by no less than the surgeon general of the East India Company — in 1614.
- **Openness to People.** People are utterly fundamental to shaping new markets. Individuals have played essential roles in new markets from the days of Andrew Carnegie and Levi Strauss through to Max Factor and Andrew Grove.The history of mobile communications shows how government can catalyze open systems with multiple vendors that surmount barriers to initial adoption and enable rapid upgrading of solutions. ●

Afterword

New Markets can be huge, amorphous and rapidly moving. Where do you start? Your strategy should depend on your circumstances. Top executives have the authority to set a strategy and portfolio plan for the corporation. They should be wary of dictating a new-market concept in too much detail because it is tough for frontline staff to rapidly adjust approaches on a dictate that comes from the pinnacle of a company. Rather, executives can articulate how much growth they expect from what types of new markets (new geographies, customer types, product types and so on). They can also kick off an effort to bolster the firm's capabilities in these endeavors through rigorous methods.

Lower-level managers in big companies can make a general argument upward about the power of new markets, but that thesis becomes more compelling if it is linked to a specific opportunity. Perhaps a project has languished because it has been wrongly directed toward established rather than new markets. Possibly there is a promising customer group that the company has not cracked. A new technology might be emerging that could affect the industry in poorly understood ways. These questions help to make the urgency of new markets clear and their potential concrete.

Entrepreneurs target new markets because they have to — this is where they stand a fighting chance against big incumbents. Their priority is usually around how to focus very limited time and money. Startups need a thorough profile of the latent need they are targeting, a clear idea of their foothold market and a sequenced plan of risk mitigation.

Whatever your circumstance, you may think that this is a poor time to tackle new markets. Business is too good, too weak, too concentrated, too diffuse — delay is easy to justify. But the world is not waiting. New platforms, emerging consumers and proliferating discontinuities are opening up countless new markets even as they threaten more established ones. The pace of change will not slow down. This is the time to act. ●

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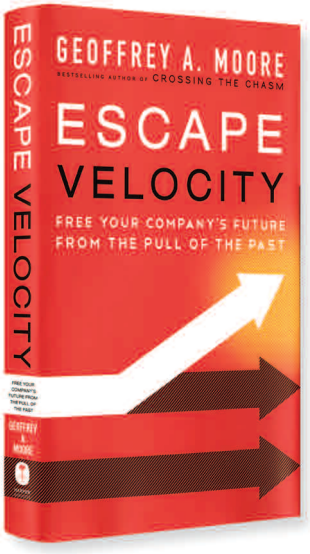
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Management

Escape Velocity

Free Your Company's Future from the Pull of the Past



by Geoffrey A. Moore

THE SUMMARY IN BRIEF

From the world's leading high-tech strategist comes the definitive road map to help established companies create next-generation growth. Based on 20 years' experience advising the top leaders of many of the world's most successful enterprises, Geoffrey Moore's *Escape Velocity* offers a pragmatic plan to engage the most critical challenge that established enterprises face in the 21st-century economy: how to move beyond past success and drive next-generation growth from new lines of business.

As he worked with senior management teams, Moore repeatedly found that executives were trapped by short-term, performance-based compensation schemes. The result was critical decision-makers overweighting their legacy commitments, an embarrassingly low success rate in new-product launches and a widespread failure to sustain any kind of next-generation business at scale.

In *Escape Velocity*, Moore presents a cogent strategy for generating future growth within an established enterprise. Organized around a hierarchy of powers — category power, company power, market power, offer power and execution power — this insightful work shows how each level of power can be orchestrated to achieve overall success.

IN THIS SUMMARY, YOU WILL LEARN:

- How to use organic innovation as a complement to M&A to systematically migrate an enterprise's portfolio out of lower-growth and into higher-growth categories.
- How to leverage asymmetrical resource allocation to create a powerful and sustainable foundation for a long-term competitive advantage.
- How to leverage target-market initiatives as accelerants to growth.
- How to manage your innovation resources to create maximal returns.
- How to fundamentally change the execution cadence of an organization, creating an irreversible tipping point along the way.

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THE COMPLETE SUMMARY: **ESCAPE VELOCITY**

by Geoffrey A. Moore

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Introduction

This is a book about freeing your company's future from the pull of the past, but we should ask ourselves right from the start, why should one believe it is in need of liberation? What change is so dramatic that it calls into question the working assumptions that have sustained successful business performance for the past half century? In a word: *globalization*.

One way or another, for everyone involved, globalization means a whole new ball game. And that means back to the drawing board for vision, strategy and execution. What, to begin with, do we think this new world will actually want from developed-economy companies? And what will it want from *your* company?

Which markets will create your best returns, and how will you realign your management and resources to capitalize on them? Who will design your next generation of offers and for whom will they be designed? How will your legacy business models stand up in an increasingly digitized, globalized and virtualized economy?

There is still plenty of opportunity to read and react, to listen and evolve. If you can make reasonable and steady progress toward staking out positions in next-generation markets, while at the same time leveraging your positions in current markets, you can be optimistic about your chances. Or can you?

What if there is some hidden force working against your best efforts? What if this force is operating inside your own company with the full support of your executive team, your board of directors, your investors and, indeed, yourself? What if this force is able to mysteriously redirect resource allocation so that it never quite gets deployed against the new agendas?

That force is the pull of the past, most concretely embodied in your prior year's operating plan. That plan exerts a gravitational force that pulls inexorably at any investments that seek to depart from its inertial path. The larger and more successful the enterprise, the greater the inertial mass, the harder it is to alter course and speed.

There is a path that can achieve the escape velocity required to engineer a genuine change in course. This path accommodates both the sustaining demands of cyclical market positions and the disruptive ones of new secular change. Like the one we are currently bound to, it ends with an annual operating plan and a resource negotiation that can have zero-sum or even minus-sum characteristics. But it does not start there.

Instead it begins with a highly structured set of dialogues around vision, strategy and execution that tee up future opportunities and risks in a way that allows them to compete more effectively for resources against our existing franchises. ●

Escape Velocity and the Hierarchy of Powers

To free your company's future from the pull of the past, to escape the gravitational field of your prior year's operating plan and to complete the round-trip by returning with next year's operating plan, you need to apply a force that is greater than the inertial momentum of current operations. No experienced executive is likely to underestimate the amount of force required. It is, as they say in Silicon Valley, ginormous.

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In his first law of motion, the one that covers inertia, Issac Newton taught us that an object at rest tends to stay at rest and an object in motion tends to continue in the direction in which it is currently moving. The same goes for resource allocation.

When organizations begin their strategic planning effort by circulating last year's operating plan, they reinforce the inertial properties of the resources as currently allocated. This is not a good outcome, but, to be frank, there is no help for it. You cannot really zero-base the budget every year, not in an enterprise of any size. So you have to assume this inertial force will be introduced into the process at some point.

What you *can* do, however, is get yourself and your colleagues out in front of it, Specifically, you can take the time to develop and bring to the table an *outside-in, market-centric perspective* that is so compelling and so well informed that it can counterbalance the inside-out company-centric orientation of last year's operating plan. And if you do this the quarter *before* you start your annual planning, you can earmark the resources and hive off the commitments to ensure they do not get lost in the subsequent shuffle.

To do so you need a framework to guide the process — or rather, as presented below, a *framework of frameworks*, because there is a lot of ground to cover.

A Framework of Frameworks

The Hierarchy of Powers is a framework of frameworks. It sizes up all economic competitions in relation to five types of economic power, each a driver of growth, organized in descending order from most general to most specific, as follows:

1. **Category power.** Category power is a function of the demand for a given class of products or services relative to all other classes. It creates the generic growth dynamics within which your company operates.
2. **Company power.** Within a given category, company power reflects the status and prospects of a specific vendor typically signaled by that company's market share. Growth here is at the expense of your competitive set.
3. **Market power.** Market power is company power within the confines of a single market segment. Market segments are sets of customers who share a common and unique set of needs and who reference each other, directly or indirectly, when making their purchase decisions. Growth here is signaled by dominant market share within segment.
4. **Offer power.** Offer power is a function of the demand for a given product or service relative to its reference competitors. Growth here is signaled by net change in revenue.
5. **Execution power.** Execution power is the ability to outperform your competitive set under conditions that favor no vendor in particular. Growth here is signaled by driving programs to tipping points, after which they become self-sustaining.

Within this framework, think of each type of power as being made up of a set of vectors, each of which can align with one another to reinforce the sum total of power or cancel each other out to reduce power to near zero. Thus you can be in a hot category and fail to execute, producing a near-zero result. Similarly, you can execute like crazy in a dying category and have an equally disappointing outcome. But when you get the powers aligned, when each is reinforcing the others, then the magic they call *synergy* appears and very good things can happen indeed. ●

Category Power: Reengineering Portfolio Management

By the fall of 2010, two iconic brands in the world of print media, *Businessweek* and *Newsweek*, had been sold at an extraordinary price — rumored to be $1 apiece! Meanwhile 3Par, a not particularly distinguished storage company, had been acquired for $2.3 billion, 10 times last year's trailing revenues.

Welcome to the world of category power. Print media are falling off the end of the category maturity life cycle, being displaced everywhere by digital media. When this happens, it doesn't matter how good your brand is — just ask Kodak what happened to its brand when film got displaced by digital photography. Meanwhile that same shift to digital media has thrust the storage category into a massive secular growth curve.

Category power is the No.1 predictor of future economic performance. So if you are going to free your future from the pull of the past, begin here. This exercise goes by the name of portfolio management and it begins with the category maturity life cycle.

The Category Maturity Life Cycle

The fundamental model for understanding the dynamics of category power is the category maturity life cycle. This model is used to focus on the *changes in state* categories pass through during their life cycle, and the implications of these state changes for the future of your fran-

chise. Category power manifests itself in five different states. The significance of these states is as follows:

A. Emerging Categories. These are the maelstroms in which new wealth-creating engines are born. For established enterprises, emerging categories are a real challenge. They entail high risks combined with highly variable rewards, demand a lot of attention from top-flight resources, but do not provide material returns in the near term. For start-tups, on the other hand, emerging categories are a godsend. They put the incumbents in their weakest possible position and create openings for no-name disrupters.

B. Growth Categories. These are the great wealth-creation vehicles for public enterprises. Growth is secular, often lasting the better part of a decade. In Stage B category competitions, established enterprises have powerful competitive advantages over new entrants, not the least of which are an established brand and a global go-to-market footprint. Nonetheless, if the incumbents deny the new paradigm and persist in their loyalty to the status quo, or if that new paradigm becomes global overnight (as is now possible in digital media businesses, for example), then the trumpets blow, the world order is destabilized and the walls come tumbling down.

C. Mature Categories. This is where the overwhelming bulk of the world's economic returns are generated year after year. It is also where the vast majority of jobs and tax returns are generated. Mature categories offer stability and predictability. Growth is cyclical. Market leadership positions change very slowly and established enterprises dominate.

D. Declining Categories. These are categories that have transitioned from cyclical growth rates to persistently negative ones. This is also a secular change, meaning it is only going to get worst. That said, like many things in life, it may take a long time to get a lot worse.
Established enterprises are the only players of merit at this stage. The market is not looking for new vendors; rather it is deciding whether to bite the bullet on changing out infrastructure now or to stretch its current position for a little longer.
The key point for us to take away is that in Stage D, for the first time, category power is a negative force. We are swimming against the tide.

E. End of Life. This phase is the end of a category's commercial viability, as in telegrams, telexes, rotary phones, movie projectors, slide rules, typewriters, carbon paper, jukeboxes, transistor radios, rabbit-ear antennae, carburetors and the like. A category reaching end of life has been known to cripple an entire enterprise's viability, which is nothing short of tragic. This happens when a company stays too long at the fair.

The great challenge in portfolio management is onboarding a nascent business with good prospects for Stage B growth at a time when its current revenues are not yet of material size. This demands you allocate premium resources for an extended period of time, particularly on the go-to-market side of the house. These resources are under enormous pressure to meet short-term revenue commitments, and the contention for them too often results in short-changing the emergent opportunity. Thus portfolios fail most often not for lack of R&D innovation but rather inadequate go-to-market representation. ●

Company Power: Making Asymmetrical Bets

Company power is the sum of all the bargaining power you can bring to bear relative to your customers, your suppliers, your sales-channel partners and your whole-offer partners. In its most spectacular from, it is the sort of thing that IBM demonstrated in the 1980s, Microsoft in the 1990s, Google in the first decade of this century, and Apple at the present time. But one need not achieve such dramatic positions of power to create superior returns for your shareholders. You just have to make yourself different enough to matter.

Achieving this kind of escape velocity from your competitive set, freeing yourself from power-deflating bake-offs with competing companies, means you must field one or more unmatchable offers. Such offers, in turn, are born from an unmatchable set of capabilities — what we call your "core" — which is unique to your company, hard to replicate by competitors, and in great demand by customers.

The idea of *core* evolved from the concept of value disciplines introduced in the 1990s — companies can generate escape velocity in one of three ways: *product leadership*, *customer intimacy*, or *operational excellence*. The theory was further refined by the introduction of *innovation types*, which made the choice of a vector of differentiation more granular. But the key in all cases is to develop or acquire "crown jewels" — unique assets that are proprietary to you, hard for competitors to replicate,

and highly valued by customers. Crown jewels come in many forms — technology patents, brand loyalty, domain expertise, a massive installed base, a disruptive business model, and the like. The key to realizing company power is to overweight resource allocation to intensify the impact of these assets in the marketplace.

By contrast, the failure mode is to peanut butter resources evenly across all requests, such that no one area ever gets beyond the boundaries of the competitive set's generic capabilities.

Being laser-focused about the specific direction of your core innovation investments and being Star-Trek-bold about skewing resource allocation to their specific ends together let you achieve escape velocity from your category norms.

Market Power: Capitalizing on Markets in Transition

Market power is simply company power specific to a particular market segment. Within the segment, you are the top dog, the big fish in your pond. Indeed, market power is always best measured in terms of a fish-to-pond ratio, where a 50 percent share of new sales into the target market segment is the entry stake and 80 percent is more likely to be the sustainable steady state. In your pea patch, you are quite simply the vendor of choice.

Thus it is that Google is the worldwide category leader in search, but not in China, where the market leader is Baidu. Facebook is the worldwide category leader in social networks, but in Spanish-speaking countries it is hi5 and in Brazil it is Orkut. In each of these market segments, the worldwide leader doesn't have a little *less* power — it has a *lot* less, as in *none to speak of.* Customers in each of these markets have built a fence around their local vendor of choice and that has fundamentally altered the dynamics in the marketplace.

Market power of this kind *guarantees* competitive separation from your category set. When you dominate a market segment to the point that customers and partners self-organize to marginalize your competition, you have truly achieved escape velocity.

And why would market segments do this? Why would they confer on your company's exceptional bargaining power, allowing you to earn margins well above the industry standard in the global market? The primary reason is that they want and need you to give very special attention to their particular details.

Global standard products go a long way toward meeting most of the specifications for any given category, but they never go all the way to meeting all the needs. That is left either to the customer or to some intermediary. This works fine for most cases, but in some segments, some of the time, the needs are high, the specifications are demanding and the global value chain is simply not up to the task. This creates an opening for a company to develop special products and services, often augmented by a specialized value chain, and take the segment by storm. This is the reward of niche markets.

Thus Silicon Graphics and subsequently Sun workstations took the first decade or two of business from visualization-intensive segments like oil-and-gas seismic pro-

When a Segment Strategy Works

There are at least eight situations in which a segment strategy is likely to pay for itself many times:

1. **Gaining market adoption for a disruptive technology.** The goal is to accelerate mainstream acceptance of a disruptive next-generation technology by first winning over a beachhead segment.
2. **Penetrating a new geography.** Targeting an underserved segment and meeting its end-to-end needs all the way is a great way to get market insiders to pull you in.
3. **Getting out from behind the market leader.** Underserved market segments provide the opportunity.
4. **Anchoring a turnaround.** There is nothing like a niche market segment for solving this.
5. **Solving for the "stuck in neutral" problem.** A management team can retake control by targeting a niche market segment in need.
6. **Capitalizing on a great niche opportunity.** In niche markets where a handful of companies spend lots of capital on next-generation facilities and tools, you can build high-value sustainable franchises without leaving the niche.
7. **Exploiting the "granularity of growth."** When markets mature and commodotize, value migrates from the core offer to the secondary elements surrounding it.
8. **Capitalizing on a market in transition.** When every company in a segment is looking for a safe haven that is compatible with the new world order, the first whole-offer teams to arrive with true end-to-end solutions to their problems will delight them.

cessing, computer-aided design for semiconductors, technical publications for user manuals, industrial design for consumer products and special-effects cinema.

Thus Lecroy's digital oscilloscope became the instrument of choice for nuclear physicists, HP's 12C became the calculator of choice for real estate agents and Tandem computers became the engine behind all the ATM machines that retail banking could deploy.

As these examples illustrate, while niche market segments may be lucrative, they are not particularly large. ●

Offer Power: Breaking the Ties That Bind

Thus far in our discussion of escape velocity, we have imagined the pull of the past as a gravitational field holding our rocket ships prisoner to a home planet. That is how categories, competitive sets and even market ecosystems exert their claims on companies and keep them in their place. When it comes to offer power, however, it's a different story.

To achieve escape velocity, your next-generation offers must free themselves from the entanglements of the myriad of legacy commitments, a long tail of products, promises and one-off customizations, each with its own trickle of revenue, each nattering for some share of the sales force's attention, each tugging at the sleeve of enterprise marketing to get some murmur of the total corporate voice. This is not gravity at work.

This reminds us more of Gulliver in the first of his travels, waking up in the land of Lilliputians, the six-inch-tall citizens who render him powerless to move; his giant limbs held captive by an infinitude of tiny, threadlike ropes. Thus does the long tail of your legacy offer set exert its power over your next-generation giants.

How can it be that the mighty is so subordinated to the minuscule? In the world of business, it is easy. In any given quarter, you are doing your best to meet your revenue commitments and, not uncommonly, you find yourself a bit underpowered to do so and very much at risk of falling short of plan. Indeed, you are much in need of a next-generation giant that could replenish your power. But instead, under the pressure of events and the compulsion to make the quarter, you find yourself taking revenue from wherever you can get it, grasping at any and all straws, fearful of cutting off any source of funds, however small.

So how are you going to break out of this tangle? Well, like Gulliver, you are going to have to innovate, not just to create your future but also to coexist in your present and to release yourself from your past. All this entails a much broader model of innovation than most people have in mind.

The model consists of three different types of innovation, each pursuing a return that is unique to it and contrary to the goals of the other two types. The types are:

1. **Differentiation.** The goal here is to be unmatchable, to create the escape velocity that will define your future.
2. **Neutralization.** The goal here is to keep up with or catch up to new market expectations, typically reset by some competitor's latest differentiation. You don't have to outperform, you just have to show you are good enough. But you have to do this *quickly* because a failure to respond here could have a big impact on your present results.
3. **Optimization.** The goal here is to do what you were doing before but faster and cheaper, thereby freeing up resources for use elsewhere or to be taken to the bottom line. This is all about productivity. It is also how you free yourself from the pull of the past.

All three forms of innovation are valuable, and all are required for an enterprise to sustain a strong market position. But here is the rub: Each type is incompatible with the other two.

- *Differentiation* is not readily managed to budget or schedule — you cannot say when you are going to become unmatchable, nor can you predict accurately how much it is going to cost. You just have to commit to get there, no matter what.
- *Neutralization* must be managed both to budget and schedule, with the latter being critical because you cannot afford to keep on disappointing the market with sub-par features. At the same time, you do not want to spend heavily here because all you really need is to be good enough soon enough.
- *Optimization* runs perpendicular to the other two — it is not about creating output, but rather about improving process. What it must do is respect the other two types and not impose on them constraints that will violate their prime objectives.

The key lesson here is that you must not bind any one type of innovation too closely to another type. Instead, use neutralization to set your project calendars, layer in differentiation whenever it is ready, and conduct optimization in the background as a continuous quality improvement effort. ●

Execution Power: Engineering the Escape

Everything we have discussed, all the various types of power we have labored to put in place, are for nought if we cannot actually execute our escape-velocity initiative. The challenge is to deploy a next-generation initiative at scale, overcoming the inertial resistance of our current go-to-market system to do so. To fully appreciate the dimensions of that challenge and address it successfully we need to:

- Model enterprise execution dynamics in general as they evolve over the life cycle of a given generation of offers from their invention to their deployment to their optimization
- Dig specifically into the dynamics of the transition between invention and deployment at scale, with particular attention to the criticality of achieving a tipping point and the catalytic role of programs in that regard
- Map these requirements to organizational development frameworks that call out the leadership attributes and organizational structures best aligned with meeting the escape-velocity challenge.

Transitioning to Escape Velocity

When you organize and staff around the life cycle of innovation, you get great traction in each of three execution zones: invent, deploy, optimize. For the complex-systems model this means invent via great *projects* to drive entry into new categories and markets, deploy via great *playbooks* to scale up to capture market share during secular growth and optimize via great *products* to extract maximum returns from cyclical growth.

On the volume-operations side, this same arc of execution from invention to deployment to optimization translates into great *product* R&D to enter new categories and markets, great *partner relationships* to scale out to deploy new offers during secular growth and great *processes* to capitalize on established market positions during cyclical growth. What's not to like?

Well there is one thing not to like: *transitions*! Each transition program, be it from invention to deployment or from deployment to optimization, must drive the organization to a tipping point so that what began under the purview of one set of managers is now taken up fully by another. Inventors do not relate easily to deployers, nor do deployers relate easily to optimizers, so these hand-offs are somewhat unnatural acts. But they must succeed, else the whole initiative is lost.

The Six Levers Model

The framework that underlies the playbook for product innovation is the Six Levers model:

1. Centralize. Bring operations under a single authority.

2. Standardize. Reduce the variety and variability of processes delivering similar outputs.

3. Modularize. Deconstruct the system into its component subsystems and standardize interfaces for future cost reductions.

4. Optimize. Eliminate redundant steps, automate standard sequences, streamline remaining operations, substitute lower-cost components or otherwise cost- and resource-reduce.

5. Instrument. Characterize the remaining processes in terms of the variability of key parameters and develop monitor-and-control systems to manage their performance.

6. Outsource. Drive processes out of the enterprise entirely to further reduce overhead, variabilize costs and minimize future investment.

Transition programs, in other words, must in effect catalyze conversions, bringing on the next set of leaders, getting them committed to carry the effort through the next phase. This is not the normal way to think about programs, so let us take just a minute to underscore what is required.

Most programs are level-of-effort affairs. Think training programs, lead generation programs or quality improvement programs. The program teams are assembled and as long as they are working on the issue, improvement in results is expected. But when the teams stop working, those results taper off. It is a pay-as-you-go model, if you will.

We're not talking about pay-as-you-go here. A transition program is a one-time intervention that changes the state of its object of focus. It is catalytic. By driving the organization to a tipping point, the center of gravity shifts and control migrates from one locus to another: behavior changes, the culture changes, the way things get done changes, all in fundamental and nonreversible ways. In other words, this is *big* change. ●

Conclusion

Let's look at one last major case example in which bringing together a number of levels of the Hierarchy of Powers created a major break from the past.

By the end of the 1980s, IBM had lost its way. In the early 1990s, it turned in such a catastrophic performance that even its most loyal supporters questioned its reason to be and were calling for its breakup. Instead Lou Gerstner and his team were able to engineer a now-famous turnaround, restoring a commitment and then a capability to be *the end-to-end solution provider for information technology to global enterprises*. That was what they decided the world wanted IBM to be and subsequent events have proved them right. This was their core, the foundation upon which they would restore the company's power.

In choosing this escape trajectory, they capitalized on several of IBM's crown jewels: its long-standing customer relationships anchored in the original mainframe business, its deep service capabilities and its brand reputation for end-to-end delivery. The team took these to a new level by refocusing the company on whole new classes of offers. That is, they transformed the decaying offer power of their legacy, prioritizing service offers over products and software offers over hardware. Then they doubled down in both areas with major crown-jewel acquisitions, including PricewaterhouseCoopers in services and Lotus Notes, Tivoli, Rational, Filenet and the like in software.

On the execution-power front, they redeployed executives from corporate-facing to field-facing jobs, letting them either sink or swim in their new customer-intimate assignments. They encouraged the services teams to support competitors' products, not just IBM's, because that is inherent in keeping an end-to-end commitment. They leveraged broad system-maintenance pricing agreements to help middle-of-the-road products compete against best-of-breed point solutions. In short, they tilted the whole company toward a services-oriented core. And everywhere they leveraged the complex-systems execution paradigm of projects-to-playbooks, eventually extracting themselves altogether from volume-operations businesses like printers (spun off to Lexmark) and PCs (sold to Lenovo).

Hitting the market in the middle of the 1990s, this dramatic repositioning caught HP and Sun off guard and set them back on their heels. This let IBM exploit a major category-power transition to Internet-enabled business-process reengineering at a time when everyone thought that was Silicon Valley's private pea patch. But what the Valley's engineers did not understand fully enough was that IBM's core was rooted in its abiding passion to help customers derive business value through technology investments, in part by sticking around long past the product sale just to make sure it paid off.

The other companies in their competitive set just wanted to drop off their products and move on. That's not what a large portion of the world wanted, however, and so IBM was able to win the nod. In other words, their *services-led* offer model trumped their competitors' *product-led* approach.

Closing Remarks

The reengineering of the global economy from a universe of vertically integrated corporations run by command-and-control management systems to one of highly specialized and disaggregated enterprises interoperating collaboratively to create global value chains has been an impactful change. In this new environment, change happens much faster than ever before because the whole no longer has any way to hold back the part. And that means that market transitions and technology disruptions are much more frequent.

Two things are critical to note here. First, in an era of change, it is critical to focus more attention than normal on power and less on performance. That is because the very foundations of your current performance are being eroded, and your No. 1 priority is to establish a next-generation foundation. If your company does not have an authentic dialog around power, if it is unable to reallocate resources to capture new power, if it instead remains bound to the performance obligations and expectations set by your legacy power, then it will become increasingly marginalized and eventually extinct.

Second, it also means that responses to these changes must be negotiated across a broader set of constituencies, many of which you have no command or control over. Collaboration has never been more at a premium.

In a collaborative network, the advantage goes to whoever can call the tune first, identify the relevant changes under way, find the pivotal role to play and communicate the vision in actionable frameworks. The purpose of the frameworks introduced here is to help you achieve that advantage and free your company to participate in its rewards. ●

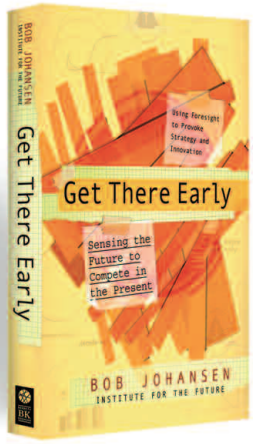
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2. ***How Companies Win* by Rick Kash and David Calhoun.** Learn how a revolutionary, demand-driven model can help your business capture pools of high-profit demand.
3. ***Eat People* by Andy Kessler.** Kessler provides 12 surprising and controversial rules for radical entrepreneurs.

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SOUNDVIEW Executive Book Summaries®



by Bob Johansen

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Sensing the Future to Compete in the Present

GET THERE EARLY

THE SUMMARY IN BRIEF

A forecast is a plausible, internally consistent view of what might happen. It is designed to be provocative. At the Institute for the Future (IFTF), the word prediction isn't used because it is a statement that something *will* happen, and a *prediction* is almost always wrong. Fortunetellers predict the future; forecasters don't. A forecast doesn't need to "come true" to be worthwhile. It should provoke new thought: new insights, new possible actions or new ways of thinking about the present. You don't need to agree with a forecast to find it useful.

The ultimate paradox for business leaders today is the inability to forecast the future, yet the necessity to make sense of it in order to thrive. To be successful, leaders must devise strategies rooted in their own point of view and then get there ahead of the crowd. However, many leaders are content with getting there in time, and some are even willing to settle for getting there fashionably late. Those behind the curve focus on quick-fix problems, avoiding the kind of long-term dilemmas that will characterize the future. But as the IFTF's 10-Year Forecast delineates, today's corporate chieftains face more and more dilemmas; recurring, complex, messy and puzzling situations.

In this summary, Bob Johansen — former president and CEO of the IFTF — shares techniques refined by the Institute to help you navigate your organization's road to the future. Employing fascinating case studies like that of the Apple iPod, he shows how getting there early means finding new markets, new customers and new products ahead of your competitors. Through these stories, Johansen shows how getting there early helps you see beyond today's problems and recognize possible futures before others do.

IN THIS SUMMARY, YOU WILL LEARN:

- Seven directions of change in the next decade.
- Core dilemmas of the five driving forces in IFTF's 10-Year Forecast.
- The difference between a problem and a dilemma.
- Why smart networking is critical to marketing.
- How to conduct an effective After Action Review.

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by Bob Johansen

Thinking 10 Years Ahead to Benefit Today

Forecasting is a kind of mental fitness practice, comparable to physical fitness. Here are the core methodologies used at IFTF to develop forecasts:

• **Expert Opinion Aggregation** — defines who is most proficient in understanding a possible future.

• **Expert Workshops** — are usually composed of groups of about 12 to 25 diverse experts.

• **Content Synthesis** — draws together the forecasts of others.

• **Historical Analog** — draws lessons from the past.

• **Scenarios** — bring forecasts to life through stories to bring people into the daily life of future worlds.

• **Survey Research** — uses questionnaires or interviews to elicit attitudes about the future.

• **Ethnography** — is derived from anthropology to explore underlying culture and values.

• **Visualization** — brings a forecast to life through pictures, human and digital art, and other means.

• **Artifacts from the Future** — are hybrids of archaeology and design that use imagined objects to bring a forecast to life.

Although forecasting methodology is important and useful, it is wise not to take any methodology too seriously. Each leader needs to decide what approach he or she will take toward the future. ■

Institute for the Future's 10-Year Forecast

Before discussing the 10-Year Forecast, it is important to highlight the underlying directions of change behind it. Think of these as historical contexts for the future that is to follow. The following statements indicate direction, not destination; we are moving in the direction indicated, but may never actually get to the end point toward which we are moving. We are moving toward:

• **Everyday awareness of vulnerability and risk** — both in the developed and undeveloped worlds.

• **An hourglass population distribution** where old age is the new frontier, but kids will be heard.

• **Deep diversity** that is "beyond ethnicity," in the workplace and society.

• **Bottom-up everything** in which people interact with the products and services they consume.

• **Continuous connectivity** in which network connections are always on.

• **A booming health economy** in which health is an important filter for many purchasing decisions — and health risks are on everyone's mind.

• **Mainstream business strategy** that includes environmental stewardship combined with profitability — doing good while doing well.

Within the 10-Year Forecast, there are five driving forces, or "storylines": personal empowerment, grassroots economics, smart networking, polarizing extremes and health insecurity. These storylines help to expand on the external forces that will shape the next 10 years.

Storyline 1: Personal Empowerment

The word *consumer* is obsolete, but there is no better word to replace it yet. The word *consume* means to destroy. But consumers are not just destroyers or passive recipients of mass messages, and increasingly, people resent being treated as such. Consumers are empowered people whose powers are amplified by the interactive media they are rapidly learning how to use.

For very large organizations, this personal empower-

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The author: Bob Johansen, who received his Ph.D. from Northwestern University, was president and CEO of the Institute for the Future (IFTF) from 1996 to 2004 and is now an IFTF Distinguished Fellow.

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Institute for the Future's 10-Year Forecast

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ment creates a dilemma: How can they engage constructively with the increasingly powerful individual and networks of people who buy their products and services?

IFTF's research suggests that engaged consumers are characterized by three bellwether behaviors:

1. **Self-agency:** acting with independence, on one's own behalf, but with closely networked links to others, so that individual decisions are magnified but influenced by others.

2. **Self-customization:** adapting and applying core products or services to their own individual needs, with expectation that products will be customizable to their needs.

3. **Self-organization:** organizing responses and initiatives in ways that are difficult to anticipate.

Engaged consumers are a force to be reckoned with. They can inject a brand with incredible buzz, as did early iPod users. Apple got there early with a well-designed and compelling product promoted mostly by word of mouth, although Apple fueled the fire. Engaged employees have the same kinds of power, but it is applied to work. Many work practices (e.g., time and task management) are being brought home, but influence goes back and forth as the line between home and work become blurred.

People are shifting their identities from consumption to creation — including customization and do-it-yourself (DIY). The shift implies a move toward more open economic exchange, with an emphasis on external innovation.

Personal empowerment will be shaped by the aging baby boomers. The word *retirement* will probably be replaced by a boomer-type term like *redirection, regeneration* or *refinement*. Boomers will rethink and re-form the notion of careers for the 50-plus in several ways:

• **Working older:** Don't expect them to stop working, unless they get bored.

• **More health expenses and investments in health:** Chronic disease meets longer life.

• **Lower levels of government support:** Social Security will not be enough.

• **Expanding, not narrowing horizons:** Empowered boomers have a big-picture view, so they will continue to reach out and grow.

The next generation of workers is *really* different, with skills and perspectives their elders do not share — or in some cases even understand. They will likely be more comfortable improvising their way out of dilemmas. Many have learned their skills in video gaming worlds that are not as different from business as some may think.

Storyline 2: Grassroots Economics

Economies of scale — where bigger is almost always better — are giving way to economies of organization, where you are what you can organize. Think of it as eBay on steroids. Everyone can be a seller and everyone can be a buyer. All organizations have the potential to take on a grassroots character. Think personal media, personalized products and services, and mass customization.

The grassroots economics dilemma facing very large corporations is how to grow financial performance in an economic environment in which scale is a mixed blessing, and you must give the feeling of being both large and small simultaneously.

Storyline 3: Smart Networking

We are moving toward a global fishnet of connectivity, where smart networkers live at the leading edge of market trends, making distinctive and influential choices about entertainment, health, home, policy issues and elections. Increasingly, brands are selling not just to an individual, but to a social network.

The smart networking dilemma to be considered is how to engage in positive ways with smart networks and networkers that cannot be controlled and only rarely can be influenced in straightforward ways.

IFTF has identified these six factors as being most important to networking IQ:

1. **Group participation:** how you use networks to engage with others in effective ways.

2. **Referral behavior:** how you use networks to link to other resources available through the network.

3. **Online lifestyle:** how the network fits the context of the rest of your life.

4. **Personal mobile commuting:** how you use the network as you move about.

5. **Locative activity:** how you use the network to draw links to specific geographic locations.

6. **Computer connectivity:** how you use your skills to link to computer-based resources.

If leaders are not skilled or at least conversant with blogs, wikis and other networked media, it will be hard for them to lead. Younger workers are learning to create and share knowledge in a mixed physical and virtual landscape. The explosion of social software will challenge traditional notions of focus, workflow and productivity.

Storyline 4: Polarizing Extremes

Everything, and especially the proliferation of extreme views, is amplified on the Internet. Extreme

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Institute for the Future's 10-Year Forecast

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groups seem more sophisticated at networking than do more moderate ones. A dilemma of polarizing extremes is figuring out how to engage extreme groups when you cannot please all of them.

Worldwide, it appears that fundamentalist perspectives (religious, political and social) are increasing in popularity. Strong opinions will become more mobile. For the first time in history, during the course of this decade more than half the world's population will live in cities. The shift will be greatest in developing countries. Megacities (over 10 million people) will constitute a new kind of wilderness, resembling the most extreme ecologies in nature and eliciting adaptive survival strategies. At the same time, small cities with populations of 50,000 or less will be among the fastest growing in both developing and developed worlds.

Storyline 5: Health Insecurity

Boomers will fund and fuel what health researchers at IFTF call the "health economy." The health insecurity dilemma is how to grow a culture-of-health marketplace in the shadow of looming global health crises. How many will be able to afford to be healthy?

Essentially, the next 10 years will see new approaches to extending what the body can do in ways that were difficult to imagine before. IFTF has identified these styles of creating an extended self:

• **Identity switchers:** those who strive to change their identity through mental and social disciplines.

• **Medical modifiers:** those who use medical or surgical methods to change their bodies in ways they find positive.

• **Body builders:** those who use exercise and other disciplines to alter their physique.

• **Death defiers:** those who stretch the limits of what is possible and what is safe.

• **Super connectors:** those who use networks to amplify their sense of self and essentially develop a more connective definition of "self." ■

The VUCA World

There are both nasty challenges and intriguing opportunities in the VUCA World. These dangers are characterized by *volatility*, *uncertainty*, *complexity* and *ambiguity*. But these same dangers create leadership opportunities in terms of *vision*, *understanding*, *clarity* and *agility*.

The VUCA world is sparking new ways of thinking and acting. The most successful leadership strategy is to flip the danger, like an aikido move in martial arts where you absorb the attack but redirect the energy of the attack in a positive direction. The negative VUCA world can be turned around with a combination of vision, understanding, clarity and agility. The challenge is finding a way to engage honestly and create a winning strategy within the chaos that you encounter. Here are some emerging principles:

• **Volatility Yields to Vision** —Vision means having a clear intent, a clear direction for your actions. Vision is much more important than foresight since it seeks to create a future, not just study the future. With clear vision, creative space opens for innovation within the parameters you specify. A bold vision sees beyond volatility, with a calm perspective not trapped by assumptions of the present.

• **Uncertainty Yields to Understanding** — Listening leads to understanding, which is the basis for trust. You must learn to listen carefully without judging too soon. The VUCA world creates an urgency to act quickly, but sometimes it is a false sense of urgency. The best leaders have the presence and calm to listen before talking.

• **Complexity Yields to Clarity** — Leaders must help others make sense of complexity. The VUCA world rewards clarity because people are so confused they grasp at anything that helps them make sense out of the chaos. The thoughtful leader's quest is to be both clear and accurate, simple but not simplistic.

• **Ambiguity Yields to Agility** — Leaders can't surrender to ambiguity; that would lead to paralysis and confusion. Rather, they must learn how to be agile and respond to attack. The VUCA world rewards networks because they are agile, while it punishes the rigidity and brittleness of hierarchies. ■

What's Different About Dilemmas?

The biggest challenge for leaders is learning to live with — even embrace — the tensions inherent in dilemmas. How can you prepare your mind to win when faced with dilemmas, to win what appear to be no-win games? Dilemmas disguised as problems are particularly dangerous. If you engage a dilemma as if it were a problem, you may get there early, but you are not likely to win.

Most of today's leaders were taught to solve problems, and problem solvers have specifically been taught to move fast. Winning when faced with dilemmas, however, requires an ability to hold complexity in your mind

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What's Different About Dilemmas?

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without knowing too soon and without taking words or data too seriously. If you get there early, you've got time to sort out a situation. Some leaders shoot from the hip because they get there late and don't have time to do anything else.

Can You Tell a Dilemma From a Problem?

Modern dilemmas have evolved beyond the traditional definition of *dilemma*, which focused on an either/or choice between two bad options. In today's complex world, choices are many (we face *tri*lemmas and *multi*-lemmas) — even as the context within which dilemmas are arising is becoming more intractable. Consider the following characteristics of modern strategic dilemmas:

- Unsolvable
- Recurrent
- Complex and often messy
- Threatening
- Enigmatic and confusing
- Puzzling, with two or more choices — and decisions are still required
- Possibly positive (dilemmas with attractive but competing options are possible).

A problem is "a question or puzzle that needs to be solved." Typically, in current thinking, a problem has a binary (either/or) solution or at least a clear solution. In a world of dilemmas, we still have many options for response, but usually the options aren't simple and usually they don't come in pairs. Yes/no will not be enough. What might be a third way, or fourth or fifth? Expecting a binary solution can get you in big trouble in the world of dilemmas.

Dilemmas as a Source of Inspiration

The first discipline is to resist jumping to premature conclusions. Unless you're in an extreme situation where you absolutely have to respond immediately, reflection is usually more useful than reaction.

There are still many problems with binary solutions and it is very important that someone solve them. Looking ahead, however, it can be seen that most problems with binary solutions will tend to be tactical, important for successful execution but more appropriate for the operational people within a firm. Strategic thinking will be dominated by dilemmas. ■

For additional information on dilemmas, go to: http://my.summary.com

It Takes a Story to Understand a Dilemma

Storytelling is only part of the leader's challenge. Listening for stories is just as important, to untangle dilemmas, reach some kind of "Aha!" and develop winning strategies. Sometimes the best stories about a dilemma will arise where you least expect them.

A Story About Silicon Valley

Silicon Valley works as a hotbed of innovation based on the dilemma between the "culture of ideas" and "culture of money" in the valley. The "culture-of-ideas" people love ideas and love to exchange them to see ideas mix and grow. They are willing to give away ideas, trusting they will get back even better ideas in return. Subgroups of the culture-of-ideas people are intent on changing the world, and convinced their ideas can have an impact.

Meanwhile, the culture-of-money people in Silicon Valley are focused on making as much money as possible, through commercialization of technology and ideas. Subsets of this group are driven by greed.

However, these social networks need each other. The culture-of-ideas people need money to bring their ideas to life. The culture-of-money people need ideas and innovation to inspire new businesses and attract investors. Neither of these two dominant cultures likes the other — even though they recognize that they need each other. The tension between the poles of this dilemma — ideas and money — provides energy for Silicon Valley innovation. If this dilemma were "solved" the creative energy of the Valley would dwindle. ■

Immersion

Immersion is the best way to learn in a VUCA world. Immersion experiences allow leaders to learn rapidly and viscerally, and help at every stage of the Foresight to Insight to Action Cycle (see diagram on page 6) by providing a way to get there early before committing to go there at all. Immersion can help leaders experience a possible world of the future to get a feeling for what it might be like, to see things from different points of view to provoke insight. Immersion helps you try out different ways of being so you can develop your own agility.

Consider a spectrum of immersion experiences, in order from most to least involvement for the learners:

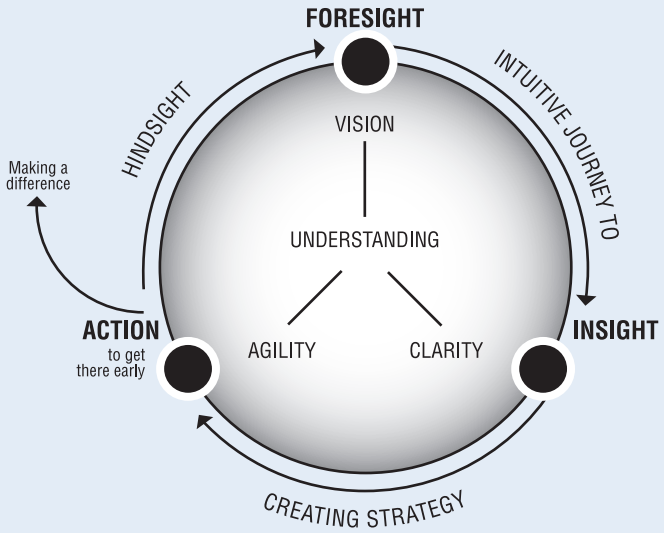
- **Simulations of reality:** where some aspect of the real world is being modeled so it can be experienced.
- **Alternate-reality games:** where individuals, small

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Immersion

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Foresight to Insight to Action Cycle



groups or huge numbers of players engage in hypothetical worlds, either digital or real.

• **3-D immersive environments:** where people role-play an alternative identity in an online setting. There is no story or "game" other than what the players create.

• **Role-play simulation games:** where learners play a role in an interactive simulation that draws from real-world experience.

• **Scenarios:** where a story is brought to life, through text or physically via artifacts.

• **Mentoring, reverse mentoring or shadowing:** where learners are immersed for a period of time in the life of another person from whom they want to learn.

• **Ad hoc immersive experiences:** where the goal is helping someone see the world from another point of view.

• **Theatrical improvisation:** where actors bring a future possibility to life in a vivid way while learners watch.

• **Case studies:** where a real-world situation is described in a third-person but engaging way so that learners can become involved with the case. ■

Sensing and Sensemaking

To get there early and compete, both sense and sensemaking skills are needed. First, you sense what's going on around you and what might be possible in the future. Being able to identify what's most important or influential requires an ability to sense and make sense of both concrete information and qualitative experience. Think of sensing as listening: to the world around you, to the signals you think are important for your organization and to your inner voice of innovation. Sensing is listening for the future, hearing something that others don't yet hear.

Foresight to Insight to Action Workshops

Moving from foresight to insight is an intuitive search for "Aha!" It is a nonlinear creative process best done in a small-workshop setting. Small groups are good at listening for the future in creative ways to generate insights and seed innovation. In an interactive workshop setting, seven to 25 people can be amazingly productive — if they can learn to engage constructively with each other. In planning one of these workshops you need to assess where you'd like to focus. A typical workshop will have the following emphasis:

• 40 percent on foresight that is provocative for the organization

• 40 percent on insight provoked by the foresight

• 20 percent on possible actions. ■

From Insight to Action

The transition from insight to action is more straightforward than the transition from foresight to insight. Action is aimed at results, at making a difference. But action doesn't necessarily mean final action. Action unfolds. The ultimate basis for evaluation of a forecast is not what you got right in the forecast but whether the forecast helped leaders make better decisions that led to action that made a difference.

Beware of the Operational Problem Solver

Action is great, unless it is the wrong action. Those who are problem solvers also want to get there early, but are more likely to get there early with an answer that is wrong — even if it is right in the short run. Action is the home court of the problem solver.

Modern strategic dilemmas require new kinds of leadership and new kinds of leadership development. Even solvable problems can be embedded in dilemmas, and dilemmas can be nonlinear — like global warming — with real potential for large-scale sudden or long-term impacts that can rearrange entire systems.

The key here — in the midst of action — is to recognize the difference between a problem and a dilemma as

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From Insight to Action

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Components for a Foresight to Insight to Action Workshop

Foresight to Insight to Action workshops work best when they have the following ingredients:

1. **A meeting owner.** This person may need to make real-time decisions during the workshop regarding next steps.
2. **A target outcome.** Having a clear outcome, a mantra for the meeting, gives everyone focus.
3. **A diverse group.** You need diverse people who will play well together. Generational mixes and mixes of thought styles are particularly helpful.
4. **A content facilitator.** He or she must possess both content and group process skills to assist participants in drawing links between foresights, insights and possible actions.
5. **A chunk of provocative foresight.** A big picture forecast can be a wonderful stimulant, but it's also important to think through the message track you want to use to stimulate the discussion.

early in the process as possible. If in doubt, assume you are dealing with a dilemma. If, as the situation unfolds, it turns out that you are dealing with a solvable problem, all you need to do is solve it and move on. On the other hand, if you mistake a dilemma for a problem, you can dig yourself in deeply before you realize what's going on — and before you figure out that no solution is possible. By this time, there may be no way out, or at least no face-saving way out.

Wal-Mart's Sustainability Strategy

Foresight: Long-term financial performance won't be possible without changes in environmental practices.

Insight: Wal-Mart needed a new approach.

Action: Create the Wal-Mart Sustainability Strategy.

Wal-Mart has always been about growth and "everyday low prices." But in 2005, CEO Lee Scott entered into new territory with his focus on "business sustainability," which he defined as including the goals of environmental sustainability and robust business performance. This strategy has three core elements, each of which involve dilemmas that Wal-Mart will try to overcome:

1. Climate and renewable energy
2. Zero waste
3. Sustainable products.

Wal-Mart is aiming to do good while doing well, that is, without compromising its financial goals. Perhaps Wal-Mart's years of bad press — a dilemma — influenced its decision to deal with the environmental dilemma. ■

For information on the Foresight to Insight to Action Cycles of Wikipedia and the Omidyar Network, go to: http://my.summary.com

Flexing and Flexibility

The organizational form of the future will be more like a network than a hierarchy, although hierarchies won't disappear. There is no single center in network organizations; there are as many possible centers as there are network nodes. The action is at the intersections and edges. Such a structure is just right for dealing with dilemmas. Nobody controls organizations that function like networks, but the organizations can be woven into varied patterns and flexed without losing strength.

Leaders must have the ability to flex, the wherewithal to maintain a clear direction and the vision to decide where, when and how to work. Fortunately, the next generation of workers wants even more flexibility and more choice — and they are ready to navigate the work/private life dilemmas implied by this increasingly networked world.

Developing Your Ability to Flex

Flexing is like the freedom that a musician has to improvise within the rhythmic structure of a song. However, in most organizations, there are distinct values and legal requirements that must be met. Organizational structures and responsibilities are both explicit and implicit. The outside world, however, is not necessarily governed by the same principles. Organizations cannot assume that their ways of working will be followed by others. Flexing skills need to be tempered by an organization's sense of direction.

The IFTF has identified seven "tuning levers" to design and evaluate organizational structures:

1. **Structure** — Like the cord on a fishnet, network structures are strong but flexible. The number and pattern of the nodes on the net are critical to its strength and flexibility.

2. **Rules** — Flexible firms work best with only a few rules, but those must be followed religiously; principles, rather than rules, work best in the context of network organizations.

3. **Resources** — The key resource need in network organizational structures is to make communication possible across the network.

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Flexing and Flexibility

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4. **Thresholds** — Scale thresholds are critical in the life of network organizations, since small groups are typically more cohesive than large ones.

5. **Feedback** — This often comes informally by word of mouth.

6. **Memory** — Memory in network organizations is often decentralized and formal methods of organizational memory (like databases) often do not capture the vitality of the knowledge being stored.

7. **Identity** — Network members may or may not have shared collective identities; some are formal while others are informal with dispersed identities. ■

Flexible Firms

Firms that have incorporated flexibility have begun to emerge, but there is still room for more flexible firms to come to the forefront.

An Open Source Flexing Story

While IBM still supports hardware and software businesses, it makes money off of services. Open source for IBM includes:

- Co-production of value between competitors and users
- Celebration and incorporation of user-generated innovation
- Discovery of communities of interest and efficiencies among users, producers, distributors, partners and employees.

IBM has been able to create or participate in open source or free zones where it gives away software in order to create a higher-value competitive zone where it can offer services. It is cooperative and open in hardware and software, but competitive in services.

A Geoweb Flexibility Story

The geoweb is the mixing of virtual and physical media to extend both our experience of the physical world and our access to online resources. Walt Disney is already mixing the physical experience of the park with virtual links and is focusing attention on both the technology and human efforts to work with technology to provide great experiences for guests. Consider Pal Mickey — a small Mickey Mouse stuffed animal with a radio frequency reader in its nose and an ability to "talk" to the person holding him. As a guest goes around Walt Disney World, Pal Mickey gives updates on where lines are shortest and points out interesting attractions. ■

Foresight From Hindsight

On the Foresight to Insight to Action Cycle, the activities between action and foresight are observation, measurement, induction and learning from experience. What can we learn from our actions to identify new approaches for the future? Thoughtful foresight should include hindsight: At IFTF it is said that you should look at least twice as far back as you are looking forward. For example, the Institute's 10-year forecasts usually include a 20-year look back.

After Action Reviews

One of the most effective disciplines for learning from experience is the After Action Review (AAR). The army and other military services and the fire and police agencies use AARs as a regular discipline for debriefing and documenting lessons from every significant event. The army keeps a database of AAR lessons, but the primary value is not in the database but in the personal discipline of learning that is ingrained in daily life. Lessons from AARs are fleeting and best understood in real-life context.

A big challenge for business is to distinguish performance evaluation from learning. At many companies, managers talk boldly about "learning from failure," but common wisdom among employees is that there is a strong, usually unspoken, pressure to produce and not admit failure.

After Action Reviews are an example of content synthesis, which is a tool for foresight. The key to AAR, as well as any other form of experience synthesis, is to learn from what has happened and apply that learning to one's understanding of future possibilities.

Often, the best foresight happens in real time, in the midst of the action. The best leaders develop an instinct for response, a discipline of readiness, not just a plan. The best strategy emerges from the flow of experience and events. The deepest insights arise in the field, and often an initial insight suggests a first action; but as the action unfolds, the insight gets deeper. That's what prototyping is all about, a kind of learn-as-you-go style for strategic action. ■

Soundview Recommended Reading List

If you liked *Get There Early*, you'll also like:

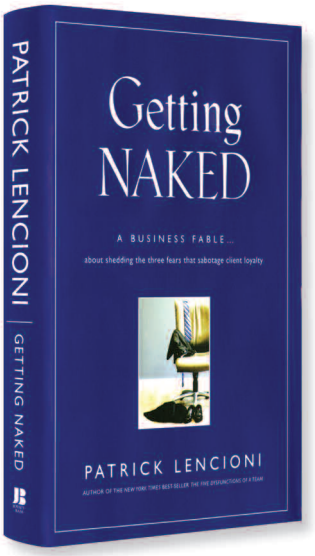
1. ***The Starfish and the Spider*** **by Ori Brafman and Rod A. Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
2. ***The 360° Leader*** **by John C. Maxwell.** You can learn to develop your influence from wherever you are in an organization by becoming a 360-degree leader.
3. ***A Leader's Legacy*** **by James M. Kouzes and Barry Z. Posner.** The authors show how a legacy is more than a link to a position or place in an organization.

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Management: Strategies



Getting Naked

A Business Fable About Shedding the Three Fears That Sabotage Client Loyalty

by Patrick Lencioni

THE SUMMARY IN BRIEF

Most of us still struggle with vulnerability because we are human beings who don't like to be weak, which means we are subject to the completely natural but irrational fears that make us uncomfortable being naked.

In *Getting Naked*, acclaimed management expert, consultant, speaker and *New York Times* best-selling author Patrick Lencioni tells the remarkable story of a management consultant who is trying desperately to merge two firms with very different approaches to serving clients. One relies on vulnerability and complete transparency; the other focuses on proving its competence and protecting its reputation for intellectual prowess. In the process of managing the merger, the consultant is forced to learn life-changing lessons that prove to be as relevant as they are painful.

Getting Naked provides readers with concepts that are accessible and compelling. In it, Lencioni explains the three fears that provoke service providers — whether they are internal consultants, salespeople, financial advisers or anyone else serving long-term clients — to unknowingly sabotage their ability to build trust and loyalty. He also provides a practical approach for overcoming those fears.

IN THIS SUMMARY, YOU WILL LEARN:

- How to build deeper and longer-lasting relationships with your customers and clients.
- How to make your relationships in business and in life more authentic and fruitful.
- How to develop higher levels of client loyalty and intimacy than your competitors ever imagined.
- How to benefit from becoming more vulnerable.

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THE COMPLETE SUMMARY: **GETTING NAKED**

by Patrick Lencioni

The author: Patrick Lencioni is a *New York Times* best-selling author of eight books including *The Five Dysfunctions of a Team* and *The Three Signs of a Miserable Job*. He is also the president and founder of the consulting firm The Table Group.

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For additional information on the author, go to http://www.summary.com or visit www.tablegroup.com.

Introduction

Vulnerability. It is one of the most undervalued and misunderstood of all human qualities.

Without the willingness to be vulnerable, we will not build deep and lasting relationships in life. That's because there is no better way to earn a person's trust than by putting ourselves in a position of unprotected weakness and demonstrating that we believe they will support us.

Yet society encourages us to avoid vulnerability, to always project strength, confidence and poise. Although this is certainly advisable in some situations in life, when it comes to important, ongoing relationships, it stifles our ability to build trust.

For those who provide service to clients, vulnerability is particularly powerful. Those who get comfortable being vulnerable — or as some people call it, naked — are rewarded with levels of client loyalty and intimacy that other service providers can only dream of.

Can you be too vulnerable? No. Of course, if you come to your clients every day admitting that you've made yet another mistake or that you don't know how to do yet another required element of your job, that would be a serious problem. However, it would not be an issue of vulnerability, but rather of competence: The problem would not lie in the *admitting* of so many weaknesses, but in the *having* of them!

Naked Service

Why do we resist being naked with our clients?

For one, we think it will hurt our chances for success. We fail to realize that, even though clients require us to be competent enough to meet their needs, it is ultimately our honesty, humility and selflessness that will endear us to them and allow them to trust and depend on us.

Naked service is rare, which means it provides an opportunity for a powerful and tangible competitive advantage for those who embrace it. They will build stronger, stickier relationships with their clients; they'll have an easier time getting those clients to actively and enthusiastically recommend and endorse them, even without being asked; they'll have more comfortable and collaborative discussions about pricing and fees; and they'll enjoy their work much more.

But more than any of that, what makes naked service worthwhile is that it puts us in a position to more effectively help our clients, which, of course, is what providing service is all about. ●

THE FABLE

Part One: Theory

I'm not going to lie; Michael Casey was one of my least favorite people in the world. Even the mention of his name could put me in a moderately bad mood.

And so, if you had told me a year earlier that I would spend four solid months of my professional life learning about him and his annoying little consulting firm, I would have told you it was time for me to change careers.

But that's exactly what happened, and I've lived to tell about it.

Me

I'm Jack Bauer, and yes, I share a name with that guy on TV who saved the world every year. Unlike him,

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

though, I'm not a superhero. I'm just a consultant.

For five years I'd been working within the strategy practice at Kendrick and Black, a prestigious, international full-service management consulting firm headquartered in San Francisco.

In addition to being one of the senior consultants in our division, I headed up sales for the strategy practice of our firm. This meant I sometimes competed for clients with Michael Casey and his firm, Lighthouse Partners.

Now, Lighthouse was a much smaller firm than ours, and they focused most of their work in the Bay Area, so we didn't run up against them in more than 5 to 10 percent of the projects that we pursued. But when we did, we lost every single time.

That's not exactly true. We won once. But a year later the client threw us out and hired Lighthouse, which was more painful than losing to them in the first place. This only exacerbated our bitterness toward Michael Casey.

Keep in mind that when you compete against a consulting firm you almost never actually see your competitors. But you hear about them. And after listening to story after story about Michael Casey and his team, I would have liked nothing more than to hear they were going out of business. Or so I thought.

Horrible Promotion

When I was first told by a colleague that Michael Casey was leaving Lighthouse and that his firm was for sale, I was ecstatic. We had finally worn him down, I decided.

Lighthouse was up for sale and we wouldn't have to compete with and be humiliated by them ever again.

My glee at hearing about the demise of my enemy came to an abrupt end five days later when the founder of our firm, Jim Kendrick, pulled the rug out from under me.

"Here's the deal, Jack. You probably know about a little consulting firm over in Half Moon Bay called Lighthouse Partners. Well, they were desperate to be sold in a hurry, and Marty said they were probably worth the risk. So we bought them before anyone else could. We are going to have you manage it for a while. We want you to spend five or six months overseeing the firm. As soon as you get your hands around what's going on over there, we can integrate whatever parts of it we decide to keep into our strategy division, and figure out what to do with the rest. And if all goes well, you should be heading the strategy division by then, given that Marty will be retiring next summer." And he left.

Just like that, my world had been turned upside down, and for the rest of the day I couldn't decide how to digest it all. As I explained to my wife that night, I should have been happy. But there was something about the situation that made me uncomfortable.

Part of it was certainly the realization that if this went poorly, my career would be considerably damaged — and that I'd have Lighthouse Partners to thank for it. Michael Casey just might continue to haunt me even after his departure.

Acceleration

Casey's departure from Lighthouse turned out to be more abrupt than anyone expected. As soon as the ink was dry on the deal, he was gone.

When I asked my boss, Marty, about the circumstances, he shrugged. "I really have no idea. But you'll probably find out on Wednesday. You're meeting with the partners over at Lighthouse Wednesday morning."

So, 48 hours after the contract had been signed, I found myself driving west along the crooked highway connecting the San Francisco Bay Area to the coastal town of Half Moon Bay. That's where the 25 employees of Lighthouse Partners were waiting to hear what I had to say about their future.

Walking the corridor, I found a door with a Lighthouse sign on it and went inside. ●

Doing Whatever It Takes

Naked service providers not only overcome their need to feel important in the eyes of their clients, but also purposefully put themselves in a lower position. They do whatever a client needs them to do to help them improve, even if that calls for the service provider to be overlooked or temporarily looked down on. Ironically, clients come to trust and respect service providers who do this and ultimately come to think more highly of them. That's because there is nothing more attractive and admirable than people who willingly and cheerfully set their egos aside and make the needs of others more important than their own.

Part Two: Practice

I was greeted by a petite, 40ish blonde woman in blue jeans who was sitting at the front desk. "Can I help you?"

Before I could answer, she continued, "Are you Jack?"

"I'm here for a meeting with Amy Stirling and Dick Janice." I'm pretty sure that I didn't smile, because I felt a sudden surge of self-consciousness and inferiority. I wondered if she noticed.

Without a trace of anxiety, she responded, "I'm Amy Stirling."

Seeming to sense my discomfort, Amy continued, "Why don't you go on into the conference room, and I'll see if I can't find Dick and Matt."

A minute later I was sitting alone at the oak table in the fishbowl room.

I couldn't decide whether I was more afraid of confronting the little monster I had been loathing for these past few years, or of discovering that it wasn't as ugly as I had imagined. Whatever the case, it was too late to consider, because at that moment Amy and two of her colleagues walked into the room.

Dick Janice, the oldest of the partners and someone whose name I had heard a few times in the course of my sales adventures, greeted me first. Dick seemed as friendly and calm as Amy, which I found disturbing. Do these people even know who I am and why I'm here?

Fortunately, the last and youngest of the partners, Matt O'Connor, gave me a nervous vibe that reconnected me with reality. A freckle-faced redhead, Matt didn't manage to smile when he shook my hand, and he looked away as soon as he could.

Re-Entry

"So, why did Michael Casey sell the company? Why didn't he just let you guys run it, or sell it to you?" I asked.

"Selling it to Kendrick was the right thing to do," Dick explained.

"Why?"

"Well," Matt said, "for one, Michael's never coming back. Six weeks ago his daughter and her husband were sideswiped by a semi truck. Her husband died, and she sustained very serious injuries. Michael was adamant that taking care of her two young girls was his new full-time job."

I had to respect Michael Casey.

Matt went on. "Selling it to us would have put a huge, risky burden on us. If Michael's departure hurt the business, the value of the firm could have disappeared. Michael wanted us to share in some financial upside, and this was the right time to do it."

"Besides," Amy explained, "if things don't work out with K&B, we can always take a year off and go start another firm."

Perspective

I couldn't argue with the logic I was hearing. "So why do you think K&B did the deal?" I wanted to get their perspective.

"Well, we think that you — not you personally, but someone over there — didn't like us and wanted to get rid of us.

"And then there's the deep pockets." Matt explained. "Kendrick and Black can afford to take a flyer on us, but that's a lot of money to our little firm. We received a nice little payout, and we get to keep our jobs."

I didn't want to tell them that there was a good chance some of them wouldn't. As it turns out, I didn't have to.

"And if some people don't get to keep their jobs," Dick explained, "then they'd get a severance package to add to their payout, which would be more than enough to bridge them through to their next job."

It was at that moment that I was about to embrace these people and become part of the team. But then it dawned on me. They were actually in a better position than I was! If things didn't go well with the merger, they'd be fine. Probably better off. But my career would be in serious trouble.

The more I learned about Lighthouse Partners, the worse I felt about myself and about the state of my career. And that put me in a horrible situation. I had to make this merger work with a bunch of people who constantly reminded me that I was sometimes a complete ass. ●

Part Three: Research

The next day was the beginning of my personal crash course in Lighthouse Partners and Michael Casey, the man.

During my first three days in Half Moon Bay I met with at least a dozen consultants and most of the other staff members.

It wasn't until my fourth day that I saw my first glimpse of the secret behind the success of this strange little firm.

Give Away

Dick Janice and I went into the prospective client's building, and the receptionist gave us security badges and had us wait for someone to get us. Within minutes we were escorted to the elevators and to a conference room.

When the CEO and head of ops arrived, we did our typical meet and greet and sat down to talk. The CEO went first.

"So, I was telling my friend, John Sullivan — he's the COO over at Frigidata — that we needed some help figuring out how to do better planning, and he said I should call you. And that's why we're here."

Dick nodded. "OK. Tell me why you think you need to do better planning."

The CEO looked to his operating guy. "Well, it's getting harder and harder to make revenue forecasts. Our costs are rising faster than they should be, and we're not sure why. And we're starting to lose market share, which hasn't happened in 10 years."

Pulling out his pad of paper, Dick began asking a series of questions. Revenue. Number of employees. Competitive landscape. Cost structure.

Primary Research

After he had exhausted his initial questions, Dick went to the whiteboard. "OK, let me explain what a strategically healthy company looks like, and figure out whether any of this is helpful to you."

And for the next 45 minutes we just talked. Or better yet, Dick asked questions and the CEO and his sidekick talked.

Finally, the CEO looked up at the clock and said, "OK, we're running out of time here. I'd like to continue this conversation with the rest of my team, because we're going to need input from marketing and finance to figure this out."

Dick nodded. "OK. Should we shoot for next week?" He scrolled through his PDA. "I'm good for Tuesday afternoon."

The CEO said, "Done. We'll be in the boardroom on the fourth floor. I'll have Nancy set you up."

And we were gone. It was all too easy.

Consistency

"So, I'm curious," I said afterward, still trying to play it cool. "Why didn't you try to wrap up the deal today? I think they'd have agreed to just about anything."

Dick explained, "You know, I'm pretty sure they're going to want to be a client. So I don't really want them thinking about what we're trying to get out of the arrangement. At this point, all I want to focus on is figuring out their issues." He paused.

"And we need to make sure that they'd be the right kind of client. We'll have a better sense of that next week. For all I know the real problem is the CEO. If that's the case, and he's not willing to deal with that, then we don't want to be in there wasting our time and energy, and their money, rearranging deck chairs on the Titanic. We've learned over the years that having a bad client is worse than having none."

"How could that be if they're paying you?"

Dick said, "Well, for one, it prevents you from finding other good clients. And you're unlikely to get a good reference." He paused. "And, as Michael used to say, it just makes you feel bad about coming to work. It destroys the culture."

Endurance

As I approached the 12th week of my integration project, my boss Marty decided it was time to evaluate our progress and begin the process of more formal integration.

With less than a week to prepare, I began assembling my notes and asking more pointed questions than ever about Michael Casey and his various rules of thumb that, more than anything, defined his approach to client service and business. I was also starting to see a few patterns connecting many of those points. ●

Part Four: Testimony

As I nervously rode the same elevator to the 20th floor where I had been going to work uneventfully for the past five years, I decided that I had probably overdramatized the magnitude of this meeting and the situation in general.

Jim Kendrick's opening comments at the meeting made it clear that I had not. "We paid real money for this firm. What I want to understand today is what kind of return we're going to get."

"Well, I think this could be an extraordinary opportunity for Kendrick and Black, much bigger than I would have imagined a few months ago when the deal was announced. But I'm not going to lie to you. We're going to have to work hard to learn how to do what they do."

It took more than a few seconds for my words to sink in.

"Did you say that we're going to have to learn how to do what they do?"

I nodded my head. "That's right. From a financial standpoint, Lighthouse has slightly better profit margins than we do, and slightly higher revenue per client. Most of their business comes from referrals and warm leads. When they meet with a client they spend their time asking questions and doing primary research right there. It's like they skip the entire sales process. And they're remarkably successful."

Making the Case

"More than anything else, the power of what Lighthouse

does can be explained by one word: *vulnerability*."

Larry Dewitt asked, "Did you say vulnerability?" He smiled and didn't wait for me to respond. "Is this some kind of new-age hippy thing where we're going to get naked and hold hands?"

The room chuckled collectively and I forced myself to laugh along with them.

"It's interesting that you used the word *naked*," directing my comment at Larry, "because that's not a bad way to describe the way Lighthouse presents themselves to clients."

I had their attention again. After writing "vulnerable" and "naked" on the board, I continued.

"What I'm talking about here is a certain kind of fearlessness they have. Whether they're selling or consulting, they don't seem afraid of anything."

"What would they be afraid of?"

"Three things. The first one is the fear of losing the business, either during the sales cycle or in the process of doing consulting." I wrote it on the board.

"The second fear that Lighthouse doesn't have — and one that most consultants, including myself, struggle with — is the fear of being embarrassed or looking stupid in front of their clients.

"The third and final fear that the Lighthouse consultants seem to have overcome is the fear of feeling inferior to their clients."

Deception

After my presentation, Jim Kendrick stood and went to the middle of the conference table near the speakerphone.

"Gentlemen, I guess you've heard enough. Is there anything else you need from us right now?"

Finally, after a few seconds' delay, a voice came over the phone.

"No, I'm good. We'll finalize the details on Monday. Thanks, everyone."

Jim then addressed someone else on the line. "What about you, Michael? What did you think?"

"I thought he nailed it, probably better than I could have. Great job, Jack."

I said "Thank you" half-heartedly, not knowing who I was talking to and why there were people on the line.

Jim ended the phone conversation. He went back to his chair. "The two gentlemen on the phone were Tom Paulson from Strategic Insights, and Michael Casey, the founder of Lighthouse. I thought they should hear today's meeting. See, we're selling Lighthouse to Strategic Insights, and I wanted Michael to confirm that your description of his company was accurate, and I wanted Tom Paulson to hear it directly from someone with no vested interest in selling the firm. Evidently, Paulson liked what he heard, and Michael affirmed that it was true, and so we have a deal."

Onward

I arrived at Lighthouse the next day. When I entered the conference room, I saw only two men. They introduced themselves.

"Hi Jack, I'm Tom Paulson." He was a nicely dressed, professional-looking man, the kind you would think would run a high-end consulting firm.

The other man, the one who looked just slightly familiar to me, was older but wore jeans and a polo shirt.

"I'm Michael Casey. I've heard a lot about you, Jack. I want to thank you for doing such a nice job explaining my firm the other day."

Then he changed the subject. "Jack, I'm here to ask you to stay on and run this office."

I turned to Tom Paulson, who smiled and made his pitch. "We want to maintain this culture and see if we can't infect the rest of our firm with it."

Michael went on. "Listen, I don't want to see this place disintegrate, and I don't want to see people over here lose their jobs. When I left, I knew that it might not be perfect and that there was a possibility things would unravel, but when I heard you on the phone this week, I decided that there was a chance to keep it going. And that's why I got on a plane for the first time in months."

"Of course I'll take the job."

Tom shook my hand enthusiastically, which was nice. Michael just smiled at me like a parent who had known all along what I was going to do. ●

THE MODEL

The Origins of Getting Naked

A management consulting firm called The Table Group was started in the late 1990s that provided a variety of services to a wide range of clients in just about every respectable industry imaginable. From the beginning they adopted a simple and informal approach to serving clients that provoked surprising levels of loyalty and trust. They call that approach *naked consulting*.

One of the keys to the naked service model is humility.

Naked service has allowed The Table Group to build extraordinary trust among its clients over the years, beyond anything they could have imagined.

In essence, their clients have treated them more like real partners and team members than as vendors or outsiders. Or as they like to say, they treat The Table Group like members of their family. The naked approach to consulting has allowed The Table Group to more effectively serve and help those clients in meaningful ways.

The naked approach is certainly not limited to the management consulting field. It applies to anyone who provides ongoing, relationship-based advice, counsel or expertise to a customer, inside or outside of a company. Or better yet, it applies to anyone whose success is tied to building loyalty and sticky relationships with the people they serve.

Naked Service Defined

At its core, naked service boils down to the ability of a service provider to be vulnerable — to embrace uncommon levels of humility, selflessness and transparency for the good of a client.

As obvious as that may sound, it is more difficult than it seems, because humility and selflessness and transparency often entail suffering. And suffering is not something most human beings, especially in our modern culture, understand or welcome. Most of us live our lives trying to avoid awkward and painful situations, which is why it is no surprise that we are susceptible to the three fears that prevent us from building trust and loyalty with our clients:

The Three Fears

#1: Fear of Losing the Business. No service provider wants to lose clients, business opportunities or revenue. Ironically, though, this fear of losing the business actually hurts our ability to keep and increase business, because it causes us to avoid doing the difficult things that engender greater loyalty and trust with the people we're trying to serve.

What clients want more than anything is to know that we're more interested in helping them than we are in maintaining our revenue source. And when we do something, or fail to do something, in order to protect our business, they eventually lose respect for us and understandably question whether they should trust us.

#2: Fear of Being Embarrassed. No one likes making mistakes in public and having to endure the scrutiny of spectators, especially when those spectators are paying us for our advice or counsel. This fear is rooted in pride, and it is ultimately about avoiding the appearance of ignorance, wanting to be seen instead as smart and competent.

Naked service providers are so concerned about helping a client that they are willing to ask questions and make suggestions even if those questions and suggestions could turn out to be laughably wrong. They readily admit what they don't know and are quick to point out — even celebrate — their errors because protecting their intellectual ego is not important to them.

#3: Fear of Feeling Inferior. This fear is about preserving our sense of importance and social standing relative to a client.

It is completely natural for service providers to yearn for respect and admiration, and to have a disdain for being overlooked, condescended to or treated as though we are inferior. Sometimes we forget that the word "service" shares the same root meaning as "servant" and even "subservience."

Shedding the Three Fears

Vulnerable service providers demonstrate nakedness by engaging in a variety of simple but powerful practices, all of which correspond to one or more of the three primary fears. And as important as it is to understand the fears that underlie these principles, the specific actions that demonstrate naked service are what is required to achieve client loyalty.

The principles of naked service are as follows:

Shedding the Fear of Losing the Business

- **Always consult instead of sell.** Naked service providers transform every sales situation into an opportunity to demonstrate the value of what they do. They avoid, as much as possible, telling clients what they would do if they were to be hired; instead, they just start serving them as though they were already a client.
- **Give away the business.** This principle has two applications. On the one hand, it is related to the "always consult instead of sell" principle because it is about giving a prospective client advice and service even before they agree to become a paying client.
- **Tell the kind truth.** Naked service providers will confront a client with a difficult message, even when the client might not like hearing it. As a result, they put the relationship with the client at risk, knowing that it is more important to serve the client's

needs than it is to protect the service provider's own business.

- **Enter the danger.** Naked service providers don't shy away from uncomfortable situations; they step right into the middle of them. Entering the danger has to do with having the courage to fearlessly deal with an issue that everyone else is afraid to address.

Shedding the Fear of Being Embarrassed

- **Ask dumb questions.** Naked service providers are the ones who ask the questions that others in the room are afraid to ask out of fear that they would embarrass themselves.
- **Make dumb suggestions.** Naked service providers go beyond merely asking questions that others shy away from; they make suggestions that they aren't sure of, knowing that they are putting themselves in a position to be even more embarrassed. A client is going to remember that one great idea a consultant proposes far more than the not-so-great ones.
- **Celebrate your mistakes.** Naked service providers don't enjoy being wrong; they just realize that it is an inevitability. And rather than attempting to hide or downplay their errors, they readily call them out and take responsibility for them.

Shedding the Fear of Feeling Inferior

- **Take a bullet for the client.** This is about finding those moments when we can humble ourselves and sacrificially take some of the burden off of a client in a difficult situation, and then confront them with the kind truth.
- **Make everything about the client.** Naked service providers throw their full attention into the world of the client. They make it clear that their focus is on understanding, honoring and supporting the business of the client.
- **Honor the client's work.** Naked service providers honor the client by taking an active interest in his or her business and by appreciating the importance of that business to the client and the client's customers.
- **Do the dirty work.** Naked service providers are willing to take on whatever a client needs them to do within the context of their services. Because we are humble and more concerned about our clients than we are about ourselves, we'll do what they need. In doing so, we'll earn their loyalty and gratitude.
- **Admit your weaknesses and limitations.** We all have weaknesses, and if we try to cover them up we'll probably put ourselves in a situation of having to do more and more of what we aren't good at. Trying to be something we're not is not only exhausting, it also prevents us from doing our best in the areas in which we can thrive. ●

Another Reason to Give Away the Business

Another part of giving away the business is more financial. It entails always erring on the side of the client when it comes to fees. Because you're interested in a long-term relationship with a client, it is in your best interest to show them that you are more focused on helping them than you are in maximizing your short-term revenue.

Broader Applications of Nakedness

The principles of naked service apply most directly and comprehensively to businesses like management consulting, financial advising, public relations, technical services and internal corporate support services. However, they can be applied to a variety of other service businesses involving ongoing relationships with clients.

This could certainly include family practice doctors, retained lawyers, sales account managers, life coaches, building contractors, insurance agents and even personal trainers. And although every principle of naked service may not apply to each of these fields, most of them do, and they can help any service provider inspire loyalty and trust with clients.

Even beyond the world of clients, being naked has its benefits and advantages. When we can demonstrate vulnerability to the people we live and work with, we build stronger relationships, affirm our trust in them and inspire them to become more vulnerable themselves. And that is certainly worth getting naked for. ●

RECOMMENDED READING LIST

If you liked *Getting Naked*, you'll also like:

1. ***The Five Dysfunctions of a Team* by Patrick Lencioni.** The master of the business fable uses this medium to get to the heart of why so many teams break apart and how to overcome the common problems faced by teams.
2. ***Satisfaction* by Chris Denove and James D. Power IV.** Using the closely guarded research data of J.D. Power and Associates, this book pushes executives to devote significant effort to customer satisfaction.
3. ***The Speed of Trust* by Stephen M.R. Covey.** The one thing that is common to every individual, team and organization is the need for trust. In an era of skepticism, Covey shows you how to grow and nurture trust with clients.

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How to Control Your Company's Destiny

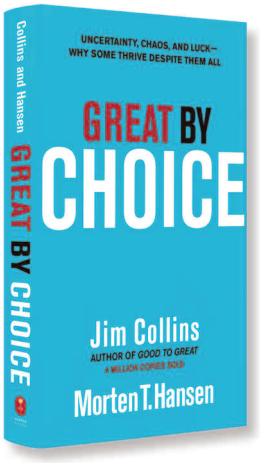
Review by Chris Murray

GREAT BY CHOICE

by Jim Collins and Morten T. Hansen

2011, Harper Business, 304 pages, $29.99
ISBN 978-0-06-212099-1

A new title by Jim Collins is always cause for excitement and anticipation for business readers who have been informed and guided by the insights of his previous best-sellers, notably *Built to Last* and *Good to Great*. In many ways, his new book, *Great by Choice,* does not disappoint. Collins offers new metaphors with compelling imagery, such as "fire bullets, then cannonballs." He presents revealing comparative stories of companies that succeeded and those that failed — describing, for example, how Southwest Airlines copied the revolutionary business plan of Pacific Southwest Airlines (PSA), then somehow used that business plan to become the only consistently successful airline of the past two decades while PSA declined and eventually disappeared. And he explodes common myths, such as the importance of innovation in the success of a company.



Collins also stays true to his groundbreaking methodology: develop an ambitious research question, translate the question into a set of statistical criteria, then use the criteria to identify two sets of companies: one set of companies that meets the criteria, and one set of comparative companies — companies operating under the same constraints and advantages as the first set of companies but that have clearly failed to meet the criteria of success. An in-depth study of the histories of the two sets of companies then reveals what the successful companies did right and what the unsuccessful companies did wrong.

In *Great by Choice*, the core question is: Why do some companies thrive in uncertainty, even chaos, and others do not? Collins and his co-author Morten T. Hansen note that the companies featured in the book were not chosen simply for their performance, but for their performance in "unstable environments." They call these companies "10X" companies because they performed at least 10 times better than the industry average in the stock market.

The Race to the Pole

The authors set up the comparison between success and failure with a description of the race to the South Pole between Roald Amundsen and Robert Falcon Scott. Amundsen succeeded brilliantly, not only reaching the South Pole first, but also getting his men back to safety after doing so. In contrast, Scott struggled painfully to reach the South Pole. He arrived after Amundsen had come and gone, and then tried unsuccessfully to get home. He and his four companions died on the return journey.

As the authors point out, the two men faced similar conditions and similar hardships. Neither was "luckier" than the other. Likewise, the unsuccessful set of companies in the book faced the same conditions and same constraints with which the successful companies had to battle; yet the unsuccessful comparative companies were as doomed to failure as Scott.

How does one survive and thrive in the Antarctic business world of the 21st century? Collins and Hansen

offer three 10X behaviors — fanatic discipline, empirical creativity and productive paranoia — to which companies and their leaders must adhere if they are to survive.

Fanatic Discipline

According to Collins and Hansen, discipline refers not to the hierarchical discipline of rigidly following orders or staying in line, but to the self-discipline of being unwaveringly consistent. As the authors explain: "Discipline, in essence, is *consistency of action* — consistency with values, consistency with long-term goals, consistency with performance standards, consistency of method, consistency over time."

Collins' analogy for discipline is the 20-mile march — marching forward every day without fail 20 miles toward your destination. If the conditions are bad, your goal should still be to march 20 miles. If the conditions are good, you should *not* increase your goal. Even if the weather is nice, the roads are clear, you're well rested or whatever else might improve the conditions, you should still only aim to march 20 miles.

"According to Collins and Hansen, discipline refers not to the hierarchical discipline of rigidly following orders or staying in line, but to the self-discipline of being unwaveringly consistent."

In business, the 20-mile goal is translated into a performance measure. It doesn't matter what that measure might be, only that there is a consistent, unchanging goal. For Southwest Airlines, for example, the goal was simply to make a profit — every year, no matter what the conditions of the airline industry that year. But just as important to Southwest's success, according to the authors, was the company's refusal to overreach. In 1996, when 100 cities clamored for Southwest Airlines' service, the airline restrained its expansion to four cities.

Empirical Creativity

Collins and Hansen use the analogy of bullets and cannonballs to explain empirical creativity, the second of the three 10X behaviors. Imagine that you're on an 18th century warship about to be attacked, and you only have a limited amount of gunpowder. You have two choices. The first choice is to use all your gunpowder to shoot a cannonball into the side of the enemy ship. You take the shot … and miss. Now you're out of gunpowder. The second option is to use some of the gunpowder to make bullets. You shoot the bullet and miss. You recalibrate, shoot the bullet, miss again, but this time you were closer. After two more bullet shots, you have the gun calibrated correctly to make a direct hit. Now, you put the rest of the gunpowder into the cannonball and blow a hole in the side of the ship.

Translated to the world of business, "Fire bullets, then cannonballs" means that you try out something on a small scale first, make adjustments (recalibrate) and then, when you're sure you're going to have a hit, spend significant resources and time on that initiative.

It's generally at this point in a business book that some readers will question whether or not the principle described is applicable to their own companies. While Collins and Hansen provide case studies featuring companies from a number of industries, they do an excellent job of keeping the core of their message applicable to any business.

In reference to empirical creativity, the authors write about the 10X company Amgen. The firm was launched to create a product around the latest recombinant-DNA technology. According to Collins and Hansen, Amgen fired 12 bullets — experimenting with 12 applications for recombinant-DNA technology. The applications included everything from a Hepatitis-B vaccine to an epidermal growth factor for wound healing to bioengineered indigo for dyeing denim jeans.

Out of the dozen bullets fired, the protein called erythropoietin (EPO) showed the most promise. After clinical trials and securing a patent, Amgen, in the terms of the authors, "fired a cannonball" by building a testing facility and allocating capital to manufacturing and assembly. "EPO became the first super-blockbuster bioengineered product in history," the authors write.

For companies that aren't trying to build a better blue jean, the principle of taking measured steps before pouring resources into a potential growth opportunity is still a necessary concept to successfully navigate today's economy.

Productive Paranoia

Productive paranoia is the last of the three 10X behaviors. Under the umbrella concept of productive paranoia, Collins and Hansen offer three different "core sets of practices." The first two are to prepare for the worst, and to manage risk carefully. One of the best ways to prepare for the worst is to maintain significant cash reserves, according to the authors. "Compared to the median cash-to-assets ration for 87,117 companies analyzed in *The Journal of Financial Economics*, the 10X companies carried three to 10 times the ratio of cash to assets."

In their discussion on risk, the authors introduce three types of risks: death line risk, which is the type of risk

that can kill an enterprise; asymmetric risk, in which the downside is larger than the upside; and uncontrollable risk, in which the action taken exposes the company to threats or conditions outside of their control. A statistical analysis of the actions of the 10X companies and comparison companies showed that comparison companies took a greater number of each type of risks.

The third set of practices is to be vigilant about changing conditions, and when change is on the horizon, to take action in response. The authors refer to this as "zoom out then zoom in" — zoom out to see what is happening or about to happen in the environment of your business, then zoom in and respond with a specific action.

Surprising Insights and Familiar Themes

Readers of Collins' earlier books will find *Great by Choice* to be a combination of surprising insights and familiar themes. Two of the more surprising insights involve innovation and luck. According to Collins and Hansen, companies in any industry must meet an innovation threshold — their products or services must offer a certain level of innovation for the company to even be "in the game." The threshold can be low or high depending on the industry. For example biotechnology has a high innovation threshold — innovations in this industry take the form of highly expensive-to-develop new drugs and scientific breakthroughs. By contrast, new insurance products have a low innovation threshold — they are rather easy to create.

"According to Collins and Hansen, companies in any industry must meet an innovation threshold — their products or services must offer a certain level of innovation for the company to even be in the game."

Once the threshold is met, however, further innovation is not the key to success, write Collins and Hansen. Discipline and consistency are key. For example, American Memory Systems was the first to break the 1,000-bit memory chip barrier in 1970. A small competitor, Intel, was able to come back from the overwhelming disadvantage of being second to market because, according to the authors, it focused obsessively on manufacturing, delivery and scale. Within three years, Intel chips were the best-selling semiconductor components in the world.

Luck Is Overrated

Another important insight, and one to which the authors dedicate an entire chapter, is to debunk the role that luck plays in success. Here, the rigorous methodology of the authors is particularly valuable since they are able to prove statistically that successful companies do not have any better luck than companies that fail and vice-versa. The difference is what the authors call "return on luck" — how companies handle the luck and turn it into sustainable success. That IBM asked Microsoft to develop an operating system for its personal computer may seem to be extremely lucky. The fact that IBM went to *another* company first is all but forgotten — yet it was that other company, Digital Research, which had been "luckier" than Microsoft.

While *Great by Choice* offers some interesting insights, there are also familiar themes that are starting to represent a common thread between the various works of Collins. Discipline and will are emphasized over and over again: the discipline to march forward every day 20 miles, no more, no less; the discipline to try out ideas on a small scale before launching the "cannonballs"; or the discipline to prepare for the worst before the worst happens and to take manageable risks. The authors also dedicate an entire chapter to the SMaC (Specific, Methodical and Consistent) recipe concept. In short, a SMaC recipe is a set of practices and strategies — what to do and what not to do — from which companies never waver. The authors found that 10X companies never abandoned any of the elements in their SMaC recipe. The less successful comparison companies, on the other hand, would make wholesale changes to the recipe. They were less disciplined.

Collins placed an equal amount of emphasis on discipline and consistency in his previous books. A "culture of discipline" was one of the key components of Good to Great companies, for instance, but discipline was also an important element in other concepts in *Good to Great*, from the Hedgehog concept to Level 5 Leadership.

The authors do not ignore the overlap of concepts and ideas between *Great by Choice* and previous Collins books. In a "Frequently Asked Questions" chapter, they answer such questions as why "fire bullets, then cannonballs" is different from the *Built to Last* concept of "try a lot of stuff and keep what works" (the answer: Keeping what works is not the same thing as making a big bet). Another question: How are the SMaC recipe and the Hedgehog Concept different? (The answer: The SMaC recipe translates the Hedgehog Concept into specific actions.)

The authors' explanations notwithstanding, readers will get a sense that there is a vaguely familiar current to the ideas in this book. There is a good reason: *Great by Choice* is essentially addressing the same issue as the previous Collins books. The differentiating factor in this book

— companies that survive and thrive in chaos — is not totally convincing. The advice in this book should be followed whether or not a company is trying to operate in the business equivalent of the frozen Antarctica. You shouldn't prepare for the worst because the worst is on the horizon. You should prepare for the worst, period. Also, the advice in previous books, such as get the right people on the bus, should be equally followed, irrespective of the environment. And finally, it can be argued (and in fact, the authors themselves allude to this issue at times) that the world of business is *always* a threatening, turbulent and dangerous environment.

In sum, while the parameters of the turbulent environment might have led to a new set of companies, the prescriptions in *Great by Choice* essentially apply at all times to all companies, including the companies featured in *Good to Great* and *Built to Last*. Had *Great by Choice* presented a set of radically different prescriptions for success, the credibility of the previous books would be questionable.

In truth, there are bound to be a limited list of factors for sustainable success in business. In his books, Collins and his co-authors have created a set of memorable metaphors and guidelines backed by in-depth research that should stay on the bookshelves of all business leaders, regardless of the size of their company, type of industry and even the state of the environment in which they operate.

Moving forward, however, Collins may want to dive deeper into some of the specifics of his success strategies, rather than try to create an entirely new set of strategies. He did this to some extent with his previous book, *How the Mighty Fall* (some critics questioned the lack of breadth to the book, missing the point entirely). For example, risk is a subject that needs to be further developed. A quantitative analysis featuring the number of risks taken or not taken does not adequately explain *how* to avoid taking risks, how to recognize the various types of risk, or how to rebound from a risk that backfires. The "how" is missing in a number of the concepts introduced in this book — for example, how do you know what bullets to fire? Is there a methodology to identify the "next big thing" as Steve Jobs was able to do with the Napster revolution (understanding that once the next big thing is identified, don't bet the house).

Answering the Critics

Noting the joy with which some commentators highlight the *Built to Last* companies that have fallen, a *Fast Company* writer perceptively argued that it's easy to criticize Collins because his books are so specific with their examples and recommendations. It's true that one can hardly criticize the specifics of *Who Moved My Cheese?*

Collins is a superstar business writer and deserves to be. His books are consistently insightful, readable and memorable, and will contribute to the success of his readers. Putting some of the unanswered "how" questions aside, this is a book not to be missed. As the authors write in the epilogue: "This book and the three that precede it … are looks into the question of what it takes to build an enduring great organization." For that mission, Collins, in partnership with a new co-author and the support of a tried-and-tested methodology, delivers once again. ●

"In sum, while the parameters of the turbulent environment might have led to a new set of companies, the prescriptions in *Great by Choice* essentially apply at all times to all companies, including the companies featured in *Good to Great* and *Built to Last*."

The authors: Jim Collins is the author or co-author of six books that have sold more than 10 million copies worldwide, including the bestsellers *Good to Great*, *Built to Last* and *How the Mighty Fall*. He operates a management laboratory in Boulder, Colo., where he conducts research, teaches and consults with executives from the corporate and social sectors.

Morten T. Hansen is a management professor at the University of California, Berkeley. He is the author of *Collaboration* and the winner of the Administrate Science Quarterly Award for exceptional contributions to the field of organization studies.

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Ride the Tide of the Groundswell

Ways to Turn Social Technologies Into Success Stories

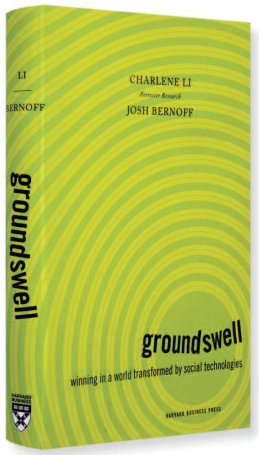
Review by Andrew B. Clancy

GROUNDSWELL

by Charlene Li and Josh Bernoff

Published by Harvard Business Press
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286 pages, $29.95

"Water, water everywhere, nor any drop to drink," writes Samuel Taylor Coleridge in his epic poem "The Rime of the Ancient Mariner." It is a line that is all too applicable to hundreds of companies thirsting desperately to capture consumer interest. These organizations, much like Coleridge's cursed sea captain, sit idly in an ocean — in this case the Internet — and are unable to bring a breath to their sails (or sales, as the case may be). This is despite the constant current from their customers that surrounds them in the form of blogs, postings on social networking sites and customer reviews.



There is no longer a need for businesses to wonder if their customers are out in the abyss paying attention. Instead, authors Charlene Li and Josh Bernoff want businesses to scan the seemingly endless online seascape, identify the most critical people and relate to them in their preferred method of communication. Their new book *Groundswell: Winning in a World Transformed by Social Technologies* intends to provide some much needed navigational tools to the frightening number of corporate ships currently lost in the e-commerce sea.

As vice presidents and principal analysts at technology and market research giant Forrester Research, Li and Bernoff have spent the past several years immersed in research surrounding the ever-evolving consumer use of technology. *Groundswell* is as much a product of this research as it is an attempt to answer the hundreds of questions the pair have received since their organization published a report titled "Social Computing" in 2006.

In that report, and in subsequent studies, they observed that consumers were no longer relying solely on companies for information and interaction concerning various products. Buyers took it upon themselves to link up with other buyers, bypassing the manufacturer entirely, and gleefully in many cases. The decentralization of the traditional buyer/seller silo would be cause enough for concern, but as *Groundswell* indicates, the methods consumers used presented their own set of focal points.

It can be a dizzying prospect for any marketing professional or IT executive. The volume of feedback provided by customers is multiplied by the variety of formats in which that feedback can be provided. *Groundswell* makes no secret of the fact that many business leaders are not well-informed about the vast array of technologies that constitute what Li and Bernoff refer to as Web 2.0. Just when a company feels comfortable with the appreciative reviews posted by a consumer on a personal blog, along comes another customer seeking to provide tech support services to the masses via an interactive message board. Less than a week later, someone who knows nothing about the company's manufacturing integrity puts a post on YouTube that accuses the company of using sweatshop labor. No matter which direction the company and its executives turn, someone has something to say about them. Can they capitalize on the positive while short-circuiting the negative?

Li and Bernoff offer a dose of reality chased with a bit of comfort. They are clear in their message that businesses cannot afford to ignore the groundswell that surges from Web 2.0, but it would be impossible to commit to the mastery of all forms of social technology. Fighting the fight on all fronts will only deplete a company's financial resources and exhaust its employees. *Groundswell* helps businesses pinpoint their focus by dividing the mission into three parts: understanding social technology, interacting with these technologies and handling the impact of Web 2.0 on one's own organization. As the authors point out, running blindly into the world of consumer-driven content is the equivalent of trying to explore a vast wilderness with no map. Succeeding in this marketplace requires a company to double and redouble its focus.

Cracking the Code

While the Internet has been a blessing to any number of businesses, there are certain mass-appeal industries that have occasionally trembled in the face of the Web's might. The entertainment industry in particular has suffered during a series of showdowns with the online community, and *Groundswell* offers a particularly intriguing tale at the outset of the book to illustrate the impact of social technologies. A single post on a solitary blog was picked up by a Web site that uses a reader-driven rating system to prioritize news items. Within the span of a single day, the post had made its way onto more than 3,000 Web sites. This may seem like an incidental occurrence until the authors reveal that the post contained the processing key that allowed people to illegally copy HD-DVDs. The technology had barely been on the market and someone had already devised a way to steal it.

"While the Internet has been a blessing to any number of businesses, there are certain mass-appeal industries that have occasionally trembled in the face of the Web's might."

The film industry made attempts to bottle the piracy genie that had been unleashed, but this only led to the code being spread farther and with increased enthusiasm. As Li and Bernoff note, the online world had completely overpowered the real world. Continuing on with additional examples, it becomes rapidly apparent that the exponential growth and near-instant connections between people are at the heart of the groundswell, and the ramifications for businesses are not always positive.

Groundswell forces executives to accept that the size and market dominance of their companies do not excuse them from becoming part of the Web 2.0 movement. Instead, the authors point out the skill most needed to handle social technologies is equivalent to jujitsu, the martial art where an opponent's energy is redirected to your advantage. If consumers have discovered methods to remove corporations from their interactions, it is the company's job to reinsert and reintroduce itself, creating the same relationships the customer has with other customers.

The book's first section ("Understanding the Groundswell") is an absolute must-read for executives attempting to understand technologies that probably dominate the daily existence of their children (or grandchildren). Li and Bernoff are methodical in walking readers through each type of Web 2.0 technology, how it works and how businesses can make use of it. It's a primer with a punch, as the authors feature statistics for the percentage of online consumers in each of six major countries that use the technology. While there's no guarantee that it will lead an executive to set up his or her own MySpace or Facebook profile, readers need to become comfortable with a basic understanding of the social technologies at their companies' disposal.

One of the most useful concepts introduced by the authors is the social technographics profile. This method of grouping your customers according to their groundswell activities and ways of participation lies at the core of Li and Bernoff's research. Readers have the benefit of the pair's years of effort and can now put consumers into one (or several) of six groups. The characteristics of each group are indicators of trends in online behavior and are a marketer's dream. As mentioned earlier, *Groundswell* places the criteria for an organization's success on its ability to focus its marketing strategy down to the right message delivered to the right consumers in their preferred method of communication. The social technographics profile is integral to this effort.

The authors cite a director at a media company who nearly made a critical error when developing content for its Web site. Prior to understanding the groundswell, the director fell prey to the idea with the highest amount of buzz around it at the time: blogging. Despite the director's client base being driven, successful, college-educated mothers with a middle-class household income, she felt they would somehow have time to write their own blogs. Fortunately, Li and Bernoff's organization stepped in and provided some valuable data about the social technographics profile of the "Alpha Moms," as the client group is known. The fact that the company completely reversed its plan for the Web site should indicate just how critical it is to understand consumers' preferred online interaction methods.

Learn to Listen Before You Speak

If there is one crime of which many organizations are guilty, it is not *truly* listening to their customers. Li and Bernoff give a measure of forgiveness to yesterday's organizations because the main method of gathering information was previously limited to rudimentary market research. However, *Groundswell* provides readers with a picture of the variety of ways in which businesses can now listen to their customers loud and clear. These efforts are helped to a large extent by the customers themselves, who are now, more than at any previous point, willing to freely offer their opinions. As the authors note, tapping the groundswell for customer feedback often provides answers to questions an organization never thought to ask.

The good news for executives is that there are plenty of people willing to share. It's the method of navigating the outpouring of comments that becomes the challenge. Even the most dedicated analyst can be overwhelmed by the volume of information, and *Groundswell* rightfully states that marketers must be careful not to assume that those who choose to comment are representative of the entire audience. This is why the authors recommend working with a vendor that is dedicated to monitoring the stream of Internet traffic surrounding a company. While some may view this as smacking of self-promotion, Li and Bernoff do mention other research firms besides Forrester Research. It is a credit to the authors that they maintain a razor-sharp academic edge and allow their work to be the promotional vehicle for their company.

Listening is only one half of the act of engaging the groundswell, and it is rendered useless without an equal amount of effort devoted to talking. The two follow a very natural order, and a company needs to have a confident team with competence in the former before it can approach the latter. The authors write that companies should not waste the effort they've put into gathering information via Web 2.0 by using traditional media to contact consumers. This is a key point for readers to grasp. The consumers who answered a company through online methods are expecting a response through the same channel.

Fortunately, it is at this juncture in *Groundswell* that the authors provide some of the most interesting case studies featured in the book. Li and Bernoff wisely integrate the names readers know, such as Procter & Gamble Co., with stories from other organizations, including the National Comprehensive Cancer Network. The Procter & Gamble case study, in particular, provides an example of the way in which listening translates to talking and talking translates to results. The consumer goods juggernaut discovered a way to reach a previously difficult section of its buying population through building an online community. It's a story that must be read to be truly appreciated, and it is important to note that a business does not need P&G's multibillion-dollar advertising budget to follow a similar path.

Let the Swell Speak for You and to You

There is little doubt of the immense effort required for a company to learn about the groundswell, much less take the time to research its audience, create a strategy and enter the stream of social technologies. However, the reward for doing so can lead to marketing opportunities an executive may have previously thought impossible. A closer look reveals that the company that took its time in finding the right audience and communicating to them in the right way has made a powerful impression. The organization finds that the consumers that previously wanted to talk to the company now want to talk *about* it. This is a process that Li and Bernoff refer to as "energizing," and it can deliver word-of-mouth promotion with incredible return on investment.

Readers should know that energizing your consumers partly depends on whether or not they fit the social technographics profile required to do so. Word-of-mouth marketing needs an amount of give-and-take between corporation and consumer. Many customers are latent marketers, the authors state; they just require the right motivation to tap their potential. Fortunately, once a motivated customer begins spreading the benefits of a product or service, he or she is providing the company with a source of promotion that is far more credible than conventional advertising.

Once the online community rallies around a company and its brand, it becomes the responsibility of the organization to partner with consumers to keep the channel alive and kicking. The authors make no secret of the fact that this requires a level of dedication. Sites need new content, close monitoring and, most importantly, frequent communication from the company as continued proof that it is listening to its audience. The level of creativity to which a company is willing to extend itself can produce interesting results. The case study of Del Monte Foods proves to be particularly insightful about demonstrating the cycle of listening, talking and responding to consumers.

The open channel that results from creating a community around one's customers can even fuel a company's approach to its own products. *Groundswell* gives examples of organizations that made modifications to existing products based on suggestions gathered from the online community, the aforementioned Del Monte being one such company. Li and Bernoff make the point that executives need to remember that the advice provided by customers is simply that: advice. The purpose of accepting feedback from one's

clients is to spur on the process of innovation and provide the raw materials that the company's talented employees mold into the next big success. It shows a depth of understanding that the authors want to bring producer and consumer closer together while not neglecting the individuals who do the legwork for everything in between.

Catching Workers in the Groundswell

Li and Bernoff use the discussion of employees to segue nicely into the final third of *Groundswell*. Executives who look to tap the power of consumer feedback and creativity may find the tide returning to flood them. It may seem obvious to some readers, but the people behind the scenes of a company's foray into social technologies are generally participants in the groundswell outside the workplace as well. With a little bit of urging, the same creative types can help create an internal groundswell within a company.

One of the keys to the groundswell culture is that it requires an organic method of growth. Li and Bernoff cite an example of a company that tried for eight months to launch a blog to no avail. The problem was the result of trying to force the idea from a top-down perspective. Executives who lacked a sophisticated knowledge of Web 2.0 were not about to sign off on an idea that seemed to arrive from out of left field. The authors write that the marketing team's saving grace was its enthusiasm for the blog project. The group simply needed to partner with someone in the organization who shared their enthusiasm and degree of knowledge about social technologies. The marketing team found its match in the company's founder, who, as Li and Bernoff write, "was removed from day-to-day operations and had the time and bandwidth to devote to a blog." It was a perfect match, and in less than two months, the company's blog was online.

Just as with the social technographics profile method, creating and supporting an internal groundswell requires companies to tap the right individuals to find the right method for reaching employees. Internal groundswell may appear outwardly to be the exclusive domain of companies that are large enough to merit a private information resource in the Wikipedia vein. However, one of Li and Bernoff's most important recommendations is for firms to start small. Internal organization of a groundswell takes as much care and strategic planning as it does to create an effort directed at consumers. This tip appears as part of a list of five steps to effectively generate groundswell within an organization, and it is an essential set of insights for any executive looking to put many of *Groundswell*'s philosophies into practice. It may lead some readers to feel that the order of the chapters should have started with organizational change, then moved on to reaching customers.

"... companies cannot afford to ignore the technologies that are transforming the Web on a daily basis. Strangely, the root of many corporations' hesitance at embracing new technologies is a fear of not being able to control the content."

Li and Bernoff point out time and again in *Groundswell* that companies cannot afford to ignore the technologies that are transforming the Web on a daily basis. Strangely, the root of many corporations' hesitance at embracing new technologies is a fear of not being able to control the content. What these firms fail to realize is that by not making their presence felt, they have essentially given complete control to consumers, and in many cases, customers with a bad attitude are the ones most willing to share. The authors do a fantastic job of reinforcing this point, and their insightful suggestions should help to change the mindset of executives who overly rely on traditional marketing methods. If nothing else, readers should not be afraid to set sail into the oncoming groundswell and with precision and planning, return like the mariner to tell their tale.

The authors: Charlene Li has become an expert on social computing and Web 2.0 through her work with Forrester Research, a technology and market research company, where she is a vice president and principal analyst. Josh Bernoff is a widely quoted technology analyst and a vice president at Forrester Research. He has consulted on strategy with senior executives from global companies including ABC, Best Buy, Cisco, Comcast, L'Oreal, Microsoft, Sony, TiVo and Viacom. The authors share a blog at www.forrester.com/groundswell.

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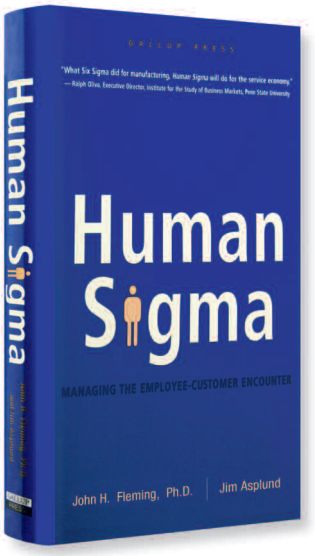
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Management: Hands-On

Human Sigma

Managing the Employee-Customer Encounter



by John H. Fleming, Ph.D., and Jim Asplund

THE SUMMARY IN BRIEF

Six Sigma changed the face of manufacturing quality, creating excellence by reducing variance in finished goods, revolutionizing businesses and boosting profits. Now, HumanSigma is poised to do the same for sales and service organizations.

Human Sigma offers an innovative, research-based approach to one of the toughest challenges businesses face today: how to drive success by effectively managing the moments when employees interact with customers. Based on research spanning 10 million employees and 10 million customers around the globe, the HumanSigma approach combines a proven method for assessing the health of the employee-customer encounter with a disciplined process for improving it.

Offering essential ideas for today's global business leaders, the authors show how sales and service companies can flourish in the new global economy. They reveal a profoundly different method for managing human systems for growth. Blending strategic analysis with hands-on, practical steps and advice, this summary will change how you view your work, your employees and your customers forever.

IN THIS SUMMARY, YOU WILL LEARN:

- Why employee and customer experiences must be managed together — not as separate entities.
- How emotions drive and shape the employee-customer encounter.
- Why the employee-customer encounter must be measured and managed at the local level.
- How employee and customer engagement interact to drive enhanced financial performance.
- Why sustainable improvement in the employee-customer encounter requires disciplined local action coupled with a companywide commitment to changing how employees are recruited, positioned in roles, rewarded and recognized, and how they are managed.

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THE COMPLETE SUMMARY: **HUMAN SIGMA**

by John H. Fleming, Ph.D., and Jim Asplund

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The Terminator School of Management

Arnold Schwarzenegger fans will recall the harrowing image from the apocalyptic opening scene of *The Terminator.* It's the Year of Darkness, 2029.

The machines — created by an advanced form of artificial intelligence called Skynet that accidentally becomes self-aware — have concluded that they must erase humans from the face of the planet, replacing them with predictable but unfeeling, efficient, and relentless copies of themselves. The machines have decided that humans are not only unnecessary, but they are expendable. They add no value in the vision of the future the machines seek to create.

Terminator Management

Terminator Management is an institutionalized mindset that views people — customers *and* employees — as a necessary evil; a nuisance; or, in extreme cases, as adversaries in doing business. Rather than viewing people as the reason a business exists, the Terminator School of Management views them as impediments to business that breed inefficiency, cost and errors.

Terminator Management sees employees as little more than a cost it needs to reduce or a mistake just waiting to happen.

New Rules

Experts offer a new set of rules and a different way of thinking about managing your company's complex human systems, which can serve as an antidote to Terminator Management. It's about a model and an approach called HumanSigma.

HumanSigma offers a disciplined approach to measuring, managing and improving the performance of your most volatile and valuable assets — your customers and employees — to drive financial performance.

Quality Control

The accounting and financial reporting systems modern businesses use have failed to keep up with the changing nature of value creation. By focusing on tangible assets, current accounting systems implicitly undervalue human contributions to the enterprise, which are primarily intangible things such as creative branding strategies, research and development, and labor productivity.

A recent study revealed that an estimated 80 percent of the market value of the average S&P 500 company is made up of its intangible assets — the company's brand, its customer base and levels of engagement, the talent of employees, and innovation and R&D, just to name a few of the most crucial elements. Though most executives recognize the importance of these intangible assets, it's much more difficult to justify investing in them without an accepted means of accounting for the success or failure of these investments.

Toward an Alternate Approach: HumanSigma

HumanSigma, like its namesake Six Sigma, builds on the best principles of that methodology, offering a strategy for optimizing business performance by reducing variability and improving performance on key indicators.

The beauty and simplicity of Six Sigma is that it integrates a universal and consistent method to count quality

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Christine Wright**, Senior Graphic Designer; **Chris Lauer**, Contributing Editor

defects with a disciplined process to eliminate them. The HumanSigma model overlays these same basic process elements onto the human systems of your business by providing a consistent method to assess and monitor the effectiveness of the employee-customer encounter and a disciplined process to manage and improve it.

Human Systems and Vital Signs

Just like your regular visits to the physician, an organization requires a feedback system to evaluate, regulate and maintain its overall health. And, just like you, organizations have vital signs that need to be regularly monitored. An organization's vital signs serve as diagnostic indicators of how effectively it's addressing its key constituencies, executing its strategies, maintaining its economic viability, and how likely it is to grow.

If heart rate, respiration and blood pressure are the vital signs of the human organism, then in sales and service organizations, the corresponding vital signs of the employee-customer encounter are the health of its human systems: its customer relationships (heart rate), employee relationships (respiration) and overall financial viability (blood pressure).

Separately, these vital signs provide important but incomplete diagnostic information about the effectiveness of the organization's employee-customer encounter.

The employee perspective usually lies within the domain of the human resources department. Though the encounter between an employee and a customer represents the touchstone of value creation in sales and service companies, human resources departments are rarely involved in strategic decision making, marketing campaigns or advertising efforts, outside of providing input about staffing levels and costs. This is unfortunate. Employees who interact with customers are the face and the soul of the brand and are intimately involved in the front-line execution of the brand promise, yet they play little role in its formulation and development.

This brings us to the first new rule of HumanSigma management:

Rule 1: You can't measure and manage employee and customer experiences as separate entities; they must be managed together under a single organizational entity.

Only when these organizational systems and their vital signs are brought together and empirically linked can a true picture of the health of the employee-customer encounter be understood and managed. What this means in practice is that the responsibility for measuring and monitoring the health of a company's employee and customer constituencies should reside within a single organizational structure. This structure should have a clearly identified champion who has the authority to manage change across the broad range of organizational activities that affect the employee-customer encounter.

Measure What Counts

Although it is appealing to simplify how you think about the health of your employee and customer relationships, remember that "not everything that can be counted counts." You need to be careful, deliberate and informed, because what you measure is a crucial component of your future success. What you measure must be more comprehensive than mere satisfaction and broader than simple advocacy.

Feelings Are Facts

More than 75 years ago, William I. Thomas, a sociologist at the University of Chicago, wrote, "If men define situations as real, they are real in their consequences." In other words, a person's definition of the situation — that is, how they perceive that situation and what they define to be true about it — determines how he or she will react to it. Thomas was saying that though the objective elements of a situation are important, the subjective experience of those objective elements — what the situation feels like — is what truly matters to people. Perception *is* reality.

Too often business leaders get caught up in the facts of their businesses and fail to appreciate what matters to employees and customers. For them, reality is not only the objective experience they have with companies but also how they perceive and interpret that experience — their feelings about it.

In the employee-customer encounter, one of the most intriguing factors that can significantly affect customers' and employees' perceptions of the world around them is their emotions.

We can sum this all up with the second new rule of HumanSigma Management:

Rule 2: Feelings are facts, and emotions frame the employee-customer encounter.

Customer Engagement and Emotional Attachment

Studies reveal that engaging customers on an

emotional level has a significant financial benefit.

There are four key dimensions to a customer's emotional attachment to a company. Each dimension represents a specific set of activities that meet customers' emotional needs.

The Emotional Attachment Hierarchy

The first and foundational dimension of emotional attachment is *confidence*. Is the company trustworthy? But confidence alone is not enough to build long-term, sustainable and emotionally connected customer relationships.

Beyond confidence lies *integrity*, the essential dimension of fair play. Does this company treat me the way I deserve to be treated? If something goes awry, can I count on this company to fix it quickly?

The next emotional requirement is *pride*, a sense of positive association and identification with the company. Pride goes beyond simplistic notions of self-presentational, status or "badge" qualities of association to deeper levels of shared values between the customer and the company. Customers who feel pride are proud to be a customer not because of what their association with a company says to others, but because of what it says to them about themselves. Customers' associations with companies not only convey information about them to others, but they also help define and sharpen their own self-concepts.

The fourth dimension, and the ultimate expression of emotional attachment, is *passion*. A passionate customer describes his or her relationship with the company as irreplaceable and a perfect fit for him or her. Passionate customers are rare, but they represent the epitome of customer connectedness. They are customers for life and are worth their weight in gold. ●

Emotional Attachment: Confidence and Integrity

The foundational dimension of emotional attachment — confidence — is also the most basic. Will this company deliver on its promises, day in and day out?

Confidence is the bedrock upon which higher levels of emotional attachment are built. But confidence alone is not enough to build long-term, sustainable and emotionally connected customer relationships. It's only the starting point for an emotional connection.

A company's ability to engender confidence in its customers begins with its ability to consistently deliver a customer's basic requirements for that industry and the more specific elements of the company's brand promise. Gallup's research has shown that companies that fail to build confidence have a much tougher time engaging customers than companies in which customer confidence is solid. For customers, the consistency between what a company promises and what it actually delivers is key to building confidence.

Integrity

Social psychological literature identifies at least three different types of fairness or justice: *distributive* fairness, which addresses how resources are distributed; *procedural* fairness, which covers the processes and systems that are used to determine how resources are allocated; and *interactional* fairness, which encompasses how people are treated at an individual level. All three types of fairness come into play at different times, and all are important. However, from a customer's perspective, distributive and procedural fairness carry the greatest weight because they represent chronic — or structural — issues. Customers' perceptions of transactional fairness, in contrast, can vary from interaction to interaction and therefore represent transient — or acute — issues.

Three Types of Fairness

Distributive fairness deals with how companies allocate resources among individuals. With distributive fairness, three rules are possible, relating to equity, equality and need.

Fair treatment under the equity rule means that the company should reciprocate and distribute resources based on what the individual has invested in the relationship. In contrast, fair treatment under the equality rule means that a company should distribute resources equally among all customers, or "Treat me the way you treat *all* other customers." Finally, fair treatment under the need rule means that the company should distribute resources based on individual needs, or, "Treat me like *no other* customer."

Procedural fairness covers whether customers feel that your company's policies and procedures are fair and equitable.

The search for customer centricity is really a search for procedural fairness. If customers perceive that a company is taking advantage of them or designing policies and procedures inequitably, their engagement will quickly erode.

Interactional fairness encompasses how a company treats people at an individual level. At issue is whether your employees make interacting with the company enjoyable. ●

Emotional Attachment: Pride and Passion

Pride functions on multiple levels. The power of the pride dimension is not just what doing business with a particular company tells others about me — it's what being a customer tells me about *me*.

People embrace the brands they buy and the companies they do business with as symbols that help them define their own sense of who they are. Because all of us feel less than complete in some aspect of our lives, there are limitless opportunities for customers to connect with brands and companies as a means to building their desired self-identity. The relationships we build with the companies we choose to patronize profoundly affect how we construct and sharpen our self-concepts.

Passion

Passion represents the ultimate expression of emotional attachment. A passionate customer uses expressions like "It's irreplaceable" and "It's a perfect fit for me!" to describe his or her relationship with your company. For these customers, the number of potential alternatives they'd consider using is zero.

Passionate customers look to your company to set the standard for other companies to follow. These customers are relatively rare — they make up only 18 percent of all customers in Gallup's customer database — but they represent the zenith of customer connectedness. They are customers for life and are a significant financial resource and annuity for companies.

Not only are passionate customers truly committed "ambassadors" for your brand, but they hold the keys to building greater levels of passion throughout your customer population. ●

Win Their Brains and Their Hearts Will Follow

A functional magnetic resonance imaging (fMRI) machine measures the flow of oxygenated blood to various parts of the brain on the assumption that greater activity in a particular brain area increases the need for oxygen in that area. Because they tend to show up as bright colors on the resulting brain scan images, the areas with enhanced blood flow are often described as "lighting up." Areas that light up are experiencing intense neural activity.

So imagine that you could peek inside the heads of your customers as they think about your company or your products, services or brands. What would they see? Would the brain activity of customers with a strong emotional connection to your company vary from that of customers who are indifferent? To find an answer, researchers recently used fMRI to examine real-time brain activity in customers of a Japanese luxury retailer.

When they analyzed the results of the brain scans, they found the brains of customers who were highly engaged with the retailer were more active while they were thinking about the company than were the brains of customers with lower levels of engagement.

They also found that the brains of customers who were most passionate about the retailer were considerably more active while thinking about the luxury retailer than were the brains of customers with lower levels of passion.

When they think about a company, customers who are highly engaged and the subset of those customers who are strongly passionate about the company engage a specific set of brain regions associated with emotional processing and storing emotional memories, as well as areas related to facial recognition and facial memory. This provides strong evidence that the emotional centers of the brain — as evidenced by neural activity — play a crucial role in building and sustaining customer engagement. ●

Employee Engagement

New York University professor Baruch Lev has written extensively about intangible assets and how to account for their contributions to company market value. His research has found that intangible assets contribute much of the value in most firms and that the earnings generated by intangible assets are a better predictor of stock market returns than either accounting earnings or cash flows.

Researchers have found that *engaged* employees are the main source of much of these intangible assets. When employees are engaged — or emotionally and psychologically committed to the firm — businesses perform more efficiently, and when businesses perform more efficiently, employees become even more engaged.

A recent study of 2,178 business units from 10 companies in six industries found that engagement predicts performance in key areas — including customer engagement, employee retention, sales and profit — better than performance predicts engagement. In the search for a good measure of the source of Lev's intangible assets, one needs to look no further than the engagement of the firm's employees.

Just as engaged customers are among a company's most profitable patrons and passionate advocates,

engaged employees are a company's most productive and efficient workers.

Among the variables that discriminate between highly productive workplaces and those that are unproductive is the quality of the local workplace manager and his or her ability to meet a core set of employees' emotional requirements.

Primary within these conditions are emotional elements that reveal our basic human needs: to be recognized as individuals and to contribute. At a local level, managers can influence employees' most basic needs by setting clear expectations and providing needed resources. More than this, they can energize their employees by showing them that they care personally and professionally.

Engaging Your Employees

Companies can change and focus employees' behavior in more positive directions by engaging employees' hearts and minds. A careful look at more than 10 million interviews with employees have led researchers to four core principles of employee engagement that when combined with the key principles of customer engagement, begin to sketch out a road map for navigating the terrain of HumanSigma:

- **Manage by outcomes, not behaviors.** Great organizations and managers view excellence within a role as achieving the right outcomes, not just conforming and executing the steps of the job the right way.
- **Liberate, don't legislate.** The most dramatic increases in productivity occur when companies allow workgroups to choose their own initiatives and focus on them.
- **Engagement is for everyone.** Almost every employee can become more engaged.
- **All politics is local.** Everyone from the boardroom to the mailroom is responsible for the quality of his or her workplace.

Employee engagement provides a starting point for improving organizational performance. Like politics, "all performance is local," and it varies from location to location and team to team within the same organization. Addressing that variation and its impact on overall organizational health is the key to managing your organization's HumanSigma.

The Scourge of Local Variation

The successful implementation of standardized processes, policies and other drivers of customer engagement that should be more or less constant across the enterprise brings us to the consideration of exactly who is doing the implementing and how that implementation is being managed. For this reason, businesses must focus on reducing variability in local "people" processes (the "who" and "how" of implementation).

The power of an approach focusing on reducing local performance variability lies in its simplicity and flexibility, allowing each unit to identify and correct its own causes for disengagement. Any location can optimize its performance, regardless of its starting point. The lesson from research is not that a business in a "C" market can necessarily be as profitable as one in an "A" market, but rather that the "C" *and* "A" locations can improve considerably if they adapt to meeting the requirements of their customers and employees. No research suggests that the local conditions can be so bad that a given business unit cannot improve — or so good that a local unit cannot fail.

This brings us to the third new rule of HumanSigma management:

Rule 3: Think globally, measure and act locally: You must measure and manage the employee-customer encounter locally.

Do your current performance metrics go deep enough into your organization to provide local managers with the information they need to manage effectively?

HumanSigma

Employee engagement has a direct and measurable relationship to and impact on customer engagement. This brings us to the next rule of HumanSigma management:

Rule 4: There is one number you need to know. We can quantify and summarize the effectiveness of the employee-customer encounter in a single performance metric — the HumanSigma metric — that is powerfully related to financial performance.

The Strategy and Tactics of Human Sigma: Evaluate, Intervene and Encourage

HumanSigma's strategic objective is to optimize the vital signs of your company's human systems.

HumanSigma optimizes these vital signs by focusing on performance and change on two levels within the company: the enterprise level ("think globally") and the local level ("act locally"). This two-pronged approach requires a *system owner* for each of the critical human systems — employees and customers — paired with an effective change mechanism that can be driven down to

the team level where the employee-customer encounter occurs and where real, sustainable change actually happens. These system owners should be coordinated by and partnered with a corporate HumanSigma champion charged with ensuring that these two dynamic systems are energized and optimized.

Consolidate responsibility for managing your company's human systems under an executive champion — a "chief HumanSigma officer" — who has corporate support for broad-based change initiatives to improve HumanSigma performance. This individual must have a span of control that, at a minimum, extends to the customer and employee domains.

The Tactics of HumanSigma

Achieving and maintaining excellence in human systems performance demands regular attention to three interrelated activities: evaluation, intervention and encouragement.

Meeting all of these demands, but particularly the demand for intervention, requires attention to a combination of *transactional* and *transformational* activities.

Transactional activities are those that recur regularly, but they tend to be more topical and short term in focus. Typical transactional interventions include activities such as periodic measurement, internal assessments and audits, education and training, brainstorming sessions, and action planning.

Transformational activities, in contrast, result in fundamental changes in the company's human ecosystem. They address questions such as, Do we have the right people in the right roles? Are our compensation and reward systems properly aligned with our strategic objectives?

With that, we arrive at the fifth and final new rule of HumanSigma management:

Rule 5: If you pray for potatoes, you had better grab the right hoe. Improvement in local HumanSigma performance requires deliberate and active intervention through attention to a combination of transactional and transformational intervention activities. ●

The Demand for Evaluation

Engaging employees and customers — and driving HumanSigma performance — requires a year-round focus on changing behaviors, processes and systems to meet and anticipate these constituencies' needs. This requires a total commitment from the leadership team down to frontline units and employees. To implement the right changes, a rigorous process of monitoring engagement and defining appropriate support and activities is needed. Local units must be held accountable for their engagement levels, their successes should be celebrated and they should receive the support they need to increase engagement.

Measurement Logistics. Once you've established the overall goals of your HumanSigma program, it's time to identify how often you should measure, how to build a measurement plan and how to conduct the measurement.

Analysis. Analysis helps leaders identify enterprise-level opportunities and prioritize actions at a macro level. Second, it encourages managers and workgroups to identify specific opportunities to respond to unique local issues.

Identifying Performance Zones. By identifying performance zones and tailoring interventions to current performance — a process called *adaptive intervention* — organizations can apply solution strategies that best fit a team's current performance level.

The Way Forward. Once organizations have received baseline performance data, it's important for them to develop a road map spanning a three-year period. ●

The Demand for Intervention

The intervention stage is where the organization's commitment to HumanSigma principles is tested, and it's arguably the most difficult. But the intervention stage is also where the seeds of dramatic organizational change are planted. An effective HumanSigma intervention process begins with orienting employees toward the need for and benefits of change, as well as the reasons for selecting a particular intervention activity instead of others.

Transactional Activities in Intervention

Here are four transactional activities in intervention:

Brand Promise Alignment. If you believe that your front-line employees play a crucial role as brand ambassadors and are truly the face of your brand in the marketplace, then an obvious place to begin an intervention process is with the brand promise itself. What is your company's brand promise? How well-known is it throughout the company?

Action Planning. For action planning to be effective, it must be completed in a timely manner, usually within one month of receiving local HumanSigma performance feedback. The specific elements of local unit-level action planning are often best left to the local units.

Action Planning Review. Carefully reviewing, critiquing and modifying a unit's action plans can increase its likelihood of success and reduce the likelihood that the process will frustrate the team. The review should be regular and thorough.

Customer Advisory Boards. How can local units regularly engage in deep conversations with customers and customer-facing employees in a cost-effective way? A simple solution is for each unit to form a customer advisory board that meets on a regular basis.

Transformational Activities in Intervention

Just as seeds planted in rich, fertile soil and nourished with sunshine and water will grow faster, stronger and healthier than seeds sown on barren land and left to languish on their own, so too will your improvement efforts gain greater traction if you plant them in a more "fertile" organizational soil. The goal of transformational interventions is to create this kind of environment within your company.

Creating a culture of accountability is one of the most important transformational interventions any company can implement.

A second transformational activity is to supplement your existing work force by selecting new associates who have an increased likelihood of success and performance at excellence. ●

The Demand for Encouragement

In the helter-skelter pace of our day-to-day business lives, it's all too easy to forget the adage that you can attract more bees with honey than vinegar. But we should all strive to remember that success must be encouraged, celebrated and rewarded. To that end, high-performing HumanSigma units should be recognized — and not just the managers or executives who run the units, but the entire team. And because the financial payoff of HumanSigma management accrues to those units that improve their HumanSigma position as well as those that consistently perform at very high levels, it's also important to recognize those that improve the most.

Celebrating successes helps institutionalize improvement by establishing the language and culture of engagement. Consistent enterprisewide support is necessary to maintain positive momentum, and cheerleading and emphasizing initiative are important means of sustaining enthusiasm for the change process.

Transactional and Transformational Activities in Encouragement

Transactional activities include preferred recognition, performance communication and celebration, local celebrations, and recognition and formalized rewards.

Transformational activities include peer group mentors; summits and retreats for top managers; performance linked to advancement and promotion; and case studies, such as a featured article in a company publication highlighting specific success stories. ●

Conclusion

HumanSigma focuses on accepting our human nature and capitalizing on it to manage employees, motivate them, accelerate their development, and unleash innovation and productivity, all to ultimately engage the emotions of your most valuable asset — your customers.

The most important thing is to get started and keep working at it. Improvement takes time and mindful attention to the everyday facts of our lives. Each team needs to sketch out a vision for its future and work hard to build toward that vision. You will make mistakes, so your system needs to be tolerant of missteps if your organization hopes to optimize its performance for the long haul. Managing the employee-customer encounter is just plain hard work. It involves measuring the right things in the right ways, taking deliberate and disciplined action to improve each local team's performance, and celebrating your successes.

What works best for your organization must ultimately be determined by the employees who work there. The answers are not easy. But researchers have noticed how the need to own your own improvement makes people more innovative, productive and confident. There is not a better set of characteristics for companies facing an unknown future. ●

RECOMMENDED READING LIST

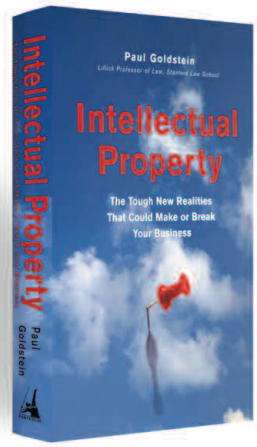
If you liked *Human Sigma*, you'll also like:

1. ***The Complexity Crisis*** **by John L. Mariotti.** In this far-reaching study, Mariotti shows corporate America that "keeping it simple" is the way to overcome the problems generated by systems, procedures and deadlines.
2. ***Making Strategy Work*** **by Lawrence G. Hrebiniak.** Strategy without execution is worthless. In this book, Hrebiniak offers a comprehensive disciplined process for making strategy work in the real world.
3. ***The 7 Hidden Reasons Employees Leave*** **by Leigh Branham.** Find out what organizations need to recognize and actively pursue in order to retain their best and brightest people.

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by Paul Goldstein

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The Tough New Realities That Could Make or Break Your Business

INTELLECTUAL PROPERTY

THE SUMMARY IN BRIEF

Intellectual property is a product of the mind. It's a song, a book, a business secret or almost any other kind of creation. These products have value — often tremendous value — in the business world. The question is how to protect these assets.

In the United States, the four main types of intellectual property (patents, copyrights, trademarks and trade secrets) each have their own body of law pertaining to creation, ownership and use. These laws have evolved over centuries, but the advent of new technologies and social and economic shifts make it difficult for them to keep up with the times. Change is coming, and how and when it comes will affect nearly every owner, creator and user of intellectual property.

The "intellectual property paradox" — the notion that giving property rights to owners of intellectual assets harms those who are unable to pay for access to the assets while helping those who are able to pay — often explains intellectual property laws differing among countries. Although treaties and agreements have somewhat homogenized the areas of intellectual property law, intellectual asset owners still must navigate the laws of each country in which they do business. Given the scalability of intellectual assets, dealing with the inconsistencies and the sometimes doubtful options for recourse can still be worthwhile.

Paul Goldstein covers these topics and more as he explains intellectual property law's history as well as some important legal cases that brought American intellectual property law to where it is today.

IN THIS SUMMARY, YOU WILL LEARN:

- The characteristics of the four major areas of intellectual property law.
- How intellectual property law protects a business's intangible assets.
- The significance of major laws and legal precedents related to intellectual property.
- What changes you should anticipate in intellectual property law.

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THE COMPLETE SUMMARY: **INTELLECTUAL PROPERTY**

by Paul Goldstein

Introduction

No idea is entirely original; every innovative business borrows, sometimes extensively, from its competitors and others. Many of the best-known and most valuable brand names — Burger King, McDonald's — are little more than descriptive words and common names. How can a company appropriate such names for its own exclusive use? When a departing employee takes a company's trade secrets and know-how with him, what part of this information belongs to the company and what part, derived from his own skill and training, belongs to him? Elusive as intellectual property boundaries are, the business value they secure is enormous. ■

The Intellectual Property Paradox

The name Polaroid is synonymous with instant photography, but without patents Polaroid could not have dominated the market as it did for the entire history of this once-popular medium. In the course of the *Polaroid v. Kodak* trial, in which Polaroid sued Kodak for infringing on 12 patents related to its instant photography films and cameras, one Polaroid official described the company's founder, chairman and chief investor, Edwin Land, as "fierce" about patents.

The views of innovators like Land and Kodak's George Eastman rarely change: More patents are preferable to fewer, and the broader the reach of these patents, the better. But views of lawmakers do change. Patent standards and remedies can shift even over the span of a single trial, particularly when, as in the case of *Polaroid v. Kodak*, the trial stretches over 15 years.

The Risks and Rewards of Legal Uncertainty and Change

One legal standard that changed over the course of the Polaroid trial was the statutory requirement that, in order for the U.S. Patent and Trademark Office (PTO) to grant a patent, the applicant must show not only that the invention was new at the time he invented it, but also that it was "nonobvious" — not readily apparent — to workers reasonably skilled in the art.

Even if the applicant convinces a patent examiner of the invention's novelty and nonobviousness, and the PTO issues a patent, another company, if sued by the patent owner, can ask the court to invalidate the patent on the grounds that the PTO erred in its findings of novelty or nonobviousness. And even if the patent is valid, the company can ask for a finding that its own product did not infringe upon that patent.

The Paradox of Public Goods

Economists classify goods whose use by one person will not diminish use by others as "public goods and services" — the classic examples (in addition to information) are lighthouses, public education and national defense. They also observe that to grant property rights in information will necessarily violate a basic tenet of contemporary economic policy by decreasing the welfare of one class of users — those unable or unwilling to pay for access to information — without increasing the welfare of another class of users — those who are willing and able to pay the intellectual property owner's asking price.

A standard solution to the problem of public goods is for government to pay for the production and maintenance of these goods out of the public treasury and to make their benefits available "free" to everyone. But few Americans would be willing to trade private for public choice over the selection of products available on the supermarket shelf or hardware counter any more than they would want government to choose the films they watch or the books they read.

The author: Paul Goldstein is the Lillick Professor of Law at Stanford Law School and one of the world's top experts on intellectual property. He is also counsel to Morrison & Foerster, where he works on IP litigation and transactions for corporate clients across the world.

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The Unique Scalability of Intellectual Assets

Where economists view intellectual assets as inexhaustible, businesses view them as scalable. Through license agreements with well-placed licensees, a company can exploit its intellectual assets in product, service and geographic markets that it lacks the resources to enter itself; it can also delegate enforcement of rights to licensees. ■

Patents

The U.S. Patent Act's description of the five classes of protectible inventions is straightforward enough: "any new and useful process, machine, manufacture or composition of matter, or any new and useful improvement thereof." At the threshold of the next great cycle in patent protection, the hard question is not whether, or even when, patent law will begin to scale back, but *how*.

Cycles of Protection

The origins of contemporary patent law lie in the English Crown's grants of privileges to foreign tradesmen and craftsmen in the 14th and 15th centuries to spur the adoption of modern manufacturing methods.

The first U.S. patent law was a general rather than a private act, and authorized patents for "any useful art, manufacture, engine, machine or device, or any improvement therein not before known or used." In 1836, Congress reinstated the examination system and fixed the patent term at 14 years with a seven-year renewal period. To the chagrin of many observers, the U.S. Patent Act in force today strays little from the structure and principles of the 1836 act.

The High Protectionists Take Charge

In 1982, Congress created the Court of Appeals for the Federal Circuit to hear appeals from trial court patent infringement decisions across the country. It was also created to replace, with a single national standard, the patchwork of patentability standards previously applied by the regional courts of appeal.

Congress also undertook major new initiatives to use patents to spur industrial growth, among them the 1980 Bayh-Dole Act that fostered university-industry collaborations by making it possible for universities to patent the results of federally funded research. Finally, two U.S. Supreme Court decisions in the early 1980s, one opening the door to patents for computer programs and the other holding that a live, man-made organism could qualify for patent protection, established new high-water marks for an already ascendant patent system.

Software Patents

Until March 3, 1981, when the U.S. Supreme Court in *Diamond v. Diehr* for the first time upheld a patent on a computer program, the patent status of computer software had been in doubt.

In 1994, the Court of Appeals for the Federal Circuit ruled that a patent applicant could effectively bring its software within the traditional category of "machine" simply by describing his invention to include the software running on a general-purpose computer. Finally, in 1995, the Patent Office retreated from its stern antisoftware position and announced that it would treat computer programs as patentable subject matter as long as they were embodied in a tangible medium, such as floppy diskettes.

Patenting Life

The Supreme Court's 5-4 decision in *Diamond v. Chakrabarty* endorsed patents for living organisms in the most ringing terms, underlining the importance of an openhanded patent system for business investment in new technologies. In 1985, the Patent Office Board of Appeals ruled that plant varieties were patentable, and in 1987, that a genetically engineered species of oyster was patentable subject matter.

The Patent Office was met with objections when it announced that it would consider patent applications for vertebrates, but it issued its first such patent in 1988, on the "Harvard Mouse," or OncoMouse. The mouse was genetically engineered by a Harvard researcher for enhanced susceptibility to cancer, and consequently of particular use in cancer research.

Everyone Holds a Patent

The Court of Appeals for the Federal Circuit made it easier to enforce patents and to obtain monetary and permanent injunctive relief against infringers, and also to obtain preliminary injunctive relief against alleged infringers. Books such as *Rembrandts in the Attic* and *Edison in the Boardroom* encouraged companies to search through their portfolios for patents that could be licensed and, if not licensed, litigated. Because patent owners can file infringement cases in any U.S. judicial district where allegedly infringing products are sold, "rocket dockets" sprang up, offering patent claimants speedy discovery, early trial dates and fast trials.

Pharmaceuticals Versus Electronics: The Battle for Patent Law's Next Phase

The great upsurge in patent scope and enforcement over the past quarter century has divided patent industries into two warring camps. On the one side are the high protectionists, led by the pharmaceutical compa-

nies. On the other side are the low protectionists, led by the electronics and software companies.

Probably the most consequential division between high and low protectionists centers on American patent law's "all-or-nothing principle," which empowers a patent owner to shut down a later inventor's business even if the inventor offers to pay a reasonable license fee. One solution to the standoff between the pharmaceutical and electronics industries is for Congress to tailor its reforms along industry lines.

eBay v. MercExchange

The Court of Appeals for the Federal Circuit consistently ruled that, once infringement is shown, injunctive relief is virtually automatic, and this appeared to be settled law in the United States until November 2005, when the U.S. Supreme Court agreed to review the Federal Circuit court's decision in *eBay v. MercExchange*, applying the automatic injunction standard.

In September 2001, MercExchange, a Great Falls, Va. company founded by a patent lawyer-engineer, filed suit in the federal district court for the Eastern District of Virginia, alleging that eBay's "Buy It Now" feature, enabling prospective bidders to purchase an item immediately at a fixed price instead of waiting for the outcome of the auction, infringed on three electronic commerce patents owned by MercExchange's founder.

In May 2003, the jury found that eBay and its subsidiary Half.com had willfully infringed two of the three patents, and in August the judge ordered eBay to pay $29.5 million in damages but declined to order an injunction shutting down the online auction's use of the feature.

In March 2005, the Federal Circuit court affirmed the trial court's finding of patent validity and infringement. But the court reversed the trial court's decision denying injunctive relief.

On May 15, 2006, the U.S. Supreme Court announced its decision in *eBay v. MercExchange*, unanimously holding that the Federal Circuit court erred in enforcing a virtually categorical preference for permanent injunctions in patent cases and directing it in the future to require the plaintiff to pass, as it must in other fields of law, a four-factor test: "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." ■

Copyrights

For all its undeniable cultural impact, copyright is essentially about commerce. It protects not only writers, composers and artists, but also mapmakers, data compilers and software designers. The U.S. Copyright Act captures all this value by granting five exclusive rights to copyright owners: the rights to reproduce their works, to adapt them, and to publicly perform, display and distribute them.

How the Movie Studios Used Copyright to Tame Their Distribution Partners

The history of the motion picture industry's encounters with new technologies, from television in the 1940s and 1950s to TiVo at the turn of the 21st century, teaches two important lessons about the use of copyright to navigate relationships with future distribution partners. One is that because copyright fosters production of competing works, no copyright owner can hope to control the spigot that releases content to distributors. The second lesson is that in law, as in life, *timing is everything.*

How the Computer Industry Used Copyright to Fight for Market Share

Three central copyright rules — the rule that copyright protects expression but not ideas, the rule that a work must be original to be copyrightable, and the fair use doctrine — proved decisive in resolving conflicts between companies like IBM, Apple and Sega. These companies sought through copyright to control access to their established operating system platforms, and, on the other side, producers of competing and complementary equipment, such as Fujitsu Limited, Franklin Computer and Accolade, Inc., that sought access for their equipment to those platforms.

Why did copyright become the principal vehicle for software protection through the 1980s and 1990s? One reason is that, ill-fitting as copyright was, other intellectual properties — patents and trade secrets — were even more deficient. And although proposals abounded for laws tailor-made to the specific characteristics of software, they lacked the pedigrees of historical validation and international acceptance.

The greatest casualty of the software battles — dubbed "softwars" — was copyright itself, and not because the judicial decisions in any way injured copyright principle (they did not) but because the debate ignited a new and still enduring skepticism about the value of copyright that was unprecedented. Any business — whether it is a producer or user of copyrights — that produces or distributes copyrighted content should attend to this new direction in the law. ■

Trademarks

Although trademark law's origins and legitimacy lie in its protection of consumers, the law has always and inescapably protected producers as well, giving them an incentive to invest in differentiating their products and brands from those of competitors. The great revolution in trademark law has been to elevate this incidental protection for producers into a full-fledged property right — much like a patent or copyright — that has only the most attenuated connection to consumer confusion, and sometimes no connection at all.

The Use Requirement

Trademark rights in the United States require trademark use, and the company that is first to use its brand in connection with goods or services in the marketplace is the company that gets to own it. The use requirement effectively penalizes first adopters who lack the resources or business motive to immediately enter all of the natural markets for their brands.

However, the use requirement also rewards predators that wait for goodwill to develop around another company's brand in one market and then trade on the brand's value by introducing it on a new product in a different market. This is possible for the predators as long as consumers are not confused as to source of the brand.

Use and Abandonment: The McDonald's Dilemma

Under the trademark doctrine of abandonment, a brand-name owner that fails to proceed promptly against a second user, even one in a distant product or service line, faces the risk that it will lose rights to its brand not only in the distant market, but also in the market where it first acquired goodwill.

McDonald's successful lawsuit against Quality Inns International's "McSleep" economy hotels illustrates the legal dimension of attempts to protect against trademark abandonment. Quality Inns made four arguments to support the use of the "Mc" prefix for its new chain, but the court rejected each one. Against Quality Inn's argument that the name "McSleep" would not confuse consumers into thinking McDonald's was operating or franchising the new chain, the court relied on survey results in which more than 20 percent of respondents gave "McDonald's" as their answer to the question, "Who or what company do you believe owns or operates the hotel called McSleep Inn?"

The court observed that McDonald's had obtained registrations for a range of uses wider than just food services — including "McStop" for interstate travel plazas and "McShuttle" for ground transportation — and had named its own headquarters hotel "McLodge." This effectively gave the company a "family" of marks under the "Mc" prefix and consequently a first claim on other such uses.

Avoiding abandonment requires more of brand owners than just monitoring uses and registrations of their marks in markets where they may someday want to use the marks themselves. Yet suing to enjoin an unauthorized use of a brand name can have adverse consequences for the company's public relations.

Trademark owners also suffer another comparative disadvantage in their dealings with unauthorized users. While a patent or copyright owner will frequently enter into a license with an infringer and thus expand its market, a trademark owner, like McDonald's in the McSleep case, will be concerned that such a license might bring its brand into the wrong market at the wrong time.

The Distinctiveness Requirement

Trademark law protects a brand only if and to the extent that the brand distinguishes, or at least is capable of distinguishing, the goods or services of one company from those of another. Yet to give one company exclusive rights in even a partially suggestive term may deprive a competitor of words that it needs to describe its own product accurately. The U.S. Trademark Act reconciles the competing interests of the two companies by barring registration for marks that, when used in connection with the applicant's goods or services, are "merely descriptive" of them, unless the mark "has become distinctive of the applicant's goods in commerce."

Distinctiveness and Genericide

The great trademark risk for a consumer brand company today is not that its chosen trademark will be insufficiently distinctive to qualify for protection. Instead, the risk is that in promoting its mark and acquiring distinctiveness, the company may also succeed in identifying the market with the class of goods generally — "Thermos," say, becoming the generic term for a vacuum-insulated bottle — thereby forfeiting any trademark rights in the term. Trademark lawyers call this "genericide."

Trademarks Without Confusion

Trademark law moves slowly, and for decades the law's use requirement, confining a brand owner's exclusive rights to the goods or services that the company actually marketed, stood as an obstacle to protection for broader-reaching corporate brands. Finally, in 1995, Congress amended the federal Trademark Act to provide a remedy for the dilution of "famous" marks.

For additional information on the McDonald's suit against Quality Inns, go to: http://my.summary.com

Where trademark law traditionally requires a brand owner to prove that a competitor's use of its mark confused consumers into purchasing the competitor's product rather than its own, the Initial Interest Confusion Doctrine today holds that it is enough for the brand owner to show that consumers were initially confused as to the source, even though their confusion was dispelled by the time they made their purchase.

Mapping Trademark Change

At the end of a century of doctrinal expansion, brand-name protection in the United States today consists of two separate but intertwined strands. One, rooted in the economics of information, seeks no more than to secure consumers' expectations about the source of goods and services. The other, aligned with the economics of public goods, seeks to protect brands for their own sake, much as patent law protects inventions and copyright law protects entertainment and information. ■

Trade Secrets

At least three contemporary forces, none of them likely to be reversed, promise to test trade secret law's boundaries over the coming years. One is the increased pace of employee mobility, not only in high-technology industries, and not only in the United States. Second, the use of licenses to profit from the scalability of intellectual assets — a long-standing practice among patent, copyright, and trademark owners — will require crisp boundary lines to replace the behaviorally blurred edges of trade secret assets if these assets are to support fluently administered licenses. Third, where trade secret law presently draws for its content on regional as well as industry norms — and in the United States, on the rules applied by the 50 states — globalization will require harmonized definitions of rights that can be easily licensed across borders.

Trade Secrets as Competitive Strategy

No case better illustrates the use of civil and criminal trade secret litigation as a harsh competitive tool than a 1995 lawsuit filed by Silicon Valley software producer Cadence Design Systems against start-up rival Avant!. In November 1995, ArcSys, which had gone public in June 1995, merged with Integrated Silicon Systems Inc. to become Avant!. Two months later, local police and FBI agents searched Avant!'s headquarters, where they seized an electronic log indicating that one of the four executives who had left Cadence in 1991 had taken with him a copy of a basic place-and-route program. Within 24 hours, Cadence filed a civil suit against Avant! alleging misappropriation of trade secrets as well as copyright infringement, unfair competition, conspiracy, breach of contract and false advertising.

The criminal case came to an end on May 22, 2001, four years after the district attorney's office first filed charges, with all of the defendants entering into plea bargains with the prosecutor, including a dismissal against one of the defendants, jail sentences for four and a prison term of up to six years for another. In addition to Avant!'s agreement to pay $27 million in fines and $190.4 million in restitution to Cadence, one executive agreed to a $2.7 million fine, but received no jail time. In return for the parties' agreement to dismiss all pending civil claims against each other, Cadence received $265 million. Adding in $47 million for settlement of a shareholder suit, Avant!'s total liability amounted to more than half a billion dollars.

The Evolving Contours of Trade Secret Law

Shorter job tenure and higher employee mobility in the United States and elsewhere will not only weaken historic norms of secrecy and bonds of loyalty, it will also increase the inclination of courts to overturn non-compete covenants that they might have tolerated in times of long-term employment. Global markets will also place new, possibly unsustainable demands on a trade secret law that depends so heavily on the peculiarities of regional norms and the relations between employers and employees.

Business method patents, which have flourished more vigorously in the United States than elsewhere, can best be understood as a legal response to frustrations over the limitations of trade secret law in supporting the exploitation of such valuable business methods as stock hedging strategies and tax-reduction techniques. Copyright, too, has moved into trade secret territory.

Secrets and Crimes

The federal Economic Espionage Act closely tracks the definition of trade secrets employed by the Uniform Trade Secrets Act, encompassing all forms of secret financial, business, scientific, technical, economic and engineering information, and imposes penalties for trade secret theft that include a fine up to $500,000 and 10 years' imprisonment for individuals, and a fine up to $5 million for organizations.

Companies are reluctant to have their secrets disclosed in civil or criminal proceedings. Although U.S. courts will issue protective orders in order to guard a company's secrets, the realities of wide-ranging discovery will often make leakage all but inevitable.

Secrecy Law and Secrecy Norms

The Uniform Trade Secrets Act defines a "trade secret" as "information, including a formula, pattern, compilation, program, device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use."

Mapping Trade Secret Change

Best practice for company trade secrets is to watch out for the breach of security norms and to act quickly when they occur. Smart trade secret practice also means paying close attention to evolving legal regimes in an attempt to exploit traditional secret information without the requirements of secrecy — for example, using patents and patent licenses to exploit business methods and practices formerly protected by trade secret law, and being alert to other legal doctrines that over the coming years will inject propertylike rights into what has long been the domain of norms and relationships. ■

Intellectual Assets on the Internet

If the defining attribute of intellectual assets is that they can be used by countless numbers of consumers across national borders and never be exhausted, then the Internet may be the first distribution technology to fully capture this unique quality. It is, of course, this unfettered use that represents the Internet's greatest challenge to intellectual assets.

Patents on the Internet

The enforcement history of U.S. Patent No. 5,960,411, for a system of "1-Click" online purchases, granted on September 28, 1999 to Amazon.com founder Jeff Bezos and a number of co-inventors, illustrates how potent an Internet patent can be as a competitive weapon. The Internet not only suffers from overbroad, low-quality patents, but also offers an unparalleled vehicle for challenging them.

Copyrights on the Internet

In 1998, Congress struck a copyright balance by insulating Internet service providers, by carving out "safe harbors" to protect the providers from monetary liability so long as they comply with prescribed conditions. One condition is that they implement a policy to terminate any users who are repeat copyright infringers. Another is prompt removal of copyrighted material as soon as the service provider received notice that it is infringing.

Few copyright owners or Internet service providers today object to the safe harbor provisions, for they have so far effectively balanced the relative needs and abilities or each to patrol and control online infringement. But if copyright owners have accepted the practical desirability of these safe harbors, they have grown increasingly concerned over the logic of the expedience they embody, a logic that could entirely transform copyright law — and, for that matter, patent and trademark law — from a property system that requires individuals to seek permission to use a particular intellectual asset, to a system that effectively casts this asset into the public domain, free for use by all, unless the asset's owner specifically requests that they be excluded.

Trademarks on the Internet

Trademark law at the end of the 20th century consisted of two strands: one studded with age-old doctrines to protect consumers against confusion as to the source of goods and services, the other advancing new doctrines to protect brand-name owners against the unauthorized use of their marks, whether or not consumers are confused.

Domain names were the first battlefield. Search devices such as metatags and keywords offer more varied opportunities for diversionary use. The next big question for brand-name companies and their competitors is whether these expansionary rules crafted for the Internet will migrate from this setting into trademark law's mainstream and contribute to the broadening of trademark law generally.

Mapping Intellectual Asset Change on the Internet

Any intellectual asset company that does business on the Internet will, over the coming years encounter two irreversible facts: The Internet has changed intellectual property law, and intellectual property law has changed the Internet. Companies need to monitor such changes not only on the Internet — the setting where they arose — but in the bricks-and-mortar world as well, for precedents established in one setting inescapably migrate to cases decided in other settings. ■

For additional information on Amazon.com and the 1-Click suit, go to: http://my.summary.com

Intellectual Assets in International Markets

Even the most sophisticated companies encounter legal surprises in their foreign ventures, particularly if a company is habituated to sometimes idiosyncratic U.S. intel-

lectual property rules. Careful drafting of intellectual property licenses can inject some degree of certainty into transborder commerce. Of course, contract clauses govern only the conduct of the contracting parties, not infringers, whose conduct will instead be controlled by the law of the country where the alleged infringement occurred.

Territoriality and the Trade Economics of Intellectual Assets

A centuries-old principle — territoriality — drives not only the law, but also the economics of international protection of intellectual property. For protection abroad, American intellectual asset owners must look to the law of the country in which the asset is being exploited.

Instead of challenging the territoriality principle, a country that is a net intellectual property exporter could enter into a bilateral treaty with a net importer, obligating it to extend strong protection to foreign intellectual assets.

Multilateral Treaties

In the case of copyright, dissatisfaction with these bilateral treaties ultimately led to the adoption in 1886 of the Berne Convention for the Protection of Literary and Artistic Works, a multilateral treaty with Belgium, France, Germany and the United Kingdom, but not the United States, among the initial signatories.

The Berne Convention follows on the heels of the Paris Convention for the Protection of Industrial Property, adopted in 1883 as the multilateral convention for patents, trademarks and unfair competition, follows the principle of national treatment.

The World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), adopted in April 1994 as part of an agreement amending the General Agreement on Tariffs and Trade, expressly incorporates the minimum standards of the Berne and Paris conventions and adds substantial minimum standards of its own, including standards for enforcement.

Harmonizing and Diverging Tendencies in National Laws

The American tilt toward formalities and limited rights stems from the utilitarian tradition that underlies U.S. copyright law, while the inclination elsewhere toward rigorous, formality-free rights traces to the European precept that an author has a natural right to protection for the products of his mind. Indeed, Europeans commonly refer to these rights not only as copyright, but as "author's right." Doubtless the most powerful harmonizing force — and, not coincidentally, a force that is responsible for increasing levels of copyright protection worldwide — is that the community of copyright owners crosses national boundaries.

All national trademark systems follow the principle that a brand should be registered if it signifies, or has come to signify, a single source. However, where American trademark law accepts as registerable everything from the shape of a package to a handful of musical notes to a fragrance applied to sewing thread, other countries have been slow to allow newer forms of marks in their registers.

Before TRIPs, few countries enforced trade secret protection as robustly as the United States; most other nations generally relied on such broad rubrics as unfair competitive practices and the Paris Convention standards of "honest practices in industrial or commercial matters" to protect confidential information.

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Intellectual Property*, you'll also like:

1. ***The Starfish and the Spider* by Ori Brafman and Rod A. Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
2. ***Wikinomics* by Don Tapscott and Anthony D. Williams.** The authors address how the Internet's social network offers new, decentralized ways to produce content, goods, services and profit in the emerging world of massive peer collaboration.
3. ***Green to Gold* by Daniel C. Esty and Andrew S. Winston.** Based on the authors' years of experience and hundreds of interviews with corporate leaders around the world, the book shows how companies generate lasting value by building environmental thinking into their business strategies.

Mapping Change in the International Arena

Evolving global compliance with TRIPs standards holds out three prospects to American companies that seek to exploit their intellectual assets abroad. First, because TRIPs generally embodies the high standards of U.S., European and Japanese intellectual property laws, an American company can increasingly expect the same high level of protection abroad as it does at home.

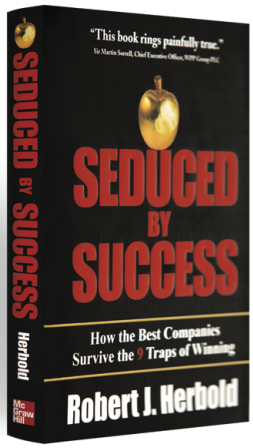
Second, because the new standards will be not only high but roughly uniform, a company will encounter fewer legal surprises than in the past. Third, as the legal playing field between developed and developing economies levels off, intellectual property protection will disappear as a source of comparative advantage for developed countries, and companies will begin to weigh other comparative advantages when deciding where to exploit and develop their intellectual assets.

Whatever its implications may be for the American economy, this newly "flat" world offers significant investment opportunities for American and other intellectual asset companies, not only in recently developed economies like that of Singapore — which has become an important world center for stem cell research — but also in developing economies like China's. ■

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SOUNDVIEW Executive Book Summaries®



by Robert J. Herbold

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SEDUCED BY SUCCESS

THE SUMMARY IN BRIEF

Don't let success put your company on the road to ruin. When leaders of organizations experience meaningful levels of success or periods of stability, they tend to believe that they are entitled to continued success into the future. In many cases, managers become complacent, comfortable and mediocre, when in fact they should be building on all the things they have done well in the past.

It is important to realize that people and businesses fall into this success trap. It happens to entire companies and departments, to small groups within organizations and to individuals. All are susceptible to the perils of success.

Robert Herbold wrote *Seduced by Success* in an effort to help individuals and organizations become successful and *stay successful*. This summary will show you how to look past your current success or stability and constantly probe for new and better ideas and ways to do things. Herbold shows companies how to avoid the nine traps of success — the legacy practices that almost felled giants such as General Motors, IBM and Apple.

The issue of how to put past successes in perspective is also addressed, showing readers that they should not rely too heavily on what worked yesterday or what's working today. It's too easy to be trapped in the exhilaration of the present and to believe you've found the true and everlasting formula for sustained success.

IN THIS SUMMARY, YOU WILL LEARN:

- How GM's success gradually led to its downfall.
- What steps DaimlerChrysler took to become a manufacturer of unique automobiles.
- How a focus on details and execution helps organizations avoid the trap of boredom.
- How Southwest Airlines rose to the top of one of the toughest industries.
- Which three guidelines are necessary to clearly communicate expectations.
- How Apple managed to make a comeback with iTunes and the iPod.

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Success Is a Serious Business Vulnerability

The vulnerabilities resulting from success can bring down individuals and organizations of all sizes. For example, look at what has happened to General Motors, or GM, a 98-year-old company that took the leadership of the automobile business away from Ford in the 1920s. In the 1950s it became the largest employer in the free world and the first firm to make $1 billion in a year. In the mid-1970s, GM had almost a 50 percent market share in the United States, as well as the best-selling model in America, the Oldsmobile Cutlass.

However, for the next 30 years, it was downhill for GM. By early 2006, its financial problems were staggering. It had lost $8.6 billion in the prior year, and its market value was down to $11 billion. How could such an incredibly successful company experience a three-decade-long decline?

For 30 years, GM watched Japanese car companies come to America and build nonunion plants that turned out distinctive-looking cars with world-class quality and industry-leading efficiencies. The car manufacturer never came to grips with the enormous constraints that were put on the company by its rigid legacy practices. Besides having models described as "too timid to excite consumers," the company's inaction on the labor front was killing it.

By 2005, it had almost 700,000 retirees and their dependents who relied on GM for pensions and health care; spending on this came to roughly $2,200 for every vehicle that GM built and was the key reason that the company lost $1,227 on each vehicle it sold in North America. Year after year, GM went blindly along, producing unexciting cars and signing union contracts that were clearly economic suicide in the long run. It had been clearly captured by its legacy practices.

Why Does This Happen?

When you step back from all this General Motors history, it is absolutely shocking to see America's premier corporation of the 1970s spiral downward for three straight decades. What's ironic is that the former head of GM, Alfred P. Sloan, is famous for saying, "Any rigidity by an automobile manufacturer, no matter how large or well established, is severely penalized in the market." Sloan was actually referring to Henry Ford, who in the 1920s refused to change his business model to build different cars that would suit different tastes in America. Little did Sloan know that the comment would be applicable to GM decades later.

The story of GM is a classic lesson of how companies can be captured by legacy practices from periods of success, causing very serious problems. There are three destructive behaviors that are created and nurtured by success. They are the following:

1. Lack of urgency. Success seems to lead to the avoidance of any kind of stress in favor of basking in the glory of prior times. Individuals, companies, government agencies, nonprofits and education groups are all vulnerable to this behavior.

2. Protective and proud. Success and stability seem to breed a loss of curiosity and a defensive attitude toward any kind of new thinking that would suggest that what is currently being done might not be the best approach. This is sometimes called the "not invented here" problem.

3. Entitlement mentality. Once you achieve some degree of success or stability, the world does not owe you lifelong success. Many individuals and organizations are so impressed with themselves and their achievements that they can no longer imagine a world where they are in decline. ■

The author: Robert J. Herbold served as chief operating officer of Microsoft Corp. from 1994 to 2001. Prior to working at Microsoft, Herbold spent 26 years at Procter & Gamble. Currently he is now the managing director of Herbold Group LLC, a consulting business focused on profitability and operational and marketing issues.

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Trap No. 1: Neglect

Neglect is sticking with yesterday's business model. It's been seen time and again. Individuals and organizations experience the euphoria of winning. But seldom do these same talented people and organizations step back, review all the elements of their business model and confront the question of whether or not they are improving.

When you consider how businesses in a particular industry operate, the thing that is so striking is the wealth of opportunities that exist to dive into a particular area and create unique advantages over the competition. We've seen such companies emerge as unusually successful because of a unique logistics approach or a superior customer services model or by adding significant new capabilities to the products and services that had been defined narrowly in a particular industry. What's important is to be constantly challenging your organization to imagine a different world from the one you are dealing with today. And you must really probe your potential to create real advantages.

Face Reality, Then Tackle Your Vulnerabilities

One of the most important things an individual can do is to develop a mindset that constantly assumes that things can be improved and aggressively pursue alternatives. Here are some steps to follow to figure out where things stand:

• **Review all aspects of your business model.** This is the kind of exercise that typically never happens. People get so busy executing day-to-day activities that they rarely step back and look at the big picture.

• **Be objective.** This is the hard part. People who have experienced success and are experts in their legacy practices see things through biased eyes.

Turning IBM Around

In the early 1990s, IBM was an example of a previously successful company whose top managers were not realistic. They were clinging to the ways in which IBM had operated for years, and they could not imagine any viable alternatives. Then Lou Gerstner became CEO in 1993. Gerstner ran into some incredibly entrenched legacy practices — the first thing that infuriated him was the company's process of strategic decision making, which consisted of groups within IBM forwarding proposals to the Management Committee. The committee was made up of six members who met once or twice a week and held lengthy and formal meetings.

The second thing that bothered Gerstner about IBM was its complex financial management process. It was extremely difficult to pull together consolidated financial statements for all of IBM, making it hard to find out the status of projects. The final problem that Gerstner uncovered in the company's business model was how confusing IBM was from a customer perspective. Customers were disappointed by IBM's lack of responsiveness, undoubtedly because of its organizational complexity.

Given these problems, Gerstner had to make some very fundamental changes in the company. Within six months of his arrival, he announced to all employees that their new role would be to solve the customer's information technology-related business needs. His vision was to transform IBM from a computer company into a much broader technology and services company. Facing reality and fighting the urge to stick with your old business model can be difficult, but with great leadership, as in the case of IBM and Gerstner, it can be done. ■

Trap No. 2: Pride

Pride is the trap that allows your products to become outdated. Great products are all about unique, distinctive capabilities that are constantly updated and kept fresh. Unfortunately, there are plenty of examples of successful products that have been left alone and allowed to drift into mediocrity because their companies became frozen in the practices they believed were the secret to their success.

Uniqueness: An Absolute Essential

Back in 1996, Chrysler was at the top of its game. It had achieved that status by bringing out some very distinctive and successful automobile lines. It invented the minivan and took Jeep and generated a new version of the Grand Cherokee, which basically created the sport utility vehicle. At the time, these vehicles were unusual and unique automobiles. Chrysler was also riding on the success of some of its other vehicles, but the 1998 merger with Daimler-Benz would prove difficult. The next three years were very tough for Chrysler as part of DaimlerChrysler AG. After several years of strong car and truck sales, demand for the company's high-margin minivans and SUVs was cooling off, primarily because the competition was catching up.

During this period, Chrysler hired large numbers of people. All of the excess, coupled with the absence of distinctive new vehicles, led to financial trauma. When Dieter Zetsche took over as CEO, he found a lot of complicated financial projections but no thorough analysis of the company's strengths and weaknesses. He

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Trap No. 2: Pride

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Chrysler's Comeback Car

Zetsche's comeback plan began to take hold in the spring of 2004, with the introduction of the Chrysler 300 sedan. Its hulking look, small side windows and massive egg-crate grille caused *Car and Driver* magazine to describe it as: "This mobster in a pin-stripe may just save the franchise." It was named *Motor Trend*'s Car of the Year.

The secret to Chrysler's turnaround, driven by CEO Zetsche, was summarized well in the *Wall Street Journal* when it said, "Mr. Zetsche pushed engineers working on new cars to give each model features customers can't get elsewhere, additions for which they might pay extra."

quickly moved into action, cutting 20 percent of the work force and reducing the cost of parts by 15 percent. Zetsche also took it upon himself to get the excitement back into Chrysler's vehicles. ■

Trap No. 3: Boredom

Clinging to your once-successful branding after it becomes stale and boring is a dangerous hole to fall into. American fast-food giant McDonald's fell into this trap in 2002 as customers complained about slow service, rude employees and cardboard-tasting food. Because the food chain had become so accustomed to being on top, it had let all the elements of its marketing slide into disarray: ineffective strategy/theme, lack of acknowledgment of current trends and poor execution at the store level.

The business world is full of examples like this: once-exciting brands that became dull, old and stale. This often happens because less focus is placed on the brand once it is successful. The folks running those brands assume that they have found the magic formula and now it's time to sit back and reap the benefits.

Be Clear and Concise

It is startling to see how many products in the marketplace are struggling as a result of a severe case of lack of identity. A great example of understanding distinctiveness and freshness is Harley-Davidson. In 1985, the company was in trouble. Its motorcycles were of poor quality, but the most severe problem was constant oil leaks in the bikes.

Fortunately, Jeff Bleustein stepped in as the engineering vice president during this decline and finally conquered the quality issues. From that point on, Harley-Davidson became an incredible success story, primarily because of fantastic branding — it essentially built a motorcycle cult. It tackled the building of this brand from many angles, but the core element in all its products and marketing was the distinctive Harley attitude of individualism, freedom and rebellion.

Focus Relentlessly on Details and Execution

Starbucks is an excellent example of superb brand execution. The company has a very clear picture of what it wants to be in the consumer's mind, and it works endlessly to have every aspect of the consumer experience line up with that objective.

So how do Howard Schultz and his team keep that consistent Starbucks experience while constantly refreshing the product line? Their success comes from the way the company connects with customers, communities and each other. As Schultz has said, Starbucks is not in the coffee business serving people, it's in the people business serving coffee. A typical customer stops by his or her favorite Starbucks an average of 18 times a month. No American retailer has a higher frequency of visits. Starbucks exemplifies the essence of keeping the core of a brand strong. ■

Trap No. 4: Complexity

As successful organizations grow, they often fall into the trap of hiring too many people, which makes the organization more complicated. Organizations then reorganize into smaller groups to get as much clarity as possible, but this often leads to unproductive fragmentation of processes that should be carried out organizationwide.

Don't Wait for the Crisis

Why is it so hard to constantly push for improvement in the processes that help run the organization? The reason is that change is very hard for individuals to accept. The price you pay for waiting and allowing that process to become out of date can be enormous. Eventually, you end up in crisis mode, trying to fix things just to catch up, without any notion of actually trying to get ahead of your competition. In addition, by tackling these things when they are running fairly well, you have more of an opportunity to experiment with different approaches, since you are not under the gun to fix the problem now.

Schneider National is a trucking company that serves customers such as Wal-Mart and Lowe's. During the 1980s and 1990s, when Schneider was growing quickly, its services were in high demand because the trucking

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Trap No. 4: Complexity

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industry wasn't very well-developed. However, in 2000, the company's growth began to sag due to the increased overcapacity in the industry and the slowing economy.

In order to deal with this impending crisis, Schneider National put some operational principles in place to ensure that this didn't happen again. Here are the six steps Schneider took to put a set of procedures in place on an ongoing basis:

1. Process focus. Schneider developed an enterprise model that described how the business works. It then dissected that model into its component processes and committed itself to constantly perfecting each one.

2. Process owners. Each of the processes outlined in the enterprise process model was assigned a particular process owner, who was a senior executive empowered to make whatever changes were needed to keep that process superior to the competition.

3. Managerial engagement. The management of an organization has to provide strong leadership by setting an expectation that things will constantly be improving.

4. Full-time design teams. When potential improvements in a process are spotted, people need to be assigned to the task of achieving those improvements, and they need to be working on them full time.

5. Building buy-in. The design team needs to get people's ideas and work to enroll people in the cause to make significant improvement.

6. Bias for action. Both the design team and the process owner need to operate with the mindset that says that 80 percent is good enough. At Schneider, the design team adopted a principle of "70 percent and go." This means that when the team developed an improvement, even though it hadn't achieved perfection, it implemented what it had and modified it on the fly.

The six steps should enable an organization to avoid crisis, but a strong focus on continually achieving simplicity, efficiency and standards is required. ■

Trap No. 5: Bloat

Successful organizations that were once agile typically tend to reward themselves with more manpower. These additional employees tend to make the business more fragmented, which complicates and slows down decision making. It also leads to slow reaction times when there are changes in the marketplace and to a defensive attitude.

Assign Top Talent to the Tough Issues

Volumes have been written on the importance of getting the right people in the right jobs. Different organizations go about this in a myriad of ways, but once these people are on board, you need to get them excited about what they can achieve, and then delegate responsibilities to them and see what they can do.

At Microsoft, they tend to look for individuals who have a passion for the computer industry and, most important, are super-intelligent. The company trains its current employees to interview candidates for passion and intelligence, seeking people from top schools and other companies. Microsoft's emphasis is on IQ, and recruiters are taught a variety of questions to use in probing for the desired intelligence and problem-solving skills.

For example, a candidate might be asked to estimate the number of gas stations in the United States. What's important is to see what kind of steps this candidate will come up with on the spot to make a reasonable estimate. The recruiter isn't after a "correct" answer; he or she is interested in the speed and creativity with which the candidate could put together a reasonable process for making a logical estimate. One of Microsoft's core competencies is recruiting top talent. The company recruits for incredible enthusiasm and raw intelligence, which has largely helped its successes over the years. ■

Trap No. 6: Mediocrity

Many organizations fall into the trap of sloppy personnel management. This is dangerous, since people are your most important asset. These companies treat all their employees well, but they also treat all their employees the same.

While many companies take pride in this approach, the problem is that the superstars don't get challenged to their full potential and the poor performers don't get confronted. Typically the performance appraisal system atrophies to the point where it is nearly nonexistent. The organization evolves from a meritocracy to one that is attempting to create a team spirit centered on a successful past.

There are four steps that you need to take to revitalize your talent pool and to create that lean, mean fighting machine. These steps seem to come right out of a human resources textbook, but it's shocking how seldom they are done well.

1. Institute a performance appraisal process that is actually used for each and every employee at least

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Trap No. 6: Mediocrity

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annually. Make sure that there are checks and balances to ensure that everyone gets a high-quality appraisal and that the ratings for people are adequately spread out. Roughly 10 percent of your people should be classified as excellent, and there should be 10 percent who are clearly classified as doing unsatisfactory work. The middle 80 percent need to be managed according to how they are doing.

2. Compensation plans as well as emotional rewards need to vary significantly by performance rating. Your strong performers should get significant rewards, and your poor performers should get virtually nothing.

3. Get rid of deadwood. You need to deal with those weak performers. Everyone in the organization knows who they are and is watching how you are going to deal with them. If you put up a weak performance, it sends a signal that people really don't have to work hard to do just fine.

4. Fast track your superstars and rotate your average performers. Leaving people in a job too long is bad. The superstars need to be stretched, and the average performers will become the protectors of the legacy practices they are familiar with. This hurts the organization, and even more dangerous, the organization begins to believe that those individuals are critical and must be left in their current jobs because they represent a scarce resource that has deep accumulated knowledge.

Organizations need to be anxious to take on the next challenge. Even if a business is in the midst of a raging success, it needs to create an atmosphere that clearly states that it is after the next level of excellence. ■

Trap No. 7: Lethargy

Success can often cause businesses to become lulled into a culture of comfort, casualness and confidence, where negative characteristics are consensus-oriented decision making, ambiguity and a lack of aggressive behavior in general. This leads to the following four traits, which can cause things to get worse.

1. Your company always adds projects and never eliminates any. This kind of behavior comes about because the view is that this is a successful company, and successful companies dabble in a lot of projects. Nonetheless, you need a process for regularly inspecting the list of things happening in a group and cutting out the marginal things or those that have dragged on too long and never contributed to the business.

Clarity, Simplicity and Repetition

In order to fight the trap of lethargy in an organization, the following three guidelines should be followed in order to ensure success:

- **Everyone should describe the culture in the same clear way.** If employees hear confusing messages from various leaders or if they notice that some of their leaders' behaviors don't match company values, the culture will weaken and fragment quickly.
- **The message should be simple.** Everyone in the organization should be able to immediately state the organization's key values.
- **The values need to be repeated.** There is no substitute for employees hearing management refer to the values on a regular basis and observing behavior that is consistent with those values.

2. Your company hires excessively. Often the thinking is: If we are successful, we need more people so that we can do even better in the future. Headcount needs to be carefully managed, and new ideas should be staffed by killing old, stale projects.

3. Your company lacks intensity about the competition. Your company culture needs intensity, focused on the fact that business momentum is always created by distinctiveness and uniqueness that has an appeal to customers. You should always be rallying the troops around your latest distinctive product to continually create excitement.

4. Your company fears change. Managers need to be constantly reorganizing employees around big opportunities — this helps create an agile and aggressive culture.

Southwest Airlines

In 34 years, Southwest has grown to be a company with about 35,000 employees, its plane fly to more than 60 cities and it has a fleet of almost 400 Boeing 737s. The first three years after 9/11 were brutal for the airline industry. During that period, the major carriers laid off thousands of people and collectively lost $22 billion. However, Southwest did not lay off a single employee during that three-year period, and it remained profitable each quarter. In May 2004, Southwest became the leader in the number of domestic customers it carried per year, surpassing all other airlines in the United States.

There's no doubt that Southwest wins the clarity, simplicity and repetition award in keeping its values and its culture absolutely constant. Keeping with these guide-

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Trap No. 7: Lethargy

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lines is at the heart of the company, and it's amazing how much success it has generated in one of the toughest industries. ■

Trap No. 8: Timidity

Organizations tend to fragment into fiefdoms. Management falls into the trap of ignoring the typical buildup of divisive turf wars and infighting. This can occur at many different levels. It can involve warring individuals within a group or a department, or it can involve warring groups. In the worst case, the whole organization, with its various divisions, groups and individuals, is working to protect various turfs.

Once you have information about where the silo and fiefdom problems are, the tough part is doing something about them. That requires nerves of steel and strong leadership skills. However, the situation has to be confronted. There are two tools for breaking up fiefdoms:

1. Place strong performers from outside the fiefdom in key jobs within the fiefdom. This will not only provide some fresh new direction, but signal that "the party is over."

2. Dismantle the fiefdoms by reorganizing. This forces people to get back to basics and realize that changes are what will be required.

Assemble a Team You Believe In

Too often in business, we think that certain people have deep expertise and experience and we are afraid to move them out. This is usually a gigantic mistake. Naturally there are exceptions to this rule, but even in those cases, beware.

The automobile business provides a rich example. In the 1950s and 1960s, Porsche established itself as the thoroughbred luxury sports car brand. Starting in the early 1970s, however, it had a very difficult time, and by the early 1990s, Porsche was a company in deep distress. It had an antiquated, legacy production system that was very inefficient, and it had experienced two decades of failure to broaden the appeal of its product line.

One of the first steps that the company took was to create a fresh leadership team. In 1993, the Porsche board of directors set out to assemble a new executive team. It named Wendeline Wiedeking as the new CEO. One of Wiedeking's primary strengths was his ability to make principled but unpopular decisions.

Next, Porsche tackled its poor-performing legacy manufacturing process. It took three years to generate significant improvement, but by 1997, Porsche workers took only 45 hours to build a 911 model vehicles, compared with 120 hours in 1991.

Once production problems were dealt with, management turned its attention to modernizing the product line. It updated the 911 model to make it more luxurious. In addition, Porsche created a mid-engine roadster, the Boxster. This was a smaller, less expensive version of the 911, with a very sporty look and great performance. By 2003, the Boxster accounted for 40 percent of Porsche's unit sales worldwide and 50 percent of its sales in the United States, Porsche's largest market.

By the end of 2004, the automobile manufacturer was in high gear. The 911 model was as healthy as ever, the Boxster was a raging success and so was the Cayenne SUV. Looking back to 1993, this is a clear example of the value of getting new talent and letting these people build a unified team to achieve great things. ■

Trap No. 9: Confusion

Many leaders of successful organizations fall into the trap of confusion and schizophrenic communications. They will describe a direction one day, then change their position the next day; or they will say one thing, but their actions won't support it.

These kinds of communication issues happen at all levels of the organization. The problem can be a first-level group manager who constantly confuses his six direct reports about the direction of their efforts. The reason is that he has not internalized the need to change anything. It can be a division vice president who doesn't have a clear direction for the people of his organization, even though the problems are mounting, a competitor is thriving or an opportunity is being mismanaged.

Wal-Mart's Communication Process

Back in the early days of Wal-Mart, Sam Walton personally designed a process that was used every week to continually collect information on the company and its competitors. It was done to find out what was and wasn't working, as a basis for modifying plans accordingly. After all, Walton would point out, the customers and employees in the stores know best what it will take to keep Wal-Mart on top. The whole communications process was focused on tackling missed opportunities promptly and getting them fixed within days. The repetition of this process week after week sent a clear signal that store execution was absolutely king at Wal-Mart.

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Trap No. 9: Confusion

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Make Expectations Clear

When driving change, the leader needs to describe specifically what the goal is and how progress will be judged. Here are three guidelines that will help in the communication of clear expectations.

• **Simplicity.** You need to tell employees what you are asking for and why you are asking for it. Your message needs to be succinct, understandable and sensible.

• **Standardized measures.** It's ideal if you can develop an exhibit or two showing the data or charts that you are using to determine whether you've achieved the goal or not.

• **Continual inspection.** People need to know that management cares and that it is using specific measures to determine whether success is being achieved.

Employees get very confused and nervous when a leader is ambiguous and confusing about what the group is trying to achieve. It touches off debates and defensive attitudes as the confusing messages accumulate.

It sounds very simple to always have in front of employees a description of the desired outcome, the current status of things and clear expectations of what should take place in the immediate and long-term futures. However, this can often be harder than you think, but it has big payoffs in achieving and sustaining success. ■

The Key to Continual Success

A key lesson is that no matter what the history of an organization is, once a degree of success is achieved, it breeds a culture of a lack of urgency, complacency, excessive pride and a protective attitude toward the way things have been done in the past. Success also encourages an entitlement mentality that assumes since you've done well in the past, that will always be the case.

The humbling part of business is that just as soon as you have achieved some degree of success, word gets out. Your competitors are observing you, and they are hungry and anxious. They are plotting aggressively to move ahead of where you are.

However, there are two guidelines that are exceptionally important once you reach the point of success and stability. Practice them at all times.

1. When you are a winner, be as aggressive as you were when you were lagging behind. Remember the high sense of urgency when the competition was ahead of you and you were hustling with the bright idea that you believed you could put your company out in front. In any organization, that same degree of urgency needs to exist at all times.

2. Develop a culture that constantly questions all practices at all times. You need to become a student of your areas of responsibility and the areas around you. You also should constantly be probing for new and better ways to do things, while continuing to execute your current responsibility with excellence.

Resting on Your Laurels Is Never an Option

There is one company whose ups and downs over the years provide a great example of an organization that has lost momentum because of all the success-induced traps previously discussed. That company is Apple.

In the early 1980s, Apple was truly on top of the new and exciting personal computer industry. Steve Jobs, Apple's cofounder, was heaped with lavish praise. But by 1983, Apple's business was softening and Jobs took the very unusual step of hiring someone from outside of the computer industry to join the company. He chose John Sculley, former president of Pepsi-Cola USA, the beverage subsidiary of PepsiCo. Sculley got off to a slow start, and it was clear that Jobs and Sculley were having difficulty figuring who should do what — the classic case of two people trying to do one job.

More than 20 years later, in March 2006, Apple sold its billionth song from its iTunes Store. Stepping back, the difference between Steve Jobs' behavior in the mid-1980s and his incredible energy and innovation in the late 1990s and early 2000s is amazing. In the early 1980s, Apple and Jobs were flying high, and then they tanked because Sculley and Jobs did not rally around a focused plan and because of Jobs' proud and protective attitude toward the Macintosh.

Apple's volatile history is an extremely rich reminder of the need to constantly be vigilant in your efforts to improve. You must remember, no matter how many times you have been up or down, watch out for the wicked traps that success creates. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Seduced by Success*, you'll also like:

1. ***Driving Change*** **by Mike Brewster and Frederick Dalzell.** We see those brown trucks everywhere — to most people, UPS is a reliable fact of life. But to well-informed businesspeople, Big Brown is a company to emulate.
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3. ***Exceeding Customer Expectations*** **by Kirk Kazanjian.** While providing a thorough case study of the success of Enterprise Rent-A-Car, Kazanjian also gives an in-depth look at the strategic management practices that have boosted the company to the top of its industry.

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Management : Strategies

Spark

How Old-Fashioned Values Drive a Twenty-First-Century Corporation: Lessons from Lincoln Electric's Unique Guaranteed Employment Program



by Frank Koller

THE SUMMARY IN BRIEF

The Cleveland-based arc welder manufacturer Lincoln Electric has survived two World Wars, the Great Depression, globalization, the decline of industrial America and the recent credit crash — and yielded impressive profits throughout.

In *Spark*, journalist Frank Koller investigates Lincoln Electric's inner workings and reveals surprising lessons about what happens when managers view their employees as valued assets rather than costs.

Lincoln Electric operates on a solid foundation of loyalty, trust, flexibility and a fair reward for a job well done. At Lincoln, any of the 3,300 employees can approach the CEO with a problem — or an idea. There are no designated parking spots; everyone enters and exits through the same front doors and eats in the same cafeteria. Any employee with more than three years of tenure, and who meets the firm's performance benchmarks, is part of Lincoln's "Guaranteed Continuous Employment" policy, a promise that the company will do everything it can to avoid layoffs.

Lincoln Electric draws strength from its most valuable resource: its employees. And the employees know that as long as they work hard for Lincoln Electric, their employer will work hard for them.

IN THIS SUMMARY, YOU WILL LEARN:

- How to succeed by treating employees the right way.
- How more equitable practices can rebuild trust in management.
- How compensation can grow in tandem with productivity and profits.
- How unusual policies can add value to your people, customers and society.

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THE COMPLETE SUMMARY: **SPARK**

by Frank Koller

The author: Frank Koller covers the workplace for the Canadian Broadcasting Corp. (CBC). During a 27-year career with CBC, he has worked and lived around the world as a foreign correspondent, including seven years in the United States. He holds a master's degree in engineering from the Massachusetts Institute of Technology.

Spark: How Old-Fashioned Values Drive a Twenty-First-Century Corporation: Lessons from Lincoln Electric's Unique Guaranteed Employment Program by Frank Koller. Copyright © 2010 by Frank Koller. Summarized by permission of the publisher, Public Affairs™, a member of the Perseus Books Group. 249 pages, $25.95, ISBN 978-1-58648-795-9.

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Preface

Lincoln Electric was founded in Cleveland in 1895, at a time when the city was one of the most important industrial centers in the United States. But starting at the end of World War II, Cleveland's big manufacturing companies deserted this quintessential Rust Belt hub in a steady stream. Yet, Lincoln Electric stayed put, expanding its footprint in the community year after year by buying up the neighboring deserted properties of those who fled, as well as investing heavily in a new research center for robotic welding and expanding operations abroad.

At the end of 2008, none of the 3,300 American employees preparing to listen to the annual bonus announcement had any illusions that their company was immune from the economic chaos affecting the global economy. The global welding market was in trouble just like virtually every other part of the economy. But unlike millions of other American workers, those at Lincoln Electric could look back over their company's long history for reassurance that they could survive the hard times ahead. Two indisputable facts provided comfort. First, for more than 60 years, no permanent employee of the Lincoln Electric Co. in Cleveland who meets the firm's performance standards had ever been laid off due to lack of work. It's a promise, a company policy enshrined in the *Employee's Handbook*. Second, for 74 uninterrupted years starting in 1934, the company had paid out a profit-sharing bonus just before Christmas. Based on an annual merit-rating program, the bonus had almost always exceeded 60 percent of an employee's basic earnings. In a number of those years, it had exceeded 100 percent.

John Stropki

When John Stropki, the chairman, president and CEO of the company, took the stage at 3 p.m., the cafeteria was completely packed. Toward the end of the 30-minute presentation in which he reviewed the year just ending and then looked ahead to 2009, Stropki said, "No one is certain as to how long the current recession will last or how severe it will be. In anticipation of a long, deep recession, we will continue to look for ways to reduce our overall costs and do it in a way that protects our long-term financial viability and preserves our long-standing and very successful Guaranteed Employment Policy."

Then, before every employee in the cafeteria — and across the United States — was handed a personalized white envelope, Stropki announced that the check inside represented roughly 61 percent of each employee's base earnings: The average bonus being handed out was $28,873. Furthermore, no permanent Lincoln Electric employees in the United States were laid off for economic reasons in 2008.

Good Business

The day before the 2008 bonus was announced, Stropki was asked why his firm had stuck for so long with a promise to place the interests of its employees on par with those of its customers and its shareholders.

"I don't think of this as a social responsibility," Stropki answered. "I think my philosophy and that of my predecessors is that we can perform in an economically challenging environment, and we can spread that pain in a way that long term will better represent our shareholders' interests without crucifying our employee base, and

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we think it is good business, not bad business, to do that."

For nearly a century, through thick and thin, Stropki, his predecessors and the company's employees have been able to sustain their unusual and beneficial relationship. The company's perennially robust profit margins (driven by consistently innovative technology), the dramatically heightened job security and quality of life enjoyed by its employees and the benefits that accrue to the local Cleveland economy should give the rest of the American business world pause.

The Lincoln Brothers

John C. Lincoln

In the summer of 1895, John C. Lincoln, a 29-year-old family man with a wife and two young children, was laid off from his job at a small Cleveland, Ohio, manufacturing company that made electric motors.

Rather than scramble to take the first job he could find by working for somebody else, John decided to gamble by striking out on his own: He opened up the Lincoln Electric Co., a business dedicated to designing and manufacturing electric motors.

Like any small-scale entrepreneur, John did everything and anything to grow his new business. He designed small custom-order electric motors, wrote and sold an instruction manual on the principles of electricity and even began experimenting with electric automobiles.

Well before World War I began in 1914, the electric car in the United States was already losing its battle against the gasoline engine. But as the electric automobile market withered away, John realized he was still holding a winning hand in a promising new field: The powerful electrical current produced by his motor-generator unit could do much more than charge a car battery — it could also create an arc of electricity hot enough to melt steel.

James F. Lincoln

John's growing company, which, by 1907, had more than 30 paid employees, clearly needed a firm hand in the front office. John found the answer to his dilemma in his younger brother, James, who had agreed to join the company after dropping out of engineering at Ohio State. Almost instantly, it became clear to both men that James was much better suited to the day-to-day challenges of the business world.

Within two years, they had designed, built and sold their first welding machine, a behemoth that weighed more than 1,500 pounds. Over the next few years, John was granted several groundbreaking patents that ensured Lincoln Electric's early technological lead in the new industry.

In 1914, he appointed James, then 31, as general manager. The younger Lincoln brother was a natural in the business world, an inspiring and charismatic leader who, from the start, was determined to earn the loyalty of every employee. Under James' leadership, Lincoln Electric commenced its steady ascent over the next few decades to its prominent position in the global welding industry.

A Four-Part Management System

James Lincoln recalled the challenge he faced when he took over the day-to-day management of Lincoln Electric: "I knew that if I could get the people in the company to want the company to succeed as badly as I did, there would be no problems we could not solve together."

Within a few years of taking the helm of Lincoln Electric, James had introduced three of the four major components of the management system that has proved enduringly successful:

1. **A company-wide "open-door" policy of internal communications.**
2. **The use of piece rates to pay workers in the factory.**
3. **An annual merit-based bonus system.**
4. **The promise of guaranteed employment.**

The fourth took longer to become reality, but was part of his plan from the early days.

At his core, James believed every company had to earn the right to expect hard work from its employees, but at the same time he was absolutely convinced that no employer could expect to motivate its employees to work hard just by paying money. He would argue, passionately, that first and foremost employees wanted to be respected as human beings who were engaged in a process of creating a worthwhile product.

Once employees came to believe that they were truly valued as individuals — in other words, that respect was the everyday currency of the workplace — James was convinced working hard would become the norm, not a rarity. Respect also required employees to shoulder a sense of responsibility for the well-being of each employee in the firm, particularly to allay what James believed was the worst fear of every working man: "He has learned from bitter experience [that] when business was slack, he was tossed out on the street, often with no

more thought for his future than was given to any other worthless scrap." ●

The Merit-Based Bonus

The dollar amount of Lincoln's annual bonus — an average of $28,873 in 2008 — has been an object of amazement and a subject for controversy from the day it was first paid out in 1934. Over the decades, the bonus has ranged from more than 120 percent of base pay to (exceedingly rare) as low as 25 percent; since 1955, it has averaged 77 percent.

Given that the company has paid its annual bonus for 75 years without interruption, Lincoln employees have become accustomed to receiving a large financial reward for working hard, although most try hard to guard against becoming complacent about it. Yet while the amazingly large dollar value of the publicly announced average bonus receives the bulk of attention outside the company, the merit rating is what drives intense interest inside the firm, because it is the merit rating that determines whether each individual employee receives a larger, or smaller, bonus than the average.

How the Merit Rating Works

A small example: In 2008, an *average* Lincoln employee (one who earned 100 merit points) received a bonus worth 61 percent of his or her base wage. For someone on the assembly line, a welding-lab technician or a junior engineer earning $50,000 in basic wages last year, that meant a bonus of $30,500, for a total pay of $80,500. An employee who earned the same $50,000 in base wages but received a higher merit rating of 120 points (perhaps because he or she was rated as more of a team player in the factory) would see his or her bonus increased by a further 20 percent: The bonus would be worth $36,600, resulting in total pay of almost $87,000. In similar fashion, a merit rating of just 80 points would result in lower overall earnings of just $74,000.

The merit rating also identifies employees who are failing to meet the company's demanding performance standards. Persistent merit ratings below 80 lead, first of all, to discussions between management and an employee about his or her future with Lincoln Electric and, ultimately, may be used in an evaluation process leading to dismissal.

In the early days of the bonus, Lincoln Electric was small enough and James was confident enough about his managerial judgment that he personally reviewed and compared the performance of every worker in the company. But after World War II, merit rating evolved into a much more sophisticated process. Yet, as with so much at Lincoln, the merit-rating system of 2008 is remarkably similar to that in place a half-century ago.

Performance Attributes Ratings

Several times during a year, every employee on piecework is rated by his or her supervisors on five different performance attributes, each measured on a 20-point scale: overall *productivity;* overall *quality* of the work performed; the extent to which the worker demonstrates *adaptability* and *flexibility* on the job; his or her *dependability* and sense of *teamwork;* and, finally, the employee's awareness and compliance with the company's *environmental, health and safety* priorities. An employee can be awarded more than 20 points on a particular scale for clearly superior performance, but only if someone else in the same work group being evaluated by that supervisor receives less. In other words, there is a limited number of points to be distributed among any group of workers.

Lincoln Electric's hourly and salaried employees are rated on a slightly different set of metrics. Obviously, the *quantity* or *quality* of work performed by a factory worker winding transformer coils is easier to measure than the work performed by a design engineer or an accounting technician. The "Performance Development System" used for these employees draws on a more modern management lexicon of *goals* and *core competencies,* designed to measure and rank attributes such as decision-making ability and judgment, customer focus and innovation. In the end, however, the overall evaluation structure and its financial implications for individuals are similar for every employee in the company. ●

Understanding What the End Game Is All About

As director of manufacturing for Lincoln Electric, Lee Seufer is responsible for overseeing production of the machines that have kept the company at the forefront of the global welding industry for more than 75 years. After nearly three decades, exercising caution and care with employees is as much a part of Seufer's job as it is to ensure the quality of the company's latest welding machines.

Seufer said, "I know we always have lots of good work under this roof for people to do, and my goal is always to take people and put them working on something more interesting that we can't mechanize." And in tough times? "We are not going to lay you off because things are slow, and you are not going to lose your job!"

But there is one absolute prerequisite for employees looking to benefit from Lincoln Electric's guaranteed

employment program, stresses Seufer: "The guaranteed employment promise depends on everyone — from management to the employees — understanding what the end game is all about."

Lincoln's End Game

The "end game" is to ensure the continuous profitability of a technologically savvy manufacturing firm in an exceedingly competitive global marketplace. That was John's goal in 1895, James' goal when he took over in 1914 and it has remained the goal of every CEO ever since. It is also the game plan for every other private business in the country. But what sets Lincoln Electric apart is that the company has shown that it can achieve its goals while demonstrating a degree of respect for its workers that is exceedingly rare in the United States.

James Lincoln always said that only the firm's satisfied customers, not its management, could really guarantee employment for its workers. But during the 1950s, once the idea of formalizing the guarantee had been raised at an Advisory Board meeting and James had agreed to make it a priority, senior executives began to analyze how a formal promise could survive the regular ups and downs of normal business cycles. (By that point in the company's history, there had apparently been no layoffs for several decades, which must have been encouraging for everyone involved.)

Two recessions, in 1954 and again in 1957, tested management's evolving strategies to keep people at work without threatening long-term growth. Gradually, James grew confident that a no-layoff policy could work, and in 1958, the board voted to adopt the Guaranteed Continuous Employment Plan. It remains in place, essentially unchanged, to this day.

Guaranteed employment, as people inside the company call it, is not about jobs for life. It is a contract that describes, in precise detail, the obligations of workers and management on a day-to-day basis and the penalties that ensue when the obligations aren't met. New employees are introduced to the policy as soon as they are hired, and everyone understands the terms of the plan and what it means for them.

From its earliest days, Lincoln Electric has always relied on the flexibility of its workforce — in pay, hours and assignments — to act as a buffer against the unpredictable ups and downs of the business cycle. Being thinly staffed is almost a corporate virtue, said Gretchen Farrell, vice president of human relations, and essential to maintain the commitment to guaranteed employment.

Lincoln Electric's Guaranteed Continuous Employment

- It is seen as a competitive advantage for the company.
- It provides covered workers with security against layoffs due to lack of work when the economy slows down.
- The plan covers permanent employees in Cleveland (95 percent of the company's U.S. workforce) who have completed three years of service.
- Employees are guaranteed at least 30 hours of work per week.
- Employees are required to work overtime whenever scheduled.
- Workers are not guaranteed a particular job or rate of pay.
- Every employee must be willing to accept transfer from one job to another.
- The plan only covers workers who uphold Lincoln Electric's well-defined performance standards.
- If the company's survival is threatened by conditions beyond its control — from recessions to natural disasters — the guarantee does not hold.

The Proper Step Forward

Why did James ultimately offer his employees a guarantee of steady work? Why wasn't he threatened, like so many employers at the time, by the idea of giving up one of the most powerful tools available to any CEO, the right to cut his workforce whenever it seemed necessary? In part, he was motivated by the religious values he was imbued with while growing up as the son of a deeply pious Congregationalist minister. He genuinely wanted to treat people well.

James was convinced that workers who feared for their jobs would never demonstrate much enthusiasm for their work, let alone any creativity. "There may even be no conscious effort to hold back progress," he cautioned, but a worker will never try to put his mind to creatively solving a problem if in doing so "he is threatened with the loss of his job by a better way of producing."

To some observers, a guaranteed employment promise sounds like charity, not sound business management. Not to James: "It is no part of management responsibility to be merely kind to workers," he stressed in his

writings. "Managers are responsible for efficiency in their industry … efficiency depends on human cooperation … cooperation [demands that] the fear of losing income will be eliminated. … This can only be done by guaranteeing continuous employment."

A Formal Guarantee of Steady Work

Sometime around 1950, the idea of a formal guarantee of steady work was first raised at a meeting of the Advisory Board, and in January 1951, James began sharing his thoughts on the proposal with employees. Several memos speak of his conviction that a program that had already been in operation for roughly 25 years was probably worth taking to its logical conclusion, but he cautioned his employees that it could also bring hardships. James was trying to ensure that everyone would understand that while great shared gains were possible with guaranteed work, so too was shared pain in tough times.

"It is an experiment that poses many problems," James wrote on Jan. 16, 1951. "Some of these must be answered, of course, by management, but some of them also must be answered by the producing worker. While continuous employment … would undoubtedly increase the total income to all people, yet there is little doubt that in extreme conditions it would reduce the bonus. … It is my belief that it is the proper step forward, but there are many problems which must be acknowledged if we are to succeed."

James' biggest challenge in implementing guaranteed employment — and it remains the biggest challenge for any employer — was to ensure that his employees trusted him to keep the promise. There would be many sacrifices required of employees in the short run to make the system work for everyone in the long term, and employees would never be willing to make those short-term sacrifices if they didn't believe James would deliver in the long term.

The Challenge of Employee Trust

Trust is generally missing in a reading of the history of guaranteed employment over the past century or indeed of the history of many other issues involving management in the American economy. Over and over, senior managers seem to have started down the road to a no-layoff policy, only to quickly resort to layoffs when they were faced with a serious financial crisis. Lincoln Electric approached a guaranteed employment promise extremely cautiously, however. The idea had been part and parcel of the day-to-day management system for several decades before James suggested that it could formally become company policy.

Once implemented, the promise could never be broken; there would be no second chances for guaranteed employment. James was convinced it was a risk worth taking.

The Importance of Flexibility

If trust is the first overarching principle necessary in any workplace that hopes to thrive with a guaranteed employment promise such as Lincoln Electric's, the second is surely flexibility. Everyone — from the bottom to the top of the company — must be willing to be flexible about virtually everything involved with doing a job and being paid for it.

Layoffs Aren't a Big Deal Anymore

Lincoln Electric has always operated under the assumption that an energetic pursuit of corporate profits is not inhibited by an equally determined commitment to raise the fortunes of its employees; in fact, the two are interdependent. As proof that Lincoln Electric's business model can survive the rough-and-tumble of Wall Street, consider the company's financial track record: an average growth rate of 19 percent per year from 2005 through 2009, an average annual return on investment of 16 percent during those years, a long-term debt-to-equity ratio of only 9 percent, a bank balance of $406 million in cash and a larger global market share than any of its competitors.

The final verdict among researchers on layoffs is uniformly negative: In other words, layoffs consistently fail to achieve what executives who call for them expect and that, in fact, layoffs hurt everyone involved, from the workers who are let go to those who remain at the firms themselves.

Layoffs are sometimes unavoidable in the real world. Those researchers have no illusions about how our market economy operates. They understand that a corporation's future must be precisely plotted out with detailed strategies to ensure its survival, growth, the effective use of scarce resources (including employees, physical materials and finances), higher share prices and, ultimately, greater and greater profits.

Lincoln Electric is no different in that regard: Every employee knows that if abandoning guaranteed employment is the only option left to avoid a bankruptcy brought on by cataclysmic economic conditions, senior management will make that decision, albeit reluctantly.

Yet the latest research on layoffs and their aftereffects seems to raise serious doubts about the corporate and social wisdom of regarding this strategy as anything but an absolute last-ditch survival option. The decision to order a layoff seems to be a choice that is, on one hand, very risky for the firm and, on the other hand, almost always very costly in human terms for the workers let go and for society at large, which finds itself forced to deal with the aftereffects.

Layoffs Are Deadly

For example, in December 2007, economists Daniel Sullivan from the Federal Reserve Bank of Chicago and Till von Wachter of Columbia University published the astonishing result of their research into mass layoffs and mortality. Their verdict: Layoffs are deadly.

Their research revealed a disturbing fact: "Male workers who suffer a permanent layoff in the middle of their working lives suffer an increase of 15 to 20 percent in their probability of dying in the following 20 years. If you summarize what that means over a lifetime, it turns into a loss in life expectancy of one to two years." The impact of the financial damage was so great that "it changed their whole lives … and workers with the greatest losses have the greatest reduction in their life spans," said von Wachter. "Losing your livelihood speeds up your mortality." ●

A Terribly Nonoptimal and Inefficient Policy

Wharton's Peter Cappelli argues that the majority of executives who order layoffs operate by "rules of thumb, and the most important one is 'What is everyone else doing?'" The resulting herd behavior creates a perfect feedback loop of reinforcing causality, where everyone comes to believe that there is only one way to reach the destination of sustaining profitability and growth: Keep the layoff lever close at hand.

Economists actually have a name for this phenomenon — path dependency — which is often described as the problem where "you can't get there from here because the road has been dug up."

When distinguished economist George Baker was asked why so many of his intellectual colleagues share his skepticism about a guaranteed employment policy such as Lincoln Electric's, even as they teach the case study that profiles what is arguably its most famous exemplar, he said, "Lincoln Electric is a special case, and by the way, it is not a panacea for them. When they go into tough times, it's really expensive for the company, and unless there is some other good reason for having it, as part of an incentive system like Lincoln's, in my view, you would be wrong to recommend it. The reason that people are so in-their-guts opposed is that, most of the time, it is really a terribly nonoptimal and inefficient policy."

Lincoln Electric's embrace of a guaranteed employment policy grew out of the desire of its founders to build a successful commercial enterprise. The ultimate goal was to ensure long-term growth and a steady stream of profits. In order to do that, the founders believed it was necessary to run a financially solid company that avoided taking undue risks or going into debt, to provide their employees with steady work and to share a significant portion of the profits with them.

An Egalitarian Work Environment

Lincoln Electric — the company and its employees — benefits significantly from a much more egalitarian work environment, in terms of pay and working conditions, than is found in the vast proportion of other American corporations. While the current economic crisis has certainly re-energized a debate about the growing financial inequality of American society, the value system that has produced the bloated executive salaries in so many sectors of the economy will not be transformed quickly. In the meantime, it's understandable that the vast majority of working Americans generally do not feel as if they are part of the same team as their company's CEO.

The Institute for Policy Studies reports every year on the exorbitant annual compensation paid to corporate leaders in America. Its latest estimate, for 2008, is that the average CEO in the S&P 500 makes 344 times more than the average American worker ($10.5 million versus $30,617). According to Lincoln Electric's annual report to the Security and Exchange Commission, CEO John Stropki made $4.6 million in 2008; that's just 150 times more than the average U.S. worker.

But consider this as well: At Lincoln Electric, the average worker made approximately $70,000 in 2008, more than twice the national average. Using that as a basis of comparison, Stropki makes just 65 times more than the average worker in his company. In addition, Lincoln Electric's executive ranks are relatively small for a company of its size, and in 2008 only four other senior executives earned more than $1 million (and none more than $2 million) in total compensation.

It's not just the relatively low salaries of Lincoln's senior executives that serve to dissuade others who might otherwise be interested in emulating the company's management system in their own companies.

"People do make different amounts of money at Lincoln, but the company tries hard to make you feel like you are part of a team," said Harvard's management and strategy expert Norman Berg. "The differential in symbols is enormous in most corporations, but Lincoln has always tried to minimize that — no preferred parking lots, no measurement of someone's status by windows — and those things appeal to most people."

No Status Symbols

Status symbols are almost nonexistent at Lincoln Electric. All of the employees at its Cleveland headquarters, from the CEO to the cleaners, enter the factory through one main door. There are no personalized executive parking spots. Only the CEO and a few vice presidents have offices with windows, while other senior executives work in windowless rooms that can best be described as bland, olive-green cells filled with a hodgepodge of mismatched office furniture. There is no executive dining room: Everyone eats in the basement-level cafeteria, where vice presidents line up with welders and engineers to receive trays of the hearty daily lunch specials.

This Is Not About Altruism

The business model that Lincoln Electric has built over the past 114 years has proven phenomenally successful, by any measure used to gauge success in the American economy.

Since the 1930s, the company has retained its position as the largest manufacturer of welding equipment in the world. The company now has production facilities in 20 countries and has been expanding its global footprint even during this punishing recession. Since becoming a publicly traded corporation in 1995, the company has earned an excellent reputation on Wall Street for consistently solid performance due to the skill of its senior management team.

It has kept open, and even expanded, its main production base in Cleveland while dozens of other large local employers have closed up shop and moved away, with devastating consequences.

And finally, for at least six decades, the company has honored a promise to its American employees never to lay them off for economic reasons.

Dismissing Lincoln Electric as an anomaly is nothing but an easy rationalization for continuing business — and layoffs — as usual. If Lincoln Electric can make guaranteed employment work, while achieving steady profits for the company and its shareholders and sustaining the otherwise decimated local community tax base, don't other employers have a social responsibility at least to try to understand how the policy operates and then to try in their own fashion to travel the same road?

After 100 years as a private business, Lincoln Electric was able to make the transition to become a public corporation, issuing shares and coping with all the complexities of external scrutiny while, to this point in time, still largely living up to the principles of its founders and its employees.

A Symbol of Hope

Lincoln Electric's success can serve as a symbol of hope at a time when the American economy doesn't seem to be working well for many citizens and their communities.

CEOs chanting "I have no option" as they announce layoff after layoff is really an admission of failure. With millions of Americans forced out of their jobs over the past several years, there is no excuse for continuing to accept failure as normal. It doesn't have to be that way.

Lincoln Electric offers proof that if a company truly values its employees, works to instill trust in the workplace and commits itself to ensuring the long-term financial stability of those workers, then that company can still thrive, innovate and survive the perpetual boom and bust cycles of a capitalist economy. It may even do so better than its competitors.

Embracing flexibility and trust in the workplace is difficult work, not only for management but also for employees, and the way toward a brighter, more secure economic future is not easy. The long and particular road that Lincoln Electric has traveled is not for everyone. But it is one that must be considered.

This country desperately needs more businesses to decisively set foot on a similar journey if it is ever to aspire to rebuild the social stability and widespread prosperity that have made America great.

RECOMMENDED READING LIST

If you liked *Spark*, you'll also like:

1. ***Driving Change*** **by Mike Brewster and Frederick Dalzell.** Businesses everywhere rely on UPS and its fleet of brown trucks to deliver their parcels. This summary lets you in on the secrets to the company's success.
2. ***Firms of Endearment*** **by Rajendra Sisodia, David B. Wolfe and Jagdish Sheth.** From Costco to Wegmans, the best companies connect with customers and employees alike. This book shares the keys to connect.
3. ***The Soul of the Corporation*** **by Hamid Bouchikhi and John R. Kimberly.** Discover how your firm's identity is related to — and different from — its organizational culture, brand positioning and reputation.

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Stephen R. Covey Guides You to a Win-Win

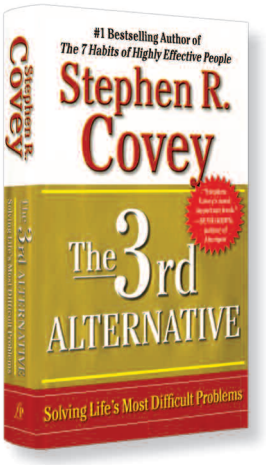
Review by Chris Murray

THE 3RD ALTERNATIVE: SOLVING LIFE'S MOST DIFFICULT PROBLEMS

by Stephen R. Covey

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In an age of contention and intransigence, when so many people, or certainly their leaders at the political level, seem to be deeply divided and unwilling to work together, the idea that there is a radical new win-win approach to conflict and collaboration is enticing. Knowing that this approach springs from the mind and work of Stephen Covey is even more intriguing, for with his first book, *The 7 Habits of Highly Effective People*, the then-unheralded Covey fundamentally changed the way many people approach life and success.



As with many of Covey's ideas, the titular concept in the book — the 3rd Alternative — is deceptively simple. In most conflicts, there are two alternatives: my way and your way. The key to resolving conflicts in a win-win way is to find a 3rd Alternative — "our way."

At first glance, this may hardly seem new. Aren't conflicts always resolved by finding a solution that, through negotiation, embraces a bit of my way and your way? As Covey emphasizes throughout the book, the 3rd Alternative is not a compromise that opposing sides can live with. Compromise is a lose-lose solution because each side must reluctantly give up — lose — something it wants. The 3rd Alternative is a win-win solution in which each side gets everything it wants.

Finding Harmony with an Alternative

Covey tells the story of how a government in an unidentified country decreed that all classroom time should be spent on core academic topics, such as reading and mathematics. There would be no time for music. This distressed one student's mother, who was a professional musician and thought that music was a key subject area that needed to be taught at school. It also distressed the girl's teacher, who agreed with the mother. But what could they do? The teacher's paradigm, forced on her by the government, was that all class time had to be spent on non-music classes. The mother's paradigm was that some class time should be devoted to music. Who would win?

They both did, Covey writes. The solution was for the teacher and the musical parent to teach the core academics subjects using music. Music was used to teach fractions (one eighth note plus a second eighth note equals one quarter note). Poems were sung. History was learned through the study of great composers and their times. Foreign languages were taught by singing folk songs of other countries.

Covey tells this story to illustrate the key ingredient to creating or discovering a 3rd Alternative: synergy. Synergy, of course, is based on the idea that the sum of the parts is greater than the whole. Music, in fact, is a great example of synergy. A beautiful harmony is impossible if you play one note and then another and then another. Adding single notes together might get you a melody (and a rather spare one at that), but no harmony.

The only time you will hear a harmony is if all the notes are played together. "Like musical notes, synergistic people do not lose their identity," Covey writes. "They combine their strengths with the strengths of others to produce a result far greater than anything either could achieve alone."

To resolve the dilemma of music vs. academics, the musical parent and the teacher combined their strengths to create a 3rd Alternative.

Readers will see in Covey's story the difference between what he calls traditional 2-Alternative thinking and a 3rd Alternative solution. The 3rd Alternative solution avoids the typical win-lose outcome that results from conflict. Covey's choice of education as one of the areas to illustrate his concept demonstrates two of his strengths as a writer. First, Covey grounds his argument in a simple scenario to which virtually every reader can relate. Second, he selects areas of society that would be considered hot-buttons for debate. This enables readers to actively engage with The 3rd Alternative on both a professional and personal level.

> ... Covey lays out a clear, step-by-step method for achieving a 3rd Alternative that is at once specific enough to be applicable, but general enough to be realistic.

Of course, not all problems are as easily resolved as the example of the music class. As expected, however, Covey lays out a clear, step-by-step method for achieving a 3rd Alternative that is at once specific enough to be applicable, but general enough to be realistic.

The Four Paradigms

The 3rd Alternative method is based on four paradigms — ways of thinking — that are completely different from the paradigms involved in 2-Alternative conflict and compromise.

The first paradigm is "I see my self." In other words, writes Covey, the path to the 3rd Alternative begins with self-awareness. It requires you to search deep inside yourself to clearly be aware of your motives, uncertainties and biases. Those who practice 3rd Alternative thinking, writes Covey, say: "I have examined my own assumptions. I am ready to be authentic with you." While 2-Alternative thinking begins with "I see my side," 3rd Alternative switches to "I see my self — independent of my side."

The second paradigm, according to Covey, is to accept and care for the other person in the conflict. In the traditional approach to conflict, people don't see another "person," they see the other "side." They don't see the opponent as a unique individual, but as a label of whatever the other side might be. In other words, the paradigm "I stereotype you" describes what most people are doing when they look at opponents in a conflict.

Covey makes an important distinction in the second paradigm that is particularly applicable to business. His ideas appear to reinforce the shift to collaborative, or solutions-based, sales. Salespeople in many organizations have transitioned from a hunter/prey approach to accumulating business to learning to care for the sales prospect and to understand his or her unique needs. The switch from combat to collaboration resembles Covey's paradigm to remove labels from the person on the other side of the bargaining table. This demonstrates one of several instances where, in lieu of a direct corollary, executives will need to interpret and apply Covey's ideas to the business world.

The third paradigm takes a new approach to the engagement of one party by the other. In the traditional 2-Alternative thinking, the opposing parties either refuse to listen to the other side or focus completely on defending themselves against that side. Third alternative thinkers, Covey writes, have a different approach: They actively want to engage the other person. In Covey's words, "the best response to someone who does not see things your way is to say, 'You disagree? I need to listen to you!'"

The fourth paradigm is where the synergy between the two parties occurs. By this point, each party has a more honest perspective of who they are themselves — someone with biases and perceptions, not someone with all the right answers. Each side also has a realistic and complete appraisal of the other person as an unique individual and not just a representative of the other side. Finally, both parties have successfully sought out and understood the viewpoint of the other person. The stage is now set for finding a completely new solution, using the strengths of both sides, that neither of them had imagined before.

Start With the Question

Covey acknowledges that synergizing effectually is a challenge and he offers four steps to synergy. The first step is to ask, "Are you willing to go for a solution that is better than any of us have come up with yet?"

The next step is to define the criteria. In other words, Covey writes, the next question is: What would *better* look like? Specifically, what would a solution that delights both of us look like?

The third step is creating the 3rd Alternative. The criteria is set and now comes the hard work of finding this

3rd Alternative that meets the defined criteria and, therefore, leaves both sides delighted with the outcome. Creating the 3rd Alternative is not easy. It requires brainstorming new frameworks, thinking completely differently from the past and suspending judgment, at least for a while.

As an example of how a 3rd Alternative can be created, Covey describes a long-standing battle over the pesticide DDT. DDT was once used effectively in the fight against the deadly disease malaria, caused by the bite of a mosquito. Because of this pesticide, deaths from malaria plunged. However, environmentalists led by Rachel Carson revealed that DDT and other pesticides were causing significant long-term damage to the environment, and the pesticide was banned. The result was an immediate and disturbing increase in malaria deaths. Pro-DDT and anti-DDT forces passionately argued for their position: the pro-DDT side argued that the benefits of DDT outweighed the consequences. Anti-DDT forces argued that the pesticide was too dangerous and that the breed of mosquito that carried malaria was becoming immune to the pesticide anyway. As the conflict raged on, the Bill and Melinda Gates Foundation quietly brought together a diverse group of experts from many fields to find a 3rd Alternative for reducing malaria. The combined forces of the Gates team developed a number of radical solutions to the problem. In one case, a rocket scientist suggested using lasers to shoot the mosquitos down, optical engineers experimented with blue lasers from ordinary DVD players, programmers created software to guide the lasers and an inventor put it all together with parts acquired from eBay. "Harmless to humans and wildlife, the laser is so finely calibrated that it can spot a mosquito by its wing vibrations and bring it down with a tiny burst of light," Covey writes. "Perimeter fences equipped with such lasers are capable of defending entire villages from malaria."

The fourth step is the arrival at synergy. The solution is found. Excitement has replaced conflict. "How do we recognize the 3rd Alternative?" Covey asks. "It's the one that meets our criteria of success. It does the job that needs to be done. It embodies the outcome we all want. It changes the game. It enables everyone to win."

The 3rd Alternative at School

The template for achieving the 3rd Alternative that Covey offers can seem a bit optimistic. It's one thing to write: "recognize your own biases," "listen empathically" or even "create a 3rd Alternative." It's another to achieve these kinds of positives in situations of conflict wrought with tension, emotions, high stakes and perhaps even a visceral dislike of people on the opposing side.

Covey, however, did not become one of the world's great thinkers on achievement and success by offering impractical pie-in-the-sky prescriptions that wouldn't work in real life. The 3rd Alternative is packed with examples. The description of the 3rd Alternative and the detailed step-by-step implementation guide only occupy one chapter of the book. The bulk of the book is contained in the seven chapters that illustrate, with myriad real life examples, how the 3rd Alternative applies to work, home, school, law, society, world and life.

The bulk of the book is contained in the seven chapters that illustrate, with myriad real life examples, how the 3rd Alternative applies to work, home, school, law, society, world and life.

The school chapter, for example, describes the familiar 2-Alternative debate over education in many countries. On one side of the debate are educators who believe that inequity — poverty, racism, dysfunctional families, low resources — are the cause of the problems in education. On the other side of the debate are what Covey labels generally as "business," that is, those who believe that if education were run more as a business, the problems would be solved. The business side of what Covey calls "the great debate" sees the educators themselves as a major problem.

Third alternative thinkers in this field, whether they are educators or business, work synergistically with others to find unique, never-before-seen solutions, Covey writes. Wendy Kopp, for example, founded an organization called Teach for America that recruits the best students from the best schools to spend two years teaching in disadvantaged schools before they start their careers.

Another example is A.R. Combs Elementary School, a magnet school in Raleigh, N.C. that was about to be shut down. It didn't have many students, the facilities were in poor condition, the teachers were demoralized, the parents were unhappy, the students came from very disadvantaged socio-economic conditions — all the factors pointed to failure. Covey describes how principal Muriel Summers pleaded with the superintendent not to close the school. The superintendent relented but asked for a specific proposal from Summers on how she was going to attract more students. He gave her a week. Summers tells Covey, "We decided to send up a proposal to make a school like no other in the U.S.A. — the ideal school — and we had one week."

Summers met with all of the stakeholders involved in the school, including parents and teachers, as well as

community and business leaders, and she asked them the 3rd Alternative question: What would our ideal school look like? Together, the stakeholders developed a new unifying mission for the school: to develop global leaders. Every decision and every action in the school would be driven by this mission to instill leadership skills in every student. Covey details the incredible results achieved by the school, including national awards. Today, the school is a model for what Covey calls "Leader in Me" schools across the country.

The Blackbird Mine Case

The chapter on the legal application of the 3rd Alternative is co-written by Larry Boyle, a former Justice of the Idaho Supreme Court, who offers his own experiences to help explain how Covey's ideas can work in an arena that is designed to be adversarial. Boyle describes, for example, how he was called to mediate the Blackbird Mine case, a complex environmental case involving a cobalt mine that operated in the 1950s and 1960s. The mine was abandoned in the 1970s, but it left behind, in Boyle's words, "a terrible stream of acid and metallic poison that was devastating to the land, water, and wildlife of the beautiful Salmon River wilderness." He goes on to explain that "like a series of tipping dominoes, the state, private environmental groups, and a dozen federal agencies sued the mine owners and each other to force cleanup. A blizzard of claims and counterclaims flew."

Boyle tried something new: He shut down the courtroom, sent all the interested parties to separate conference rooms and asked each of them to come up with a plan to settle the case. In two hours Boyle would receive the plans and, with the help of a leading scholar of environmental law named John Nagle, try to synergize the plans. In the weeks and months that followed, the process was repeated several times. Within several months, the 10-year-old Blackbird Mine case was resolved without trial to the satisfaction of all.

The 3rd Alternative is not a beautiful starry-eyed theory on how the world could find solutions to problems if people would only "get along." Covey uses his renowned communication skills built on illustrative metaphors and clean, step-by-step frameworks, combined with his years of experience working with 3rd Alternative leaders around the world, to write a book that offers a path to solutions in the future. Just as importantly, the 3rd Alternative reveals why certain people are breaking through today with innovative solutions while others remain mired in contentious, never-ending battles.

Attempting to attack new problems using the same tired methods is certain to end in disappointment.

Arianna Huffington, herself no stranger to conflict resolution in her role as president and editor-in-chief of the AOL Huffington Post Media Group, praised Covey for his commitment to exploring an alternative path to solutions. She writes that Covey is urging readers to look beyond "suboptimal solutions." This is perhaps the best endorsement for readers to pick up Covey's book. Attempting to attack new problems using the same tired methods is certain to end in disappointment. Covey's repeated description of people and organizations that found a better way will undoubtedly inspire readers to emulate the examples in this book and seek out their own 3rd Alternatives.

While it's unlikely that *The 3rd Alternative* will achieve the game-changing significance of Covey's book *The Seven Habits of Highly Effective People*, his new release will play its part in adding to Covey's legacy of positive change in business and beyond.

The author: Stephen R. Covey, Ph.D., is a renowned leadership authority, family expert, teacher, organizational consultant, and co-founder of FranklinCovey Co. He is the author of several international bestsellers, including *The 7 Habits of Highly Effective People*, which has sold more than 20 million copies. He was named one of *TIME* Magazine's 25 Most Influential Americans. Covey holds the Jon M. Huntsman Presidential Chair in Leadership at the Huntsman School of Business at Utah State University.

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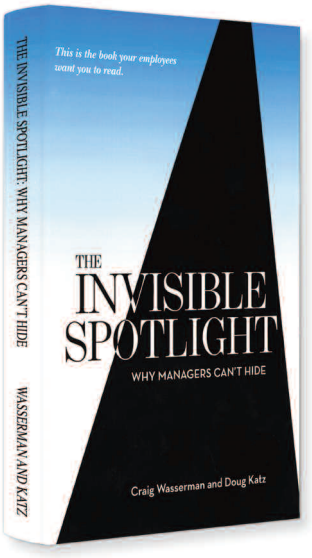
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Management

The Invisible Spotlight

Why Managers Can't Hide



by Craig Wasserman and Doug Katz

THE SUMMARY IN BRIEF

In *The Invisible Spotlight*, management experts Craig Wasserman and Doug Katz make a compelling argument that all managers work in the heat of an invisible spotlight where their every word and deed are scrutinized by employees. Remarkably, most managers are unaware of this reality. As a result, they underestimate the impact of the passing moments that are at the heart of their management relationships.

Wasserman and Katz tell illuminating stories from their nearly 40 years in the trenches about management successes and misadventures in the unseen spotlight. Each story acts like a mirror, reflecting the reader's own management challenges. The authors' realistic observations and insights gained as consultants enrich the lessons that are offered.

The Invisible Spotlight presents a fresh, practical perspective on building sound management relationships. Whether you're a brand new, first-line supervisor, an experienced middle manager or a seasoned senior executive, you'll find something here worth your time and contemplation.

The Invisible Spotlight: Why Managers Can't Hide offers readers a hard look at the soft side of managing.

IN THIS SUMMARY, YOU WILL LEARN:

- Why the management role does not come naturally.
- How instincts and reflexes alone can be as self-defeating as they are useful.
- How management requires practice, discipline and self-reflection.
- How managers are architects of the relationships they form with their employees.
- How people don't change when they're comfortable; they change when they're uncomfortable.
- Why no paint-by-numbers approach to managing will protect managers from missteps.

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THE COMPLETE SUMMARY: **THE INVISIBLE SPOTLIGHT**

by Craig Wasserman and Doug Katz

The authors: Craig Wasserman, Ph.D., has been a management consultant, trainer and lecturer since 1976. He earned his degrees from The American University in Washington, D.C.: a Bachelor of Science in Organizational Development, a Master of Education in Counseling and a Doctor of Philosophy in Counseling Psychology.

Doug Katz, M.A., advises managers on the most intelligent ways to navigate their relationships with employees. He was a guest instructor on business ethics in the University of Maryland's Honors Program and has served on the boards of The Grauer School, the Pretrial Justice Institute, IDC Marketing Inc. and Red Shark Technology.

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Introduction

Whether managers appreciate it or not, they are a central and dominant influence in their employees' lives. Employees spend countless hours watching, listening, thinking about, talking about and trying to please their bosses. This is what is meant by the invisible spotlight. Being in that constant spotlight comes with the territory.

Because of the management position you hold — because of its status and authority — your words and deeds carry enormous weight. They can heighten your employees' commitment in a profound and lasting way. They can help your employees perform — and want to perform — at exceptional levels. By the same token, your words and deeds can cause your employees hours of uncertainty and distress — even the off-handed remarks you make without malice. What you say and do can erode your employee's spirit and contribute to all manner of performance problems. It's important, therefore, to take stock of what you do, how you do it and how you want to do it.

PART I: THE MANAGEMENT RELATIONSHIP

So much of your relationship with employees is forged in brief, unscripted moments. Sometimes the moments are dramatic, sometimes quiet and fleeting. A passing conversation with an employee, a glance of approval or disapproval, a gesture of encouragement when an employee's confidence flags — these are the moments that can make or break your relationship with anyone who works for you.

Unfortunately, the popular management literature of the day encourages you to develop "reliable management systems" and a "consistent management style" as if the secret to success were in your everyday, predictable management routines. The fugitive moments I'm referring to here barely get a mention. Let me assure you that you can raise or lower the spirits of an employee, eliminate or perpetuate confusion, make important things happen or stall … all in a matter of seconds. And yet you might barely notice what you've done.

Once you pay attention though, you can create these pivotal moments rather than relying on your reflexes. The trick is to consciously control the influence you have and to act with intention. This control — this self-control really — makes it possible to turn a glancing moment into a lasting result. *These moments form the foundation of the management relationship.*

Inspiring Your Staff to Deliver and Innovate to Their Potential

If you're in a management role — whether out of desire, duty or fate — you must understand that at the core of your work are your management relationships. No amount of inspired business savvy, motivational energy, administrative skill, marketing expertise or technological genius will compensate for an unhealthy relationship. None of these talents will bear the best possible fruit unless your management relationship is well watered.

An employee doesn't set the tone, standards or direction for the way the two of you work. The foundation

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

of this relationship always falls to you. You're the *architect*. You're the one responsible to create the conditions that promote your employees' best work. It all boils down to an inescapable truth: If the foundation of the management relationship is solid, it's because you're doing something right. If the foundation falters or fails, it's because you're doing something wrong. It's that simple and that difficult. ●

The Invisible Spotlight

A new vice president joined a large company where I was consulting. A vacant corner office was assigned to him and was scheduled for repainting in advance of his start date. But a miscommunication between the facilities department and the contractor delayed the job by a few weeks.

When he arrived for his first day, there was some confusion about where he should park himself. The VP noticed an unoccupied office on his department's floor and insisted that he set up there for the interim. The office was sterile and cramped, with barely enough space for a visitor's chair. Not an office befitting a corporate officer. Yet the VP insisted.

He used that office for two weeks as his home base. He met his staff and colleagues there and spent hours at the desk, acquainting himself with the organization he'd just joined.

When I stopped in to meet him days later, he made no reference to his undersized quarters; never reached for a polished explanation nor an assurance that he would soon move to a more suitable space. He allowed his decision to speak for itself. He knew his behavior was making a statement about his values and his leadership. He knew those around him were noticing and hearing through the grapevine about his choices. He was yet another manager who understood that his people were talking about him at dinner — that he was front and center in an invisible spotlight.

He made a deliberate decision. He regarded the logistical delay not as an inconvenience, but as an opportunity rich with symbolism. ●

Management Is Work

It was apparent to those with whom I spoke that Phil had brought significant improvements to the business. But one other theme ran through every conversation I had with his supervisors and staff. Just about everyone told some version of the same story: a supervisor demeaned in mid-sentence for a scheduling procedure that Phil thought was misguided; a newer supervisor's safety improvement recommendation harshly dismissed because Phil declared it too costly for the presumed benefits; a department head's carefully conceived plans for the layout of the truck bays summarily overridden. The word in the hallways was that Phil had no patience, his ideas were the only viable ones, he was callous, thoughtless and intimidating. He was like the cow that gives good milk but then knocks the bucket over.

Working in Phil's world was hard on his work force. It was beyond just stretching to do their level best as professionals. It had become personal. The relentless pressure had become demoralizing. Each supervisor described the same journey: from initial skepticism soon after Phil arrived, to full throttle enthusiasm and an eagerness to please, to a sense of tentativeness and cowering — both at work and after hours — as the atmosphere became abusive. Several supervisors were actively seeking other jobs.

The Risk of Self-Acceptance

This should have been a pretty tough message for Phil to digest. But as I held up the proverbial mirror, Phil simply looked at me, occasionally nodding in agreement. When I was finished, he reflected a moment. Then, "You're not telling me anything I don't already know. My family has been telling me these things for years. I don't suffer fools well. That's just the way I am."

I had to respect the guy for his candor. But his self-acceptance was self-destructive. "Phil, we've just come to the reason your VP sent me here. He didn't give you this job so you could be a bastard. He gave it to you with the expectation that you would be a professional leader. Those are far from the same thing."

Phil sat calmly and considered my response. So I continued, "At this company, working as a manager, you're expected to work at *being* a manager. You can't simply rely on your 'natural ways.' You're the guy responsible for making these workplace relationships work, not driving them into the turf. You're the guy who has to develop these supervisors into confident captains, not shadows of themselves, limping away for safe harbor. You're the guy who has to establish an atmosphere that encourages best efforts, not one that exposes vulnerabilities and insecurities. Being an effective manager is your job. It's a set of skills that needs to be mastered. In this regard, you're failing."

Phil worked hard at catching himself. He began to allow others to succeed and err more on their own and to learn from both. He began to insist on the critical things, recognizing that not everything is critical. He

learned that his natural impatience was a virtue so long as it served to energize, not humiliate. And most important for Phil, he came to appreciate that his employees wanted to please him; he needed to master the art of making that possible for them. ●

PART II: MANAGEMENT MOMENTS

The idea that you can discuss unwanted news or provide a critical assessment and at the same time keep an employee smiling is silly. There's just no way around the fact that speaking the truth about a failure, an oversight or an inconvenient development is thorny for all parties.

And yet, over the past half century, we've clung to the idea that managers should manage conflict without anyone feeling ill at ease. We ask managers to read books, watch instructional DVDs and attend training classes on how to achieve a mutually satisfying, "win-win solution" through "open, empathic dialogue" with their employees. We've somehow convinced ourselves that if only managers polish their communication skills, change can be comfortable.

How to Discuss Serious Problems and Deficiencies

Unfortunately, managers too often come away from these "lessons" believing they can discuss serious problems and deficiencies without causing any pain and suffering. How "comfortably" the conversation goes becomes their measure of success. But here's the thing: *Contrary to popular belief, people don't change and improve when they're comfortable. They change when they're uncomfortable.*

When managers varnish the truth, they may avoid tension and conflict, but they'll fix nothing. They'll improve nothing. And this is because they create no incentive, opportunity or direction for change.

Watch deliberate managers handle difficult conversations. Their objective is to speak clearly and frankly enough to carve a path to change while protecting the relationship. The truth is, some degree of discomfort sets the stage for change. The trick is not to avoid it, but to manage it head on and with respect. ●

The Internal Dialogue

You can't rely on your reflexes alone when you need to walk a tightrope; managing important moments requires anticipation and rehearsal.

To the untrained eye, it may appear that capable managers are endowed with a knack for thinking on their feet. They seem to know just what to say, just how to act. What's uncanny is how spontaneous their reactions seem. Unscripted. Off the cuff. Capable managers seem to respond in the moment, to the moment, without time or need for planning.

Don't be fooled.

Sure, all of us have had the good fortune of a sudden insight in the midst of turbulence. But managers with staying power don't count on their reflexes alone when they walk a tightrope. Nor do they expect the tightrope itself to somehow reveal how to balance on it.

Being *naturally* quick on your feet is a management myth. Quickness requires years of practice, lots of mistakes and recoveries, and careful preparation. The reality is that conscientious managers spend hours anticipating the rough roads they expect to travel. They score their important interactions the way a composer scores a symphony. This is the *internal dialogue.*

How to Prepare for Pivotal Conversations With Employees

When managers prepare for pivotal conversations with their employees, they don't do it with a broad brush. In fact, what they do resembles the vivid, private rehearsals of a stage actor or the pre-visualizations of an Olympic athlete. They don't imagine their challenges in general terms; they engineer them down to the particulars.

You've seen these managers as you commute to work. They're talking to themselves in their cars. Sometimes they'll turn their rearview mirrors toward themselves so they can speak into their own eyes. You see their lips moving, but they're not singing with the radio or having a Bluetooth chat. They're talking out loud to themselves. What you're catching a glimpse of are diligent managers in an internal dialogue — anticipating how they'll navigate the ebbs and flows of a tough conversation with an employee. ●

Moments of Recognition

More thought than you ever imagined goes into the art of recognition and encouragement.

To effectively recognize and encourage employees, you need to know what you're looking for. You need patience as the employee moves toward success in small, uneven steps. You need a sense of timing. And you need to use language that not only conveys that you're pleased but what you're pleased with. None of these skills comes naturally to most of us.

Clarity Makes It More Instructive

"Well done, Peggy." "Good work, Janice." "I'm real-

ly proud of you, Herb." These are always encouraging words, but they're not always as useful as they can be.

Words this general will make an employee feel good. But too often they don't communicate *what he or she should feel good about.* They're too broad to convey what the employee did to earn them.

Recognition can instill more than a positive feeling. It can be instructive. It can help an employee develop specific abilities and perspectives. To make it useful, you need to speak in words that your employee can "see." Being specific is powerful, whether you're catching an employee doing something right or wrong. You have to clear your head, formulate your thoughts and know exactly what you saw, heard or read that you want to recognize and encourage.

"Paul, I realize it's not easy for you to pose those challenging questions about this project to your own colleagues, but I'm glad you did it in today's meeting. It makes us all sharper."

"Diane, I know you would have liked more time to review the proposal, but I appreciate your decision to release it now so we have a shot at making our deadline."

Your employees will learn most from vivid words of recognition and encouragement.

As for taking the time to get good at this management skill, there's one more thing to consider: Your employees will be able to digest more forthright criticisms if you've conveyed both a readiness and an ability to recognize what they do well. Praise is not just "nice." Nor is it just "motivating." It actually positions a manager to critique more candidly if and when a moment of instructive discomfort is called for. ●

Credible Moments

Your management relationships are defined more by the disconnects your employees see than by the declarations they hear.

No matter how artfully you orchestrate a given interaction, it alone won't ensure the success of your management relationships. You're in the invisible spotlight between interactions, too. During these periods, your employees are looking for signs of your credibility. They're judging if you mean what you say. They're comparing word and deed.

A lot goes on in the passing moments. And a lot goes on between them, too, when employees get a glimpse of how closely what you say aligns with what you do. You can rest assured that your management relationships will be defined far more by the disconnects your employees see than by the declarations they hear.

Employees Watch You Like a Hawk

Your employees watch you like a hawk, keenly observing what you say, how you say it, what you do and how you do it. You cannot escape the invisible spotlight. And as childlike as you might think it is, they will imitate you, too. That's right: Full-grown, level-headed, self-respecting adults will imitate you. It's not childlike really. It's human. Keep your jacket on during meetings and others will follow your lead. Take that jacket off and observe how your employees interpret your action as permission to remove their own jackets. Wear a tie or scarf to work each day and watch them begin to appear on others.

In a more substantive and important way, your employees adopt your point of view; they mimic your approach to people and problems. If you're open to ideas and give the benefit of the doubt to others, your employees will do likewise. By the same token, if you're intolerant, accept nothing short of perfection, question the trustworthiness or speak ill of your colleagues, you'll hear echoes of these same attitudes in your employees' words and actions.

Employees act on the unspoken and near universal assumption that to be like you is to be liked by you. The enlightened manager with honorable intentions understands this dynamic and uses it to encourage the highest levels of pride and commitment. ●

Moments of Recovery

Managing is a sloppy game with too many unknowns to calculate the right moves every time. Recovering from a mistake is one of the hardest challenges to address with grace.

You can dedicate yourself to honoring every principle and prescription, and still you will stumble. More than once in your career, you'll look dumb, give the wrong impression, bruise someone's feelings, have a meltdown. Everyone takes his or her eye off the ball once in a while. Everyone is blind to some persistent idiosyncrasy or other that spells management trouble.

If these eventualities are not what you bargained for as a manager, go to your room and hide under your bed. You'll make fewer blunders there.

You're in that invisible spotlight. Your employees are talking about you at the dinner table, listening to what you say, measuring how closely your words square with your deeds. So a management mistake is always under a more high-powered microscope than a private or personal one.

Skillful managers have learned that ignoring a misstep

or denying a destructive behavior pattern is itself destructive. They've come to appreciate that a blown opportunity or brainless act creates one more opportunity to strengthen the management relationship. Clearly, recovering from a mistake is one of the hardest challenges to address with grace. It takes more soul searching and intestinal fortitude than carrying out a routine management duty. But therein lies the chance to excel.

There Is No Undo Command

So what do you do once you've fallen off the ladder, injuring yourself and maybe someone below? If you're smart, you step up to your obligation to apologize and make reparations to your victims. You resolve to climb ladders in the future with more care. And if the injury leaves your body permanently compromised, you stay off ladders.

It's the same when you try to recover from management injuries; those you inflict and those you sustain. You apologize and begin rebuilding the foundation of your relationship with care. You do this is by compensating for the damage you've done in a compelling way. Though you can't take back a slap in the face, you can stop slapping — and offer enough evidence of regret, respect and reform to dilute the impact. ●

PART III: MANAGEMENT PASSAGES

Progressing through your management career is all about adapting to changing situations.

Every competent manager learns how to make this transition eventually, but it's not without an internal struggle. As you would expect, the struggle is most acute in times of crisis. Dan, a favorite client, is a case in point. He's yet another example of how sustained, conscious effort is indispensable to mastering the management role.

Like many fast-track managers, Dan's greatest assets in some situations played out as liabilities in others. He fought his natural tendency to run over people in meetings, to grab control from those he thought were dawdling or just idling. He had the answers well before others knew what the questions were; a source of unending frustration for him. He had competitive fire in his eyes and a desire to surpass whatever goals were set, no matter how demanding.

Our earliest consultations were about the basic challenge of managing versus doing — accomplishing things through his management relationships instead of doing it all himself.

I stopped by unannounced to see Dan one morning.

"You're going to be mad at me," he said.

"Why will I be mad at you?"

"Because next week, I'm going on vacation with my wife. We're going to Europe."

"Nothing to be mad at so far."

"And I plan to call in every morning at 7:30 local time to run a staff meeting."

Alarm bell. This would be a setback … a vestige of Dan's need to be in the fray. The truth of it was, Dan just didn't want to be left out of the action. Were he on hand in a crisis, he knew he'd be able to dive into a phone booth at a moment's notice and change into his Superman costume. But a distance of 6,000 miles would make heroic acts impossible.

A Substantial Challenge

Dan was at a crossroads. He knew time was limited, and the challenge would be substantial. He thoroughly dreaded the consequences should his staff misstep while he was vacationing. I assured him that the supervisors who report to him were as prone to errors as he dreaded. And I reminded him that he had for some time been resolved to confront the challenges of his transition from doing to leading. This would be a pivotal one.

Dan was beginning to see the vacation not as a missed opportunity to prove his individual worthiness, but as a chance to demonstrate his *management* worthiness. The trip would allow him to test — and showcase — the leadership talents he had been working so hard to nurture in his staff. He also knew that engineering this moment capably would impress those whose opinions he cared about and respected.

The Rewards of Self-Restraint

When he returned, he found that his employees had performed admirably in his absence, some more adroitly than others. Several had war stories to tell and some bragged about their successes.

In the days after he got back, he sensed an increased level of enthusiasm and commitment within the team as they handled day-to-day details that he had previously kept for himself. He also noted that a number of the issues being brought to his attention by his supervisors were more sophisticated because the staff was beginning to dispose of the more routine matters themselves. He responded by delegating broader responsibilities to those on the team who had demonstrated a capacity to take them on and who had earned the trust of his fellow managers. ●

When the Magic Doesn't Seem to Work

Sometimes your plate gets full with unwanted developments, imperfect choices and unexpected outcomes.

Over the years, Andy counseled Kevin, established standards of conduct, tried to hide him behind intermediaries and sent him to charm school. All to no avail.

Andy faced two management imperatives. He was expected to find and support the talent that would make his company as profitable as possible; and he was expected to maintain an environment in which a team of professionals could cooperate to keep the company profitable over the long haul. But Andy reached a different conclusion:

"Enough is enough," Andy thought. "No one person — no matter his talents — is worth the disruption to our company's culture and to my credibility as a manager. As much as the organization may suffer in the short run by losing Kevin, and as much as I may have to pick up the slack until I replace him, we'll be better off in the long run. We'll be healthier."

After giving Kevin one final opportunity to rein himself in — an ultimatum he just couldn't bring himself to yield to — Andy and he agreed on a separation package.

And then, like clockwork, Andy spoke the words I've learned to expect in such complicated situations, having heard them over and over again for decades:

"I should have done it sooner."

Andy had more to say some weeks later, and every word of it is instructive:

"The dark mood in the organization has lifted, our staff is more collaborative than ever and I feel better. But make no mistake: We lost value and lots of talent when I let Kevin go. If you've never been in a job like this, you can't possibly understand what a sacrifice that is. Many close to this situation saw him only as a monster and a brute. They made him a one-dimensional caricature just so they could ignore the ambiguity of it all. But Kevin was a brilliant contributor. A money machine. He did exactly what the company is set up to do. He made our Big Guns very, very happy. And he forced us to do our best.

"Having said all this, *I should have done it sooner.*"

No Easy Way Out

So many organizations have a Kevin. These talented, yet flawed folks offer you no easy out.

They always bring something invaluable: highly developed skills and savvy; a large black book of contacts and relationships; gravitas in the industry; a rare expertise; a strategic view of the company's future. And, at the same time, in some other way, they are poisonous.

In these situations, when there's no handbook to consult, you are left with your own assessment of the options, your own calculation of what your organization can tolerate and your own conscience. You've done your best when you've thought these things through with care, seeking the help of those who have fought similar battles and you're prepared to manage the consequences — both the favorable and the unfavorable ones.

Management is work. And that's in no small part because you practice it in a real and flawed world, not a world of formulas and fairy tales.

Idiosyncrasies and Imperfections

As a manager, you bring three things to work each day:

- You bring your mental map of the management role — everything you've learned from role models, training programs, the reading you've done and your own experience in leadership positions.
- You bring whatever planning and scripting you've done in preparation for the interactions you expect to have — the lines and behaviors you've worked out in your internal dialogues to make specific moments meaningful and productive.
- Finally, you bring you — you bring your battery of personal passions and preoccupations, preferences and prejudices, private anxieties and apprehensions, and even physical and social quirks. Sometimes these are natural gifts that will enhance your management impact; sometimes they're baggage that will burden it.

The Knotty Thing About Your Idiosyncrasies

Your management relationships are profoundly affected by your virtues and idiosyncrasies. They find their way into every interaction with everyone you come in contact with: employees, colleagues, customers, vendors and bosses. And because they do, your personal watermarks not only affect the outcome of specific interactions, but they also define the complexion and the tempo of your entire workplace environment.

The knotty thing about your idiosyncrasies is that they're, hands down, the hardest realities for you to recognize as a problem. Idiosyncrasies are personal; so much a part of us that we've grown blind to them.

It's no surprise then, that you assume these parts of your character have no impact on your management

relationships. But make no mistake. In the same way your employees benefit from your personal virtues and healthy management behaviors, they're held hostage by your foibles. And, for the most part, they suffer in silence.

Managing Managers

Learning the complexities and subtleties of management is akin to learning a new language.

Classrooms can only drill on the fundamentals; they provide ideals and abstractions. Real fluency with an unfamiliar tongue is achieved when it's practiced every day in an environment that requires it. This is where you come in. You have to do what you want your people to do.

You must be willing to inquire about your managers' relationships with their employees — discuss them in some detail; critique them as if they are as central to the work as anything else; offer strategies for creating constructive moments and handling uncomfortable moments with employees; recognize improvements when your managers make them. If need be, you must even be willing to assign tasks to your managers that are specifically designed to test and improve their skills.

Sensitize Your Managers to the Invisible Spotlight

It falls to you to sensitize your managers to the invisible spotlight. In other words, you must create a culture in which management excellence is valued and publicly rewarded in the same way other business achievements are. This establishes management effectiveness as an organizational priority.

Most important, you must demonstrate every day what you're asking your managers to strive for. This is the *sine qua non* of management development — the single most important condition for promoting management excellence.

When these conditions are met, classroom training can make a contribution to your managers' development. If this sounds a lot like what you would do with your children when you send them to an expensive tutor, you're right, it is. We are all children, employees and managers.

Your managers learn when you place a premium on what they're supposed to learn. You have the greatest effect when you take an interest in it and have the courage to tell them when they're not measuring up and when they are. This principle may never be so important as when you're in a position to manage managers.

Closing Thoughts

Once you see how closely your words and deeds are scrutinized by your employees and how significant your impact is on their lives, you'll begin to manage your important moments of interaction with them more wisely and deliberately. You'll also avoid many of the hazards of working in the dark.

What you say and don't say, what you do and don't do *in the moment* determine how firm the foundation of your management relationships will be.

Your behavior in the moment can cause your employees hours of uncertainty and distress, or it can heighten their commitment and contribution in a profound and lasting way.

An Honorable Profession

The magical thing about managing in an unseen spotlight is that your employees — your audience — very much *want* you to be good. They *want* you to be effective. They're rooting for you to be successful. This is because their lives are made immeasurably easier, more predictable and more rewarding if you manage your relationships deliberately and honorably. Your employees can be energized, even inspired by how well you perform. This is how powerful your impact can be. This is how much you matter.

The success of your relationships requires that you relentlessly assess how your important moments have gone, why they went the way they did, what needs to happen next and how they can be better handled next time. The point is *you are the architect* of these moments of interaction.

Remember: If the foundation of the management relationship is solid, you're doing something right. If it falters or fails, you're doing something wrong. It's that simple and that difficult.

Management is hard work. It involves complexities that can't be simplified. It is an honorable profession that demands thoughtfulness, wisdom and ethical considerations beyond step-by-step recipes.

RECOMMENDED READING LIST

If you liked *The Invisible Spotlight*, you'll also like:

1. ***Multipliers* by Liz Wiseman and Greg McKeown.** Learn how to become a multiplier of talent and go from being a genius to a genius-maker. The authors offer a complete strategy to boost your entire staff.
2. ***What's Holding You Back?* by Robert J. Herbold.** The author explores why managers often hesitate to confront difficult issues and reveals the 10 core principles of confident leadership.
3. ***Full Engagement!* by Brian Tracy.** The prolific author and management consultant shows you how to get your staff to deliver their full potential.

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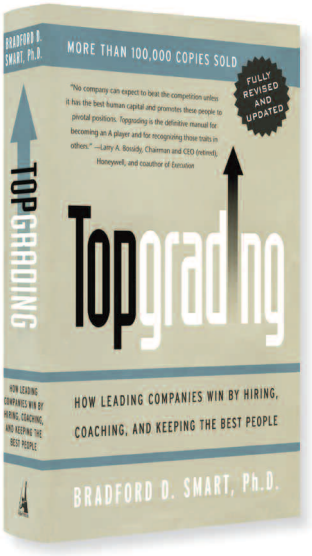
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Management

Topgrading

How Leading Companies Win by Hiring, Coaching, and Keeping the Best People



by Bradford D. Smart, Ph.D.

THE SUMMARY IN BRIEF

Great companies are made by A-Players. The secret is to hire, promote and retain only these individuals, but this is easier said than done. Research shows that typically only one-fourth of those hired or promoted turn out to be A-Players. The other three-fourths (the B- and C-Players) become mis-hires and mispromotions. And with the cost of a staffing mistake estimated at 15 times base salary, the financial drain on the average company is huge.

Compare that with the 90 percent and higher success rate enjoyed by companies that use management psychologist and consultant Bradford D. Smart's topgrading practices for hiring, training and promoting. Case studies of topgraded companies — including General Electric, Hillenbrand and the American Heart Association — prove that it's possible to vastly improve how people are hired and promoted at companies large or small. By rewarding A-Players, improving B-Players and weeding out C-Players, topgraded companies are much more successful.

Topgrading can enable your company to gain a sizeable advantage over your competition.

IN THIS SUMMARY, YOU WILL LEARN:

- How leading companies have embraced topgrading.
- A practical approach to the Topgrading Interview, the proven best practice for assessing talent.
- How to turn some B-Players and C-Players into A-Players.
- Successful techniques for developing and coaching A-Players.
- How to gain a strong advantage over your competition.
- What management competencies to look for when hiring a potential A-Player.

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THE COMPLETE SUMMARY: **TOPGRADING**

by Bradford D. Smart, Ph.D

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Topgrading: Every Manager's First Priority

How dramatically can topgrading improve talent? The average company today hires only 25 percent A-Players, promotes only 25 percent A-Players and has 25 to 40 percent A-Players in management. Topgraded companies hire 90 percent A-Players, promote 90 percent A-Players and eventually have 90 percent A-Players in management.

What Is Topgrading?

Topgrading is filling every position in the organization with an A-Player, at the appropriate compensation level. Topgrading involves replacing underperformers until the entire team of 10 consists of 10 A-Players, or at least those who clearly exhibit A-potential. When you are topgrading, you are not accepting a mixture of A-, B- and C-Players. You are proactively doing whatever it takes to pack your team with *all* A-Players. Topgraders are not cheap. Circumstances might justify paying above the *entire* accepted salary range. The topgrader is more rigorous than the "upgrader," more thorough in assessment and more likely to get what he or she pays for.

Proactively seeking out and employing the most talented people can have a major effect on the creation of other competitive advantages. High performers contribute more, innovate more, work smarter, earn more trust, display more resourcefulness, take more initiative, develop better business strategies, articulate their vision more passionately, implement change more effectively, deliver higher-quality work, demonstrate greater teamwork and find ways to get the job done in less time with less cost. It's no coincidence that A-Player managers attract and retain A-Players, who want to be part of organizations that succeed.

Who Is Topgrading?

McKinsey & Co., a premier global consultancy, is known for its commitment to seeking out and employing the best people available at every level. Intel, Dell, Goldman Sachs and 3M attract and retain A-Players and quickly redeploy C-Players. Lincoln Financial, Hillenbrand Industries, General Electric, MarineMax, Hayes Lemmerz, the American Heart Association and UBS increase their percentage of A-Players yearly and redeploy not just C-Players but B-Players too.

What Is an A-Player?

An A-Player is someone who qualifies among the top 10 percent of those available for a position. An A-Player is the best of class. Most fine companies use these definitions:

- **A-Player:** top 10 percent of talent available
- **B-Player:** next 25 percent
- **C-Player:** below the top 35 percent.

The Topgrading Calculator

The Topgrading Calculator helps to overcome talent self-delusion. If you are a perfect topgrader, you don't need a Topgrading Calculator to estimate the number of replacements necessary to achieve 100 percent A-Players. If your success rate is 100 percent, you need only hire one person (who will be an A) as a replacement. If your likely success rate is 25 percent, you need to hire four people to get an A — three mis-hires and your good hire. Topgrading promises to improve your success rate from 25 to 90 percent. In the meantime, to learn how many people you will have to hire to finally have 90 percent A-Players:

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Chris Lauer**, Contributing Editor

Topgrading Calculator

Total Number of Replacements to Achieve 90 Percent A-Players

Number of Underperformers to Be Replaced	25%	50%	75%	100%
10	31	17	11	10
20	67	35	24	20
40	141	72	48	40
100	357	179	120	100

1. Estimate your current number of A-Players, including those with A-potential.
2. Estimate your hiring success rate (your percentage of A-Players and A-potentials after hiring and promoting people).
3. Use the Topgrading Calculator (see above). It will show the total number of people you must hire or promote in order to end up with *at least* 90 percent A-Players, after replacing all those who turn out not to be A-Players. For example, if you wish to replace 10 underperformers, you hire or promote 10 using topgrading, and end up with nine or more A-Players on your team.

The Financial and Career Costs of Not Topgrading

Integrating topgrading into your interview process minimizes the firings and measurable costs of mis-hires, making your course of action relatively quick, seamless and inexpensive.

Topgrading case studies for years have shown how to achieve a 90 percent success rate in hiring. The CEOs of the following organizations estimated the percentage of upper management hires who turned out to be A-Players as follows: Lincoln Financial, 90 percent; Hayes Lemmerz, 94 percent; ghSMART, 92 percent; MarineMax, 94 percent; and the American Heart Association, 95 percent.

Prior to topgrading, most of these organizations experienced a hiring success rate of about 35 percent; Topgrading Interviews took them to 90 percent and higher. Their typical topgrading discipline is for a group of managers to scrutinize each hire one year after the person was hired. B-Players without A potential are deemed mis-hired.

In some companies that evaluation of the hiree is so tough that if the hiree turns out to be a B or C without A potential, the bonuses of the hiring manager and HR professionals are reduced. So there is great confidence that those deemed A-Players truly are.

The Cost of Mistakes

It doesn't make any difference if a person is "hired" from outside or inside the company. Mispromoting internally is about as costly as mis-hiring an external candidate.

At the worker level there are plenty of published statistics on turnover and even a few studies of the costs associated with mis-hires. A computer search of more than 200 studies and articles produced a hodgepodge of single-company results, with costs of mis-hiring factory workers to be $1,500 in one company and salespeople $6,000 in another. Government studies have placed the costs of mis-hiring programmers at two to three times their annual compensation. At the managerial and professional levels, the data are even more sparse.

The single biggest *estimated* cost of mis-hiring is the wasted or missed business opportunity. In recent years there have been many multimillion-dollar fiascos that clearly could have been avoided had an A-Player been hired instead of a B/C-Player.

One of the most insidious elements of wasted or missed business opportunity goes to the heart of topgrading. B/C-Players hire B/C-Players and drive away A-Players.

CEO mis-hires are the most serious. The media, if not behavioral scientists, cite at least some of the costs. Have you read enough about Ken Lay and Dennis Kozlowski? Their companies suffered because of their failures as CEOs. Michael Ovitz was hired and fired by his buddy Michael Eisner at Disney, and Ovitz walked away with $140 million in severance (challenged in later lawsuits). Not only are the stockholders hurt, but all business suffers a black eye when executives reap great financial rewards despite destroying companies and jobs.

The Career Setbacks

There is no clearer truth to a topgrading professional than this: The most powerful lever for career success in management is topgrading.

Its corollary is: There is no more certain career derailer in management than failing to topgrade.

More than 6,000 senior managers have answered exhaustive topgrading questions about every job they held, an average of 10 jobs. Successful careers all have a common pattern: Creating more talented teams accounts for better results, earning managers more promotions.

Sometimes the managers admitted they were lucky — they inherited an A-Team because a boss assigned them the "best and brightest," or they went to work for a topgrading company that taught them how to do it. Most were motivated and resourceful, figuring out how to develop or replace non-A-Players.

The vast majority of managers interviewed in a recent study experienced a stutter step — a failure to topgrade and a resulting failure to perform — that led to career stagnation for a while or, in some cases, getting fired. The most successful leaders figure out the importance of topgrading, do it, get better results and earn promotions. ●

Hiring and Promoting Talent: The Topgrading Platinum Standard

The main responsibility for hiring good people rests on your — the manager's or CEO's — shoulders.

The CEO's job is to achieve results by getting the strategy, talent and organizational culture right. Topgrading must be thought of as a function permeating the entire company, supported by HR but driven by the CEO. When delegated to HR, topgrading fails, even when HR is a fully topgraded function.

HR cannot drive topgrading, because it lacks the line authority and political clout and because many HR systems (compensation, performance management, hiring, succession planning) require CEO intervention to maintain the A-Player standard.

Anyone can topgrade — *any* department manager can topgrade a department; *any* division manager can topgrade a division. But from a corporate topgrading perspective, the CEO cannot assume that A-Player subordinates are doing it. That's why Jeffrey Immelt (CEO) and Bill Conaty (HR) literally spend months in the famous Session C talent meetings at GE.

The same principle holds for you if you are a function head or operating division head. As a division president you can topgrade, but it is foolish to assume that all your A-Player plant managers will topgrade (even though they would not be considered A-Players without being topgraders). In your talent meetings as well as daily discussions, you must be sure that no one is gaming the system or eroding your A-Player standard for political reasons.

Topgrading Assessments

In topgrading companies it is typical for everyone in management to be topgrading-assessed, to create an overall talent picture of A's, A-potentials and non-A's. Managers are developed and become A's or are redeployed, and eventually there are 90 percent A-Players. Companies relying on a current performance review and a three-year-old topgrading assessment fail to achieve 90 percent success in promotions. To achieve a 90 percent success in promotions, you must supplement performance appraisals with a fresh, current topgrading-based assessment. ●

Redeploying Chronic B- and C-Players: A Moral Approach

If topgrading means packing teams, even the entire company, with A-Players, then it usually involves removing chronic B- and C-Players. *Chronic* means they don't even try to become A-Players or else they have embraced their Individual Development Plan, or IDP, (a performance plan to maximize strengths and minimize weak points) but simply aren't improving sufficiently to qualify as A-Players in a reasonable amount of time.

Some B/C-Players can be redeployed internally into jobs where they can be A-Players. If this isn't feasible, they are redeployed externally. They're let go or "changed out," though typically with an appropriate severance and outplacement counseling. Having worked on their IDPs, they also have good insights into themselves and a clear understanding of what sort of job would enable them to be happy and … A-Players!

Unfortunately, topgrading requires some firing or asking people to resign. It's painful, but it's not immoral if companies:

- Use the best selection techniques, which lead to hiring 90 percent A-Players.
- Use the best assessment techniques, which identify as many people with A potential as possible.
- Use the best coaching techniques, which give A-potentials the best chance of becoming A-Players.
- Look for other internal jobs where the person would be an A-Player.
- Fire people only if they fail to achieve agreed-upon standards for performance. ●

Topgrading Case Study: Lincoln Financial

In 1998 Jon Boscia was named chairman and CEO of Lincoln Financial, and he continued to execute the new business strategy, transforming Lincoln from a traditional life insurance company to a diversified financial services

powerhouse. Topgrading was key to the success.

Today Lincoln, with $5.3 billion in revenues and $131 billion in assets, is a different company, one of the nation's leading providers of wealth accumulation and protection, financial planning and investment advisory services for the fast-growing segments of affluent and retirement markets.

Topgrading required dramatic changes in management, not because the company had weak talent, but because some of the managers in the traditional insurance company lacked necessary competencies to drive the strategy.

Boscia said, "About half of the top 100 managers were A-Players in the old Lincoln and became A's in the new Lincoln, but others simply did not have the necessary skills for the new strategy."

Simple Topgrading Model

To qualify as a company that topgrades, the A-Player standard has to be embraced, but that alone is insufficient. The A-Player standard is not achieved without superb methods to assess and deploy internal talent and assess candidates for selection.

The simplest model for topgrading includes these five essential components:

1. Topgrade from the top down.
2. Assess internal talent using Topgrading Interviews, a process that involves an indepth review of an individual's education and work history, his or her core competencies, as well as a thorough background check (*see page 6 for more information*).
3. Coach people using Topgrading-based Individual Development Plans.
4. Hire and promote people using Topgrading Interviews.
5. Redeploy (fire, demote, transfer) people who fail to achieve the A-Player standard. ●

Obstacles to Topgrading and How A-Players Overcome Them

Ratcheting up an organization's talent involves many obstacles. Here are the top 10 major obstacles to topgrading and the best practices to overcome them:

1. "I can't get my B/C-Players to hire A-Players." Topgrade from the top down, or require your A-Players to make the topgrading judgments for their B/C's.

2. "We think we're hiring A-Players, but they turn out to be B/C-Players in disguise." Perform more accurate assessments using the Topgrading Interview.

3. "Our human resources people are overworked and understaffed, so we don't exactly have a pipeline of A-Players going through the office." Constantly recruit your "virtual bench," your network of A-Players in your Rolodex, who are ever available to join you. And require all your managers to constantly build their virtual bench.

4. "Search firms just don't produce enough A-Player candidates." Manage the search process, including search firms, much more thoroughly.

5. "I want to raise the performance bar, but almost every talented person I bring in from the outside is rejected by the current organization culture and ends up quitting." Provide new A-Players protection from undermining by existing personnel.

6. "We can't afford to hire A-Players." A-Players are available at *all* compensation levels.

7. "I do not want to fire loyal B/C-Players." Redeploy chronic B/C-Players because painful as it is to fire someone, failing to do so is almost always more painful — to the company, your career and the underperformer.

8. "Our problems will soon clear up because we engaged a management consulting firm and their report looks great, so topgrading isn't necessary." Topgrade first. Organizations that topgrade are able to drive improvements in strategy, productivity, innovation, quality, customer service and speed to market.

9. "We could never attract A-Players because of our location, industry, current financial problems and so on." Pay more in compensation to attract the level of talent necessary to beat the competition.

10. "My subordinates tend to give 'thumbs-down' on A-Players." Don't let them have a vote. Make the hiring decision yourself. ●

Coaching 101: The Topgrading-Based Model

Coaching is a one-to-one dialogue in which a coach helps a person understand his or her strengths and weak points and build commitment to improve performance. Coaching helps unlock someone's potential. This involves:

- **Counseling** — to help someone improve self-awareness and change points of view.
- **Mentoring** — sharing sage advice to help someone become more savvy in matters of organizational culture, networking and career planning.
- **Teaching** — instructing someone in order to improve expertise.

• **Confronting** — addressing non-performance to help someone either achieve performance goals or accept the necessity of redeployment.

Ordinary solid human qualities blended with topgrading best practices frequently result in leaders being rated "very high" on coaching scales. This becomes clear during assimilation coaching, a disciplined process to help your new hire adjust and to begin a comprehensive developmental process.

Assimilation Coaching

First-time topgrading interviewers have fun in assimilation coaching, a high-powered, positive coaching session. You feel empowered, so it is relatively easy to empower your new hire. There are fewer problems to fix with A-Players than with C-Players, so there is little inclination to push, cajole or demand certain changes.

With an initial coaching meeting a success, you become positively reinforced to polish your skills, to extend coaching to other subordinates. Hiring an A-Player using topgrading interviewing and thorough reference checking automatically endows you with super-coach characteristics.

A topgrading-based coaching meeting, whether for assimilation or another purpose, is not always warm and fuzzy. Even A-Players have weak points — plenty of them. Coaching need not be acrimonious, but to be effective, it must be hard-hitting.

The nicest thing you can do for high-potential managers is tell the truth and hold them accountable for growth. That means saying, "Improve, and only then will you get promoted." People change the most when they sense pain in not changing and benefits in changing, and fully embrace developmental activities to achieve their goals.

Whether coaching a new hire, addressing a newly observed problem, or facilitating change in any performance-management or career-development system, the steps are the same: awareness, rational acceptance, emotional commitment, individual development plan, reinforcement, monitoring progress and conclusion. Implied in all seven steps is who's in charge — not the coach, but the person receiving the coaching.

Coaching to Fix Weaknesses

Having conducted a Topgrading Interview gives you instant coaching advantages. Having hired an A-Player, you automatically are 20 percent better as a coach.

The four essential steps in coaching a new hire to succeed are:

50 Management Competencies

A-Players need not be excellent in all competencies, but they must meet the minimum standard for a particular job on all of them. The following are 50 management competencies:

• **Intellectual Competencies:** Intelligence, analysis skills, judgment/decision making, conceptual ability, creativity, strategic skills, pragmatism, risk taking, leading edge, education, experience, track record.

• **Personal Competencies:** Integrity, resourcefulness, organization/planning, excellence, independence, stress management, self-awareness, adaptability.

• **Interpersonal Competencies:** First impression, likability, listening, customer focus, team player, assertiveness, oral communication, written communication, political savvy, negotiation, persuasion.

• **Management Competencies:** Selecting A-Players, coaching, goal setting, empowerment, accountability, redeploying B/C-Players, team building, diversity, running meetings.

• **Additional Leadership Competencies:** Vision, change leadership, inspiring "followership," conflict management.

• **Motivational Competencies:** Energy, passion, ambition, compatibility of needs, balance in life, tenacity.

1. Hire an A-Player with a tandem Topgrading Interview, reference checks with all bosses in past 10 years, a co-worker competency interview (one hour each), and conclusions stated in a Candidate Assessment Scorecard (CAS), a simple form used to assess the candidate on all competencies.

2. Conduct oral interviews or e-mail 360 survey two to four weeks after hire, with the purpose of measuring first impressions.

3. Have a coaching interview two to six weeks after hire; state conclusions, strengths, weak points; and create an Individual Development Plan together.

4. Hold a mid-year career review in which you discuss follow-up e-mail 360 survey results and include feedback to you.

This rather typical assimilation-coaching session should progress through the seven psychological stages of change: awareness, rational acceptance, emotional commitment, program for development, reinforcement, monitoring progress and conclusion.

Constructive Criticism

The business world is too fast-paced and too demanding for quiet, gentle little hints, except with a rare subordinate requiring your most flexible and sensitive care. This world requires hard-hitting constructive criticism.

You want the straight scoop if your boss is dissatisfied. You want to be treated with respect, and you respond best when you are presented positively with an opportunity to improve. Your subordinates want and deserve the same thing. ●

The Topgrading Interview Guide

The Topgrading Interview Guide provides you with the most accurate and valid insights when assessing internal talent and candidates for selection or promotion. Companies can achieve a record of 90 percent A-Players hired when a tandem interview (two interviewers) is conducted and the interviewers have been trained in Topgrading Interview techniques.

The Topgrading Interview Guide features comprehensive questions that cover college, work history, self-appraisal of strengths and weaknesses, leadership/management, topgrading and competencies. It produces more valid results than so-called targeted, or competency-based, interviews that ignore dozens of important competencies as well as the chronology, the crucial patterns of how the interviewee developed throughout his or her career.

Interview Questions to Facilitate Topgrading

During the interview process, it's important to ask thorough questions about the interviewee's education and prior work history. Beginning with college, incorporate some of the following questions into your Topgrading Interview:

- What people or events during college might have had an influence on your career?
- What were the high points during your college years? (Look for leadership, resourcefulness and particularly what competencies the interviewee exhibits *now* while discussing those years.)
- What were your career thoughts toward the end of college?

Following the questions about education, move into a discussion about the interviewee's work history. Based on his or her resume, you will already have an overview, but the following questions will allow you to delve deeper:

- What were *your* expectations for the job? What did you find when you arrived to the position? What major challenges did you face?
- What results were achieved in terms of successes and accomplishments? How were they achieved?
- As a manager, what sort of talent did you inherit? What changes did you make, how did you make them, and how many A-, B- and C-Players did you end up with?

It is also necessary to have the interviewee give a self-appraisal. This involves listing all of his or her strengths and assets, as well as any shortcomings and areas for improvement. After obtaining the list, go back through and have the interviewee elaborate upon each point. Finally, ask the interviewee to go over his or her competencies with you. These include intellectual, personal, interpersonal, management, leadership and motivational competencies. A general question such as "Please describe _____ and what specific examples can you cite?" should be asked. This information will allow you to assess a number of the interviewee's competencies.

Interpreting All the Data

Here are some of the most important principles for valid interpretation of data:

1. Observe patterns. Patterns in many statements give multiple vantage points from which to find out what makes a person tick and what the person's strengths and weak points are.

2. Assume that strengths can become shortcomings. Under pressure, we all tend to overuse our strengths, and they can become shortcomings. During interviews, entertain this hypothesis frequently.

3. Assume recent past behavior is the best predictor of near-future behavior. As you review an individual's chronological history, weigh the most recent behaviors most heavily.

4. Spot red flags and look for explanations. Red flags are warning signals to the interviewer that something has gone wrong. Use follow-up questions to get additional information.

5. Weigh negatives more heavily than positives. Good-fit factors do not ensure success, but poor-fit factors can ensure failure.

6. Watch out for strong feelings and beliefs. Naturally, strong beliefs can be an asset for any candidate. It's when the beliefs are accompanied by rigidity, intolerance and extreme emotionality that you begin to wonder if there might be accompanying shortcomings. ●

Avoiding Legal Problems

Topgrading can embrace the spirit and letter of employment law or it can be abused. An effort to remove chronic B- and C-Players can incur big risks if

care is not taken to avoid a charge of discrimination — age discrimination, for example.

Developing future A-Players can trigger litigation if disabled people protected by the Americans with Disabilities Act are overlooked. The Equal Employment Opportunity Commission will be knocking on your door if your infusion of new A-Players systematically excludes minorities. Employees and managers have discovered not only their civil rights, but also their contract and tort rights. Unless your company protects itself, it could face serious employment-related claims, including claims of wrongful discharge, breach of contract, discrimination, negligent hiring or harassment.

Topgrading will help you meet legal requirements during the hiring process. The leading-edge practices in recruitment and selection — job analyses, behaviorally anchored competencies, structured interviews, note taking and so forth — must be coupled with working hand in hand with your partner in HR and your legal counsel to avoid legal problems. State laws vary and your company might be vulnerable. So check with your attorney before acting or failing to act.

Safe Hiring and Firing Practices

Despite the complexities of employment law, the answer is to focus on the fundamentals: (1) perform thorough job analysis; (2) write job descriptions with behavioral competencies; (3) use nondiscriminatory language in employment applications, topgrading forms and guides, job advertisements and interviews; (4) use legally sound job offer letters; (5) avoid negligent hiring and retention claims; (6) use safe managing and firing practices; and (7) follow guidelines on how to topgrade outside the United States. ●

Topgrading in the Future

It's hard to imagine an organization that cannot benefit from topgrading. From hot dog stands to the United Nations, A-Players get results, C-Players don't. What organization cannot benefit from a 90 percent success in hiring versus 25 percent?

Consider just a few future venues for topgrading:

1. Community Service. Community-service organizations can attract more money in the future by topgrading them and advertising, "We have a team of A-Players who will spend your donations for maximum results."

2. Government. Why not screen political candidates for financial support by submitting them to Topgrading Interviews?

3. Finance. Half of all mergers and acquisitions fail, and the biggest reason is inadequate talent. The most successful venture capitalists are very rigorous in assessing management in organizations in which they invest; they qualify as topgraders. Topgrading offers the world of finance accurate insight into people.

4. Governance. To hire a CEO, boards have historically trusted the search firm's interviews and report, with directors performing perfunctory interviews. With directors taking more (deserved) heat and incurring more legal risk, it would seem prudent to select a CEO by topgrading.

5. Legally Mandated Topgrading. With race norming and quotas illegal, yet the pressure for affirmative action continuing, valid approaches for hiring truly talented protected groups is the solution.

6. Education. Are 90 percent of teachers in your school system A-Players? European high schools surpass U.S. schools on standardized tests, yet our per-pupil cost is sky-high (six times what French students are allocated, for example).

7. Career Planning. Topgraded companies rarely promote people over their heads or leave a super-talent languishing and underutilized. Educational institutions could assess students' career talents much better if they would incorporate a Topgrading Interview.

8. Future Research on Topgrading. Talent as an issue, or opportunity, is as old as the human race. Many companies could contribute to the body of scientific literature, and hundreds of master's theses and Ph.D. dissertation could refine and connect individual corporate studies.

In the meantime, you can conduct your own research on talent maximization every day. Topgrading is not easy. There are lessons to be learned, by you and me, about what topgrading approaches work best. Your personal "case study" is an art form, a work in progress. ●

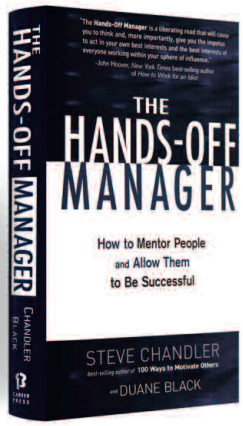
RECOMMENDED READING LIST

If you liked *Topgrading*, you'll also like:

1. ***Good to Great* by Jim Collins.** The author takes on the question of whether a good company can become a great company.
2. ***The Smart Interviewer* by Bradford D. Smart, Ph.D.** Smart has successfully interviewed more than 4,000 candidates for selection or promotion, trained more than 3,000 hiring managers in how to interview and counseled thousands on how to manage their careers.
3. ***The Leadership Pipeline* by Ram Charan, Stephen Drotter and James Noel.** Written by three management gurus, this book shows companies how to prepare future leaders as well as keep the "pipeline" flowing.

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SOUNDVIEW Executive Book Summaries®



by Steve Chandler and Duane Black

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THE HANDS-OFF MANAGER

THE SUMMARY IN BRIEF

The No. 1 reason for quitting that employees cite in exit interviews is "my manager." Most managers and executives not only aren't aware of this obvious problem, but also probably wouldn't know what to do about it if they did.

Today's employees do not respond well to the old hands-on, militaristic management styles. They are highly independent, individual professionals with their own fully developed ideas.

Fortunately, there is a new management style on the horizon: hands-off managing. Managers who practice this style are devoted to rekindling the human spirit within their companies by keeping their hands off their employees' happiness and allowing success to happen. These leaders recognize that real power comes from partnering, not criticizing.

In *The Hands-Off Manager*, Steve Chandler and Duane Black offer this new management vision, showing how any manager — new or seasoned — can coach and mentor employees rather than hover over their shoulders and goad them into action.

In this system, each employee's strengths are honored and honed in a climate of partnership and goal-setting. *The Hands-Off Manager* finally provides the solution to the age-old problem of getting the best performance out of people without frustrating them or you.

IN THIS SUMMARY, YOU WILL LEARN:

- How to improve your management skills by finding a style that fits who you are and what you love to do.
- What it means to be in alignment with life, your team and yourself.
- How to hire people and place them in roles suited to their talents.
- What steps you can take to unlock the powers that live naturally inside others.
- How to improve the attitude of your team and the success of your company.

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Taking Your Power Back

Much management activity today is brought to life by Peter Drucker's comment, "So much of what we call management consists in making it difficult for people to work." Managers make it hard for their people. They unknowingly kill the human spirit by their old-school micromanaging and critical judgments.

But there is a new kind of manager emerging in companies today, known as the "hands-off manager."

All managers have two communication styles from which to choose:

- **Hands-on:** They can criticize and judge their people.
- **Hands-off:** They can mentor and coach their people.

This choice presents itself many times throughout every day. Every communication with one of your people is going to be a version of this choice. If you choose judgment and criticism (implied or otherwise), you will provoke defensiveness and withdrawal — not creativity and productivity.

When we judge people and find them coming up short, we then start to criticize and micromanage them. In this age of the sensitive, knowledge-based worker, that's a self-destructive cycle. It engenders nothing but resentment and push-back.

Also, when we judge, we are giving our power away. When we resent a team member, we are giving power to that individual — we are giving power to the person we are angry with by allowing him or her to occupy and dominate our thinking. Real power in leadership comes from partnering, not criticizing.

Hands-off managers set themselves apart by retaining their power. They make the effort to understand everyone they meet, in order to reduce their stress levels at work. These managers are completely aware that every time they judge someone, they alter their own well being.

The hands-off approach allows you to learn to take your power back and live in a world of quiet action and nonjudgment. If you do this, you'll soon be living with an open mind, forgiving effortlessly and taking back control of your energy and enthusiasm for doing great work. ■

Redefining Success for Yourself

Your first job as a hands-off manager is to manage your inner life. It is impossible to mentor others toward success if you haven't done it within yourself. Hands-off management begins in the mind of the mentor.

So how do we make sure we become successful? Most people never succeed because their definition of success always includes some change in the outer world, and the outer world is so hard to change. So you might begin by redefining success for yourself, and you might find that the definition is already inside you.

Once you wake up to this inner resonance, you will know when things have meaning for you and how you can use them in ways that will benefit your life. This inner tuning and intuition is at the heart of hands-off management. You don't need to get your hands on the world to shape and manipulate what's already perfect inside you.

That's the key to the hands-off life: Find a way to let what's in you naturally come through. Rather than racing around learning all kinds of new managerial systems,

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The authors: Steve Chandler is one of America's best-selling authors, whose 14 books – including the best-selling *100 Ways to Motivate Others, 100 Ways to Motivate Yourself, Reinventing Yourself* and *9 Lies That Are Holding Your Business Back* – have been translated into more than 15 languages.

Duane Black is the executive vice president and chief operating officer of SunCor Development Company, where he oversees 150 employees and more than 150,000 acres of current and future housing developments.

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Redefining Success for Yourself

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Great Ideas in the Shower

Many surveys show that managers get their best ideas in the shower, when doing easy yard work or while on vacation. Why is that? It's because you've stopped trying to control your thinking. You've taken your hands off your mind and allowed the wisdom within to emerge.

At a mental level, this is similar to the difference between talking and listening. People have taught for years that if you listen, you will learn more than if you're talking. But people have always assumed that "listening" only means listening to another person, an all-too-narrow interpretation of listening.

Hands-off management starts with listening to yourself; tuning in to your own heart and mind, because if you learn to listen to your inner being, you will learn more than if you're always trying to talk to yourself about how things should be.

procedures and trendy formulae, just get better at knowing yourself and the person you are managing. ■

Using the Power of Neutral

Organizational life is a constant process of negotiation and sales. It's an ongoing opportunity to promote a particular perspective in order to accomplish a purpose you are working toward. But not everyone sells the same way or from the same position. In fact, what really sets a hands-off manager apart is taking the neutral position. Managerial mastery is simply an unusual ability to achieve the neutral position.

Neutral observation is the ultimate vision. As a true and artful observer, one must be without judgment and without a position. A true observer gains power from seeing all valid positions from a neutral position.

Managers deal every day with opposites. We deal with up and down, success and failure, hard and easy. What we don't understand is that those opposites go together and need each other. We can only experience easy because hard exists. Yet we're always anxious to remove the opposite of the experience we seek — and in reality that's not possible.

So, a micromanager's resistance to opposition, and to the opposite of what he seeks, blocks him from getting to where he's trying to go. He gets good critical feedback, and instead of being open to it, he's immediately defensive. ■

Using Focus and Intention

Hands-off management means hands off the past and hands off the future. Your focus is the present moment because you understand that productivity always happens *now*. As your people learn to create freely in the present moment, success comes to them. When we are in that creating mode, we are advancing upward, evolving and expanding toward higher levels of success. Creating always occurs in the moment, never in the future.

Attaching to Your Thoughts Like Velcro

Sit down with an unsuccessful, unhappy or struggling manager and you will hear him describe where his focus goes: "I get too many phone calls. I have too many personal problems to deal with. My health is not ideal right now. I have too many visitors. I'll never be able to answer all my e-mails. My reports are overdue. I have too many meetings to attend."

Notice all those stressful thoughts crowding in on this manager. The hands-off manager learns to take just one of those thoughts and work with it. "I get too many phone calls" turns into "I'm putting my calls direct to message. I look forward to hearing them later when I'm ready and focused on them."

Hands-off managers are creators. They take one stressful situation at a time and create something good from it. Hands-on managers, on the other hand, are reactors. They react to all thoughts, all day, full alarm. For them, life itself is an emergency.

Management by Worrying

Old-school managers believe that if they don't get worried enough about something, they won't solve the problem. So their internal motivation system is fear. They think they have to *scare themselves* into doing the right thing. However, when you are a manager focused in the moment, you are moving your team forward again. You are paying attention to what's being communicated to you. You are honoring every experience. You are finding value in everything that has ever happened to you. You have respect and caring for others.

Many people think this neutral and accepting focus would make them passive and directionless managers. Quite the opposite! Pure action emerges from an undistracted mind. Because that is where *intention* enters the picture, rises up and takes over.

It's important to have intention. But an intention is different from a goal, and knowing the difference is vital to your success. Goals in companies and with indi-

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Using Focus and Intention

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viduals striving for success are expressed this way: "The goal is where I want to get to, and I'm going to be really unhappy and disappointed if I don't arrive there."

Obviously this kind of thinking only introduces stress into the human system. It builds discomfort and unwanted pressure. Stress is not optimal for performance. That's why it's more effective to use peaceful inner intention.

One can more easily think, "Well, that's where I intended to go to, but oh well, I didn't get there." It may sound weak, but it's actually stronger, because from that non-stressed mood you are more likely to keep trying. You are able to say, "It was just an intention. It's okay that I didn't get there. I'm going to keep working on it."

With an intention, there's no place to get to — no hill to climb. The intention is in you already. You just flow with it and use it as a direction monitor. ■

Questions Leading to Success

The hands-off manager doesn't spend a lot of time giving advice. Instead, he or she perfects the ability to ask questions that allow success and fulfillment to happen, questions such as "What things come naturally to you?" or "How easy is the workflow for you right now?"

We have been trained by the media, our families, our traditions and our culture to focus on the negative and try to fix it. We obsess over sins and shortcomings, trials and tribulations. We try to go outside ourselves to change the negative. Then we try in vain to create an external situation that's positive.

But none of that works, because the positive solution is on the inside. What we were seeking was already in us. How do you find these solutions inside you? Start asking questions, and then listen. Take a moment after you do something and question how it feels to you. Listen to that feeling — with a little practice and discipline, it's not hard to find a way to test all your actions against this inner knowing. ■

For information on how giving creates success, go to: http://my.summary.com

Inspired Ideas Lead to Success

The best ideas come when you stop forcing your thinking. The straining involved with forced thinking actually pushes away ideas. You are repelling that great idea that wants to float up and announce itself. But how do we get into that relaxed, hands-off state of mind?

The answer is to learn to listen and recognize, to learn to be available for the ideas that are in us instead of trying to find them in a manual or guideline.

That's the secret discipline involved with success. It's in *allowing* yourself to step back and let it happen. It's a tough discipline to learn at the outset, but it's a rewarding one. It rewards you in large ways by helping a great career to unfold. But it also rewards you in smaller, more immediate ways: For example, you can actually finish your workday with a low level of stress. You can learn what it means to do less and achieve more.

Not a Soft or Passive Approach

When a hands-off approach is used, energy and productivity increase. The approach holds people *more* accountable for high performance, not less. It is not patient with people whining and playing victim. It has no room for self-pitying complaint.

Sometimes, a hands-off manager can be "hard" on team players to wake them up to their power. You want to get their attention, so you might say, "Look, this is ridiculous. You're some of the most talented guys I've ever worked with. I've watched you perform at a level that was truly exceptional. And now you're stumbling over this? This is not acceptable. It shouldn't be acceptable to you, either. Tell me what I can do to assist you right now."

Disappointment and Mismatches

The "common sense" world has laid out a false map for us of what it means to be "successful." Most definitions of success associate it with becoming an admired leader, becoming financially abundant, finding an ideal love mate or living for a long time. But those pursuits are all comparison-based in their definition of success. They focus as much on one-upping or excluding others as they do on inner peace and happiness. ■

Practice Finding an Inner Vision

Learning to make decisions based on inner listening — paying attention to gut instinct — is different from trying to judge what the "right" or "wrong" thing to do would be. That's the old school of management — to take right and wrong, make them absolutes and try to impose them in the workplace.

Instead, find what you are aligned with and what feels natural to you with every decision you think you have to "make." Actually, for the hands-off manager, decisions

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Practice Finding an Inner Vision

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have a way of making themselves, of becoming such obvious choices that no real decision is necessary. You just know what to do next.

As you bring people onto your team, you'll become skillful at choosing the people with whom you feel a sense of alignment. You'll know them and feel a sense of well being when you're around them.

A Different Kind of Vision

Some top leaders say a great leader is a visionary. And we know they are referring to market trends, product and service development and all the things business magazines tell them to think about.

The hands-off manager is a different kind of visionary. The hands-off manager's vision is not a vision for what the company will be in 10 years. It's a vision that sees into the potential of people right here and now. Your success as a hands-off manager will be directly related to your ever-increasing ability to see more in your people than they're seeing in themselves.

This vision goes other places too. For example, you acquire a new vision of the customer. You realize that if you don't observe your customers and why they're buying, as well as why they're not buying, you will lose your ability to help them. Vision, again, becomes observation. It's not a fantasy trip to an island in the future. Your customers are waiting to tell you how to relate to them.

The Rewards of Hands-Off Decision Making

The hands-off approach carries this key insight: Allowing success is the opposite of forcing success. It is learning what it means to be in alignment with life and with yourself. Many people think this is theoretical, spiritual or something that hasn't ever been used. The opposite is true. This is an applied system that works in the real-world workplace.

You'll consistently find the strengths in your people instead of trying to add what's missing. You'll be able to teach them to use what's inside them instead of trying to fix them and doing the things most managers try in vain to do.

Most businesses operate through wild attempts at control. They focus on their own rules, policies, detailed supervision, inspections and quality control as if their people were trained animals. The hands-off manager is the solution to that dysfunction. When you find people who love to do what you're asking them to do, you don't have to control or motivate them. You don't have to force them to work harder. They're already doing it.

What Is the Manager's Job?

Your job as a hands-off manager will be a job of learning. You'll be learning to be aware of what your people love to do. You'll be learning what powers live naturally inside them. You'll then be more skilled at placing people in roles suited to their talents. You will see into them, see what they love to do and listen to what they tell you.

It can get interesting and challenging when you embark on this journey, because people don't always tell the truth. They tell you what they think you want to hear or what they think will get them a higher salary. That's the curse of approval-seeking in action. You'll detoxify that situation every time you show them that winning your approval is not a productive pursuit. Approval-seeking is our society's most futile and dysfunctional pursuit. If your people can learn to drop it from their workplace endeavors, they may even learn to drop it at home and improve their personal relationships. ■

Tuning Your Instrument

Your highest purpose is to become the fulfillment of your potential — to learn to manifest and bring into the world the gifts that are contained within you. It is simply the most fundamental, the most profound and the most important reason for living. It's to become who you already are.

Purpose is letting the best of what's in you come through and then giving it to the world. That's your life's purpose. And everyone has the same purpose. Within that purpose, they have their individual outer manifestation: to entertain, to organize, to teach, to create. ■

The Hands-Off Football Coach

When the University of Texas football team won the national championship in the 2006 Rose Bowl, it was largely due to their star quarterback, Vince Young. Young had become a well-rounded, complete player in his junior year, and many were calling him the best quarterback of all time.

When his coach, Mack Brown, was asked how all those improvements in Vince Young's game occurred from one year to the next, Coach Brown said, "We just stopped coaching him. We just got out of his way. We saw what was emerging in him, and we decided to let it come forward without a lot of old coaches messing with it."

Becoming Available

If we are the old-school micromanagers, then we've been in hiding. We've been unavailable. We've been hiding behind a disguise made up of problems, and excuses for having those problems. However, it's time to turn and go another way, to calmly choose another path to take. This path will make you available to yourself and to others. Old-school micromanagers try hard to learn how to succeed. They seek out teachers and success gurus. They want to think and grow rich. But it's that very thinking that's in the way.

Galileo knew that the answer was not in outside knowledge. "You cannot teach a person anything," he said. "You can only help him discover it within himself." Galileo's words are the heart and soul of hands-off management.

Let's say you've cleared your mind and learned to disarm all the negative thoughts in your life as they arise. Now you're free to discover who you are. You're free to realize the best that's in you.

What's really happened? You've become available to yourself. And in this freedom from all those burdens you've been carrying, you're able to follow your instincts. Because you listen to your instincts and you're not worried about what other people might have said about you. You're available for inner ideas. You're available for insights. You're available for inspiration.

You've erased that wall you have built up in yourself though a lifetime of criticism, self-judgment, anger and disappointment — all the thoughts that have blocked your potential from coming through. ■

Letting Go of Judgment

The common theme of most managers is that they are always mildly upset about what's happening. But what's happening is not upsetting them — their judgment about it is.

Anything that bothers us only bothers us because we have a judgment about it. We cling to passing thoughts that say, "This is wrong! This shouldn't be happening to me!" But we don't stop to realize that the upset we're experiencing is caused by our judgment.

If we could be open to all things and see them as the flow of the marketplace and get away from what should not be, we would release ourselves from a monumental amount of dissatisfaction, stress and blame. This ability to dismiss judgment when it pops up is a critical skill for the hands-off manager to cultivate.

If you try this dropping of negative judgment for long enough, it will produce peace at your center and a gentle surge of relaxed intelligence to allow you to deal well with any issue. We aren't saying you should be in denial. You can be an expert evaluator of performance without being emotionally "disappointed" or "upset" with a person's actions. Knowing the difference is vital.

Living in the Moment

As a hands-off manager, you can be different. You can start your day centered in the peaceful, present-moment awareness of infinite possibility. That's because you no longer imagine all the things that are going to go wrong. There is no "wrong" way things can go. They're just going to go where they're going to go. There's no more judgment about what's going to occur.

We are not saying to take a passive attitude. This is the opposite of passive. It's an active embrace of what is. It frees up energy that had previously been trapped in internal conflict and distress. You are ready to act sooner.

Life is not so much about what's going on, but how we choose to interpret it. Soon you alter all your thinking to be about you and your interpretations instead of the "bad" and "wrong" and "unfair" things that have happened. Practical benefits arise from this managerial approach. Your people will be more comfortable with you when you accept them the way they are. They will be more trusting of you, and their interest will turn to doing great work for you.

Once employees find out that you aren't judging them, they'll share almost anything with you. That's when you can make real progress in helping them improve their skills. The hands-off manager has the rare ability to enter into a true partnership devoted to the success of the employee. Employees who aren't being judged are far more open to coaching and mentoring, and allowing their managers to help them improve. ■

For information on creating results: the benefits of hands-off management, go to: http://my.summary.com

Waking Up the Whole System

Feeling your connection to everything enhances hands-off success. It comes from feeling all the support you are already getting. You don't need to put your hands on anything to wring out that support. It's already everywhere. Most people live completely unaware of how supported they are. They think they are relying on themselves. In their offices, they have signs that say, "If it's to be, it's up to me."

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Waking up the Whole System

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They also think they can make money only if they take it from someone else. In their contracted view of life, it's a zero-sum game. But the universe's evolution outward toward infinite expansion is not a zero-sum game. Any time you try to create a system around the finite zero-sum premise, the system collapses, because it isn't in agreement with nature. ■

Deepening Your Desires

The hands-off manager always wants to go deeper, to find what lies beneath a co-worker's desire. You don't just want to know what he or she wants, you want to know why. That allows you to put your mentoring and coaching into that context. You are helping people get what they want, not what you want.

And when you take their "wish list" deeper than the first blush, you can show them how to live the life they dreamed of right now, with your full support. Otherwise your people are seeking the end without the means.

You will help them go right to the means. So instead of having goals about how many millions they're going to have, they now have intentions about how effective a person they're going to be. They now have intentions about what's inside them that would create the wealth. Under your mentoring, they can reformat their approach to what they want. ■

The Ultimate Zero-Sum System

Marxism — a zero-sum system — was created on the paranoid concept of the finite limitation of wealth; in other words, there's only so much wealth in the world. It was the ultimate hands-on system of micromanagement taken to the extreme.

Marxism said there are limited, finite resources and we must take these limited resources from the rich and redistribute them. What destroyed Marxism was the recognition in the free market system that wealth is infinite and unlimited.

Similarly, this limitation and finite thinking can also destroy an organization from within. For example, a lot of people think that if they deliver extraordinary customer service they'll have to give up profit. They don't have the imagination to see how huge a contribution great service is to their long-term bottom line.

To make certain you never fall into this zero-sum black hole, focus on what you're giving. Trust the system and know that it will work. By doing this, you will get results.

Living in Three Worlds

Allowing success requires that we create an understanding within ourselves of the existence of three worlds that we live in every moment of every day, simultaneously.

These worlds are spirit, mind and body (or the physical world). Most of what happens in those three worlds you can't actually see.

We spend most of our time focused on the physical world. But the physical world is just the manifestation of outcome. By the time you see it, it's too late to change anything. The real change happens internally, not externally. Change becomes *visible* only in the external world.

So our ability to make a difference and change the results we're seeing does not happen by focusing on and fixing external events. Our access to destiny occurs earlier in the process than that. It occurs when we focus on spirit (our intuition and inspiration) and mind (our thinking and planning). Those are the only domains where we can exercise free will and free choice.

You don't get to choose whether the sun's going to come up tomorrow or how other people are going to behave or react to a given circumstance. But you do get to choose *who you are being*.

Focus on Process, Not Results

The Iceberg Principle would say that what you see above the surface in the ocean when you look at an iceberg is only about 10 percent of what actually exists. The other 90 percent of the ice floats below the surface and is not visible to the eye. That's exactly what's occurring in our own world. What we see coming through in physical form is a very tiny portion of all that's actually happening.

The hands-off manager will focus on the process, not the results. The process is the mind and the spirit inside the machine. It's the heart of your organization. If you focus on the process, the results will unfold naturally. So if you have an inner process that guarantees a quality sales force, good customer service, a reliable product and a good marketing plan, you don't have to worry about how to be successful. It flows easily from there.

If you want to make a change, it starts in the worlds of the mind and the spirit. Your spiritual world becomes the world from which you receive ideas, inspirations and insights. And the mental world is where you create plans; it's the world where you use thought, analysis, focus and attention to bring into being that which you desire to contribute to the world. The physical world is

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Living in Three Worlds

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just the world of events, of information. It's where results occur, where data is collected, where objects are manifest, where the outcomes happen and where actions take place. It's the last stage of the process. ■

The Hands-Off Manager as Coach

Hands-off managers become excellent coaches. They create an atmosphere where their people receive coaching gratefully. So the hands-off manager becomes quietly masterful at the coaching process. It's a perfect replacement for the old-school micromanager's habit of criticism, judgment and correction.

Hands-off managers coach their people so that their people's talents are allowed to emerge, allowing them to do better work in the workplace and become more harmonious with their own inner intentions.

You can help your team by first creating a clear concept of coaching itself. You'll want a definition that's easy for your people to understand and is personal to them, so that when you coach somebody, both parties know what they are doing.

The term "coaching" came from the world of sports — a world of performance and numbers. Sports provide a beautiful metaphor for what good coaching is in an organization. In sports, coaching is what happens when a coach or a manager works with an athlete to increase that athlete's ability to contribute to the team.

Unsolicited Advice

A lot of people think that coaching means giving advice, but in a nice way so that you're giving advice but you can call it "coaching." That's still advising. Coaching is a more complete package, because coaching embraces a bigger picture. When you are coaching, the first thing you do is seek to understand the other person. You do not first seek to be understood.

Therefore, the first stage of the coaching session is the intake: You ask questions and you get in touch with the intentions and the inner motivations of the person. It's important for you to see what they want to achieve, what they're trying to do and how they see the situation. So first of all, you want to listen, ask more questions and let them talk. Keep your hands off their answers. They don't need fixing.

An important skill of effective coaching is knowing to ask some good, open-ended questions that reassure the person you're coaching that you're really interested in how they feel and how they see things. That's what you're going to work with. You're not going to work with some preconceived notion of how things should be. That's just a subtle form of advising and is condescending.

Coaching Is About What's Possible

Coaching is moving people from being stuck in a mind-set in which they think they are limited to opening a new possibility. The hands-off manager has what the Zen masters call "beginner's mind": Nothing is impossible. If you are that manager, you are always looking to move people from rigid limitation to possibility.

Lasting behavioral change is always the ironic specialty of the hands-off manager. By not micromanaging, more things change. By keeping your hands off the process, the process improves faster. Would you pull a flower up with your hands from the ground to help it grow? Why try to do similar things to an employee?

A Quest for Understanding

What does coaching lead to? Better behavior? More productivity? Something you, as a manager, want? No. What good coaching leads to is that the person you're coaching will achieve his or her objectives faster. Not yours. That's really vital in coaching: focusing on the wants and needs of the person being coached, not your own.

When you're coaching someone, you are coaching them so that they realize their objectives faster; you're not coaching them so they become better for what you want, or so they serve the company better after the coaching session. They will, but that's a side effect.

When you are doing your hands-off coaching, you're helping people align with their own intentions and noticing how their intentions are in alignment with yours. You *can* coach. Just be yourself and be committed to the higher good. As a hands-off manager, you enjoy creative freedom, because you are not burdened with doing things right and making others wrong. That's why the hands-off manager is such a success. ■

SOUNDVIEW RECOMMENDED READING LIST

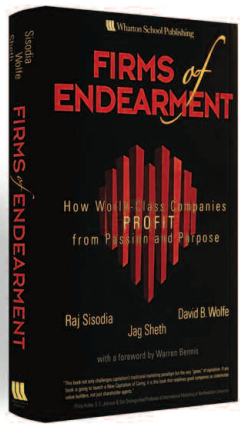
If you liked *The Hands-Off Manager*, you'll also like:

1. ***First, Break All the Rules*** **by Marcus Buckingham and Curt Coffman.** The authors distill important advice from some of the world's greatest managers, based on 80,000 interviews conducted over 25 years.
2. ***The Leader's Shadow*** **by William Q. Judge.** This examination of the inner dynamics of executives in top leadership positions is a good resource for coaches and trainers.
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SOUNDVIEW Executive Book Summaries®



How World-Class Companies Profit From Passion and Purpose

FIRMS OF ENDEARMENT

By Rajendra S. Sisodia, David B. Wolfe and Jagdish N. Sheth

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THE SUMMARY IN BRIEF

American business has entered the Age of Transcendence, with an increasingly older population searching for the higher meaning in their lives, not just more possessions. According to the authors, a *historic social transformation of capitalism is under way*. In this book they provide a measure of the scale of change by profiling companies that have broadened their purpose beyond the creation of shareholder wealth to act as agents for the larger good.

They call these companies firms of endearment (FoEs) because they strive through their words and deeds to endear themselves to all their primary stakeholder groups — customers, employees, partners, communities and shareholders — by aligning the interests of all in such a way that no single stakeholder group gains at the expense of other groups. They're driven as much by what they feel is right (subjectively grounded morality) as by what others might more objectively claim to be right.

FoEs are run by executives who reflect in their managerial philosophies the changes in culture they are talking about and who are champions of a new, humanistic vision of capitalism's role in society. Firms of endearment are companies people love doing business with, love partnering with, love working for, love investing in.

This summary reveals how FoEs are blowing away the S&P 500 averages and increasing "share of heart" by delivering the emotional, experiential and social value stakeholders are demanding.

IN THIS SUMMARY, YOU WILL LEARN:

- The distinctive set of core values, policies and attributes of FoEs.
- How FoEs outperform *Good to Great* companies.
- Why the best way to serve shareholders in the long term is to embrace a Stakeholder Relationship Model (SRM), as Costco does.
- How companies such as Patagonia, Whole Foods and Google attract and retain employees who see their jobs as a calling.
- The unspoken contract that FoEs honor.

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It's Not Share of Wallet Anymore; It's Share of Heart

The meaning of life — and of one's own life in particular — is a perennial issue in midlife and beyond, but the search for meaning has a major influence on the ethos of society and this plays a big role in reshaping corporate culture. The search for meaning is changing expectations in the marketplace and in the workplace, and therefore is *changing the very soul of capitalism*.

Humanistic companies or firms of endearment (FoEs) seek to maximize their value to society as a whole, not just their shareholders. They create emotional, experiential, social and financial value. Some call the emotive dimension the "soul of a company." Companies without a soul face a doubtful future.

What Is a Firm of Endearment?

Consider the words love, joy, authenticity, empathy, soulfulness and other terms of endearment. Until recently, such words had no place in business. Today, a growing number of FoEs embrace such terms. They endear themselves to stakeholders by bringing the interests of all stakeholder groups into strategic alignment. These companies meet the tangible and intangible needs of their stakeholders in ways that engender affection and loyalty to the company.

Firms of Endearment That Made the Final Cut

Most studies of corporate exceptionalism or "greatness," to use Jim Collins' term, start with financial performance and work backward. In *Firms of Endearment*, we instead used humanistic performance — meeting the needs of stakeholders rather than shareholders — and worked forward. In the book is an *illustrative* list of FoEs. None of these firms is perfect; each has areas in which it is relatively weak or somewhat vulnerable. It is important to note we do not claim that a company will forevermore be a great investment once it adopts the Stakeholder Relationship Model (SRM) that characterizes FoEs.

The 30 companies we believe best exemplify a high standard of humanistic performance are Amazon, BMW, CarMax, Caterpillar, Commerce Bank, The Container Store, Costco, eBay, Google, Harley-Davidson, Honda, IDEO, IKEA, JetBlue, Johnson & Johnson, Jordan's Furniture, L.L.Bean, New Balance, Patagonia, REI, Southwest, Starbucks, Timberland, Toyota, Trader Joe's, UPS, Wegmans and Whole Foods.

In terms of how these companies perform, the publicly held FoEs returned 1,026 percent for investors over the 10 years ending June 30, 2006, compared with 122 percent for the S&P 500; that's more than an 8-1 ratio. Over five years, the ratio is even higher, because the FoEs returned 128 percent while the S&P 500 only gained 13 percent. Over three years, FoEs returned 73 percent versus 38 percent for the S&P 500. ■

New Age, New Rules, New Capitalism

For a century, the consumer economy has been grounded in a materialistic *having* focus. That focus is now being diffused by rising desires for a sense of meaning that cannot be drawn from material things. Consumers may still want a given product, but along with that product, many want a high-road experience

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New Age, New Rules, New Capitalism

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that connects with their more mature *being* focus. For example, shoppers at pricey FoE Whole Foods pay substantially more than they would pay for eggs at Kroger just for the good feeling that they are doing right by purchasing eggs from free-range hens. As more consumers make purchases based on self-actualization — the need to make the most of their abilities and strive to be the best they can — the way business is done is being reshaped gradually.

Shareholders Versus Stakeholders

The best way to serve shareholders in the long term is to embrace a Stakeholder Relationship Model, as Costco does. On average, Costco pays its employees 65 percent more than Wal-Mart and 40 percent more than Sam's Club. Its benefits are also more generous. *Yet, Costco generates significantly more profit per employee than Sam's Club does.* It achieves this seeming alchemy by being far more efficient (spending only 9.8 percent of earnings on SG&A — sales, general and administrative expenses) and having a very low employee turnover (only 6 percent in the first year, compared with 21 percent at Sam's Club and 50 percent at Wal-Mart).

Finding the Will to Change

No doubt some will argue that the idea of capitalism undergoing a social transformation is nonsense. Nevertheless, the remaking of capitalism into an instrument of broader purpose appears unstoppable. Stakeholders are demanding more socially aware management from companies and consumers will push for this by closing their wallets to companies that don't comply.

In May 2005, *Fast Company* published an article by Alan Deutschman about the myths that motivate a change in behavior. The following list takes a look at four of the myths:

1. Fear is a powerful impetus for change. More often, it is a powerful impetus for denial. According to a famous survey by Royal Dutch Shell, most companies do not reach the 40th anniversary.

2. Giving people objectively provable facts is an effective technique for stimulating change in behavior. If this were true, 65 percent of Americans would not be overweight.

3. Slow change is more effective than sudden change. Incrementalism works no better in companies than it does with the people who run them.

4. Past a certain age, people can't change. The issue is not whether people (and companies) can change after decades of following the same patterns, but whether they can muster the will to change.

Change can be massively challenging for companies that have been around long enough to form entrenched bureaucracies; however, if a company does not make an attempt to change, it will become a company that fails to reach its 40th anniversary.

Changing to Become an FoE

Einstein famously said, "A problem cannot be solved by the same consciousness in which it arose." The consciousness that has ruled business enterprise over the past two centuries is rooted in classical notions that reason is superior to emotions in the affairs of people. This has reduced stakeholders (including shareholders) to largely bloodless statistical entities.

Reflecting on Einstein's dictum, the new consciousness that will lift a company successfully into the loftier realms of new capitalism recognizes that all reality is personal and infused with affect. Objectivity has proven to be an overreaching effect of science, and subjectivity currently rules in terms of garnering stakeholder loyalty and affection. ■

Firms of Endearment Versus Good to Great Companies

Jim Collins' best-selling book *Good to Great* identified 11 companies as going from "good" to "great" by delivering superior returns to investors over an extended period of time. (The companies had each delivered cumulative returns at least three times greater than the market over a 15-year period.) We compared our set of publicly traded FoEs with these 11 companies and discovered:

- Over a 10-year horizon, FoEs outperformed the *Good to Great* companies by 1,026 percent to 331 percent (a 3.1-1 ratio).
- Over five years, FoEs outperformed the *Good to Great* companies by 128 percent to 77 percent (a 1.7-1 ratio).
- Over three years, FoEs performed on par with the *Good to Great* companies: 73 percent to 75 percent.

Note that none of the *Good to Great* companies made our cut, though one (Gillette) did come close.

The Chaotic Interregnum

The globally iconic Coca-Cola brand is wallowing in disorder. Its maker is trying to regain its footing under CEO Neville Isdell, who replaced Doug Daft in May

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The Chaotic Interregnum

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2004, who replaced Doug Ivestor in 2000, who followed the legendary Roberto Goizuetta, whose death in 1997 ended an era of plenty for the world's most recognizable brand.

Shortly after taking the position, Isdell vowed to double the value of the company's trademark within a decade by focusing on advertising with a youthful point of view. However, he seemed unaware that the population growth among the young has slowed to a crawl in the United States. This and the fact that soft drink consumption generally falls off around the mid-30s means demographics are working against Coke's growth prospects. Companies like Coca-Cola are riding through the greatest storm of change and disorder since the beginning of the Industrial Revolution.

A Solution to Disorder: Natural Capitalism

FoEs reject the hierarchical control-minded templates inspired by Newtonian science long central to organizational theory. FoEs transcend that tradition by tapping natural laws governing *complex adaptive systems* — self-organizing networks of entities that continuously form and reform in response to evolving needs and environmental changes.

Leadership at the top is more catalytic and inspirational than directive. The General Electric jet engine factory in Durham, N.C., is such a place. It has no factory leader. Rank-and-file workers manage everything from process improvement and work schedules to the overtime budget. Managers who have never held an engine-making tool in their hands no longer shape the happenings on the factory floor.

The Communications Challenge in the "Era of Disorder"

The balance of information power is now in the hands of the masses. This has changed the rules of communication between companies and their stakeholders, especially customers. What the Internet has done is make conversations (a.k.a dialogues) less optional and more of an essential part of everyone's day. Here are the four crucial principles of effective dialogue:

1. Establish a positive relationship (or reinforce an existing one) before getting down to business.

2. Show willingness to be vulnerable. Honda ritualizes managerial vulnerability through the practice of *waigaya*, a protocol whereby rank is put aside to facilitate problem solving.

3. Foster reciprocal empathy, whereby stakeholders reciprocate the company's empathy. Every customer wants to be understood. The same goes for every employee, supplier and business partner. After the first Gulf War, the insurance giant USAA, which serves military personnel and their families, sent refunds to policyholders who had gone to the Gulf, covering the period they were not driving at home. Some 2,500 policyholders mailed the refunds back with a note of appreciation saying they wanted to keep USAA financially sound.

4. Conduct conversations with genuine reciprocity. This makes for good and lasting relationships. The Body Shop's Anita Roddick gathered ideas from customers in suggestion boxes, and the staff wrote a personal reply to the author of every message. ■

Employees — The Decline and Fall of Human Resources

In the Age of Transcendence, people are looking for more than a paycheck from their work; they want "psychic income" as well as monetary income. People want work that engages the whole person, work that fulfills social needs, work that is meaningful — psychologically rewarding. People want to view their work as a calling.

FoEs can afford to be highly selective in employee recruitment because they are attractive places to work and generally rank well above average in their categories for wages and benefits. Progressive Insurance goes far beyond the norm in benefits, extending medical benefits to employees' grandchildren, parents and kids over 23.

Executive leadership in FoEs generally comes up through the ranks. This turns into a big motivator for new employees. At CarMax, employees choose one of four career tracks: Sales, Purchasing, Operations or Business Office.

FoE Leaders Understand the Fine Art of Building Trust

A distinguishing mark of FoEs is the high degree of trust that pervades them. They draw on four key elements to build trust with employees:

1. Respect for individuals: FoEs view each individual employee as a "whole person" rather than an impersonal factor of production. Management encourages employees to participate in company decision making, regardless of their rank.

2. Transparency: FoEs are free of the paranoia many companies have about sharing information with all employees as well as other stakeholders. New Balance

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Employees — The Decline and Fall of Human Resources

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opens up its books, building trust *and* helping employees understand what it costs the company to produce shoes in the United States versus in China. Management considers this an important factor in improving efficiency and remaining competitive.

3. Team building: FoEs cultivate an uncommonly strong sense of team participation. At JetBlue, new employees spend an hour each with the president and the CEO, as well as the vice president of people (a warmer, more humanistic term than *human resources*).

4. Empowerment: FoE employees generally have the authority (and obligation) to spend company resources necessary to make a customer happy or fix a production problem. In its early years, Southwest was forced to sell one of its four planes. Rather than operate on a reduced schedule (which would require fewer people), employees devised a plan to maintain the existing four-plane schedule. They reduced turnaround time at the gate by having everyone pitch in: pilots and management helped with baggage handling, flight attendants streamlined cabin cleanup and ground crews revamped the beverage stocking process.

FoEs Put Fun Into the Work Environment

FoEs stress a fun, collegial, productive and meaningful work environment, which is a key factor in attracting, motivating and retaining employees. These companies create an atmosphere that drives people to give their best without feeling pressured. FoE work environments are distinguished by three characteristics:

1. Fun. Jordan's Furniture once surprised everyone by closing down its stores and chartering four jumbo jets to fly all 1,200 employees to Bermuda for the day, treating them to a 90-degree day of beach, BBQ, music, water games and dancing.

2. Balance and flexibility. FoEs are disposed toward accommodating their employees' unique scheduling needs. Google grants each employee the right to spend 20 percent of his or her time at work on independent projects, several of which have developed into important new offerings for the company, including AdSense for Content, Google News and Orkut (for social networking).

3. Creative quality-of-life benefits. Google provides employees with an on-site physician, free massages, a game room, showers, subsidized child care, free gourmet lunch five days a week, dry cleaning, counseling on IRS matters, personal and family services and business legal services.

Training and Development Are High Priorities

FoEs are exemplary in their focus on helping employees maximize their potential through training, development and mentoring. They constantly celebrate their employee's achievements and successes, large and small. The Container Store has a long-standing reputation as one of the best employers in the country. A major reason for its success is its extraordinary commitment to training — 235 hours per year for new employees, compared with seven at the average company in the U.S. retailing sector.

Many FoEs have their own corporate "universities" to train employees, including Southwest, Commerce Bank, Toyota and UPS. In its initial two years, the UPS "Earn and Learn" program helped more than 20,000 part-time employees attend college.

The HR Department of the Future

The innovative and humanistic practices that FoEs follow in dealing with employees reflect a deep understanding of what people are looking for in their work lives today. In the past the HR function was something of a corporate backwater, a primarily administrative function dealing with payroll and staffing. This is fast changing as companies outsource the basic functions of administering benefits plans and payrolls. This frees HR to focus on more strategic issues such as employee performance and retention, which can directly affect the bottom line.

Essentially, it comes down to treating employees as customers. The ultimate goal of Jordan's Furniture's management team is to create "raving fans" out of its employees by providing internal growth opportunities, offering extensive benefits and considering them as another form of Jordan's customers.

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How FoEs View Part-Time Employees

Relatively few companies offer meaningful benefits to part-time workers. FoEs are distinct exceptions to this norm. Nearly all offer generous benefits, in some cases to those working as few as 15 hours a week.

Wegmans' employees become eligible for free health coverage and profit-sharing retirement plan contributions if they work 17.5 hours per week. The company tries to hire single moms as part-time workers. It views their employment as a win-win: The company gets staffing during difficult hours, and single moms get what they most need: health coverage. Unionized part-time employees at UPS get free health insurance and college tuition assistance.

Employees — The Decline and Fall of Human Resources

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Benefits That Flow to Shareholders From Doing It Right

The two main indicators of strong employee equity are low turnover and high productivity. Without exception, every FoE has an employee turnover rate much lower than its industry norm. FoE employees are also highly productive. Costco employees earn more than twice as much as Wal-Mart employees but generate three times the revenue.

Low turnover and high productivity are related to one another, because low turnover leads to more experienced employees, which translates to higher productivity. As a result, companies can have relatively low overall costs and be competitive while paying good wages and generous benefits.

FoEs have proven that the mother lode of wealth creation runs not through the executive corridors but through the vocational landscape of frontline employees. ■

For information on how Whole Foods avoided unionization, go to: http://my.summary.com

Endearment as a Business Model

Heart is not a word often heard in B-school. But heart — a symbol of empathy, nurturing, caring, giving — has recently made a quantum leap and landed in the middle of mainstream business consciousness.

The problem is that many Wall Street analysts have not caught on to the idea that there is much profit to be gained by bringing love into business operations. Most business leaders think in terms of *numbers* and *profit*. *Love* and *profit* is an alien conjunction of words that is quantitatively murky. It is attention to the immeasurable qualitative dimensions of life that gives FoE companies their crucial competitive differences from their competitors.

The New Marketing Paradigm

The main trait of the 20th-century marketing paradigm was hucksterism — aggressive promotion and selling that put sellers' objectives ahead of the *real* needs of consumers. Consumers became prey. Marketers and salespeople became predators. Love is the antidote for this dehumanization. The former head of Meredith Publishing Magazine Group, the former chief solutions officer of Yahoo! and the CEO of one of the world's largest advertising agencies talk about love in the marketplace without being concerned about raising eyebrows.

New Balance is a FoE with a holistic-based market strategy, founded on the principles of healing that Jim Davis and his wife and business partner, Anne, continue to uphold a century after the company's founding.

The Unspoken Contract That FoEs Honor

From customers and employees to suppliers, partners, shareholders and the community, the full spectrum of a company's stakeholders is bound up with a company via these two contracts:

• A legal contract (mostly explicit) based on quantitative performance criteria established by jurisprudence as well as representations by a company and its agents in writing, oral communications and actions.

• An emotional contract (mostly implicit or unspoken) based on qualitative performance criteria established by stakeholders in the form of expectations that reflect their moral and ethical values and their experiential desires — what they want to experience and what they want to avoid experiencing.

FoEs understand that their business operations are shaped by both spoken and unspoken contacts. Like partners in a successful marriage, they know that failure to honor the emotional contract with a customer means the end of customer loyalty.

FoEs Are Soulful

People do not go to Wal-Mart for soulful experiences. However, they do go to Whole Foods with that in mind. They also go in mobs to the service-rich, family-owned Wegmans Food Markets for a soulful experience. They shop at Jordan's Furniture with its shoppertainment bonanza for a fun-filled, soulful experience.

Soulfulness is a hallmark of FoE companies. It is a distinctive component of culture in the Age of Transcendence that is reflected by an upsurge of interest in spirituality — in turn, a reflection of the aging of society. ■

For information on the values of New Balance versus the values of Nike, go to: http://my.summary.com

Investors — Reaping What FoEs Sow

FoE Whole Foods is an extraordinarily vivid exemplar for the SRM business model. Over the past 10 years, Whole Foods has proven a better bet for investors than

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Investors — Reaping What FoEs Sow

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any of the five biggest grocers: Wal-Mart, Kroger, Albertsons, Safeway and Costco. In second place for shareholder enrichment by percentage gain is Costco, another FoE.

Whole Foods stands out even among the stellar performers that make up the FoE universe. It has returned 185 percent over the past three years, 400 percent over the past five years (when the S&P 500 rose by only 13 percent) and 921 percent over the past 10 years! In fact, between December 31, 1995, and June 30, 2006, Whole Foods returned more than 1,800 percent. ■

Partners — Elegant Harmonies

Concinnity is an ancient English noun, little used today. It means "a skillful blending of the parts achieving an elegant harmony." It is found in poetic descriptions of finely crafted artifacts. It is also used to describe elegantly constructed thoughts. However, organizations can achieve this state of concinnity as well.

A good example of concinnity among competitors is IKEA, Costco and Jordan's Furniture. When IKEA opened its first Boston store, its next-door neighbors Costco and Jordan's Furniture agreed to let IKEA use their adjacent parking lots for the grand opening. Jordan's even lined the street with signs saying "Jordan's Welcomes IKEA." FoEs expend goodwill to everybody, even their competitors.

Making the World Better Can Make Shareholders Richer

FoEs frequently take actions that produce results quite different from what conventional management logic would indicate. For example:

• FoEs decentralize decision making, but do so in ways that increase rather than decrease top executive influence at all levels of a company.

• FoEs typically pay frontline staff above norms in their categories. Rather than increasing cost of sales, this often reduces the percentage of a revenue dollar that goes to wages.

• FoEs typically depend little or not at all on conventional marketing practices, yet often experience explosive growth due to the affectionate regard that stakeholders have for them and the word-of-mouth promotion that results.

• Publicly traded FoEs tend to be less influenced by expectations of Wall Street analysts but typically achieve higher price/earnings ratios.

• FoEs operate with greater transparency than most companies but are involved in less litigation. ■

Society — The Ultimate Stakeholder

It is a given that no company likes to pay taxes. However, FoEs are generally sticklers for following not just the letter, but also the spirit of the law, and the area of taxation is no exception. None of the 17 public FoE firms we identified exempted themselves from paying taxes. As surprising as it seems, FoEs commonly view tax levies as fair pay obligations.

FoEs and Society

FoEs view the well-being of each stakeholder as an end in itself rather than merely a way to maximize shareholder wealth. These are some of the ways in which FoEs fulfill their keenly felt societal obligations:

• **Encouraging employee involvement.** FoEs encourage and reward employees for volunteering time and talents to support initiatives that benefit the local community. Patagonia has an environmental internship program that gives employees up to two months a year of paid leave to volunteer with an environmental organization of their choice.

• **Nurturing local communities.** FoEs strive to make themselves welcome in local communities and endear themselves by responding quickly to local exigencies. Progressive made job offers to 300 Zurich Personal Insurance employees who lost their jobs when the company moved its operations from Colorado Springs to Baltimore.

• **Cultivating global community.** FoEs strive to be exemplary global citizens, going well beyond local requirements. IKEA uses uniformly high environmental and safety standards worldwide, even when local regulations are less demanding.

• **Improving competitive context.** FoEs are adept at aligning social and economic goals. IDEO has a history of incorporating ecological and societal concerns into its product design.

• **Focusing on sustainability.** FoEs strive to operate in environmentally friendly ways. BMW turned a German law requiring firms to be responsible for their products over their lifetime into a profit opportunity. It has learned how to disassemble cars in an economical and environmentally sound way that gives it a sizable advantage over other automakers subject to the same law.

(continued on page 8)

Society — the Ultimate Stakeholder

(continued from page 7)

• **Cooperating with governments.** FoEs view governments as important partners in facilitating their ability to achieve their broad purposes and creating a better world for everyone. ■

Culture — The Secret Ingredient

FoE's strongest competitive difference is their corporate cultures. The passion, dedication, generous spirit and expansive creativity found in every FoE are products of their culture. It exerts a transformational influence on those who experience it, especially employees. Employees pumped up about their companies infect customers with their enthusiasm. Customers reciprocate with their own enthusiasm to round out a symbiotic relationship whose significance is lost on those who gauge companies strictly by the numbers. The three primary elements to organizational culture are:

1. Organizational vision. This is about creating and implementing a winning game plan. A common element found in every FoE is dedication to maximizing the creation of value for all stakeholders.

2. Organizational values. This is the aligning force that keeps an organization centered and balanced.

3. Organizational energy. This is the force that propels the organization forward at a steady speed. All FoEs are high-energy organizations.

Setting Organizational Vision

Firms of endearment share five primary elements in their corporate visions for seeing the bigger picture:

• A broader purpose than wealth generation
• Dedication to servant leadership
• Emotionally intelligent leadership
• Commitment to exemplary citizenship
• Recognition that they are part of an economic ecosystem with many interdependent participants. ■

Lessons Learned

Seven traits distinguish FoEs. Many companies can lay claim to some of the same traits. However, it is how the FoEs express these traits and weave them through their culture and operations that give them unique standing.

1. FoEs freely challenge industry dogma. This willingness means that they do not fit into the norms that Wall Street is comfortable with and leads analysts to criticize FoEs that pay wages and benefits above industry standards.

2. FoEs create value by aligning stakeholder interests. FoEs regard all their stakeholders as assets. FoEs have an uncanny ability to transmute stakeholder groups from separate, sometimes competing groups into a cohesive system in which the value of the whole is greater than the sum of the parts.

3. FoEs are willing to break traditional tradeoffs. Instead of "if/then" or "either/or," the alternative style of thinking — "both/and" — opens the mind to accommodate seemingly contradictory conditions.

4. FoEs operate with a long-term perspective. Although a number of FoEs presented here are privately owned and thus shielded from Wall Street pressure, publicly traded FoEs tend to be relatively impervious to such short-term pressures. In their IPO filing for the SEC, Google's founders warned potential investors they would not make operational decisions based on projected or actual quarterly earnings.

5. FoEs favor organic growth to growing by mergers and acquisitions. Most FoEs could probably grow at a faster rate than they have chosen. JetBlue's growth mode focuses primarily on continuing increases in flight frequency on existing routes as opposed to taking the costlier route of cultivating target market segments in numerous new locations.

6. FoEs blend work and play. Rule breaking regularly occurs in FoEs, with management's enthusiastic encouragement. It's all part of having fun.

7. FoEs reject traditional marketing models. One of the more important bonuses of being an FoE is lower marketing costs. FoEs are sustained by direct experience and great word of mouth. They do not rely on frequent sales and other dramatic promotions. This is a huge cost saver.

FoEs offer a cornucopia of valuable lessons for the rest of the business world and represent the architectural template for a new genre of business models that most midsized and larger companies will need to adopt to survive in the long run. Leading companies of the future will almost always be those that have crossed over to the other side of complexity to transform their organizations into firms of endearment. ■

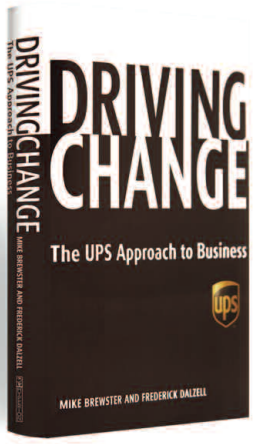
SOUNDVIEW RECOMMENDED READING LIST

If you liked *Firms of Endearment*, you'll also like:

1. ***The Long Tail* by Chris Anderson.** Anderson offers a visionary look at the future of business and common culture.
2. ***The Starfish and the Spider* by Ori Brafman and Rod Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
3. ***The Starbucks Experience* by Joseph A. Michelli, Ph.D.** Michelli gives his readers an in-depth look at the success strategy of this well-loved coffee house-styled company.

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SOUNDVIEW Executive Book Summaries®



The UPS Approach to Business

DRIVING CHANGE

by Mike Brewster and Frederick Dalzell

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THE SUMMARY IN BRIEF

UPS has earned a reputation as one of the top companies in the United States, known as much for its innovative practices as its skill in creating satisfied customers and employees. *Driving Change* tells the UPS story in a way that provides clear-cut lessons from which any business can benefit. Authors Mike Brewster and Frederick Dalzell demonstrate how UPS became a global commerce leader and why "Big Brown" is a company to emulate.

If you really want to find out what makes the world's leading package delivery and logistics company tick, if there is anything valuable for today's managers to learn from UPS, it all starts with the drivers. Mention UPS to anyone, anywhere, and you'll hear immediately about *their* driver: Rudy, Murph, Patrick or Sue.

Go to Mahwah, N.J., to UPS's World Technology Headquarters. Each day, data on some 15 million packages wends its way through the UPS global network. It doesn't matter where in the world a UPS package is, all package information is maintained on the global UPS system, enabling the company to act as one worldwide company.

Nonetheless, technology, too, has its limits, and UPS must get creative in order to serve its customers in every corner of the planet. In Zambia, for example, UPS uses canoes to make deliveries across the Zambezi River. At the other end of Africa, mules deliver UPS packages into villages in the Abu Simbel region of Egypt.

Go back — 100 years to be exact — to 1907 Seattle, where a tiny company called the American Messenger Company was started by a teenager named Jim Casey. And this is what you find about UPS and the nature of change.

IN THIS SUMMARY, YOU WILL LEARN:

- How UPS uses culture as a competitive advantage.
- Why "constructive dissatisfaction" is encouraged at UPS.
- The way UPS changed its business from retail package delivery to wholesale carrier.
- About the technology challenges the global carrier has had to face.
- Why UPS's employee ownership philosophy keeps morale high and turnover low.

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Culture as a Competitive Advantage

Jim Casey was born on March 29, 1888, in Nevada and moved to Seattle with his family when he was eight. He quit school at age 11 and worked as a messenger before partnering at age 15 with two other messengers to launch their own business.

After trying the business in Goldfield, Nev., Casey returned to Seattle, and he and his new partner, Claude Ryan, started the American Messenger Company in 1907. They resolved to employ only clean-cut boys from good families whom they knew personally. In a roundabout way, the buttoned-up, Eagle Scout earnestness that UPS is so well-known for today developed in part as a reaction against the turbulent times in which Casey first did business.

The Origins of Culture at UPS

Much of the company's early business came from delivering Western Union telegrams. In 1913, Casey and Ryan merged their venture with another small Seattle delivery business run by Evert McCabe. McCabe brought an expansive sense of optimism and strategic vision that would make him one of the most important figures at UPS for many years. McCabe and Casey soon became the two guiding forces behind the company: Casey, the cautious and reflective businessman, McCabe, the visionary.

Once McCabe came on board, the firm adopted the name Merchants Parcel Delivery and began to focus on deliveries for small retail businesses in downtown Seattle. In 1912, a domestic parcel-post service was created by Congress. Large department stores and mail order houses in the big cities became interested in using parcel post for local deliveries, replacing local express companies.

By 1917, Merchants Parcel Delivery had persuaded three of Seattle's largest department stores to turn over their entire delivery operations. Early on, the company realized they could win a lot of business if they had a reputation for quick delivery. By 1919, they were looking to expand into other cities farther down the West Coast. From this expansion the partners renamed their company United Parcel Service (UPS) and began using brown-and-gold delivery cars. UPS began courting major department stores that prided themselves on the high-end nature of the retail environments. UPS had to persuade them that the delivery company would both provide excellent service to customers and reflect well on the merchants.

An Identifiable Corporate Culture

In the firm's early years, the work of forging a culture was relatively straightforward. A collective commitment to ways of doing business, and in particular an appreciation for maintaining impeccable standards of service, could be conveyed by example.

In 1927, the founding partners invited employees to become part owners of the company, one of the first stock-offering plans in American business. What was distinctive about UPS's plan was that it went beyond basic profit-sharing to actual voting shares. From then on, the company's owners would include not just executives but front-line employees too.

The Mark of the Founder

During the first 25 years of the company, UPS share prices never decreased in value — not even by a penny. In the very midst of the Depression, in 1932, UPS was moving 10 million packages each year, and the formerly

(continued on page 3)

The authors: Mike Brewster is a business journalist and the author of the books *Unaccountable* and *King of Capital*.

Frederick Dalzell is a historian with The Winthrop Group, a consulting firm specializing in historical research and archival services for businesses and nonprofit organizations.

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Culture as a Competitive Advantage

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The Policy of Spic and Span: Becoming 'Brown'

UPS adopted a dress code and a code of etiquette. Success hinged on appearance and trust — on a *brand*. For UPS drivers, that meant fresh shaves, pristine uniforms, no smoking on the job and scrupulous politeness. As department store deliveries became the core business, this attention to detail and concern for professional appearance became a defining aspect of UPS.

In 1925, the company began issuing its drivers standardized brown uniforms in all cities where the company operated. Brown worked in part because it was more conservative, yes, but also because brown package cars looked cleaner on the roads, and UPS needed its cars looking as "spic and span" as its drivers.

dominant express companies had been waylaid by their inability to adapt.

UPS was thriving, and it all started with Casey and the management techniques he espoused, such as promoting from within, the stock ownership plan and the real interest executives showed in employees' progress. Every CEO since Casey has found reasons to invoke his spirit.

A dynamic founder can be an invaluable asset for a young company, but a problematic legacy as well. Every company has to eventually outgrow its origins and move beyond the vision, energy, ethos and outlook that set it in motion. Casey saw this test coming and worked doubly hard to instill UPS with the cultural outlook, leadership talent and management tools to survive as his legacy. ■

For information on how UPS developed a policy book based on its culture, go to: http://my.summary.com

Constructive Dissatisfaction and the Quest for Continuous Improvement

Around 11 p.m. the last passenger flights disappear into the evening sky at Louisville International Airport; oddly enough, that's when things begin to get interesting. UPS, in close cooperation with Louisville, Ky., has carved out a large piece of the airport's cargo facilities, called Worldport, for its global air express hub. On a typical night, more than 100 UPS planes from all around the world converge on Worldport. Between 11:30 p.m. and 5 a.m., UPS unloads, sorts and reloads onto the outgoing Browntails (UPS lingo for its air fleet) somewhere between 800,000 and 1 million domestic and international air packages at Worldport.

Worldport, occupying 4 million square feet, four floors, three concourses bristling with 44 aircraft docks and staffed by more than 5,000 UPS night owls, dramatically displays UPS's operational and engineering genius. Worldport is also a study in how UPS achieves its stated mission of synchronizing commerce. The company handles more than 15 million packages around the world each day, and every one must be scanned and routed through the company's global network.

Contingency Teams in the Wings

Not all 5,000-plus employees who work the night shift at Worldport are involved in the sorting of packages; some prepare for potential snafus. Every Monday to Friday night at 7 p.m., a dozen or so UPS managers file into a conference room at the Air Service Center for the evening's "hot crew" conference call. Hot crews are standby crews waiting to be deployed on a contingency basis wherever glitches erupt in the company's air network.

Passenger airlines are prone to setbacks, as any frequent traveler discovers. A grounded passenger flight might frustrate anywhere from 50 to 300 customers. But the delays that constitute business as usual for a passenger airline are unacceptable to UPS. A grounded Browntail with full cargo delays 12,000 packages, and because those parcels involve customers on both the sending and receiving ends, that translates into 24,000 affected customers.

Keeping a dozen or so crew members and maybe 20 aircraft on call every weekday is an expensive necessity, particularly for an enterprise as focused on the bottom line as UPS. But if there is one thing to understand about the company, it's that every plan has a backup plan, and that backup plan has a backup plan. It is simply the cost of doing business.

The Birth of Constructive Dissatisfaction

Jim Casey coined a term to describe this compulsive habit of tinkering with the status quo: "constructive dissatisfaction." His memorable phrase makes the point that continuous improvement is never easy, that it stems from pushing people out of their comfort zones even when things are going great for a business.

Many great companies have come together around a breakthrough product or service or idea. Kodak comes to mind, with the Kodak camera in 1888, and Xerox

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Constructive Dissatisfaction and the Quest for Continuous Improvement

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with its plain paper copier in 1959. UPS, by contrast, represents a different kind of company. It has rarely grown by bursts of pure invention. It has built itself not by inventing so much as by engineering and then re-engineering — its equipment, its systems, itself. ■

A Common and Uncommon Carrier

Rudy Taylor, a driver who currently works in New York City, has been with UPS for 30 years. Five years ago, Taylor was inducted into the Circle of Honor, reserved for UPS drivers with 25 years of service without an accident.

Taylor is certainly not alone at UPS as a superb professional driver. Nearly all longtime UPS drivers are exceptional, including the tractor trailer drivers. Taylor and his 70,000 fellow drivers make a lot of deliveries to businesses. It's hard to believe that for almost the first half-century of its existence, UPS did hardly any business-to-business deliveries but grew only through its consolidated retail delivery business, bringing packages from department stores to people's homes. The UPS of today only emerged after a transformation sparked by fundamental socioeconomic trends.

A Seismic Change in the Market

By midcentury, UPS had built a consolidated retail delivery business in metropolitan markets across the United States. With the outbreak of World War II and the imposition of wartime rationing, UPS's retail customers sharply curtailed deliveries. Prospects brightened with the return of peace in 1945, but business at UPS did not fully revive, as department stores started to push back on the cost of deliveries. UPS now faced a moment of truth. It could adopt a new business model, or it could stay the course.

The most intriguing opportunity was wholesale deliveries. Having spent decades mastering consolidated delivery, UPS confined itself to carrying commerce out of retail businesses to consumers. Wholesale deliveries meant bringing goods *into* those stores from other businesses. As the country's new highway infrastructure took shape, long-haul trucking emerged as a viable alternative to railroad freight.

Naturally, early wholesale coverage tended to dovetail with areas where UPS served retail customers. In the suburbs, the company commingled retail deliveries with wholesale pickups, but in cities, it initially handled the new business with a separate set of vehicles and routes. Either way, UPS drivers retained the brown uniforms and professional demeanor.

By 1956, wholesale business was beginning to supplant retail deliveries at the center of the company's thinking. Casey set a goal of achieving comprehensive coverage in U.S. wholesale delivery within 10 years. However, it took UPS more than three decades to achieve this milestone. What started in 1952 as an effort to add wholesale traffic became a campaign to forge what UPS began calling the Golden Link, meaning contiguous states through which UPS could deliver packages from one coast to another.

In 1980, the Federal Interstate Commerce Commission authorized UPS to serve retailers on an interstate basis in common carrier operations throughout the United States. Through 28 years of slow building, UPS had transformed itself from a retail deliverer operating in scattered metropolitan markets into a common carrier capable of picking up and delivering packages anywhere in the United States. UPS achieved transformation by working slowly and methodically, from the inside out. ■

Rising to the FedEx Challenge

UPS is defined mainly by its drivers and brown package cars. But it also runs the eighth-largest airline in the world, serving more than 800 airports in more than 200 countries and territories around the world. By the time it committed to building this airline, UPS had been in business for more than 75 years and had forged world-class ground operations.

The company's first attempt at an air service was called United Air Express. It failed, but more than 20 years later, in 1953, the company tried again with United Parcel Service-Air. Rechristened "Blue Label" in 1967, the air business remained small and, strategically speaking, something of a sideline.

The FedEx Challenge

Unlike its common carrier business, UPS's Blue Label air service contended with experienced and effective competitors. By the late 1970s, Emery, Airborne and Purolator were all jockeying Blue Label for elbow room in the skies. The sharpest elbows, though, belonged to a hungry new company that burst onto the scene in 1972 — Federal Express.

FedEx's hub-and-spoke system — with Memphis,

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Rising to the FedEx Challenge

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Tenn., as the sorting hub — created the most efficient next-day-air operation in the industry. By the early 1980s, FedEx had revolutionized the airfreight business and established itself as the leading overnight delivery provider. All of which UPS watched with some concern but, at first, not with any real sense of urgency, since FedEx did not put itself in direct competition with UPS's ground dominance but instead focused early efforts on building its own premium overnight business.

The surprise for UPS came when the size of the market that FedEx had tapped into started to become clear. Customers were beginning to ask UPS drivers and sales professionals why UPS wasn't offering next-day delivery. UPS, a company that had built its reputation and name on high standards of its service, had been outplayed at its own game.

Taking to the Skies

In 1981, UPS decided to buy airplanes, but would rely on a group of independent carriers to handle the operations. The company debuted overnight service in August 1982 between West Coast cities. The planes were even painted with UPS brown, thus the term *Browntails*.

Expectations ran high in September 1982 as the company prepared its nationwide launch of Next Day Air, serving 24 cities. UPS delivered 1,800 packages the first day, a number that was nothing less than humiliating. The company realized that the UPS brand didn't attract air volume the way it attracted ground volume. But UPS persevered, stepping up marketing efforts. Coverage, along with the size of the fleet, expanded in several phases over the next years. By 1985, UPS was offering Next Day Air across the continental United States and preparing to launch its air service to European destinations.

In August 1987, UPS announced it would take control of its fleet and maintenance operations and apply to become an official airline. Both the pilots and UPS management had adjustments to make, as the company absorbed the dynamics of air operations. UPS's gateway staff eventually had to accept the reality that they had far less control over air operations than ground operations. ■

Beyond the Golden Link

In 1975, with the Golden Link between the east and the west coast finally completed, UPS had the authority to link its service within the 48 contiguous states. Hawaii, thanks to a UPS acquisition, was also linked, and Alaska soon would be, meaning that UPS served all 50 states. It was time to take the business and duplicate it in an international market.

The thinking back then was that UPS's non-United States revenue opportunities were primarily intra-country. The question was which country offered the best intra-country market? Now that UPS served the entire United States, Canada seemed like the most logical and low-risk choice for expansion. On February 28, 1975, UPS began its Canadian service in Toronto, the company's first operation based outside of the United States.

Farther Afield

West Germany was next. A West German operation was not to be "international" in the sense of transporting packages between the United States and Germany or between Germany and any European neighbors. Rather, this was to remain a domestic operation within Germany.

The German post office, or *Bundespost*, UPS's would-be main competitor, didn't care much about service. It paid little heed to the needs of its customers and delivered packages on its terms, not its customers'. Fortunately for UPS, an opening in German law didn't automatically give the parcel monopoly to the Bundespost, as the U.S. Post Office enjoyed for first-class mail. German customers clearly wanted an alternative, and no other American delivery company was yet on the scene. In August 1976, packages were slated to start flowing as UPS launched its domestic ground business in West Germany.

Despite problems with employees and weak service in some areas, UPS had clearly hit upon a huge need in West Germany. For one thing, volume kept increasing. For another, in those instances when competent drivers actually completed their routes, customers loved the service. But the Bundespost was delivering as many packages as UPS was and certainly wasn't going to sit by as the newcomer poached its customers.

UPS increased salaries, retrained West German employees and implemented local accountability to help UPS Germany stop hemorrhaging money, although it would be many more years before it entered the black. After more than 30 years, it's one of UPS's strongest areas of the world. ■

Creating a Truly Global Business

In 1985, UPS was anything but a global company. The full extent of its international operations 10 years after obtaining full interstate rights in the United States was a domestic ground operation in Canada, as well as one in West Germany. A package could not be sent from New

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Creating a Truly Global Business

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York to London via UPS.

The problems launching the domestic operation in West Germany would inform how UPS would operate on a global stage for the next three decades. There was to be a critical difference, however, in how UPS would go about applying the hard-won lessons from West Germany to its operations in Europe and Asia.

When UPS decided to expand beyond West Germany in Europe in 1985, the first step was to choose where to expand. The management committee decided on the United Kingdom, as well as France, the Netherlands, Belgium and Luxembourg — four countries whose proximity to West Germany would allow them to quickly get packages to a yet-to-be-determined West German hub.

From Three to 180 Countries Served

Over the next four years, UPS made 16 major European acquisitions, as well as two major acquisitions that brought service to many parts of Asia, the Middle East and Africa. Important joint venture relationships were forged in China, Japan and Korea, and agent relationships were set up in Turkey and several other countries. Throughout this period, UPS tried to shore up its European operations by acquiring companies with the capabilities to solve some of the problems it was having.

By late 1989, UPS served more than 175 countries and territories. The company received some good news in 1996, when the European Union passed legislation that effectively removed borders between EU members, meaning that UPS trucks, package cars and vans could move from country to country without having to clear packages through customs. For UPS, this meant that its hard-won pan-European ground network, developed while its competitors emphasized air express, could operate far more efficiently. The globalization embodied in the opening of European borders was followed by an even larger-scale removal of barriers: the explosion of online retail.

In 2005, UPS International did $8 billion worth of business in a company with $42 billion in revenues. But the company must work to keep together a network of joint ventures, alliances and contractors to create delivery operations in "non-Brown" countries. ■

The Technology Company That Delivers Packages

About a week or so before Christmas Day, a trio of UPS Browntails lands at a tiny nondescript airport in Medford, Ore., home of the high-end food distributor Harry & David. In the span of about four hours, thousands of orders of Harry & David fruit, candy, truffles, cheesecake and other delectables are loaded onto the three aircraft to begin their journey to several strategically located UPS-operated Harry & David distribution centers. Then it's on to customers all over the world.

More than 90 percent of Harry & David orders made during the holidays reach customers within 24 hours, a percentage fairly unheard of in holiday shipping circles. Since using UPS, Harry & David has experienced far fewer customer service calls, product returns and holiday revenue adjustments. Because of UPS, Harry & David has been able to use technology as a strategic weapon to serve customers better.

Miracle in Mahwah

In Mahwah, N.J., UPS's World Technology Headquarters keeps the company's global systems running 24/7, every day of the year. The IBM mainframes (located in Mahwah and remotely in Atlanta, Ga.) process 27 million instructions a second, track 15 million packages each day, coordinate the operations of an entire airline, collect and distribute package data from 96,000 DIADs (Delivery Information Acquisition Devices) and connect 149,000 workstations through 8,700 servers.

From the Stone Age to the Digital Age

Nothing captures the UPS way of hanging back until the very last moment — and then going full tilt once it decides on the correct path — like its technology transformation. Today, convinced that exploiting new technologies is the key to any future growth of the package delivery business, UPS routinely invests about $1 billion annually in customer-facing technology tools and internal technology processes.

In 1993, UPS introduced TotalTrack, the first nationwide cellular mobile data system, which instantly provided customers with tracking information for all air and ground packages. Now UPS provides WorldShip, a software application, free to UPS corporate clients, who then use it to track their shipments to customers.

One of UPS's strategies in the late 1990s was to become the preferred vendor for major Internet retailers like Amazon.com. UPS.com was set up in the Innoplex, a 230,000-square-foot dot.com-ish tech facility. By 2001, it was estimated that UPS was delivering more than half of all items ordered online in the United States. ■

For information on how UPS met a major technology challenge, go to: http://my.summary.com

The Ownership Company

The UPS emphasis on teamwork, a willingness to readily switch jobs or even career goals, an acceptance that being in management means picking up and moving every few years, the taboo against openly politicking to get one's way, the ability to think long term and not be consumed by immediate needs — these core values didn't blossom by accident.

The chain of imparting "ownership" means supervisors must hand it down to their teams, in the same way that generations of UPS drivers and package loaders have been entrusted with that sense of ownership.

A Culture of Ownership

Not all of UPS's 427,000 worldwide employees are technically "owners," and since the company became publicly traded in November 1999, about two-thirds of stock ownership resides outside the company.

The idea of employee ownership, however, goes well beyond possession of UPS stock. It's the singular UPS cultural brew of stick-to-itiveness, self-interest and shared identity that leads such an incredibly diverse group of individuals to seek common cause. The company has built an incredibly positive culture by emphasizing a highly democratic human resources recipe, one that virtually no other major global company has attempted.

Another key to the ownership company is that most UPS middle managers and senior managers started as drivers or part-time package handlers. When even the top managers of a company start at the bottom, it not only enables them to understand where the real work gets done, but it gives every employee the incentive to, as Jim Casey would have put it, "saw wood." From the very birth of the company, Casey nurtured an expansive, inclusive sense of ownership.

The Biggest IPO in History

On November 10, 1999, the fuselage of a Boeing 727 Browntail was parked outside the New York Stock Exchange and a huge UPS banner draped the entrance of the Exchange. Almost as soon as UPS CEO Jim Kelley rang the bell, the company's shares — which Morgan Stanley offered to the public at $50 a share — started shooting up in value. The market was obviously excited by a company that had 92 years of financial performance behind it and experienced owner-managers running it.

On its first day as a public company, UPS shares went up to as high as $70.31 before settling at $68.25 at the end of the trading day. The IPO raised $5.5 billion, a new record.

So, in the end, what is the definition of an ownership company? One might say it's a place where a hard worker of integrity can build an impressive nest egg. Another answer would be a highly disparate group of people of different backgrounds, educations and aspirations drawn to a culture of success. A third response would be that it's a place where many people just love to come to work. ■

Better Than a Baseball Scholarship

Jeff Wafford, a high school baseball star, attended Maryville College in Knoxville, Tenn., on a sports scholarship. He didn't like the program and decided to transfer to the Metro-College program, which allowed him to take night classes at the University of Louisville (paid for by Metro-College) before heading over to Worldport to work the four-hour overnight shift.

Metro-College was created to attract students to UPS as part-time employees but also help them receive an education. Wafford was able to work nights, go to classes and receive full health benefits and credit toward a future pension.

Before long, he was managing other part-timers at UPS. Wafford currently works for UPS as a technical writer in Louisville and is one modern-day example of how UPS is a great place for people to become owners of both equity and their own futures.

Synchronizing Global Commerce, One Supply Chain at a Time

The ability of UPS to manage the transportation element of its customers' supply chain stems directly from the "stretching" of its core package delivery product and a century of transportation know-how. For UPS, integrating the transportation aspects with inventory has been a focus.

Building its supply chain business would turn out to be perhaps the most dramatic new strategic direction for the company since shifting from retail service to common carrier service in 1952. By 1999, UPS had revised its charter to change the company's mission for the first time in history, from serving customers' small package needs to enabling global commerce.

Enabling Global Commerce

Providing configurable solutions is the most natural of evolutions at UPS. After all, nearly a century ago, the placement of messenger boxes in Seattle taverns to save patrons a walk to the Western Union station certainly subtracted a step out of sending a message and was a way of moving "information" more efficiently.

Maybe it's the business world that is finally inventing

(continued on page 8)

Synchronizing Global Commerce, One Supply Chain at a Time

(continued from page 7)

terms for what UPS has been perfecting for a century. And perhaps another century from now, the business world will play catch up again and coin more phrases for what UPS is doing today: serving customers one-to-one. ■

One Company, One-to-One

Building an airline, developing a comprehensive global presence, transforming itself into a technology company, ramping up its logistics business — all these achievements over the past two decades have put UPS in an excellent position in 2007 to meet the many challenges of succeeding in other markets, especially in China. The question is whether the company can harness and organize all its services to treat the Chinese customer as if it's UPS's only one — the heart of the one-to-one vision.

A Bridge to Globalization

UPS, not surprisingly, plans on being a big part of the spread of goods to China's interior. Much in the same way that UPS spent much of the 20th century fighting regulatory battles in the United States to procure the rights to serve all 48 contiguous states, the company is primed for a similar challenge in China. To really create the kind of one-to-one customer intimacy in China that it enjoys in the United States, though, UPS needs to concentrate on four factors: increase its presence, improve its service quality and internal processes, keep improving training for all UPS employees in China and expand its sales force.

UPS is convinced that its strategy of combining its transportation services with a defined, configured set of supply chain solutions is the "sweet spot" for the company moving forward. Three factors allow UPS to successfully maintain its balance at the nexus of global trade: the ability to stay ahead of the prevailing wisdom about which markets will grow, the discipline to be prudent about investing precious resources and the responsibility to be a positive social force in those areas it does invest in.

The Future Evolution of the UPS Brand

The now iconic "What Can Brown Do for You?" advertising campaign was a very successful method of communicating a new UPS message to the public and, in a sense, was a way to articulate the one-to-one vision for a mass audience. Like most companies, UPS today thinks about how it will continue to grow in the future and how that growth will affect its brand. But unlike most companies, UPS's broad capabilities and global reach means that it is able to consider a wide array of business opportunities.

In 2001, UPS acquired franchisor Mail Boxes Etc. Inc. and on April 7, 2003, more than 3,000 Mail Boxes Etc. locations in the United States chose to rebrand as The UPS Store. In 2004, the year after the branding change, Mail Boxes Etc. opened more than 500 new locations of The UPS Store in the United States — a record for the company, and particularly impressive for a nearly quarter-century franchise. The UPS Store, while used primarily by small businesses and individual consumers, offers another avenue for creative ways for UPS to serve its customers.

The next chapter of the UPS story remains unwritten, but if the past holds any clues for what is to come, a transformation will result in not only a changed company, but a stronger company — one that will retain the best of what has worked in the past and adapt to meet a changing business world. That resilience is a testament to its homegrown leadership and ability to execute, certainly, but also to the singular culture planted by founder Jim Casey so long ago. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Driving Change*, you'll also like:

1. ***The Starbucks Experience* by Joseph A. Michelli, Ph.D.** Michelli gives his readers an in-depth look at the success strategy of this well-loved coffee house-styled company.
2. ***Exceeding Customer Expectations* by Kirk Kazanjian.** Kazanjian gives an in-depth look into the strategic management practices that have boosted Enterprise Rent-A-Car to the top of its industry.
3. ***L.L.Bean* by Leon Gorman.** CEO of L.L.Bean and grandson of the company founder, Gorman offers an inside look at the history of one of the United States' best-loved companies.

Revealing the 'Secret Sauce' at UPS

You wonder to yourself if you've really figured out how UPS collectively achieves the miracle of delivering 15 million packages every day. There is not one key ingredient to UPS's success, but three. And these three values certainly aren't secrets.

It will come as no surprise to anyone who has ever received a UPS package that culture is the glue that holds the center at UPS. Customers also seek the results of UPS's ability to execute on such a massive scale every day. Perhaps the biggest surprise in the search for the "secret sauce" at UPS is the company's unlikely knack for transformation, particularly when most of us believe UPS has been doing essentially the same thing for a century. Simply put, transformation is in the company's DNA. And it keeps getting better at it. ■

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SOUNDVIEW Featured Book Review
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How to Get People to Care About Your Ideas

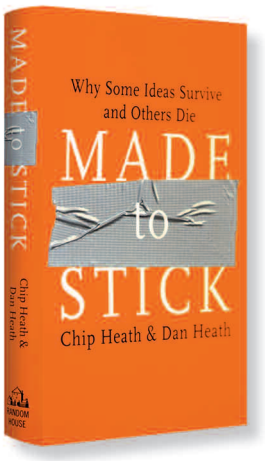
Featured Book Review by Chris Lauer

MADE TO STICK

by Chip Heath and Dan Heath

Copyright © 2007, Random House, 291 pages, $24.95, ISBN 978-1-4000-6428-1

A few years ago, the Heath brothers, Chip and Dan, set out on a marvelous mission. After being wrapped up in their own individual careers — Chip's in business; Dan's in education — for many years, they found themselves both asking the same simple yet perplexing question: What makes one story reverberate around the world while another story soon disappears? In other words, why do some ideas stick and others fail?



Many years of academic research and story gathering followed. Finally, the Heath brothers developed a framework that provides a compelling answer to their initial query. In 2007, they published *Made to Stick*, which presents their findings, theories and thoughts on sticky ideas. Their book also offers readers a formula for supercharging their own ideas and getting them to stick in the minds of others.

What does a sticky idea look like? Well, as an example, think of the most recent urban legend that you've been told. The urban legend is probably one that you received in a forwarded e-mail message, whether about politics, a celebrity or a new Internet virus or threat. Chances are you read this message one time, but you will remember the story and be able to repeat it again and again. A great joke is the same way. Some ideas, true or not, just stick.

No Sibling Rivalry

The Heaths have both learned valuable lessons about sticky ideas in their professional work. Chip Heath, for instance, has a Ph.D. in psychology and is a professor at Stanford University. His role as a professor has allowed him to turn his students into a powerful research machine that collects data on sticky ideas, codes it and analyzes it. Results from that research have been featured in *Scientific American*, the *Financial Times*, *The Washington Post*, *BusinessWeek*, *Psychology Today* and *Vanity Fair*. You may have even heard Chip Heath talking about his research on NPR or seen him in a National Geographic special.

Dan Heath has also made a name for himself as a powerful thinker who has his own very sticky ideas. With an MBA from Harvard Business School and years of experience in the world of education as a consultant at Duke Corporate Education, Dan is the co-founder of a new-media textbook company. His ideas mesh well with Chip's credentials and experience. Together, the two brothers discovered that their combined voices are even more powerful than either one alone. Through their blogs, books and magazine articles, the Heaths have established themselves as popular experts in the field of great ideas.

Recipe for Success

Made to Stick quickly became a *New York Times*, *Wall Street Journal* and *BusinessWeek* bestseller. The success of the book was not simply because Chip and Dan are columnists for *Fast Company* magazine. Their popularity

spread around the world beyond the business book community because they offer useful insights into a very important concept: developing sticky ideas.

Because the Heaths are smart and effective teachers, people are naturally compelled to hear what they have to say about the ways we can improve our communication skills. The Heath brothers know how to identify the small stories that tell much larger ones, and they know how to apply what they have learned to some of the biggest challenges in life and work.

Deeper Impressions

In *Made to Stick*, the Heath brothers offer a short list of clever tactics for creating messages that leave deeper impressions. This list covers business and personal issues simultaneously. Many of the topics they approach involve organizational issues, but they are also deeply personal, since they apply to many of the subtlest ways we connect with other people.

A sticky idea doesn't require press releases or public relations people to spread the word. In fact, sticky ideas stick with much less effort than a poorly constructed message. Whether it is a political idea or an algebra lesson, the stickier the message, the more of an impact it can have. When Malcolm Gladwell wrote his best-selling book *The Tipping Point*, he wrote about the "stickiness" of ideas. Both his terms "stickiness" and "the tipping point" stuck in the minds of those in the business world. Those ideas stuck because of their own stickiness.

The Heaths made several crucial discoveries while they were researching and studying how the stickiest ideas are put together. At the root of those discoveries is a valuable set of stickiness principles that anyone can put into use when trying to make an idea stick.

Keep It Simple and Surprising

The first of these principles involves keeping it simple. The essence of your idea should be simple and profound, the Heaths write. If you can sum up your point in a single sentence or phrase that compels you to follow it, you have mastered this aspect of stickiness. One great example of this principle is the Golden Rule: Treat others like you want to be treated. This message is so sticky that it has appeared around the world throughout history.

One great example of this principle is the Golden Rule: Treat others like you want to be treated. This message is so sticky that it has appeared around the world throughout history.

The next principle that the Heaths and their researchers found was that the unexpectedness of an idea gets audience members to pay attention to it.

Surprises stick to our brains. Most compelling ad campaigns and unusual newspaper stories catch our attention and stick in our heads because they are able to challenge one or more of our expectations. Engaging somebody's curiosity and interest with an attention-grabbing bit of new knowledge can be a very effective way to get started. The Heaths write that the short-term attention of audience members is easier to gain than their long-term attention. This is why "systematically 'opening gaps' in their knowledge — and then filling those gaps" can help you engage your audience members longer than a mere flash in the pan.

Concrete and Credible

Creating "concreteness" is the next step in the stickiness equation. This means that an idea is sticky if we can understand and remember it with ease. If a message is too abstract or ambiguous, it can get lost in the shuffle.

When an idea is firm and clear, people remember it. That's why the Heaths write, "Concreteness is an indispensable component of sticky ideas."

The next stickiness principle presented by the coauthors is credibility. If you have the authority, your ideas have much more stickiness than those of someone without it. The right level of credibility will encourage people to listen to you when you share an idea. It will also help them agree with your idea. When a person we trust shares an idea, we are much more likely to care about it than a message from a stranger.

Experts and celebrities work wonders in advertising to get a message to stick because many people recognize them as credible spokespeople. If we don't have access to a famous person, the Heaths write, an anti-authority can also work wonders when spreading a message. For example, Pam Laffin was neither an expert nor a celebrity. She was a smoker whose message was very sticky. Her experiences with emphysema and the effects of the disease provided her with the crucial credibility that helped to create an effective anti-smoking ad campaign that focused on her battle to live with failing lungs.

Laffin provides a great example of how credibility can go beyond celebrity and social status, the Heaths write. Credibility is also built on such important attributes as honesty and trustworthiness, which provide a strong backbone for a sticky idea.

The Power of Emotional Appeal

The next stickiness principle says an idea must be emotional if you want it to stick. The Heaths write that

tapping into people's emotions and getting them to feel something is a powerful way to get them to care about your idea.

Bland, emotionless appeals don't touch us, but messages that engage our emotions are much more effective. For example, one public service campaign that still sticks for many people is the 1970s anti-littering advertisements that featured a Native American shedding a lone tear when the garbage thrown from a speeding car lands at his feet. This advertisement from the organization Keep America Beautiful and the Ad Council included the tagline "People start pollution. People can stop it." The ad campaign touched such an emotional chord that the image of the "Crying Indian" has become a national icon.

> When a story connects to its audience through links to real experiences, it will be recalled, retold and used to spread an idea.

The Heaths point out that, although it was very effective at influencing behavior for years, the power of the Keep America Beautiful ad campaign had diminished by the 1980s, especially in Texas where litter had become a huge problem. The Heaths write that the emotions summoned by the crying Native American only appeal to a limited set of feelings, such as guilt and shame.

Researcher Dan Syrek found that the average person who litters in Texas is an 18- to 35-year-old man who drives a pickup truck and likes country music. The people in charge of a new anti-littering campaign in Texas realized that previous approaches to thwarting littering were not going to be as effective with this group because of its predisposition to antiauthoritarian behavior and lack of receptiveness to cute and cuddly "Give a hoot, don't pollute" messages.

'Don't Mess with Texas'

The Institute for Applied Research was hired by leaders in Texas to help the state fight a serious litter problem that was costing more than $25 million in cleanup costs each year. A new, stickier message was needed, so Syrek developed a campaign that addressed a different and more effective set of emotions. Taking a cue from the tremendous pride that Texans feel for their home state, the new campaign aimed to convince Texan litterbugs to change their behavior. It accomplished this goal by showing them that the people the average Texan admired did not litter. The result was the very effective "Don't Mess with Texas" ad campaign. Television commercials were produced that featured famous Texans from sports and music all stating that they did not litter. In the ads, they each reiterated the tagline "Don't mess with Texas." Celebrities from Texas, including boxer George Foreman, Houston Oilers quarterback Warren Moon and musician Willie Nelson, all chimed in to spread the message.

The Heath brothers explain that the ad campaign was an instant success. It reduced littering by 29 percent in its first year. Roadside litter went down 72 percent during the first five years. The emotions tapped by the advertisements, the Heaths explain, appeal to the litterbugs' sense of identity. This is the emotion that got them to care, and caring is what the emotional principle of stickiness is all about.

By showing readers how to inject more complex emotions into their ideas, the Heaths help them find the stickiness that will help their own ideas stick in the minds of others so they can be applied when the moment requires.

The final stickiness principle that the Heaths explore in *Made to Stick* is the idea that stories help people act on an idea. According to psychologist Gary Klein, author of *Sources of Power*, stories stick inside people's minds because they contain wisdom. Powerful stories are told and retold so people will learn to do things that will help them or others. Great stories also demonstrate unexpected causes and effects, point to better solutions and illustrate ways smart actions or decisions can be repeated.

Mental Simulation

One reason why great stories make people act is because the human brain is highly susceptible to mental simulation, the Heaths write. When we imagine events or sequences of events, we trigger the same parts of our brain that are triggered when we experience a real physical activity. When scientists look at the brain scans of people who are told to imagine a flashing light, the same areas of the brain are activated as the ones that are activated by a real flashing light. When we imagine words that begin with the letter *p* or the letter *b*, our lips subtly move to form the letter. Researchers have even found that if we imagine we are drinking lemon juice when we are drinking water, we salivate more.

This all leads to the conclusion that mental simulations through storytelling can help us do many types of things. The Heaths write that mental simulation can improve our ability to solve problems because it can help us anticipate the right response to a future situation. For example, picturing a difficult situation, such as an argument with the boss, and imagining a better way to respond, such as avoiding a usual reaction, can be an

effective way to prepare for the situation before it occurs. Studies also show that mental simulation can help us build our skills. One study even showed that mental practice produces about two-thirds of the benefits of actual physical practice.

The Heaths point out that these findings are important because they show us that mental simulation can be a very powerful tool when creating sticky stories. Remember, a sticky story is really just a mental simulation that guides people through a lifelike framework to a nugget of wisdom that we want them to remember. When a story connects to its audience through links to real experiences, it will be recalled, retold and used to spread an idea.

Great Stories Inspire

The Heaths point out that great stories stimulate as well as inspire. The great thing about stories, they add, is that they really don't take too much creativity to use. Great stories are all around us, we just need to learn to recognize the best ones that pass in and out of our daily lives and catch them so we can apply them when we need them most. The Heath brothers' book offers practical advice to help executives develop their filters and sift the story gold from the silt.

Beyond its stickiness principles, *Made to Stick* also helps readers understand stickiness by summarizing many of its points into "Clinics." These sections address a specific problem with some of the learning the authors have revealed. For example, while discussing the role of stories in creating a sticky idea, the Heaths present a clinic for "Dealing with Problem Students."

First, they present the situation, which involves the issues of professors having to deal with challenging students in their classrooms. Next, they offer messages from two different sources that are dissected and analyzed using the stickiness principles. Finally, they present their "Punch Line." This is where they compare the effectiveness of the messages and reach a conclusion about the best way to respond to a similar situation. These clinics transform the lessons presented throughout *Made to Stick* into useful actions that anyone in a similar situation can use to cope with a difficult situation. They also show how real people have successfully applied stickiness principles to their work.

The 'Made to Stick' Phenomenon

Made to Stick has become a phenomenon because it embodies all of the six principles it describes. For instance, it breaks down the ideas it contains into extremely memorable lessons that are simple and straightforward. The absence of industry-specific jargon or complicated metaphors help the authors quickly and smoothly get to their points. Additionally, many of those points are counterintuitive and unexpected. They offer surprises that keep readers tuned in for more ideas they can share with others.

The ideas presented throughout *Made to Stick* are also rock solid. There is very little speculation going on, other than the important reflections on the future and questions for readers that bring them into the lessons presented. Also, the Heaths have the academic credentials and the public exposure from their popular writing gigs to make them very credible sources of the information they present. They have also picked wonderful stories to illustrate their points. These stories contain a variety of emotional topics and situations to draw in all types of readers.

This insightful combination of the stickiness principles turn *Made to Stick* into a clear example of the lessons it contains. The book's popularity and best-selling success demonstrate that Dan and Chip Heath have captured valuable information in their book that is as applicable to our modern world as it is appealing to our desire to find sticky ideas that we can use to improve our work and our lives.

The authors: Chip Heath is a professor of organizational behavior in the Graduate School of Business at Stanford University. Dan Heath is a consultant at Duke Corporate Education. A former researcher at Harvard Business School, he is a co-founder of Thinkwell, an innovative new-media textbook company.
Together, Chip and Dan Heath are the authors of *Made to Stick* and *Switch: How to Change Things When Change Is Hard*.

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33-11 Change The Culture.qxd

Roger Connors and Tom Smith

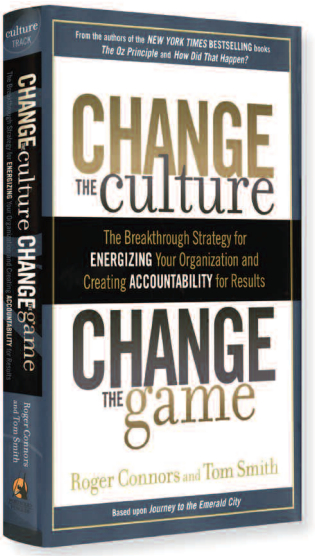
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Management: Strategies

Change the Culture, Change the Game

The Breakthrough Strategy for Energizing Your Organization and Creating Accountability for Results



by Roger Connors and Tom Smith

THE SUMMARY IN BRIEF

In *Change the Culture, Change the Game*, Roger Connors and Tom Smith, the recognized experts on creating a culture of enterprise-wide accountability, apply their practical and powerful strategy to helping leaders accelerate culture change, energize their organizations and create greater accountability for results.

In this landmark guide to organizational culture change, the authors introduce the Results Pyramid model, a simple and memorable methodology for efficiently and effectively changing the way people think and act throughout an organization to ensure that they achieve their desired results.

Mastering the ability to accelerate culture change is an essential core competency for every leader who wants to keep his or her organization competitive and focused. *Change the Culture, Change the Game* offers the definitive guide for developing this leadership competency and is based upon a methodology that is used by some of the most successful and admired companies in the world.

Tapping into more than two decades of expertise in assisting clients in creating a Culture of Accountability, the authors present a refreshingly clear and simple methodology that leads to rapid, results-oriented culture change.

IN THIS SUMMARY, YOU WILL LEARN:

- How to accelerate the change in culture you need to achieve your goals.
- How to generate the potent impact that greater accountability has on accelerating change in people and teams.
- How some of the most successful organizations in the world have applied these proven best practices.
- How to transform your entire organization through each level of the Results Pyramid: Experiences, Beliefs, Actions and Results.

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THE COMPLETE SUMMARY: **CHANGE THE CULTURE, CHANGE THE GAME**

by Roger Connors and Tom Smith

The authors: Roger Connors and Tom Smith are co-founders of Partners In Leadership, Inc., the premier provider of Accountability Training® Services around the world. They also co-authored the *New York Times, Wall Street Journal* and *USA Today* bestsellers *The Oz Principle* and *How Did That Happen?*

Change the Culture, Change the Game by Roger Connors and Tom Smith. Copyright © 1999, 2011 by Roger Connors and Tom Smith. Summarized by permission of the publisher, Portfolio, a member of Penguin Group (USA) Inc. 222 pages, $25.95, ISBN 978-1-59184-361-0. To purchase this book, go to www.amazon.com or www.bn.com.

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For additional information on the authors, go to http://www.summary.com or changetheculturechangethegame.com.

Introduction

Creating an organizational culture where people embrace their accountability toward one another and toward the organization should occupy center stage in any effort to create successful organizational change. Without accountability, the change process breaks down quickly. When it does, people externalize the need to change, resist initiatives designed to move them forward and even sabotage efforts to transform the organization. With accountability, people at every level of the organization embrace their role in facilitating the change and demonstrate the ownership needed for making true progress, both for themselves and their organization.

Accountability, done the right way, produces greater transparency and openness, enhanced teamwork and trust, effective communication and dialogue, thorough execution and follow-through, sharper clarity and a tighter focus on results. Accountability should be the strongest thread that runs through the complex fabric of any organization. It is the single biggest issue confronting organizations today, particularly those engaged in enterprise-wide change efforts. At the end of the day, greater accountability produces greater results. And when you build a Culture of Accountability, you create an organization filled with people who can and will get game-changing results.

Culture has an impact on results, and the right approach to culture change accelerates that impact in a way that brings *game-changing* results.

When you base culture change on accountability and adopt a process designed to produce your desired results, you not only create a competitive advantage, you gain the tools you need to sustain that advantage far into the future.

Let the journey begin!

PART ONE: IMPLEMENT THE RESULTS PYRAMID TO CHANGE THE CULTURE

Either you will manage your culture, or it will manage you. Simply stated, organizational culture is the way people think and act. Every organization has a culture, which either works for you or against you — and it can make the difference between success and failure. Managing the organizational culture so that leaders, managers, team members and employees think and act in the manner necessary to achieve desired results has never mattered more. Doing it well is not an option; it's a necessity. Optimizing the culture should command your attention every bit as much as your effort to achieve performance improvements in manufacturing, R&D, sales and every other organizational discipline.

Experienced leaders know that changing the culture can mean changing the game by growing faster than your rivals, beating a bad economy, revolutionizing the value proposition of your organization or a host of other competition-beating achievements. Managing the culture so that it produces the results you are looking for has become an essential role of leadership and a core management competency. Neglect it at your peril.

The Results Pyramid

The Results Pyramid presents how the three essential components of organizational culture — experiences, beliefs and actions — work in harmony with each other to achieve results. Experiences foster beliefs, beliefs influence actions and actions produce results.

A clear line separates accountable and non-accountable behavior and thinking. Above the line are the Steps to Accountability, to See It, Own It, Solve It and Do It.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

The Results Pyramid



Organizational Chart

Below the line is the all-too-familiar blame game and victim cycle. The Steps to Accountability lead to Above the Line actions and thinking. The blame game, however, results in Below the Line actions and thinking. As you might imagine, when individuals consistently engage in these two very different modes of thinking and acting, they create different organizational cultures, which perform at strikingly different levels.

The Steps to Accountability

A Culture of Accountability exists when people in every corner of the organization make the personal choice to take the Steps to Accountability:

- **See It.** When you See It, you relentlessly obtain the perspectives of others, communicate openly and candidly, ask for and offer feedback and hear the hard things that allow you to see reality.
- **Own It.** When you Own It, you align yourself with the mission and priorities of the organization and accept them as your own.
- **Solve It.** When you take this step, you constantly ask the question "What else can I do?" to achieve results, overcome obstacles and make progress.
- **Do It.** This means doing what you say you will do, focusing on top priorities, staying Above the Line by not blaming others and sustaining an environment of trust.

Defining the Results that Guide the Change

Building a Culture of Accountability begins at the top of the Results Pyramid. That's why the first step involves clearly stating the R^2 results you want to achieve. Frankly, it makes no sense to initiate any culture building activity or process unless you intend to increase the capability of the organization to deliver results.

The most compelling reason to work on your culture? Culture produces results.

"Opthometrics," a respected optical retailer, provides convincing evidence that this assertion is true. Following several years of solid business results, a serious downturn in the economy posed a challenge to Opthometrics. Although the company had put initiatives in place to improve results, the numbers were not where Opthometrics wanted them to be. Early in the process, Opthometrics brought in two leaders known for their outstanding field management, both of whom believed that in order to improve the results, they needed to go to work on the culture.

That effort started with the Brand Leadership Team getting aligned around R^2 in several areas of operational performance. The current business model, R^1, was not delivering the desired business results needed to change. Testing the premise that culture produces results, Opthometrics conducted a pilot in 5 percent of its stores.

There were plenty of skeptics whom the team needed to convince that changing culture would indeed change results. Everyone agreed to a pilot test with a clear definition of success that would make the conclusions perfectly clear. Bottom line, the pilot would need to show a significant impact on the business before the company could make a go-forward decision to launch the culture change effort worldwide in all of its retail stores.

The team agreed that anything less than a 2 percent improvement in the pilot stores would trigger a no-go decision. Improvement that fell in the 2-to-5 point range would indicate the need for further evaluation. But improvement of 5 percent or more would support an automatic go and full-scale launch of the change effort. With the success criteria firmly established, they spelled out precisely how they would evaluate any performance improvements. They were not going to take any chance on investing their time and resources on culture unless the pilot met these standards of success.

After the first two months, results were well above 5 percent. The outcome was unequivocal: Changing the culture significantly increased the retail brand's ability to get the desired R^2 results. At Opthometrics, the culture began to change quickly as people began thinking and acting differently about how to do their daily work in the pilot stores. Not surprisingly, based on the results of

the pilot, the client launched a company-wide effort to change the culture. ●

Taking Action that Produces Results

When it comes to changing your culture, you must determine to get everyone in the organization acting differently and taking A^2 actions each and every day. Clearly, you need to do more than just get people acting differently; you need to get them doing the right thing at the right time in a way that produces R^2 results. You cannot accomplish a successful cultural transition without that sort of targeted, directed and focused change.

The single most important change in actions that needs to occur during a time of cultural transition is the shift to greater accountability.

Accountability, done effectively, is a skill you can develop just like any other skill, and while it is not a difficult skill to acquire and hone, it does require a high degree of conscious effort. When you do it right, you'll also find it the fastest way to improve morale.

Building the Pyramid

Understanding what needs to shift in the actions people take is an important first step toward accelerating culture change. Once you determine the shifts in behavior from A^1 to A^2, you can begin traveling a clear path to where your organization needs to go. Creating a clear picture of what C^2 looks like in terms of what people need to do differently is a key to accelerating change. Doing this collaboratively in an environment of heightened personal accountability speeds up the process and provides the foundation that will ensure a successful journey. Abandoning the sole reliance on traditional and ineffective change practices, focusing instead on approaches that truly engage the work force in embracing personal change, greatly enhances the prospects for success.

But we need to make one point perfectly clear: Nothing, absolutely nothing, gets people to change the way they act faster than getting them to change the way they think. When you work only with the top of the pyramid, Results and Actions, you limit your ability to accelerate the shift to C^2 and minimize the chances that A^2 will become part of the way people do things in the organization. Beliefs, more than anything else, will motivate necessary behavioral shifts, so you must help people adopt the beliefs that will yield the actions needed to produce R^2. ●

Identifying the Beliefs that Generate the Right Actions

During times of change, managers and leaders often focus their efforts exclusively on the top two levels of the Results Pyramid. Our clients quickly learn, however, that they can greatly enhance their success at accelerating a change in culture when they expand their focus to work with the seemingly less tangible Beliefs level at the bottom of the pyramid. There is a simple yet powerful relationship between the beliefs people within the organization hold and the actions they take. Their beliefs about how work should get done directly affects what they do. If you change people's beliefs about how they should do their daily work (B^1) and help them adopt the new beliefs (B^2) you want them to hold, you will produce the actions (A^2) you want them to take. When leaders work with this deeper, more lasting aspect of behavior, they tap into the most fundamental accelerator of effective culture change.

The need to change culture often arises whether we are ready for it or not. Consider the profound change that occurred in the wireless communications industry when the business model changed almost overnight with the introduction of the innovative iPhone by Apple. Apple founder Steve Jobs had tasked 200 top Apple engineers to create the iPhone. Stressful deadlines resulted in screaming matches between co-workers and among exhausted engineers, who, according to a *Wired* magazine article, "frazzled from all-night coding sessions, quit, only to rejoin days later after catching up on their sleep." In one case, "a product manager slammed the door to her office so hard that the handle bent and locked her in; it took colleagues more than an hour and some well-placed whacks with an aluminum bat to free her."

The new product required a monumental effort, but a little over a year after its introduction, the iPhone accounted for 39 percent of Apple's revenues and was the single largest contributor to Apple's bottom line. Steve Jobs changed the game by getting the big players in the staid wireless industry to agree to a new business model, one that shifted beliefs about handsets. Until then, the industry had defined them as "cheap, disposable lures, massively subsidized to snare subscribers and lock them into using the carriers' proprietary services," as *Wired* put it. After making this strategic shift in beliefs, major players began using smartphones to differentiate their offerings and win customers. As this new business model moves forward and continues to morph, wireless providers will need to help the people in their organizations make corresponding shifts in their beliefs about

how they conduct their daily business. Those who make these operational shifts happen quickly and effectively will create competitive advantage.

Building the Pyramid

Effective leaders understand that beliefs drive people's actions. Culture change involves getting people to adopt B^2 beliefs about "how things are done around here." An organization's Cultural Beliefs statement describes its Culture of Accountability. A Culture of Accountability is a culture (C^2) in which people take accountability to think and act (B^2 and A^2) in the manner necessary to achieve the needed result (R^2). Creating clarity around the key Cultural Beliefs that need to shift will help accelerate the transition to a new culture and increase the likelihood of delivering desired results.

Providing Experiences that Instill the Right Beliefs

The Experiences that form the foundation of the Results Pyramid drive accelerated culture change. Whether you realize it or not, you provide experiences for everyone around you every day. Each interaction you have with others in the organization creates an experience that either fosters or undermines desired B^2 beliefs. Quite simply, the experiences you provide create the beliefs people hold.

Many leaders find that early in their change efforts, the experiences they create fail to influence prevailing beliefs in the way they had hoped they would. To avoid that happening to you, take these four principles to heart:

Principle 1: People work to validate rather than invalidate their current beliefs by filtering new experiences through the lens of their current beliefs. We call this selective interpretation.

Principle 2: People often cling to old beliefs and only reluctantly surrender them, falling prey to what we refer to as belief bias. As with selective interpretation, people are generally unaware that they are doing this.

Principle 3: People frequently fail to take accountability for the beliefs they form, choosing instead to see those beliefs as natural and logical conclusions based upon their experiences.

Principle 4: Because the beliefs people hold do not readily change, the best indicator of future behavior is past behavior.

In some cases, experiences can actually backfire, inspiring beliefs exactly opposite of those you sought to instill. Accelerating the transition to a Culture of Accountability will occur only when you learn the importance of interpreting the experiences you create. In fact, everything depends on it.

The Four Steps to Providing E^2 Experiences

There are four important steps you can take to ensure that you provide experiences that will create B^2 beliefs. Skip a step, and you will likely find yourself, at some point, creating experiences that reinforce the old C^1 culture you want to change. These steps will help you create the right experience the first time and help you correct your approach whenever you discover that your effort is not influencing people's thinking the way you hoped it would.

Step One: *Plan It.* While you will find plenty of opportunities to create experiences spontaneously, you must also, and more importantly, learn to plan E^2 experiences in advance, both as a team and by yourself.

Step Two: *Provide It.* Follow your plan and provide the experience. Your efforts must be sincere attempts to provide genuine experiences that signal real change.

Step Three: *Ask About It.* If you don't check in, you will not know if you have hit the mark. Don't get defensive. Be curious and listen to what people really think. Get as much input as you can from as many people as you can. Don't ask leading questions that bias what people say.

Step Four: *Interpret It.* Act on the feedback that you received and take the extra steps necessary to interpret the experience you provided in such a way that people form the desired B^2 beliefs.

Building the Pyramid

Taking accountability to live the Cultural Beliefs and creating the E^2 experiences needed to foster and promote them does more than anything else to accelerate culture change.

PART TWO: INTEGRATE THE C^2 BEST PRACTICES TO ACCELERATE THE CULTURE CHANGE

Success in speeding up the culture change will only come when everyone's actions, beliefs and experiences are aligned from person to person and across the various functions of the company. The more completely aligned the culture, the more everyone will concentrate on achieving R^2 results. Effective leaders of culture change manage in ways that get a culture aligned with results, and then they work to keep it aligned.

Getting Aligned Around Alignment

Using the Results Pyramid as a reference point, here is

a definition of alignment that applies to every effort to change culture: ***Alignment is common beliefs and concerted action in collective pursuit of a clear result.***

This definition refers to lining up the parts of the Results Pyramid (Results, Actions, Beliefs, Experiences) so that all of the parts are positioned in relation to the R^2 results you want to achieve. When all the parts are aligned and everyone is moving in the same direction, you get accelerated culture change; everyone stays on the same page, people feel less stressed, decision making occurs more efficiently and almost everything speeds up.

During the Culture of Accountability Process, the speed of the culture change will directly correspond to the level of alignment you create and maintain around R^2 and the Cultural Beliefs.

The Case for Change

A critical mass of people who take ownership for the change process will produce enough alignment and positive momentum to keep the change effort energized and moving forward. Because the early adopters are important to the success of the overall effort, you should concentrate on cultivating and nurturing them.

To initiate this cultural chain reaction, you must make a compelling Case for Change. Everyone wants to understand the basic rationale for R^2. The Case for Change addresses the why behind R^2, providing the context for *why* we need to change the culture and why we need to do it *now*. The more compelling the Case for Change, the more likely you will forge the ownership and buy-in you need. The most compelling Case for Change always incorporates these best practices:

1. Make it real.
2. Make it applicable to your audience.
3. Make it simple and repeatable.
4. Make it convincing.
5. Make it a dialogue.

The Leadership Alignment Process

The Leadership Alignment Process consists of six key elements that help ensure that real alignment is achieved:

Step One: *Participation* — Get the appropriate people involved.

Step Two: *Accountability* — Identify who will make the decision.

Step Three: *Discussion* — Ensure that people speak up and are heard.

Step Four: *Ownership* — Promote the decision as your own.

Step Five: *Communication* — Be consistent with the message.

Step Six: *Follow-Up* — Check in and test for alignment.

Alignment is a process, not an event. It is something you must constantly work to achieve. ●

Applying the Three Culture Management Tools

Now that you understand how to create alignment for using the Results Pyramid to build a game-changing culture, you can start applying the three essential Culture Management Tools that will accelerate the change effort: Focused Feedback, Focused Storytelling and Focused Recognition. These tools will help you integrate the Cultural Beliefs into your organization's culture and speed it toward C^2 and your desired R^2 results. These tools are designed to help you deal with a C^1 culture's strong resistance to change.

• **The Focused Feedback Tool.** Constructive Focused Feedback offers positive and candid suggestions and guidance on what else people can do to demonstrate the B^2 beliefs more fully. This type of feedback is critical to helping people succeed in the new C^2 culture because it helps them know what they can improve in a timely way. A lack of constructive Focused Feedback will cause every culture-change effort to stall and eventually die out.

• **The Focused Storytelling Tool.** While Focused Feedback accelerates change, organizations can pick up the pace of the transition even more when they add Focused Storytelling to the mix of Culture Management Tools. People tell stories every day throughout the organization. These stories simply describe people's experiences and convey their beliefs about what is important and how work should be done in the organization.

Do you know what stories people in your organization tell each other? What beliefs do those stories drive? What stories do you tell to others?

These stories move the organization either toward C^2 or back to C^1. If you want to speed up the journey to a C^2 culture, then you must identify and tell C^2 stories.

• **The Focused Recognition Tool.** We all know that people sometimes "fall down" while learning to live the Cultural Beliefs. Acknowledging the step forward with recognition, in spite of the fall, will speed up the culture change effort. Focused Recognition, like storytelling and feedback, must center on the Cultural Beliefs. ●

Mastering the Three Culture Change Leadership Skills

Culture change always requires leaders to become proficient in the skills needed to lead the transition effort. Without a concerted effort at the top of the organization to develop greater proficiency with the skills needed to lead the culture change, leaders frequently slow down the process and make the change effort less efficient and less successful. Developing these skills will accelerate the cultural transition while enhancing leadership capability in every other endeavor. The three culture change leadership skills every leader will need if they want to move the culture from C^1 to C^2 are: the skill to Lead the Change, the skill to Respond to Feedback and the skill to Be Facilitative.

These three leadership skills are essential to ensuring that the culture change effort stays on track and achieves R^2.

1. The Skill to Lead the Change. Culture change must be led. You cannot delegate the initiative to Human Resources, Organizational Development or anyone else. While these and other organizational functions play important roles, the senior leadership team simply must maintain ownership of the process and lead the culture change at every level of the organization, ensuring that the change effort is prioritized correctly at the top of every management team agenda.

To bring about the C^2 culture and R^2 results, leaders must take personal ownership of the implementation of cultural transition best practices throughout the organization.

2. The Skill to Respond to Feedback. When people see leaders reinforcing B^2 beliefs, everyone gets the message that "I ought to be doing that too."

When you receive feedback that you have created an experience that is inconsistent with the Cultural Beliefs, you can use the Methodology for Changing Beliefs to get people looking for evidence of your true alignment and your deep desire to embody the new culture. Here are the methodology's five steps:

Step One: Identify the belief you need to change.

Step Two: Tell them the belief you want them to hold.

Step Three: Describe the experience you're going to create for them.

Step Four: Ask them for feedback on the planned experience.

Step Five: Enroll them in giving you feedback on your progress.

3. The Skill to Be Facilitative. It usually takes some effort to become thoroughly facilitative in your communication style — an important culture change leadership skill. Getting everyone to engage in a meaningful dialogue about what needs to change and making sure that conversation occurs at every level of the organization is essential to accelerating culture change.

Lasting culture change always requires collaboration, teamwork and dialogue. Your ability as an organizational leader to ask questions, seek input, create dialogue and get people talking about the right topics will speed up the adoption of C^2 beliefs.

Integrating the Culture Change

Leading culture change means working ceaselessly to implement and integrate. Each activity enhances and then mutually reinforces the other. Implementation sets up integration and integration sustains implementation. They go hand in hand.

Integration is not about convening additional meetings, creating a longer list of things to do or lengthening the workday. On the contrary, when you integrate the Culture Management Tools into the organization, you insert them into carefully selected, already existing meetings and activities. It bears repeating: Integration means integrating the tools into the current organizational processes, procedures and systems. When done correctly, integration weaves the Cultural Transition Process seamlessly into the way things are done in the organization. If you do it poorly, people end up feeling that you have just added another burdensome program to the many they already need to implement.

The Three Steps to Effective Integration

Successful integration of the C^2 best practices into the culture change process depends on effectively applying each of the following three distinct steps.

Taking these steps sequentially will allow you to spot the best opportunities for making integration happen in a way that optimizes your effort and minimizes distractions.

Step One: *Identify the Opportunities for Integration into Meetings.* Integration is most effectively accomplished within intact teams. While the opportunities for integration will differ from team to team, your initial list of opportunities should include all of the different meetings the team currently holds, including one-on-ones.

Step Two: *Identify Opportunities for Integration into Systems.* Integrating change into the organizational systems includes evaluating the policies and procedures of the organization, as well as both the formal and informal application of those systems.

Step Three: *Make Your Integration Plan.* This plan

should specifically capture what you are going to do to integrate the best practices into the activities you have selected.

A good example of how to do this comes from "Eastside HealthPlans." After the Eastside management team evaluated steps one and two in the integration process, they arrived at a plan. The team took early steps to align the organizational systems as well. As a result, they unleashed organizational thinking and began to make changes on a variety of fronts. Lean process teams were formed to address the waste, inefficiencies and administrative costs within the organization. For the first time in 25 years, leaders began to create significant experiences that suggested the company would not tolerate waste. These teams ultimately achieved line-item cost savings of over $200 million.

Enrolling the Entire Organization in the Change

In order to achieve transformational change, you will need to adopt the right process for enrolling everyone in the organization in the change effort. Five principles should guide you as you engineer and build full employee engagement in the change:

Principle 1: Start with *accountability*. Accountability for R^2 should always begin with clearly defined results. Without it you will not move the organization forward and enroll people in providing the effort needed to change your culture.

Principle 2: Get people ready for the change. Your culture will not change unless you get everyone in the organization enrolled in making the change happen. You should expend every effort to get people ready for the change by persuading and convincing them of the merits of the change and by getting them involved in the process.

Principle 3: Begin with the relative top and intact teams. Relative top means that regardless of where you initiate the culture change process — in a team, a division, a function, a subsidiary, a country affiliate or the entire organization — you must begin the process at the top of that organization to be most effective.

Culture change begins in the context of intact teams. Establishing peer-to-peer accountability within these teams is essential to building the right foundation for the culture change effort.

Principle 4: Establish a process control and keep it honest. To be most effective, you should adopt agreed-upon process controls at both the individual and team level. Common process controls include: embedding the language of the tools and models, tracking progress toward R^2 results and establishing milestones for process implementation and integration.

The enrollment process must be designed to help everyone avoid the trap of just "going through the motions." It should keep everyone honest in the way they apply the Culture Management Tools and C^2 best practices.

Principle 5: Design for maximum involvement and creativity. Cultural change is a highly collaborative effort and requires the engagement of everyone at every level as co-creators of the culture.

Final Thoughts

Culture change can provide the differentiator that brings competitive advantage and game changing results to any business. In today's competitive environment and challenging economy, performance improvements grow ever harder to achieve and game changers become more important every day.

True game changers don't come easily. No matter how much time you spend optimizing performance with incremental improvements, they will take you only so far.

When the business model demands R^2 results, the game is no longer just about optimizing current performance; it's about transforming organizational results. Game changing, transformational results can and do come from well-executed culture changing initiatives. When you change the culture, you change the game, and with that new game comes the desired results that shape and define success for your organization.

When you approach culture in the manner described here, culture change raises the spirit of the entire organization and energizes everyone involved to make the change successful. With the combination of accountability and the application of the C^2 best practices, you will accelerate the change in your culture and achieve the results you seek.

RECOMMENDED READING LIST

If you liked *Change the Culture, Change the Game*, you'll also like:

1. ***How Did That Happen*** **by Roger Connors and Tom Smith.** This title offers a proven way to eliminate nasty surprises and gain an unbeatable competitive advantage.
2. ***Tactical Transparency*** **by John C. Havens and Shel Holtz.** The authors provide a methodology that will help organizations create their own unique plans to bring greater authenticity to their companies and brands.
3. ***Turnaround Leadership*** **by Shaun O'Callaghan.** O'Callaghan pinpoints five areas of leadership expertise that need to be mastered to recover in the aftermath of a crisis.

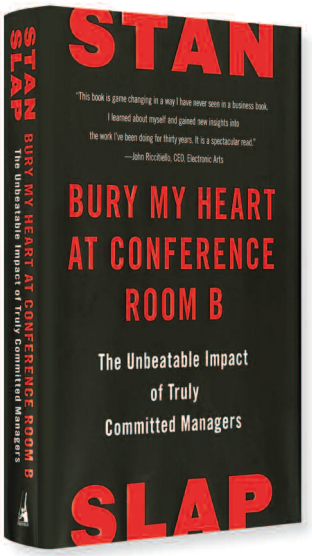
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Bury My Heart at Conference Room B

The Unbeatable Impact of Truly Committed Managers



by Stan Slap

THE SUMMARY IN BRIEF

Ever have the feeling that no matter how rewarding your job is, there's an entirely different level of success and fulfillment available to you?

There is, and performance expert Stan Slap is going to help you get it.

Bury My Heart at Conference Room B entirely redraws the potential of being a manager. It will put an entirely new level of meaning into your job description.

You will never really work for your company until your company really works for you.

Bury My Heart at Conference Room B is about igniting the massive power of any manager's emotional commitment to his or her company — worth more than financial, intellectual and physical commitment combined. Sometimes, companies get emotional commitment in their early garage days or in times of tremendous gain, but it's almost unheard of to get it on a sustained, self-reinforced basis.

Of course, your company is only going to get it if you're willing to give it. In *Bury My Heart at Conference Room B*, Slap proves that emotional commitment comes from the ability to live your deepest personal values at work and then provides a remarkable process that allows you to use your own values to achieve tremendous success.

IN THIS SUMMARY, YOU WILL LEARN:

- The highest-rated management solution at many of the world's highest-rated companies.
- How to revolutionize performance in your organization.
- Where to find the urgency and energy to change the world.
- How to transform your career and life.

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THE COMPLETE SUMMARY: **BURY MY HEART AT CONFERENCE ROOM B**

by Stan Slap

The author: Stan Slap's international consulting company, slap, specializes in achieving ferocious commitment in manager, employee and customer cultures — the three groups that decide the success of any business. His client list ranges from Hewlett-Packard and Microsoft to HSBC and Viacom.

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Introduction

When Mark Hurd, the CEO of Hewlett-Packard, taps you, you're going to feel it. Three years ago, he appointed Adrian Jones to be the channel chief for the Americas — 25,000 companies that represent a major revenue source for HP. Jones aggressively set about to create what is now recognized as the successful model of an enterprise-partner relationship. So, Mr. Opportunity just tapped him again, this time as an SVP, to turn around the company's Japan-APAC region, which many believe is the area of its greatest future growth.

Jones explains: "My first exposure to *Bury My Heart at Conference Room B* was years ago, as a regional manager for Quantum. I thought I knew everything. Had plenty of energy even if I wasn't sure what to use it for — was a cheeky, unguided missile. I know I should have been more skeptical about the process because it seems like it makes you vulnerable. In the end, it makes you so much stronger and I think I must have sensed that.

"It instantly changed my whole philosophy of managing. It showed me that you could transform people's lives in a business environment in a way they thought was impossible. Since then I've seen the metrics impact of *Bury My Heart at Conference Room B* — numbers up, better productivity, people more motivated, my team rated the best in the company and the best results in the channel space we've ever had at Hewlett-Packard.

"I'm a very passionate guy and what this showed me is that it really is OK to be passionate, to put your true heart into what you do. I've learned that the rest doesn't matter — who you are when you get up every morning is what matters. This is what I know now that I can pass on to you: Let the walls come down. Don't lead from your head. Lead from what you believe in." ●

PART 1: IT TAKES A VALUE PROPOSITION

What Lies Underneath

Emotional commitment is a tricky thing, a delicate process that's buried far below the level of conscious choice. It will happen only when your brain believes it's safe to give it and is uniquely rewarded for giving it. The critical signal for both is if you're able to live your deepest personal values at work. As a manager, can you say that's the case — no hesitation or qualification? Careful now: Even a financially rewarding, intellectually stimulating work environment isn't the same as living your own values.

The default position for emotional commitment is emotional detachment, which manifests itself in all sorts of ways. Could you possibly be emotionally detached at work without even realizing it? It would be hard to realize if you're detached. There's a party in your head and you're not invited.

Whenever a deep divide exists between who someone is as a human being, who they want to be as a manager and who they have to be as management, all hope for emotional commitment is lost. Lost for managers and lost for the companies that depend on them.

What Are We Talking About Here?

We are talking about nothing less than redrawing the potential for organizational success. The great plains of corporate possibility are a wasteland unless deep-seeded by a wholly different level of manager commitment.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

Little is grown and nothing is sustainable. Companies will never change this until they change who managers can be within the company.

We are talking about nothing less than redrawing the potential for manager fulfillment. Providing the ultimate solution to work/life balance: not escaping from work, but living the way you want to at work.

This is all still very new thinking. New thinking requires smart connection of seemingly unrelated empirical data points, accurate interpretation of anecdotal evidence and the occasional leap of faith.

Most of all, it requires a deep desire to live in the new rather than continue to suffer in the old. ●

The Mystery Achievement

You must live your personal values at work. This isn't some woo-woo new paradigm management rhetoric. This is, flat out, the quality of your life.

Profitability. Growth. Quality. Exceeding customer expectations. These are not examples of values. These are examples of corporate strategies being sold to you as values. They may be good, important strategies, but they're strategies all the same. Values are different; values are deeply held personal beliefs.

Family. Integrity. Health. Freedom. These are examples of values. If these are some of your own biggest values and you feel that you have to compromise them in any way to do your job, you may not be fully living your values at work.

This isn't a matter of your intelligence, maturity or skill; there are relentlessly seductive forces being aimed at you as companies attempt to replicate a sense of personal-values fulfillment for managers but insert corporate priorities in its place.

It takes far more energy to be emotionally detached than emotionally committed, to maintain a wall between your inner and outer selves. This is energy that's no longer available to put into realizing the rest of your life.

The How and Why of What Matters

The best corporate revenues will be achieved as a result of managers' commitment to themselves, made before any commitment to the company. Sometimes companies get emotional commitment from their managers in the early garage days. Sometimes they get it in times of tremendous gain or pain. Sometimes they get it on a sustained, self-reinforced basis. The heart of a company's performance is hardwired to the hearts of its managers. ●

Time Waits for No Manager

On average, how many hours a week do you spend working — meetings, e-mail, people problems, crazed customers, not to mention any actual work that accidentally occurs in-between. Let's say, like most managers, it's about 50.

On average, how many hours a week do you spend traveling to and from and for work? Some managers are dazed road warriors, but for most it's about 10. Now you're at 60 hours a week: You're working 50 and traveling 10.

On average, how many hours a week do you spend thinking about work? Not actually engaged in doing the job but obsessing about the job, talking to someone outside the job about the job, daydreaming about the job and waking up screaming about the job? If you're like most managers, it's about 15 hours a week. Now you're at 75 hours a week: You're working 50, traveling for work 10 and thinking about work 15.

Welcome to Your Personal Life

At 75 hours a week, you're spending more than double your waking hours working than not working.

These are the irretrievable hours of your personal life — you do not get this time back. Every day. Every week. Every month. Every quarter. Every project. Every year.

To not live your deepest personal values for over half your waking hours is a crime. Worse, it's an unnecessary crime. Your company might actually *insist* you live them at work. You just have to know how to make this happen. ●

PART 2: WALLET. HEART. KEYS.

The Company Dream

What does a company want from its managers? It wants you to be fanatically loyal, ferociously energized, protective of the organization and its assets, willing to represent the company as immaculate in its offerings and innocent in its intentions, flexible but consistent, innovative but obedient, bold but conservative, diverse but similar, self-sufficient but a team player, firm and sharp but soft and pliable, dependably motivated by money but independently wealthy to the point where company compensation is a personal accounting bother and not worth collecting.

A company mostly wants homeostasis — it wants to be a stable and self-structuring organization. A homeostatic system adapts itself to its environment to preserve

stability. The system is constantly energized and will rapidly respond not only to manual changes, but also to any unexpected conditions. All critical variables are held at a desirable level by a self-regulatory mechanism.

But wait: A company doesn't just want its managers to be hordes of Zegna-clad thermostats, reactive to any change in the business climate that could adversely affect the enterprise. It dreams big. It wants you to be proactive, anticipating those changes and transforming them into opportunities. It wants you to pursue growing the business like a holy crusade. It wants you to *care*.

It wants you to be emotionally committed.

And no wonder: The results of emotional commitment are drool-inspiring. You know them all: the groovy Internet company, the feisty regional airline, the high-minded clothing manufacturer, the zany retailer. These are places where the weird stuff happens all the time — the remarkable acts of manager dedication that compel success against the market, against the competition and sometimes against all odds.

Emotionally committed managers in these companies don't always make the most money, but they don't leave. They champion their companies and they protect them at all costs. ●

A Tale of Two Companies

PRIDE Industries recently nailed annual revenues of more than $150 million. An outsourcing solutions company, PRIDE serves manufacturing and service industries across 11 states.

PRIDE is one of the largest employers of people with disabilities in the United States.

"We're damn well not a charitable act for our customers," bristles CEO Michael Ziegler. "We're in a regular cutthroat, hypercompetitive business. We'd never make the mistake of thinking it's anything else and neither would they."

Those customers include the likes of Hewlett-Packard. PRIDE handles all ink-jet printer supply fulfillment for HP in North and Central America and is the worldwide supplier of their repair kits. The business is regularly audited and awarded on competitive co-factors of cost and competency.

One of PRIDE's employees is an operations manager who says, "I don't think about my handicap much. 'Handicapped' would mean not being allowed to be who I want to be at work. I never feel handicapped here."

Rhino Records

Born in the back of a Los Angeles record store, spunky, funky Rhino Records grew up amidst a record industry that had become increasingly moribund in its prioritization of money over the meaning of music. Yet, Rhino refused to surrender its unique lunatic spirit and still ended up setting the enduring standard for the archiving of rock recordings in scope, sound quality and packaging.

Gary Stewart was one of Rhino's first employees and rose to the critical post of senior vice president of A&R. "The Rhino product was about protecting the music. The Rhino business was about protecting the lifestyle. I believe we are all one people, that people are equal and that they deserve freedom to do their own thing. People will rise to the cause if the cause is worth getting up for. That's what happened at Rhino."

Let It Happen

If your company wants the rest of its managers to perform like its best managers perform, then the company has to respect what makes those best managers willing to give emotional commitment. Enforcing or reinforcing it isn't as important as getting out of the way and *letting it happen*. The only way to generate dependable emotional commitment is to allow it to be self-generated. That's where it comes from. ●

The Dream Denied

Without emotional commitment from managers, a company can't ever realize the dream of being a self-structuring, self-protective system.

Companies can't get emotional commitment from their managers because the company believes it needs to be the dominant organism in the relationship, which causes managers to have to repress their own values — and so causes them to detach emotionally from their jobs. In order to really get that emotional commitment, a company would have to reattach managers to their own deep drivers — allow them to live their own values and act according to their own personal codes.

Even if they can't put the organizational finger on it, companies can sense the difference between emotional commitment and lesser kinds. They understand that something big is being left off the table — the gap between what their managers are giving and what they could be giving — and they attempt to close the gap.

The first attempt is to repurpose values by swapping individual definitions for corporate ones. You have Family as a value? That's beautiful. This is your family

right here. Now protect it by making your numbers.

The second attempt is the selling of the emotional company store: plenty of support for a common point of view; clearly defined enemies; ever-changing rewards and punishment; constant drama and numbingly urgent pace; *über* support rallies where cold business logic is sold as burning passion; free company clothing and low-cost company food; and company "values" made available in a dazzling display of collateral damage, including wallet cards, T-shirts, posters, mouse pads, coffee cups and a company laptop bag to stuff it all into.

OK, the *third* attempt is to trot out the carrots — money and the stuff money buys.

All of this is carefully calculated to work. It should work. Sometimes it seems like it works. It doesn't work. Not logically. Not neurobiologically. ●

How a Manager's Brain Works. And Doesn't.

In the worst corporate cultures, managers are expected to form stable, selfless, giving and forgiving relationships with companies that are ever-changing, selfish, greedy and unforgiving.

In these harshest of environments, managers make the conscious choice to fade back. They deliberately leave the best of who they are at home when they suit up every day for the detachment factory.

But in most corporate cultures, managers are there because they want to be there. They like their company. They want to help make things better. They want to take some sense of self from the might and magnificence of their organization. In many cases, managers don't even want to work less. They just want it to mean more.

Yet the same problem exists in these better environments and it's more dangerous because it's harder to see. Neurochemical markers in the brain identify options considered healthy and safe; these are the biological versions of "values." If they can't be met, health and safety must be in jeopardy and the brain immediately shifts into threat containment mode. One of the protective processes it deploys is emotional detachment. ●

Pinch Me; I'm Dreamin'

Companies know what they want most: emotional commitment from managers. But they're nervous about the potential risk of gaining it and frustrated by sustained efforts that haven't produced sustained results.

Managers know what they want most: to be allowed to achieve success by leveraging who they are, not by compromising it. But managers are detached and distracted by the constant effort of maintaining a personal center of gravity amidst a whirling corporate universe.

Your dreams and the dreams of your company may be different, but they are in no way incompatible.

The Solution. Cleverly Disguised as the Problem

What's needed is a model that will reliably allow managers to live their values at work without the company having to constantly facilitate the process. A self-sustaining model that is a safe and healthy choice for both the company and its managers. Brace yourself: The model is called leadership.

The purpose of leadership is to change the world around you in the name of your values so you can live those values more fully. The process of leadership is to turn your values into a compelling cause for others so you gain resources to help you do that.

The irreducible essence of leadership is that leaders are people who live their deepest personal values without compromise, and they use those values to make life better for others — this is why people become leaders and why people follow leaders.

The company must allow itself to be the best possible place for managers to practice true fulfillment, to live their values and to realize deep connectivity and purpose.

This is the system managers will protect. This is the system managers dream about. ●

The Limbic System

The limbic system is the part of the brain that evaluates the reward potential of judgment calls.

The limbic system is about serious business and won't be lured by the promise of *shiny things*! It can't be fooled by cheap substitutes, even if they're materially pretty valuable. To reliably trigger the desired limbic response in its manager population, a company would have to align the causes of oxytocin, serotonin and dopamine release with impeccable accuracy for each manager. The way to do that would be to connect life and work with health and safety: Allow each manager to work according to his or her individual values.

PART 3: YOU MUST. YOU CAN.

How to Decide What's Truly Most Important to You

Values are deeply held personal beliefs that form your own priority code for living. They're the individual biases that allow you to decide which actions are true for you alone. They're the personal standards that give you the most and that you care about the most. They're the definition of what life looks like when you live it exactly the way you want to. Values are your very own source of safety, hope and renewal.

Where Are Your Values?

Being a leader means being able to sell your values to others:

Step One: Identify the 10 values that mean the most to you personally. Define the meaning of each of the 10 values you've chosen. Cut your list of 10 values to five. Cut your list of five to three.

Step Two: Consider the considerable influences. There's an intimate connection between your emotions and your strong opinions about the way things ought to be. It's impossible to separate your emotions from your values because one keeps influencing the other. The big question is, *what influences both of them?*

Step Three: Confirm your choice. You could conceivably change your choice of top values at any time. It is much better to know that those values are not easily open to revision but are, instead, a true representation of your deepest beliefs.

Step Four: Connect the moments of truth. One of the best ways to confirm your values is to understand where those values came from — understand the moment, or moments, of truth that caused those values to become personal priorities.

Step Five: Talk to yourself, then talk to others. Ask questions to identify patterns of choices made, directions taken and options refused in favor of others. Ask these same questions of those who know you best. ●

How to Sell It to Yourself

Here are three big myths that prevent a manager's natural transition to leadership:

1. **"I don't have what it takes."** The problem with having great leaders as role models for your own development is that by the time they come to your attention they've already got their act together. You don't see them when they're starting out, desperately recruiting the first followers, stumbling through the initial construction of their vision, facing overwhelming odds and a power structure that is well resourced, dug in and disinclined to cede any territory.

Leaders do great things for the world, but the initial motivator is that they want to meet their own deepest values.

2. **"It seems like a lot of sacrifice without a lot of payoff."** No one could deny, for example, Nelson Mandela's remarkable sacrifice for his deep beliefs. But at least he knew his deep beliefs and was focused on realizing them. Leadership taps into energy and conviction that is simply unavailable to most people.

What's important is that you learn to do those things that leaders do so you can get the benefits that only leaders get. Leadership will connect you to your most important personal values and turn your cause into the common cause, but there are plenty of other benefits, and they'll all be yours when you apply leadership in an organizational environment.

3. **"I'm confusing management and leadership."** Authentic leadership is hard to find in the two environments where it's most often self-proclaimed: politics and business. It is followers who keep a leader in place. When the primary purpose of leadership isn't to serve that true constituency, the leadership is fundamentally corrupt.

In real leadership, mistakes are a healthy part of the process. And while real leaders may be tactically wily, they don't compromise their values. ●

How to Sell It to Your People

Living your values at work requires the support of others. If the people around you care, you've got a chance of achieving this for more than half your waking hours. If they don't, you won't.

The process starts with getting people's attention in a way that makes them believe your values are even worth considering.

The first way is bribery. One problem: It doesn't work. The carrot may achieve short-term results, but it won't inspire the honest, sustained effort a leader needs. The successful leadership battle is fought for your people's hearts, not their pockets.

The second way is fear. One problem: It doesn't work. The stick may achieve short-term results, but it's the longer-term result you have to be concerned about

since anger is the natural psychological reaction to fear. Inspiring a constant level of hostility among your people is a seriously flawed strategy.

The third way to get your people's attention (Hint: *This works*.) is with your hand, in which you symbolically reach out to your people. "Grab hold," you are saying, "and I'll take you to a Better Place."

Step One: Define the Better Place. In leader-speak, the Better Place is called "vision." Because their vision is driven by true belief, leaders really can see that Better Place.

Step Two: Back the better with the bitter. To encourage your people to dream of a Better Place, you muat be very clear about the nightmare of their current reality.

Step Three: Give them something for the trip. You can't just promise them a spectacular conclusion; You've got to give them something spectacular along the way to keep them moving. Link your Better Place with their significance, their belonging and their self-worth.

Step Four: Connect it up. What does it look like when all the steps are put together? It looks like you've got something that's different, sensible and compelling.

How to Sell It to Your Company

You can gain enterprise support for the prioritization of your personal values when you can translate it into business impact. To do that, you've first got to translate it into skill. Here is how to do both:

Step One: Solve old problems in a new way. The principles of *Bury My Heart at Conference Room B* need to be integrated into your regular management job in a way that helps you become more successful. That way you'll have a reason to use the principles regularly until they become reliable tools.

Step Two: Bench the metrics that matter. The key to protecting your individual implementation of *Bury My Heart at Conference Room B* is also using it to positively impact the performance measurements your company considers most important.

You're in good shape if doing that requires your own emotional commitment and discretionary effort; performance reinforcement for your people when traditional methods are unavailable or devalued; their increased unity of purpose, tolerance for change and faith in you when the circumstances of the company are in doubt. These are the metrics enhancement tools that have now been placed in your hands.

The Whole Point

Can one manager really change the world? Considering the state of the world today, that's the only way it can change — one person influencing one group of people at a time.

For all of these reasons, … **Be human first. A manager second.**

Step Three: Talk it up. Sooner or later you'll need to perform a miracle in the name of your leadership to reach a goal your own way, stop or slow a change, grant someone on the team special recognition. That decision won't be made by you but by someone a level or two above. You don't want to wait until that moment to explain that your leadership credibility hangs in the balance. If you'll need their support sooner or later, best to get it sooner.

PART 4: GET ON WITH IT

Personal Implementation

The typical manager receives more than 100 e-mails every day, works more than 50 hours every week and is responsible for more productivity and revenue every year. What you don't need is more to do in order to implement *Bury My Heart at Conference Room B*. You need a fast and simple guide that translates your willingness to embrace the solution into the skill to use it.

Step One: Take it home. *There is no greater good* for you and your partner or your family than encouraging each other's deepest values.

Step Two: Declare it. If you want your people to seriously commit to making your own Better Place happen, you're not only going to have to announce what you stand for, you're going to have to do it in an entirely new way.

Step Three: Prove it. You're going to have to earn trust like leaders do, through consistency and passion, and by how you make mistakes and cause others to. Your people will forgive a lot of mistakes in the interest of your attempting to get them to a Better Place.

Step Four: Now, first, next and later. Commit to a few steps over a few weeks. Confirm your values. Start getting the support at home for what you're trying to do at work, and start getting the benefits, too. Make sure you're ready. Prepare your initial declaration. This isn't about you; it's about you and your people, working together for something of mutual benefit. You don't

have to do it all and you don't have to have all the answers.

Step Five: Who's next? *Bury My Heart at Conference Room B* is about living your values at work by translating them into improved working conditions, thus generating your emotional commitment to the success of the company. There's not much in that sentence that wouldn't be good for your people to do too. You can help them do it. ●

Organizational Implementation

Bury My Heart at Conference Room B is designed to work individually and produce individual manager results for the organization. The more managers who apply the process, the more the organization benefits.

To ensure enterprise-wide results, it has to be implemented enterprise-wide. The process works just as well, uses all of the same tactics, but requires additional processes and resources to institutionalize behavior on this scale. When senior teams contemplate it, this is the part that usually seems most burdensome. That they have to model the behaviors themselves is the part that usually seems the most worrisome.

It's not simple to do, but it's certainly achievable, as are the results and the personal fulfillment opportunity for every manager, at every level. Here are all of the essential considerations:

1. **Embrace the business case.** This process can't be started, then defaulted on, so it should be initiated only after a deep commitment has been made to make it part of the way the business operates.
2. **Reinforce the right.** Whatever systems provide financial reinforcement for performance should include the application of individual values as one of the criteria. Rewards should be linked not only to what was achieved; but to how it was achieved using values and demonstrating emotional commitment.
3. **React to the wrong.** As you prepare for implementation, prepare for where the pressure will fall and prepare an unwavering response to anyone who might doubt that their disregard would trigger consequences.
4. **Don't overpromise.** Fortunately, you don't have to have all the answers and you don't have to solve all the problems yourself. This is about real leadership.
5. **Announce the organizational demand.** If your company is willing to make the investment in creating this opportunity for your managers, it should be made clear that it's an opportunity, but it's not optional. ●

You Must Remember This

Here is the closing argument, delivered on behalf of your personal fulfillment, your success and the success of your company:

- **A company must let managers live their values.** People are hesitant to embrace any world that is barren of what feeds them.
- **Living your values is the key to work/life balance.** If you're not living your values at work, you're not living them in life.
- **Your leadership is important.** Your company is not a passive environment. It has its own purpose, priorities and life force. Living your values in such an environment cannot be a passive process.
- **You should live your values at work.** Your values are your essence: an undistorted mirror showing you at your pure, attractive best.

The Path

There is a road.

It is the road that every renowned leader in history has walked down to achieve success. When you strip the mystery and mythology out of leadership, it is a specific series of tactical steps, often performed in a specific order and always for a specific reason.

When you implement what you now know about leadership — exactly how and exactly why — you'll move all the rest of the way down that road, to the fulfillment, impact and legacy that await you. ●

RECOMMENDED READING LIST

If you liked *Bury My Heart at Conference Room B*, you'll also like:

1. ***Multipliers*** **by Liz Wiseman with Greg McKeown.** The authors teach readers how to become multipliers of talent to create positive and profitable effects on an organization.
2. ***Now Build a Great Business*** **by Mark Thompson and Brian Tracy.** Filled with straightforward, powerful strategies, this title is packed with insights and will ignite growth in your business.
3. ***The Truth About Leadership*** **by James Kouzes and Barry Posner.** The authors share 10 time-tested fundamental truths about leadership and becoming an effective leader.

· Book 32 of 304 ·

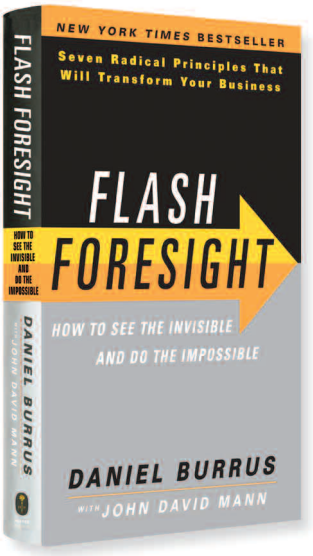
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Daniel Burrus with John David Mann

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Management: Strategies



Flash Foresight

How to See the Invisible and Do the Impossible

by Daniel Burrus with John David Mann

THE SUMMARY IN BRIEF

Author and business consultant Daniel Burrus is one of the world's leading forecasters, corporate strategists and visionaries. Over the past quarter century, he has established a reputation worldwide for his exceptional record of accurately predicting the future of technological change and its direct impact on the business world.

"Wouldn't it be amazing if you could predict the future — and be right?" writes Burrus. "You can: All you have to do is leave out the parts you could be wrong about! And the amazing thing is, when you know where to look, there's more than enough you can be right about to make all the difference."

From small businesses to multinationals, individual careers to entire industries, *Flash Foresight* looks at how seven radical flash foresight "triggers" have transformed careers, fortunes and lives. Both engaging and enlightening, *Flash Foresight* provides an easy-to-implement blueprint for applying the same strategies to your own business, enabling you to see the invisible and do the impossible.

In the past, flash foresight was useful. Today, as the pace of technological change accelerates almost beyond the point of comprehension, it's an imperative.

IN THIS SUMMARY, YOU WILL LEARN:

- How seven valuable principles can help you find deep business insights.
- How to change the way you think about your current obstacles and open your mind to limitless new opportunities.
- How to stimulate innovation and positive change.
- What you need to do to survive and thrive in the challenging times that lie ahead.

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THE COMPLETE SUMMARY: **FLASH FORESIGHT**

by Daniel Burrus with John David Mann

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John David Mann is the co-author of the *Wall Street Journal* bestseller *The Go-Giver.*

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For additional information on the authors, go to www.summary.com or www.flashforesight.com.

Introduction

Dale Morgen is an accomplished inventor with more than 30 wildly successful patents under his belt. In the course of his work he has honed a certain skill, and that skill is *flash foresight*.

Flash foresight uses the data of your five senses, as well as that intuitive sixth sense we all have that some call a *gut feeling* or *hunch*. But flash foresight goes further, because in using it, you synthesize those sensory and intuitive faculties and project them forward through the dimension of *time*. A *flash foresight* is a blinding flash of the future obvious. It is an intuitive grasp of the foreseeable future that, once you see it, reveals hidden opportunities and allows you to solve your biggest problems — *before* they happen. Flash foresight allows *anyone* to both see and shape his or her future.

You've had flash foresights; we all have. They are those fleeting glimpses we sometimes have of where things might be heading. Flash foresight is a sensibility, a skill you can develop, refine and strengthen.

Let's start with how Dale Morgen used this powerful principle to arrive at his great idea.

Dale Morgen's Flash Foresight

Morgen knew that there is another approach to our worsening energy crisis that does *not* use fossil fuels, does *not* produce greenhouse gases or any other pollution, and does *not* create radioactive waste or pose any other environmental dangers. It's called *nuclear fusion*, and many scientists believe it could become the energy source of the 21st century and beyond.

Understandably, this prospect has a lot of major international players hot on the fusion trail. A consortium of 20 countries is building a massive, multi-billion-dollar facility in Southern France. At California's famous Lawrence Livermore lab, a fusion facility is under construction that will span three football fields to blast its millimeter-sized hydrogen-fuel pellets with massive lasers.

However, there's a problem. So far, even with these massive and astronomically costly facilities, the fusion reaction requires more energy going in than it yields in output. Like an investment that keeps losing money, today's fusion reactors produce a net energy *loss*.

And that's where Morgen's idea comes into the picture. His flash foresight was this: *Instead of making these facilities bigger and bigger, why not make them radically smaller?* In fact, why not make a fusion reactor so small you can't even see it — so small it would be built out of single molecules? In a word: *nanofusion*.

Morgen is one of a handful of early innovators who are exploring the emerging field of nanofusion. Morgen's model is similar to the Lawrence Livermore reactor in concept, only instead of firing mile-long lasers at small glass pellets, his reactor would fire a nanolaser made from a single carbon molecule — called a *nanotube* — at hydrogen isotopes wrapped inside another type of carbon molecule called a *buckyball*. This material has a much higher purity and density — and lo and behold, it produces a *net positive yield*: more energy coming out than it takes to make the reaction. Potentially, says Morgen, *vastly* more.

Imagine the impact such a technology would have on the world. We would have enough energy to fuel our

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

global economy for centuries — conceivably, forever — without producing any greenhouse gases or radioactive waste.

The *Go Opposite* Flash Foresight Trigger

The flash foresight principle underlying Morgen's nanofusion is this: Go opposite. While everyone else in fusion was focusing on building gigantic reactors that filled football fields, Morgen and his colleagues went in the opposite direction, designing one so small it would easily fit on the point of a pin.

The reason this principle works is as simple as the principle itself: When you look in the opposite direction from where everyone else is looking, you see things nobody else is seeing. It opens up hidden opportunities, unnoticed resources and overlooked possibilities, acting as a spark that ignites a flash foresight.

Besides the go opposite trigger, there are six other flash foresight triggers: *start with certainty*, *anticipate*, *transform*, *take your biggest problem and skip it*, *redefine and reinvent*, and *direct your future*.

Seven Flash Foresight Triggers

There are seven flash foresight triggers:

1. *Start with certainty* (use hard trends to see what's coming).
2. *Anticipate* (base your strategies on what you know about the future).
3. *Transform* (use technology-driven change to your advantage).
4. *Take your biggest problem and skip it* (it's not the real problem anyway).
5. *Go opposite* (look where no one else is looking to see what no one else is seeing and do what no one else is doing).
6. *Redefine and reinvent* (identify and leverage your uniqueness in new and powerful ways).
7. *Direct your future* (or someone else will direct it for you).

Start with Certainty

There are two distinct kinds of trends: *soft trends* and *hard trends*.

A hard trend is a projection based on measurable, tangible and fully predictable facts, events or objects. A soft trend is a projection based on statistics that have the *appearance* of being tangible, fully predictable facts. A hard trend is something that *will* happen: a future *fact*. A soft trend is something that *might* happen: a future *maybe*.

Understanding the difference between hard and soft trends allows us to know *which parts of the future we can be right about*. It gives us the insight we need to start with certainty because it shows us where we are dealing with future fact and where we are dealing with hypothetical outcomes — future *maybes*. The reason we typically don't trust trends is that we haven't learned how to make the distinction between hard trends and soft trends. Once we know the difference, we know where to find certainty — and the future suddenly becomes visible.

That trillion-dollar surplus the government predicted at the end of the 1990s was a soft trend, only we treated it like a hard trend. We were not only expecting it to happen, we were acting on it as if it had already happened: We were spending like crazy. So much money was coming in during 1999, we were going nuts. We were gazing at the soft trend like a rabbit hypnotized by a snake.

The distinction between hard and soft trends is not always so obvious. To many observers, that trillion-dollar surplus looked quite believable. That's the problem with soft trends. Sometimes they look ridiculous, and sometimes they have the appearance of being credible. Still, soft is soft, and unless the trend is based on a direction of change that is clearly fixed, there is nothing certain about that trend. Saying something *could* happen is very different from saying it *will* happen, and that difference makes all the difference.

A hard trend can be either cyclic or linear in nature; both types of change yield hard trends. For example, if the stock market is falling today, we know that in the future, it will go back up again — and we know that *with certainty*. The rise and fall of the stock market is a cyclic change and a hard trend.

The Pace of the Rise and Fall

Exactly when will it turn and start going up again, and how high will it go when it does? We don't know. The exact timing and extent of the market's behavior is a soft trend because our behavior and choices can influence it. What we know is that after it falls, it will rise, and after it rises, it will fall. That may sound like a simplistic hard trend, but it has been reliable enough to make Warren Buffett a very rich man.

Is the world changing faster than ever before? Absolutely. But within that bewildering maelstrom of

change, there are always vast currents of certainty — currents that allow us not only to predict the future, but to positively *shape* it. We just have to know where to look.

If we don't make this shift today, it will be far more difficult tomorrow. Because as dizzying as the pace of change has been these past few years, this has been only a warm-up. Things are about to start changing a *lot* faster.

Anticipate

You know what they say about problems: A problem is "an opportunity in disguise." But that is typically not true, because by the time we know we have the problem, it's too late to turn it into any kind of opportunity. The wave is traveling too fast. A problem is only an opportunity if you *see* it before you *have* it.

Being proactive is agile; being preactive is anticipatory. The shift from proactive to preactive, from reaction to anticipation, also creates a shift in the nature of our relationship to change. We tend to think of change as disruptive, but this is generally true only when change comes *from the outside in*. When a new technology comes out that changes customer behavior, or when the boss changes strategy, or when a competing marketplace opens up overseas, we scramble to adapt.

Whenever change comes at us from the outside in, we are forced into a position of reaction, of putting out the latest fires. And those fires are coming at us faster and faster, which is why the idea of agility has become so compelling.

There is an alternative to living as a constant crisis manager: taking the initiative to become an *opportunity manager*.

Being preactive means putting yourself into opportunity mode, looking at problems before they occur, and then preventing them from happening in the first place. It means, instead of *reacting* to change that happens from the outside in, *creating* change from the inside out.

Change from the outside in is typically disruptive. Change from the inside out is purposeful and constructive. Inside-out change, preactive change, opportunity-managing change is where growth, both personal and organizational, comes from. This is the kind of change that allows you to direct your future and seize your destiny. And the only possible way to operate in that kind of change is by becoming anticipatory.

The Accelerating Speed of Technology

A tectonic shift miles out at sea triggers an earthquake, creating a quiet series of tidal waves that nobody sees or senses. Because of the ocean's great depth, its waves are very small, yet the energy from the earthquake can cause these unnoticed waves to build to speeds of as much as 500 miles per hour — about the cruising speed of a 747. It is only when these waves approach the shoreline that their magnitude becomes plain for all to see.

That is what is happening right now with digital technology. The tectonic shifts in the ocean floor have already happened, and the ripples are flying toward us at astronomically accelerating speeds. Can we even comprehend what this will look like as that relentless doubling of processing power, storage and bandwidth forms vertical lines that go straight off the charts?

This accelerating rate of change is as certain as the sun rising in the east tomorrow morning, and it's going to sweep across our landscape like the technological tsunami it is. It will burst through every industry and every institution, metamorphosing everything and leaving nothing untouched in its wake. It will catastrophically disrupt every aspect of every industry and every aspect of human activity — *except for those who see it coming.*

Stop, Look, Listen

As change accelerates around us and the pressure to keep up intensifies, we need to slow down, stop and think:

STOP: For a moment, put all your current problems aside and make the decision that you are going to devote a little time, on a regular basis, to becoming an anticipatory individual. If you work within a company or other organization, decide that you are going to become an anticipatory organization.

LOOK: Take a look into the visible future and ask yourself this question: "What are the problems I'm about to have?"

LISTEN: Listen to clues that might be lying just outside your range of vision. As you learn about how to see the visible future and your sense of flash foresight gets keener, you will pick up more and more of these clues and, in time, solutions will start to appear almost the moment you look for them.

Transform

According to the *New Oxford American Dictionary*, change means "to make something different," while *transform* means "to make a thorough or dramatic change." It is a difference of degree, but that degree is

so extreme that it becomes a *qualitative* difference.

Changing means continuing to do essentially the same thing, only introducing some variation in degree. Build it a little bigger, smaller, faster, higher, longer. Increase the marketing budget. Add a few staff to the department. Build a snazzier-looking SUV. Come up with a new slogan. But GM cannot be fixed by *changing*, nor can the recorded music industry or television networks survive simply by *changing*. Embracing change is no longer enough: We need to *transform*.

In the early 1990s Barnes & Noble superstores changed how we shop for books. By the mid-1990s, Amazon was *transforming* how we shop for books, which then transformed how we shop for everything.

Why You Must Transform the Box

In the 1990s, we were telling ourselves to "think outside the box." It's a neat image, evoking creativity and unconventional thinking as a way to arrive at ingenious new paths and solutions. Here's the problem with thinking outside the box: We all know that no matter how creative we get during the weekend seminar, come Monday morning we're going to have to crawl back *into* the box again and deal with our current reality. The problem isn't that we need new ways to simply step outside the box — we need to completely transform the box itself.

In fact, whatever your box is — your job, company, career, situation — it is going to transform whether you like it or not. There is no field or profession, no business or organization, no country or society that is not going to transform dramatically and fundamentally over the years ahead.

The New Golden Rule of Business

The old Golden Rule in business was to find out what your customers wanted and give it to them. "Do unto others as they want to be done to." Today, if you ask your customers what they want and you give it to them, you're missing a huge opportunity because their answers will never give you more than a fraction of your potential.

Our capabilities are changing far too rapidly for this old rule to be useful. Customers today don't know what they want because the things they most want are things they don't yet know are possible. Customers did not know they wanted an iPod until Apple gave it to them.

The new Golden Rule in business is this: *Give your customers the ability to do what they can't currently do but would want to if they only knew it was possible.*

To survive and thrive, look into your customers' visible future, look at their hard trends, at what you're certain about regarding their future. See what problems they are going to have and solve them before they happen, so that by the time they're just starting to experience the problem, you already have the solution. ●

Take Your Biggest Problem — and Skip It

The year was 1865, and the British Empire faced a problem that possibly threatened its very existence. Spurred by the development of the steam engine, an epic shift had been taking place for decades, an accelerating boost of productivity and standard of living that people were starting to call an *industrial revolution*. It was the fuel that drove this revolution that was at the heart of the problem, or more accurately, the looming shortage of this fuel, as the great British economist William Stanley Jevons had just spelled out with crystalline clarity in his latest book. In *The Coal Question*, Jevons surveyed the matter with thorough precision and predicted that Britain's coal capacity would soon reach its peak, thereafter causing the decay and collapse of the empire.

History would prove Jevons right — and wrong. British coal production did peak within decades, just as he predicted, but it hardly mattered, because by then the Industrial Revolution had learned how to run itself on a new fuel, one that Jevons himself had dismissed as impractical. On Aug. 27, 1859, a retired train conductor named Edwin Drake sank the first successful oil well in Titusville, Pa. Six years before the publication of *The Coal Question*, the petroleum age, which would carry the Industrial Revolution to heights that Jevons and his contemporaries could scarcely have imagined, had already begun.

Running out of coal was not the real problem. The problem was running on coal in the first place. Coal was not a problem we needed to solve — it was a problem we needed to skip over altogether.

Your Problem Is Not Your Problem

Here is an exercise: Close your eyes for a moment and ask yourself: *In my work, what is the biggest problem I'm facing right now?* Keep your eyes closed until you've come up with an answer.

Our biggest problems have a way of sitting right on our shoulders, ready to jump in and make their presence known at a moment's notice.

To get maximum benefit from the exercise, you may want to jot down your answer. Now, with that biggest

problem firmly in mind, here's what we're going to do: We're going to take that problem … *and skip it.*

Mired in the Mud

The typical approach is to grab that problem and attempt to *solve* it. The problem with trying to solve your problem is that in order to solve it, you engage it, and by engaging it, you embrace it — which often leads to getting your wheels mired in the mud of the problem, stuck in crisis mode and unable to move forward.

Flash foresight takes a different path. Rather than engaging with your biggest roadblocks by confronting them, you'll find you can simply leap over them.

Skipping your biggest problem means stepping outside the flat plane of the existing situation and gaining a clearer perspective, and this often triggers flash foresights that lead to new opportunities far bigger and more productive than you could have imagined based on the original (incorrect) problem you were trying to solve. ●

Go Opposite

My consulting business has an education division dedicated to helping our nation's schools. As part of this work, we created a program we call Designing Thriving Schools. The program, which revolves around creating flash foresights and actionable strategies relating to whatever challenges are facing the organization, uses two decks of cards, one consisting of Strategy Cards and the other of Technology Cards.

In the early years of the new century, we were in the Detroit metro area taking leaders from a number of school districts through the process. Someone brought up the problem of their crushing budget squeeze, so we set out to explore the issue and see if we could trigger a flash foresight. Someone pulled out a Strategy Card that bore the phrase "Create Income Streams" and said:

"Hey — what if we looked for ways to generate an income?" A public school in a struggling urban district — acting like an entrepreneur? It was totally outside the box.

Someone drew out the Technology Card called "Processor Sharing" and asked, "Is there some way we could use this one?"

Here's what the card says: *Distributed computing allows networked computers to share processing power, turning idle computers into a collective supercomputer.*

"Well," I mused, "let's see. Does your school have any idle computers that are networked?"

No, they told me, their computers were all pretty much in use throughout the day.

"Throughout the day," I repeated back. "OK …" and I let it hang, the unfinished sentence suggesting a flash foresight principle: *Opposites work better.* Sure enough, within moments an idea flashed within the group.

"That's it!" shouted the woman who had first pulled out the "Create Income Streams" card. The others turned to look at her, and she explained excitedly: "They're busy during the day. But what about at night?"

In fact, this school had several *thousand* computers that were all networked together and were completely idle from the close of each school day until 8 a.m. the next morning — nearly 16 hours a day. Not counting weekends.

"We've got 16 hours of computer time every day," she went on, "that's 80 hours a week — with weekends, more than 120 hours! Times, what … say, 4,000 computers? That's … half a million computer hours every week." She turned to me. "But what can we do with all that potential computing power?"

I said, "Why not lease it out?"

'Supercomputer'

And that's just what they did. They went searching for a company whose products no parent could object to, and eventually leased out their "supercomputer" to a pharmaceutical firm who used the raw number-crunching power of their network of PCs, turning them into a giant after-hours parallel processor to help work out chemical formulas to find treatments for cancer and other diseases.

Months later, that school district was earning six figures per year from that one flash foresight. Rather than being forced to cut some of their most cherished programs from the budget, they were able to supply the needed funds from their own coffers. They hadn't had to sacrifice a thing or invest a dime to generate those funds, either; all they'd needed was the flash foresight principle: *Go opposite*. Public school systems are generally on the receiving end of funds. This school system decided to see themselves as fund *generators*. ●

Redefine and Reinvent

Transformation is an accelerated, magnified force of change. Redefining and reinventing is a way of harnessing that wild force and applying it to a product, service, industry or career.

In a sense, transformation is a hard trend, while rein-

vention is soft. Transformation is going to happen, all around us and also *to* us, whether we want it to or not. Reinvention, on the other hand, will happen only if we make the decision to do it — and if we don't do it, someone else will.

Rewrite Your Own History

You might think of it this way: We have each been dealt a hand from the same deck of cards. We cannot change what's on these cards; they are the transformational hard trends of our world and our future. And if that were all there was to it, there would be no point, no hope, no options to change or improve the future; it would all be *predefined*. But that's *not* all there is to it, because you also have a wild card in that hand. That wild card is *you*. You have the option to anticipate the coming transformations in your field, your industry, your career and your life, and approach them preactively. How? By redefining and reinventing. Redefining and reinventing means seizing the opportunity to rewrite your own history — before it happens.

In the coming years, dramatic new developments are going to be flying at you so fast, from so many places and so many competitors, that it will become easier than ever to be overwhelmed. In a transformational time, disruption multiplies. The only solution to this increasing dilemma is to become experts at reinventing ourselves, our careers and everything we do.

Your basic nature, personality and talents don't change much over time. But what you know, what you learn and what you do can change a good deal. People who have been laid off or fired from their jobs can hope they will find another job just like the one they lost, or they can learn new skills and shift from an industry in decline to working in an industry that is growing, both today and into the visible future.

When you combine self-reinvention with the certainty of hard trends, you are bound to create a huge win, both in the marketplace and in life.

The Reinvention Imperative

Reinventing oneself has always been a powerful strategy. But in the past, corporate and product reinvention was an *option*; today it is an *imperative*. We live in a unique context, an environment we've never seen or experienced before. We have never had this kind of processing power and bandwidth, this kind of runaway acceleration in technological capacity, and it has completely transformed our relationship to the concept of *stability*. In the past, stability and change were two contrasting states: When you achieved stability, you did so *despite* change. Today, change has become an integral part of stability: Today, you can achieve stability only by *embracing* change as a continuous and permanent state.

Direct Your Future

Flash foresight starts with seeing the certainty of hard trends and, based on that, learning how to anticipate accurately. It also lets us see soft trends as factors we can influence to shape a better future. But it's not enough to *see hard trends and soft trends, anticipate, transform, go opposite, skip your biggest problems and reinvent yourself.* These are all valuable and vital steps, but there is something larger and more embracing: We need to actively shape our own future.

Directing your future is the conscious exercise of your creative capacity to envision and rewrite your future life and career that wraps all the other flash foresight principles together.

If Martin Luther King Jr. had stood on the steps of the Lincoln Memorial on that hot August day in 1963 and declared, "I have a plan," he would have sounded like a politician, and nobody would have remembered the words. But that's not what he said.

Our vision of the future drives our choices and our behaviors, which produce our outcomes and shape our lives. We become what we dream. Which means that if we want to know what we are becoming, we need to ask, what are we dreaming?

The Character of the New Future

We are shifting into a fundamentally different economy, one based on abundance, rather than on scarcity, because of our changing relationship to information. This changing relationship also brings with it three forces that will be critical to shaping our future: *communication, collaboration* and *trust*.

Informing is one-way and static, doesn't necessarily lead to action and tends to waste time. Communicating is two-way and dynamic, typically results in action and tends to save time.

When you share information, you simply inform. When you have a two-way dialogue to establish the best result by sharing knowledge and wisdom (that is, consultative value), you have entered the communication age.

Collaboration

The second key force shaping our future is *collaboration*. Collaboration is as different from cooperation as transformation is from change. When you and I cooperate, we are doing our own thing as we make some

accommodations for each other. When we collaborate, we are not simply making room for each other's creations, we are *co-creating* the future together.

Collaboration is a function of genuine communication. The facilitated communication environment of the Internet becomes a productive cycle that amplifies itself: Communication fuels collaboration, which fuels more communication, which fuels more collaboration.

Trust

Trust is the third force that will play a major role in our future. In the communication age, trust has assumed an entirely new economic and structural significance. In an industrial economy based on physical resources, trust was important, but if it was broken, few would find out. In today's electron-based economy, if trust is broken, people tweet it to the world.

Digital trust is the trust that develops between people who will never see or meet each other physically. How do you create digital trust? The same way as any other kind of trust: by operating with honesty and integrity and delivering on your promises.

Every time you implement any kind of change, you are presented with an opportunity to escalate trust, or to undermine and diminish it. The future is all about relationships, and good relationships are all based on trust. ●

Epilogue: An Experiment

I thought it would be interesting to conduct an entrepreneurial experiment with myself as the guinea pig.

In August 2009, I filed the papers creating a new company, Visionary Apps.

Our first product turned out to be a trio of products: Complete Foreclosures, Complete Homes and Complete Rentals. We called it the Complete Realty Suite.

Complete Foreclosures lets you search more than 1.6 million foreclosure listings nationwide, with new listings appearing every time you open the app.

The smartphone's GPS technology lets you quickly locate homes on the go with an interactive map, just like the maps app that comes standard with the iPhone: When you look for homes in a certain area, little pushpins drop down on the map. You can touch any pin and it will expand to show you the address, price, how many beds and baths, the year it was built and other typical descriptive information. The app also provides pictures and satellite aerial views of each property and its neighborhood, as well as driving directions to the home.

The other two apps, Complete Homes and Complete Rentals, are very similar in scope and feature set, allowing users to find national listings and information on real estate agents, and to search for apartments and rental homes.

The Launch

We launched the Complete Realty Suite on Monday, Feb. 22, 2010.

That first week, the Complete Realty Suite was covered by the *Wall Street Journal* blog and then reviewed in *Forbes, BusinessWeek, Bloomberg, USA Today* and about three dozen other major publications. *Forbes* called it "a must-have tool for serious real estate investors." By the end of the first week, it was No. 6 on Apple's list of most-downloaded business apps, and No. 17 on the most-downloaded list of *all* apps.

Because we used certainty based on anticipating the transforming nature of technology, because we jumped ahead by skipping over the current limitations of the app world and used every opportunity to do the opposite of what others were already doing and because we constantly asked ourselves how we could redefine and reinvent, within some eight months we had developed a revolutionary business that was already drawing significant income and was, for all practical purposes, infinitely scalable.

Surfboards don't have engines: Just position them in the right place, point them in the right direction, keep your balance, and the pull of the wind and waves does the rest. That's exactly what we did.

The reason we didn't need massive capital financing or a big staff is that we designed the concept, from the very ground up, based on where trends were going. All we had to do was put ourselves in the right place, point ourselves in the right direction and keep our balance. The onrush of technological transformation provided the power.

You can do that, too! ●

RECOMMENDED READING LIST

If you liked *Flash Foresight*, you'll also like:

1. ***Leading Outside the Lines*** **by Jon R. Katzenbach and Zia Khan.** Katzenbach and Khan examine how two distinct factions together form the bigger picture for how organizations actually work.
2. ***Now Build a Great Business*** **by Mark Thompson and Brian Tracy.** Two expert authors offer straightforward, powerful strategies to ignite growth in your business.
3. ***Turnaround Leadership*** **by Shaun O'Callaghan.** O'Callaghan pinpoints five areas of leadership expertise that need to be mastered to recover after a crisis.

· Book 33 of 304 ·

33-23 Full Engagement

Brian Tracy

September 2011

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Management



Full Engagement!

Inspire, Motivate and Bring Out the Best in Your People

by Brian Tracy

THE SUMMARY IN BRIEF

As a manager, it's your role to achieve the highest possible return on the physical, emotional and mental efforts your people put forth. It's not just a return on investment … it's a return on energy. But how are you supposed to light a fire under each employee when studies find that most of them are working at only a fraction of their potential?

In *Full Engagement!,* Brian Tracy shows how to unlock superstar performance from every single member of your work team. Based on decades of research and thousands of hours invested in maximizing personal and organizational performance, the hard and fast secrets of what you can do (and what you should *stop* doing) to inspire your employees to peak performance are now available.

Packed with powerful, practical ideas and strategies, *Full Engagement!* provides the keys to unlocking not just the hidden drive and abilities that exist within every one of your people … but also your own.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create a high-trust work environment.
- How to drive out fears that hold your people back.
- How to set clear goals and objectives.
- How to unlock the potential of each person.
- How to motivate and inspire employees to greater heights than they ever believed themselves capable of.

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THE COMPLETE SUMMARY: **FULL ENGAGEMENT**

by Brian Tracy

The author: Brian Tracy is chairman and CEO of Brian Tracy International, a company specializing in the training and development of individuals and organizations. He is the top-selling author of more than 45 books that have been translated into dozens of languages.

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Introduction

Welcome to the new world of business! We have gone through a watershed in business activities and operations since 2008 and things will never be the same again. What you are dealing with today is the "new normal." The good old days are gone forever.

Because of shrinking markets, increased competition, demanding customers and a never-ending shortage of highly qualified, productive people, you will have to do more with less, and get better results from limited resources, more than ever before.

As a manager at any level, you are essentially the operator of your own personal business unit. You have revenues and expenses, inputs and outputs, production requirements and measures of performance. Your profit-and-loss statement reflects your ability to combine people and resources to get results — especially financial results — that are in excess, and, ideally, greatly in excess, of their total costs.

Most People Work at 50 Percent of Capacity

According to Robert Half International, the average person works at about 50 percent of capacity. Because of unclear job assignments, lack of priorities, poor management and direction, and lack of feedback, the average employee wastes 50 percent or more of his or her time in activities that have nothing to do with the job.

This wasted time is consumed in idle chitchat with co-workers, extended lunches and coffee breaks, employees coming in late and leaving early, surfing the Internet and engaging in personal business and other time-filling activities that represent virtually no return to the company on the amount of money invested in paying people's salaries, wages and benefits.

But, as Napoleon said, "There are no bad soldiers under a good general." A good manager with a clear vision can quickly organize a group of average performers into a peak performance team that is capable of achieving tremendous results for the company. You just need to learn how to do it.

The Heart of the Matter

Here's the lesson: The way you treat people, what you say and do that affects them *emotionally*, is more important than all the education, intelligence or experience you might have at doing your job. The best news is that because you are motivated and influenced by the same things other people are, you already know everything you need to know to become an outstanding manager. You already know how to unlock the potential of the people around you, how to build a peak performance team that delivers consistently high levels of results for your company. You just need to apply it.

Peter Drucker once said that the most important shift you can make in your vocabulary in business is to use the word *contribution* instead of *success*. When you start thinking in terms of contribution, your whole attitude about yourself, as a manager, and other people in the workplace as well, changes in a very positive way. ●

Happy for Good Reasons

In my sales and marketing classes, I often ask the participants, "What percentage of human decision making is rational and what percentage is emotional?"

Most people answer "80/20" or "90/10." I then complete the exercise by pointing out that people are 100

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percent emotional. Human beings, including yourself, decide emotionally and then justify logically. We make emotional decisions instantaneously, sometimes with a single glance or a single piece of information, and then we often spend several hours or months underpinning our emotional decision with logical justifications.

I then ask, "What is the basic emotional drive behind all human action and behavior?"

After a few random answers such as "money," or "fear of loss," "desire for gain" or even "love," everyone finally agrees that the most powerful single motivator is the "desire to be happy."

Aristotle talked about this in his work *Nichomachean Ethics*. He said that behind every human motive there is a further motive until you finally arrive at the basic motive for everything — and that is to be happy.

Happy Customers

The most important question in business is: "If the purpose of a business is to create and keep a customer, what is the most important goal you must achieve with each customer if you want the person to buy and buy again?"

The answer is simple: Make the customer happy that he or she did business with you. Make the customer *happier* doing business with you, from the beginning of the buying experience through to the customer service experience afterward, than he or she would be if he or she had bought from someone else. Happiness is the key.

Happy Employees

The logical extension of this line of questioning for managers is: "How do you get the best out of each person who reports to you?"

How do you get people to willingly contribute their highest levels of physical, emotional and mental energies to you, and to do their jobs in the very best way possible? How do you get people to be committed, loyal and dedicated to you and the company? How do you get people to work together harmoniously and continually seek ways to do their jobs better, faster and at lower cost?

And the answer is: make them feel happy. Organize the work, from the first step in the hiring process through to the final step in the retirement ceremony, so that people are happy with you, their work, their coworkers, as well as in their interactions with your customers, suppliers and vendors, and in everything they do that has an effect on your company.

A Crash Course in Happiness

Here are eight ideas that you can apply to create a peak performance work environment and to ensure that each person makes a maximum contribution to your company:

1. *Smile.* When you see someone for the first time each day, smile at that person.
2. *Ask people questions.* Talk to them; ask them questions about how they are feeling today and how everything is going. When you express a genuine interest in other people, it makes them feel valuable, respected and important.
3. *Listen to them.* Listen attentively when people talk to you.
4. *Be polite.* Always be polite, courteous and respectful when you talk with your staff members. Treat them as if they are talented, intelligent and accomplished.
5. *Say "thank you."* For everything they do, small or large, thank people.
6. *Keep people informed.* The most satisfied employees in every organization report that they feel they are insiders, that they are "in the know" and that they are aware of everything that is going on around them that affects them or their work in any way.
7. *Encourage improvement.* Encourage people to come up with ideas to do their jobs better or to improve the company in any way possible.
8. *Treat your employees like volunteers.* Treat them as if they were working for free. In nonprofit organizations, where almost everyone is a volunteer, each person who comes to help out in organizational activities is treated with tremendous respect because the managers want those people to come back and help out in the future.

Practice Golden Rule Management

Fortunately, "make them feel happy" is both simple and easy to do. All that is necessary is for you to practice the Golden Rule in all of your actions: "Do unto others as you would have them do unto you." It has been said that there are many ideas for improving human relations that have been discovered over the centuries, but nothing has yet been discovered that is superior to this simple principle. ●

The Psychology of Motivation

A breakthrough in the understanding of individual motivation took place in 1928 at the Hawthorne Works,

a Western Electric plant just outside of Chicago. Following Frederick Taylor's principles of scientific management, a group of human resources specialists decided to experiment with different ways to increase the productivity of women assembling electric motors. They selected a small group to be the subjects of this research. They told the women that they had been selected for this research because of their excellent work records. The researchers explained that they were going to be looking for ways to increase productivity and output in the plant, and would be changing different factors in the work environment to observe those factors that seemed to have the greatest impact on productivity levels.

No Clear Explanation

Over the next few weeks, they began their experiments by raising the light levels in the special assembly area. Not unsurprisingly, productivity levels went up as the light levels were raised. Then, they *lowered* the light levels. To their surprise, productivity levels increased again over the daily average.

This seemingly inexplicable phenomenon occurred when they raised and lowered the temperature, raised and lowered noise levels, raised and lowered the air-conditioning and the factory's ambient odors. In every case, with every change, productivity levels improved.

By the end of the experiment, the researchers were beside themselves. They could not decipher the data in any meaningful way. Finally, one of them said, "Why don't we ask the women workers if they have any insights into these production levels?"

An Incredible Breakthrough

The researchers brought the women in, sat them down and explained what they had done and the results that they had gotten from the experiment. They explained that no matter what they had done, production levels went up. This outcome did not fit any of the explanations based on scientific management.

After some discussion and questioning, the women finally made an admission that explained why production levels had gone up. It was simple: The women said that when they had been selected from the work force in the plant for this experiment, they had felt "special." They felt that they were highly appreciated and valued by the plant's management.

As a result, whenever the experimenters changed some factor in the workplace, it *reminded* them that they were special, different and more highly productive. As a result, they worked longer, harder and better. They dedicated themselves to doing a better job and to constantly look for ways to improve.

The researchers eventually dubbed this the "X factor." Later, it became known as the "psychological factor." They concluded that tapping into the thoughts, feelings and emotions of the workers had a far greater power to motivate higher levels of production than any physical change in factory or work conditions.

Internal Versus External Motivation

In your workplace today, the people around you do their jobs because they want to, not because they have to. They do their jobs well because they feel internally challenged and externally appreciated. People respect their jobs and treat their companies well because you respect them and you treat them well. ●

Ignite the Flame of Personal Performance

To get the very most out of others, you must develop a solid understanding of how you became the person you are today and, by extension, how others have become the people they are as well. You have to develop a fairly good idea of how people think, feel and react. You need to know why people do or don't do things and how you can influence them in positive ways.

The Master Program of Success

The discovery of the "self-concept" was one of the most important breakthroughs in psychology in the 20th century. It turns out that each person has a self-concept that largely precedes and predicts that person's performance in every area. All changes and improvements in performance begin with changes and improvements in the self-concept of the individual.

The self-concept is made up of all of the thoughts, feelings, desires, actions, experiences and decisions made by the individual, starting in infancy and often before.

The self-concept is the key to understanding human personality, performance, productivity and happiness. Each person behaves on the outside exactly as he or she thinks about him- or herself on the inside.

For you to release more of the potential of each person who reports to you, you must understand how the self-concept of the person works, and how you can influence it in a positive way. The self-concept, the bundle of beliefs that serves as the master program of the mental computer of the individual, is made up of three parts: the self-ideal, the self-image and the self-esteem.

1. The Self-Ideal. Each person has within him or

her an *ideal* of the very best person he or she could possibly be. This ideal can be defined as "the person you would like most to become."

A clear, exciting, inspiring, uplifting vision, combined with a mission, purpose and goals, is the key to satisfying one of the deepest subconscious needs that people have, which is to aspire toward and achieve high ideals in every part of their work and personal life.

2. The Self-Image. Your self-image is defined as "how you see yourself" prior to any situation of importance and whenever you are actively engaging in a particular behavior.

The first part of self-image is the way you see *yourself*.

The second part of the self-image is how you *think* other people see you. If you think that other people see you in a positive way, you will tend to act in a positive way.

The third part of your self-image is the way people *really* see you.

The ideal for a balanced personality is when the way you see *yourself*, the way you *think* others see you and the way others *actually* do see you are all in harmony.

3. The Self-Esteem. The best definition of self-esteem is "how much you like yourself." The more you like yourself, the more you like others. The more you like other people, the more they like you right back. The more you like other people, the better and more valuable results you achieve at work.

There is a direct relationship between self-esteem and *self-efficacy*. The more you like yourself in your work, the better you do your job. ●

Make People Feel Important

The key to keep motivating people to perform at their best is to build self-esteem (which leads to self-confidence and self-respect) in each person who reports to you. Each person has unlimited potential that the individual can bring to bear on the job to do that job better and faster. People have huge reservoirs of creativity that can be unleashed to solve problems, overcome obstacles and achieve business goals.

Knowledge workers on your team are motivated more internally than they are externally. They perform at their best because they *want* to perform at their best. The fact is that you cannot motivate people; you can only create the environment where motivation takes place naturally and spontaneously.

Destructive Criticism

Destructive criticism is the fertile soil in which grows all of the negative emotions. Destructive criticism promotes and multiplies the fears of failure and rejection. The thought or experience of destructive criticism makes a person feel angry and defensive, sometimes for years and even decades.

As a manager, the first step you can take to get the best out of others is to eliminate destructive criticism from your vocabulary, for any reason. Resolve today that you will never criticize, attack, insult or diminish another person for any reason. Instead, you will look for something good in everything that happens.

The best managers think about problems as things to be solved and difficulties to be overcome.

No More Complaining

The second thing that you must stop doing is complaining for any reason.

There is a major problem with both criticizing and complaining. In both situations, when you do it, you are saying, "Ain't it awful; I am a victim of this situation. Look what has happened to me."

When you complain you actually weaken yourself. You generate feelings in yourself of inferiority and inadequacy. You feel angry and resentful. You feel negative and unsure. Your level of self-confidence and self-respect actually declines as you complain about anything to someone else. You hurt yourself by complaining much more than you hurt the target of the complaints, who you may not affect at all.

No More Condemnation

The third behavior that you can stop is that of condemning anyone, for any reason, either inside or outside of your company. When you condemn other people, usually in private, you demoralize the listener, and the person you are talking about will hear about it almost immediately. When you condemn people *outside* the company, someone will eventually tell them what you have said, usually in a distorted version, and it will come back to haunt you. This seems to be a law of nature, and is completely unavoidable. ●

Drive Out Fear

The biggest single obstacle to success, happiness, performance and productivity in any area of your life is contained in fears of all kinds.

Fear is and always has been the greatest enemy of mankind. More personalities are undermined and destroyed by fear than by any other factor. More relationships are hurt by fear, however it is manifested, than

by anything else. More psychosomatic illnesses are caused by fears than by any other single factor. The minimization and elimination of fear is the key to becoming a fully functioning, happy, self-actualizing human being.

One of the most important recommendations of W. Edwards Deming, who revolutionized Japanese quality control in the 1960s and 1970s, was "drive out fear." He concluded that the opposite of a fearful workplace is an atmosphere of innovation, creativity, spontaneity, higher energy and increased productivity. In a work environment where no one is afraid of doing or trying new things, everyone focuses more and more on doing the job better and better.

A Great Place to Work

In the research into what makes a "great place to work," perhaps the most important single factor is trust. Trust exists when you can say, "I know I can make a mistake at work without being criticized or fired."

When people feel free to try new things in order to do the job more effectively, increase quality and improve customer service, all of their time, attention and energy is focused outward, toward getting the job done better.

Abraham Maslow referred to self-esteem and self-actualization as "being needs." These are the needs that people have to fulfill their individual potential and become more and more of what they are truly capable of becoming. When you drive out fear, what emerges is the most productive person that the individual can possibly be.

Eliminating the Fear of Failure

You can cancel out a negative thought by replacing it with a positive thought. Perhaps the most powerful way to eliminate the fear of failure and the feeling of "I can't, I can't" is to say the words, "I can do it. *I can do it!* I can do anything I put my mind to!"

When you repeat the words "I can do it" over and over, your fears of failure diminish and your feelings of confidence increase. When you say those magic words over and over, you begin to cancel out those negative messages from childhood and earlier experience. You start to become a new person. You begin to shape your own personality. ●

Create That Winning Feeling

Because of the powerful needs for self-esteem and self-efficacy, each person has a deep-down need to perform well, to succeed, to get results and to feel valuable and effective. In short, almost everyone wants to feel like a "winner."

How does a person come to feel like a winner? Simple: by winning! It is only when a person actually wins that he or she gets the emotional enjoyment and satisfaction of that "winning feeling." Your job as a manager is to structure the work in such a way that people feel like winners much of the time.

Expecting the Best

In a multiyear study of the most effective methods of motivating employees, the human resources executives involved came to the conclusion that the most powerful single motivator of all was having "positive expectations." The more the manager expresses positive expectations about the talents and abilities of his or her people, and the more that individuals confidently expect to be able to do the job in the right way and at the right time, the more positive and motivated they are to perform at their best.

The good news is that most people want to do a good job. What they need more than anything else is your leadership, guidance and encouragement to make that possible for them. They need to work in a climate of clear, positive expectations, knowing exactly what you want, when you want it, to what standard of quality and the very best way to get it done. It is your job to provide them with just such a work environment.

Five Steps to Winning

There are five ingredients in the recipe of creating that winning feeling. When you structure individual and team jobs around these five items, you will release a continuous stream of energy and enthusiasm toward improvement and excellence.

Step 1. Clear Goals. Clear, specific, written, time-bounded goals are absolutely essential to creating the environment in which people can win and feel like winners.

Step 2. Concrete Measures. For a person to win, he or she has to know where the finish line is, has to know how you define winning and has to know exactly what he or she has to do to complete the task and cross the finish line.

Step 3. The Success Experience. For a person to feel like a winner, that person must succeed at the task. He or she must achieve the goal, fulfill the responsibility and get the result that he or she was tasked for. The person must clearly win.

Step 4. Recognition for Achievement. Everybody needs to be recognized for their individual accomplish-

ments by the people around them, and especially the people above them.

Step 5. Tangible and Intangible Rewards. You can only get by with offering praise and recognition for task completion for a limited amount of time. At some point, you must give some kind of reward to acknowledge superior results. ●

Select the Right People

All of your hard work and effort in building up people's self-esteem and self-image won't help you achieve your goals as a manager and leader if those people are the wrong people for your organization in the first place.

Your job is not to find people and transform them into something that they are not. Your job is to find good people and create an environment where they can perform at the highest levels possible for yourself and your business.

Your ability to select the right people for your team will account for 95 percent of your success as a manager or business owner. It is amazing how many managers hire people who are wrong for the job and then try to work around them, causing enormous frustration and disappointment for everyone.

Everything starts and ends with having the right people in the right jobs at the right time. One difficult person or poor performer can sabotage the performance of the entire team.

Drucker said that "most hiring decisions do not work out over the long term." It seems that about one-third of the people that you hire will be excellent for their jobs. But one-third will be average and the final third will be completely unacceptable. Your job is to improve these odds and make better hiring decisions more often than the average manager.

The Law of Three in Hiring

The Law of Three is a powerful technique that you can use to increase the quality of your hires to as much as a 90 percent success rate. This principle forces you to slow down the hiring process and to make more accurate decisions. There are four applications of this law:

1. Interview three candidates. Always interview at least three candidates for a job before you make a decision. No matter how good an impression a person makes at the first meeting, never make a job offer. When you interview three different candidates, you get three different perspectives on the kind of people who are available.

2. Interview three times. Interview the person that you like at least three times. Many companies know that by taking a long time in the selection process, they will get top people who will stay with the company for many years.

3. Select three different meeting places. Interview the person in three different settings. As you move people around, they will demonstrate different facets of their personalities, sometimes admirable and sometimes not. The slower you go, the better decision you will make.

4. Have three different people interview the candidate. When your team members are involved in the interviewing and hiring process, they are much more engaged with the company than they would be if the new hire were just dropped in among them, like a fox among the chickens. ●

Results Are Everything

Results are the beginning, middle and end of all organizations. You get results by combining the complementary talents and abilities of several people to achieve goals that would not be possible for a single person working alone. It doesn't matter how much people like themselves or feel important if the results don't follow.

Remember, you are not a cheerleader; you are not a life coach. You are a manager and a leader. Your responsibility is to get results.

Results are specific, measurable and time-bounded. They are simple and clear, and can be explained to a child. Einstein once said, "If you cannot explain what you are attempting to accomplish to a six-year-old child, then you are probably not clear about it yourself."

Planning for Results

Here is a simple exercise: Make a list of all the results that are expected of you. Then ask yourself, "If I could only achieve one result on this list in an excellent fashion consistently, over and over again, which one result would make the greatest contribution to my business?"

Put a circle around that task or activity. Then ask the question again: "If I could only achieve two results on this list, which would be the second most important result that I could accomplish?" Put a circle around that.

Then, do this exercise one more time. What would be the third result on your list that could make the greatest contribution to yourself and your business?

In doing this exercise, you will be surprised by how important these three results are and how secondary or

irrelevant all the other tasks and activities are.

Make a second list of everything that you could do in the course of a day or a month to achieve the most important results expected of you. Write down all of your tasks and activities, from Monday morning to Friday night, and throughout your days and weeks. Once your list is complete, review your list and ask this question: "If I could only complete one task on this list, which one task would have the greatest impact in achieving the most important result expected of me?"

Put a circle around that task on your list. Then ask yourself the question again: "If I could only accomplish two tasks on this list, which would be the second task that would help me the most to make the maximum contribution to myself and my business?"

Put a circle around this task and then ask the question one more time. What would be the third task?

Once you have determined the three most important results you can get, and the three most important activities that you can engage in to get your three most important results, select the one activity that is most important to getting your most important results and begin on it immediately. Then, discipline yourself to work single-mindedly on accomplishing that one task, even if it takes many hours and forces you to put everything else aside, until that task is accomplished. ●

Be the Best You Can Be

Here are 10 management principles you must learn to apply to your company and your team:

Principle 1: Clarity is essential. Your chief responsibility as a manager is to be absolutely clear about what it is you are trying to do and how you are trying to do it, and then making the job responsibility of each person who reports to you absolutely clear as well.

Principle 2: Competence is critical. Others must see that you commit to excellence in the most important things that you do.

Principle 3: Identify your constraints. The best leaders accurately identify the constraint that determines how fast they achieve their goal; they are then prepared to try a different approach or a different strategy to overcome the constraint.

Principle 4: Unlock your creativity. To unlock your inner genius, you need three things: (1) intensely desired goals, (2) pressing problems and (3) focused questions. One good idea is all you need to change the future of your business and your life, and you stimulate these ideas by focusing and concentrating your mind on your goals, your problems or on key questions.

Principle 5: Concentrate single-mindedly. Your ability to concentrate single-mindedly on one thing at a time is perhaps more important than any other skill or discipline that you can develop in your entire career. All successful men and women have developed the ability to concentrate on their most important task and to stay with it until it is done.

Principle 6: Have the courage of your convictions. To succeed greatly, you must develop the courage to take risks, to move out of your comfort zone and to try things with no guarantee of success.

Principle 7: Develop your character. Your character, your reputation, is the most important quality you develop throughout your career. Shakespeare wrote, "He who steals my purse steals trash; but he who steals my good name, steals all."

Principle 8: Plan every detail in advance. Your ability to plan, to think through what needs to be done, in advance, on paper, is a critical skill that largely determines your entire future. The key to planning is for you to be very clear about the results expected.

Principle 9: Organize your work before you begin. The job of organizing in management means bringing together all the necessary resources you need to get the job done.

Principle 10: Staff properly at every level. Ninety-five percent of your success as a manager will be determined by the people you select or keep to help you to do the job.

Just Do It

Remember, all successful managers are oriented to results, solutions and actions. But the most important quality of effective managers is that they are action-oriented. When they think of an idea or see an opportunity, they take action on it immediately. When they hear a good idea, they move quickly. They have a sense of urgency. They have a bias for action. They practice fast tempo in everything they do. And so should you. ●

RECOMMENDED READING LIST

If you liked *Full Engagement*, you'll also like:

1. ***Bury My Heart at Conference Room B* by Stan Slap.** Slap provides a remarkable process that allows you to use your own values to achieve tremendous success.
2. ***You Already Know How to Be Great* by Alan Fine.** Fine reveals his simple and proven approach to achieving breakthrough performance through an amazing process called G.R.O.W. (Goal, Reality, Options, Way Forward)
3. ***Now Build a Great Business* by Mark Thompson and Brian Tracy.** This summary is filled with straightforward, powerful strategies to ignite growth in your business and move your business forward.

· Book 34 of 304 ·

3304 Now, Build a Great Business

Mark Thompson

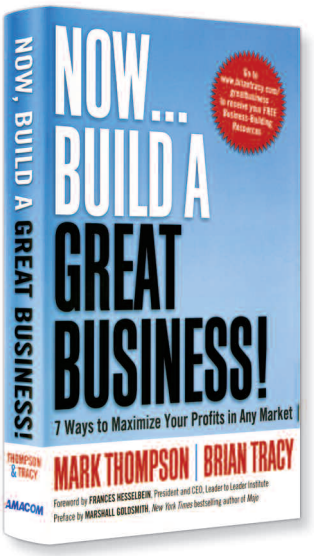
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Management: Strategies

Now, Build a Great Business!

7 Ways to Maximize Your Profits in Any Market



by Mark Thompson and Brian Tracy

THE SUMMARY IN BRIEF

The time for theory is over. The time for action is now. We are in the midst of business turbulence and turmoil greater than we have ever seen before. Economic storms end, as they always do, but we will never go back to the good old ways of doing business.

Today, competition is fiercer and more determined than ever. The challenges are greater and more demanding. The only way to survive and thrive will be to build a great business that can withstand the economic shocks of any market and rise to the top of its industry.

Even in the toughest environment, innovative, highly profitable businesses abound. And yours can be one of them. *Now, Build a Great Business!* is an essential success kit from business heavyweights and acclaimed authors Mark Thompson and Brian Tracy, filled with straightforward, powerful strategies to ignite growth in your business.

Packed with insights from many world-class business leaders, *Now, Build a Great Business!* distills a wealth of ideas and practices to uncover the core ingredients of successful organizations.

IN THIS SUMMARY, YOU WILL LEARN:

- How to become a great leader — and get extraordinary results from everyone around you.
- How to develop a great business plan — and structure your company to maximize every resource.
- How to surround yourself with great people who are motivated to give their best.
- How to offer a great product or service — identifying exactly what your market needs.
- How to design a great marketing plan — and position your business as the preeminent provider.

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THE COMPLETE SUMMARY: **NOW, BUILD A GREAT BUSINESS!**

by Mark Thompson and Brian Tracy

The authors: Mark Thompson is the co-author of the bestseller *Success Built to Last.* He is also a serial entrepreneur who sold his last company for $100 million. Today he coaches executives on how to lead growth companies. Brian Tracy is one of America's leading authorities on the development of human potential and personal effectiveness. He is the author of numerous books, including the bestseller *How the Best Leaders Lead.*

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For additional information on the authors, go to http://www.summary.com.

Become a Great Leader

Leadership is the most important requirement for business success. In the simplest terms, leadership is the willingness to be accountable for results, and then to fulfill that responsibility, no matter what the external situation or pressure.

A leader is someone who is willing to do what it takes to get great things done. It doesn't happen on the first or second try. Leaders expect to fail over and over. They don't like it, but they don't quit when things don't work out. In fact, it is during difficult economic times and major crises that your character as a leader really stands out.

Why? In tough times, your competitors run for safety and survival instead of focusing on their customers. They pay less attention to quality. They slash back service and invest less in innovation. They cut back on staff at all levels. As a result, there are more great people actually available to work with you.

It is usually in a crisis that organizations reconnect with what made them great in the first place. In a crisis, leaders must make bolder decisions that will make them great in the future. It was said that "the North wind made the Vikings." In times of crisis, you have an opportunity to reignite your spirit and find better ways to delight your customers.

Your Leadership Matters

Today, more than ever, your leadership is needed. It is now time for you to step up in a new way. It is time for you to counterattack; to move forward; to innovate; to find better, faster, easier, cheaper ways to get results.

What you choose to do today — right now, in this market — can have more of an impact on your company and career than at any other time. Greek philosopher Epictetus wrote: "Circumstances do not make the man; they only reveal him to himself."

Your ability to take charge, make hard decisions, accept responsibility and lead effectively can have a greater impact on the success of your team or your organization than any other single factor. Everything that you do to become a more effective leader has a multiplication effect on your entire organization.

The Future Belongs to Risk Takers

The future belongs to those who are willing to take calculated risks to move forward. As a leader, your role is to carefully gather all the information possible about a particular decision or commitment of resources, and then take the initiative. Winston Churchill wrote, "Courage is rightly considered the foremost of the virtues, for upon it, all others depend."

Perhaps the biggest single obstacle to success in life is the *fear of failure*. Many people are so concerned with the possibility of failing that they play it safe and hold themselves back from taking any chances at all.

The leader is different. One of the qualities of courage is *boldness*. Boldness is the willingness to initiate action in the face of uncertainty and possible failure. As the leader you must be willing to take action with no guarantees of success and a substantial likelihood of failure, at least in the short term. The leader practices the Wayne Gretzky philosophy: "You miss 100 percent of the shots you don't take." ●

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Develop a Great Business Plan

People and organizations with clear visions, values and plans tend to accomplish far more and do it faster than their competitors. When everyone in your organization is united by a clear strategic vision of your desired future state, you create a powerful mental synergy that will move you toward your goals and move your goals toward you.

The major reasons for success in business and in life are focus and concentration. The major reasons for failure are lack of direction and diffusion of effort.

The Battle of the Business Plans

With financial markets on the verge of collapse in 2008, Mike Moritz and his partners at Sequoia Capital huddled with business owners to review a *slide deck of doom,* a 56-slide PowerPoint plan describing a brave new world without credit, where nothing would be financed without solid cash flows. They predicted it would take years for the world to recover.

It is difficult to plan for economic scenarios like the one experienced in 2008-2009. Fortunately for Moritz, the dot-com bust a decade earlier had given his team experience in responding to sudden changes in fortune. When the economy imploded, they knew how to shift risk and cut costs faster than ever before.

No successful investor in the world was immune from the pain, and Moritz is one investor who has seen it all. Sequoia has launched many legends in California's Silicon Valley, including Apple, Cisco, Atari, Google, YouTube, Zappos and Yahoo.

Planning Works

When the storm descended, Moritz and the management teams of his companies undertook a crash course in strategic and financial planning. They worked around the clock to create many different versions of their business plans. Moritz would often reassure those who had pulled all-nighters by repeating an ironic-sounding mantra: *Plans may not work, but planning does!*

In other words, the economy may not make it possible to deliver on your plan exactly as you planned it, but the process of planning is mission-critical. It is the only way to be clear about your choices. Planning is essential to consider what it takes to survive, grow and prosper in any economic environment.

In turbulent economic cycles, the planning *process* is no longer the abstract endeavor taught in business school; every alternative must be considered and the best options turned instantly into action. During the crisis, Moritz's companies had a clear plan to track where every penny was spent and tie it back to customer service, quality, innovation and growth.

Your ability to develop a great business plan, and then to set and implement business strategy, is at the heart of your business success.

Key Players in Setting Strategy

Who should be involved in the strategic planning process? The simple answer is that *everyone* who will be responsible for carrying out a part of the strategic plan should be involved in creating the plan in the first place.

Start with the company owner or the chief executive officer, the president, the chairperson or whoever is the key person whose agreement, position or authority is necessary to put the strategic plan into motion. If the plan is not totally supported from the top down, it will be ignored; or worse, it will be sabotaged. Take a look at the incentives or disincentives that people in the company have to implement the new strategy.

Setting corporate strategy is like improving your overall health. You must first put the right incentives in place to make sure that everyone has a vested interest in making the plan successful. ●

Leaders Are Listeners

The best leaders spend 50 percent or more of their time listening carefully. They dominate the listening and let the other person dominate the talking.

Surround Yourself With Great People

The greatest and most expensive untapped natural resource in any organization is its people. Motivating people to make their full contribution to the organization is the fastest way that managers can multiply their personal effectiveness. It's the only way to grow a great company.

This means that the greatest improvement in performance and in results can come from unlocking and unleashing the latent potential of the *average* person in the business.

The People Equation

Getting the people equation right is the hardest thing you will ever do in business. When discussing this subject, Charles Schwab said, "Your job as a leader is to

find, attract and develop other leaders. If you do that, your business will grow. If you don't, it won't. It's that simple."

Schwab learned early in life to surround himself with people who not only shared his ambitions, but who were more gifted than he was in important parts of his business. If he wanted to make progress and get things done, he had to become a team leader.

Schwab discovered something entrepreneurs often realize when it's too late: He had great talent in one area and not nearly enough skill in many other facets of his company. The only way to sustain his success was by finding, recruiting and empowering others who had talents that he didn't have. It is a skill that few entrepreneurs learn until they have a crisis that teaches it to them.

Until you can trust other people to carry the torch, your company can only get as big as *your workweek*. When you have found people you can groom to fill your shoes, "only then have you graduated from being an entrepreneur to a leader," Schwab said.

Their Company Is Their Mission

Schwab's company dodged the bullet that destroyed many banks and brokerage firms during the financial crisis because he already had a leadership team in place that shared his values. They didn't fall in love with sexy investment schemes that were short-lived and dangerous. In fact, Schwab gained market share with customers during the "great recession" because the company's leadership team had stuck to its knitting. The company is one of the most profitable and fastest-growing financial services companies and consistently ranks among J. D. Power's leaders in quality service.

"You need people who buy your vision as much as you do. And because they love it, they also have the ambition to take what you did to the next level," Schwab insisted. "You want people with the energy to make things happen *for their sake* [not just yours]. They want to take your company on as *their own mission* and make it even better."

The best thing you can have going for you in business is to hire a team of people knowing that each and every one of them can be leaders in their own way. Benjamin Zander, conductor of the Boston Philharmonic Orchestra, says that you need people "with shining eyes" — those who gleam with enthusiasm, who can "lead from the 11th chair." Great people do their job with pride from anywhere they happen to sit in the orchestra that particular day. ●

The Long Tail

In his book *The Long Tail: Why the Future of Business Is Selling Less of More*, Chris Anderson argues that when the major competitors fight over selling the most popular books and movies, the profit margins for those few big "hits" get slammed. Blockbuster movies and books tend to get deeply discounted in price by big retailers and flame out in popularity quickly. In contrast, specialized products have a "long tail" — they stay popular in smaller quantities and are sold at higher margins by more specialized retailers. Instead of going after the obvious blockbusters, Anderson advises that savvy marketers can go after narrower, more specialized segments of customer groups all over the world.

Offer a Great Product or Service

A great product or service is the key to business success, and without it, nothing else works for very long. Fortunately, there is a simple measure that you can use to determine and predict your current and future levels of sales and profitability. It is this: Pay attention to how often your customers say, "This is a *great* product" or "This is a *great* service." Everyone in your company should be focused on triggering this response from your customers every single day.

Differentiate or Die

Leather is not a hot, high-tech, well-differentiated product category, is it? But one Mexican company became a very successful and profitable manufacturer when it changed the way it looked at the business and how it was serving its customers.

"We used to make commodity leather products," said Hector Cuadra, co-founder of Cuadra Boots in central Mexico. But when yet another financial crisis devaluated the peso, many companies were flushed down the drain along with the economy.

At the same time, new lower-cost competitors in China and India emerged, and so Mexico lost its natural advantage in low-cost labor. The Cuadra brothers, Hector and Francisco, decided they no longer had a choice to remain a commodity business. They would have to change to survive or grow.

The problem was there was no way to beat Asia on price alone. "We realized that the only way to win was to add value to the leather goods in a new way, to differentiate them," Hector said. They already specialized in exotic leathers. But that wasn't enough.

In 1991, the Cuadra brothers started to compete on the basis of quality craftsmanship. It took several years of hard work, but the strategy eventually worked brilliantly and catapulted Cuadra to a place among the top leaders in the leather business worldwide.

The Four Little Secrets to Innovation

There were four essential lessons in product quality and innovation that the Cuadra brothers and others like them had to learn before mega-success was possible. These lessons are called *dirty little secrets,* because they aren't the politically correct advice you'll get in most MBA programs. They are downright counterintuitive.

1. Don't follow the leader. Cuadra Boots discovered through trial and error that fashion was too fickle and too ever-changing to allow them simply to undercut the price of the best Italian designers with a knockoff product. They had to have their own designs to give the product a unique character and appeal to the wealthiest customers.

2. Create exclusivity. Lower-end, everyday products — whether work shoes or stuff at the hardware store or supermarket — need to be in stock and on the shelf or else you won't get the sale.

But some higher-end products can benefit greatly from scarcity and lower volumes to keep margins high. Whether it's an exclusive watch, credit card or first-class airline seat, people don't want to think it's available for everyone else. And customers will pay for rare and exclusive products.

3. Keep in continuous customer contact. Cuadra Boots opened retail stores to generate sales, but the brothers found that it also let them closely monitor the pulse of the whims of their clients. They could see which shoes sold and why, minute by minute. They could experience how their customers felt about which fashions worked or didn't.

4. Testing takes you from good to great. To succeed, Cuadra found that only 100 out of 1,000 products make the cut with customers in their stores. That's a brutal statistic for an innovative company. Their odds are 1 in 10. But that ratio of success to failure took Cuadra from good to the best in the world in its market niche. ●

Design a Great Marketing Plan

"The purpose of a business is to *create and keep* a customer," Peter Drucker famously said, "therefore the basic management functions are innovation and marketing, because only they are capable of generating sales, revenue and cash flow."

Marketing is the art and science of customer engagement. It's about determining what your current and future customers perceive that they really want, need, can use and can afford — and then helping them get it by creating and structuring your products and services in a way that delights customers and motivates them to embrace your mission as their own.

Four Key Strategic Issues for Your Marketing Plan

There are four key strategic questions that you must consider as frequently as possible, to test every product or service idea:

1. Is there really a market? Are there people who will actually buy your product or service? There may be a good reason why other companies aren't making this product available. To discover the answer, great companies try several variations of the product side by side and see which works best for customers. They test various price points and make different types of packaging and product names for the new item.

2. Is the market big enough to make it worth pursuing? There may be a market, but is the market large enough to justify all the time, trouble, effort and expense necessary to develop the product or service and bring it to market? Can you sell enough of your product or service to make it economically worthwhile? There are many products or services for which there is a definite market, but the market is too small to make it worth pursuing. Market research in this area can be invaluable in helping you make the right decision.

Three Ways to Increase Sales

There are basically three ways to increase sales:

1. **Increase the number of transactions.** Volume can be accomplished through marketing and advertising, using special promotions, discounts and a variety of other means to get customers to buy from you for the first time.
2. **Expand the size of each transaction.** Once you have attracted a prospect, you can up-sell, cross-sell and even down-sell if the customer cannot afford the main product or service.
3. **Increase the frequency of purchases.** The key measure of customer satisfaction is repeat business.

3. Is your market concentrated enough? Assuming that there is demand for your product, and the demand is large enough, do the means of advertising and promoting the product exist that would enable you to sell to that market in a cost-effective way?

4. Who is your competition for the same customer dollar? Even if your product isn't out there (yet), there will always be competition for the customer's dollar. That's how you should think about it. Remember, the overwhelming majority of new product or service offerings fail because there is no market, or the market is not large enough, or the market is not concentrated enough to be reached in a cost-effective manner, or your competitor's offerings are superior to yours in some way.

User-Generated Content

Think about it: The "content" that attracts viewers to Google's paid advertising is contributed by the billions of websites generated by the customer. Google serves up ads just in time as customers are searching to find what they want. Services like Facebook are taking this trend to a new level by vastly expanding the consumer's ability to socialize with other consumers.

This online community of customers contributes content, and in effect, these users are actively marketing these social media services in the most powerful and "viral" way any consumer can: through personal referrals. They are signing up their colleagues and friends by the millions. ●

Perfect a Great Sales Process

Customer retention is the key to sales success. Single-purchase customers are too hard and expensive to acquire. Your focus must be on the second sale, and the third sale. Your goal must be resales to the same customer, over and over. In addition, your goal should be to get referrals from your satisfied customers.

You can win the first sale with promises, special offers and discounts, but you only attract repeat business when your customers feel that you delivered on your promises. This causes them to prefer to buy from you again rather than someone else.

The Second Sale

The second sale takes approximately one-tenth of the time and expense to attract, and it is therefore much easier and more profitable than the first sale. The fact is that winning customer loyalty today is harder than ever before. It takes more calls to find qualified prospects. It takes more callbacks to make individual sales, or more contacts or visits. It takes more service. This is why the majority of sales, and the largest purchases, from the most successful retailers and wholesalers come from repeat customers, not from first-time buyers.

The way that you generate repeat business is with high-quality products and outstanding customer service. The true measure of the success of your business is the percentage of your business that comes from repeat sales and referrals.

Seven Rules for a Great Sales Process

In selling, you must follow this specific seven-step sales process to ensure the maximum number of sales, resales and referrals.

Rule 1: Prospects versus suspects. Your first job is to separate prospects from "suspects." Take your time and ask questions. Your sales energies and resources are limited. You cannot waste them by spending too much time with people who either cannot or will not buy.

Rule 2: Establish rapport and trust. Once you have made the sale, you must deliver the product or service, make sure that it is satisfactorily installed and utilized, and take care of customer concerns or complaints for a substantial time afterward.

Rule 3: Identify needs accurately. When you speak to a customer, he or she may have a need that is *clear, unclear or nonexistent*. If the need is clear, the customer may be accurate or inaccurate about how to satisfy that need. Maybe what the customer needs is very different from what he or she thinks he or she needs.

Rule 4: Present persuasively. You can make a lot of mistakes in the sales process, but the quality of your presentation determines whether or not the customer buys.

Rule 5: Answer objections effectively. There are no sales without objections. Objections indicate interest. The more the prospect questions you about your product or service, the more likely it is that he or she is interested enough to buy it.

Rule 6: Close the sale. The most powerful word in the sales process is "ask." Even if the customer wants the product, needs it, can use it and can afford it, the responsibility of the salesperson is to reach out verbally and ask for a buying decision.

Rule 7: Get resales and referrals. Everything must be aimed at taking such good care of your customer that he or she buys from you again and recommends you to friends and associates.

Selling to a referral takes one-fifteenth of the time,

money and energy required to sell to a cold-call or a new customer.

Create a Great Customer Experience

The secret to success in business can be summarized in a single sentence: "Make your customers happy."

The key to your business future is the degree to which you create that experience for people — that you delight customers over and over again and make them happy that they decided to do business with you.

Nothing generates greater customer satisfaction, loyalty and repeat business more than a companywide commitment to pleasing your customers. It is the key to triggering the response, "This is a great company!"

It is expensive to acquire a customer for the first time. Once you have a customer, you must do everything possible to "bind him to you with hoops of steel." Develop an obsession with customer service. Take care of your customers better than your competitors and continually look for ways to improve.

Your aim should be to get your customers selling for you. You want your customers to "go viral" and infect the market with your message. You want them telling their colleagues and neighbors about your company. You want your customers to be sending e-mails and blogging about your products and services to each other.

The 'Ultimate Customer Experience'

The starting point of developing an excellent customer service policy is to define how you intend to treat your customers. Start by defining the "ultimate customer experience."

Here are 12 factors that give insight into the ultimate customer experience:

1. Reliability and Consistency: Be predictable. Reliability and consistency mean customers can count on the brand to represent the same thing every time they experience the product or service.

2. Responsibility: Raise your hand when you make a mistake. Study after study shows that when most customers complain, they don't really want their money back or to cancel the purchase. They just want the product to work. They want the company that sold the product to fulfill the promises it made.

3. Responsiveness: Get in front of the story fast. The longer Toyota remained in denial about the acceleration problem in certain of its vehicles in 2010, the bigger the crisis became — and the longer it will take the company to repair its reputation.

4. Specialized Service: Make it feel like a custom fit. Home Depot's stress-free return policy gives buyers much more confidence about buying anything, anytime, from the store or the website. It builds trust and loyalty.

5. Selection: Be sure to have the product available. You need to find a way to have the right product when the customer needs it.

6. Quality: It's defined by your customer. Quality means that your product or service conforms to (and hopefully exceeds) the customer's standards and requirements.

7. Delivery: Exceed expectations as often as possible. It's no surprise that companies that offer fast, dependable, predictable delivery of their products attract business away from suppliers whose delivery is slow or inconsistent.

8. Employee Experience: Make your people feel happy about working for you. Entrepreneurs like Zappos founder Tony Hsieh understand that if you make your people feel important, that is exactly how they will make your customers feel.

9. Commitment by Employees: Make them love it or leave it. The key to an extraordinary customer experience is to make sure the people on your team who don't want to be there go somewhere else.

10. Installation: Make everything work for your customer. Best Buy has revolutionized the retail electronics industry by sending out its Geek Squad installation technicians in black-and-white Volkswagens to make house calls. Any business that offers to serve its customers faster immediately becomes the preferred supplier, even at a higher price.

11. Context: Find out how it feels to be a customer. There's nothing more powerful in business than context. When you see a product or service in action (or inaction), you will learn more than you would with a million phone surveys.

12. Competition: *Be* the customer. Most business leaders sit at their desks and say they are customer-focused, but you usually can't get a full flavor for the customer when you are sitting in the office. You have to get out and into the trenches with your customer.

Now … Build a Great Life

While building a great business and maximizing profits are important goals, your main goal should be to live a *great* life. You have to fix your own life before you can

fix your business or become a productive business leader.

Regardless of short-term economic fluctuations, we are living in the very best time in all of human history. There are more opportunities and possibilities for more people to achieve more of their goals in the years ahead than have ever existed before. Your goal should be to be one of those people.

Future Orientation

The starting point of living a great life is for you to decide exactly what a great life would be like for you if you could create it. As they say, "You've got to have a dream if you want to make a dream come true." This practice is called *future orientation*.

Top people think about the future most of the time. To create a great life, you must think and act the way great men and women have thought and acted throughout the ages. You must think and imagine the way they did (and still do), and soon you'll get the same results.

Goal Orientation

A second orientation that you need to live a great life is *goal orientation*. This means that you have clear, specific written goals for what you want to accomplish in the months and years ahead.

Make a list of 10 goals that you would like to accomplish in the next year or so. Use the three-P formula: present tense, positive and personal.

1. Present tense. Always write your goals in the present tense, as though a year has passed and you have already accomplished the goal. Instead of saying, "I will earn $XXX," you say, "I earn $XXX over the next 12 months."

2. Positive tone. Write your goals using a positive tone rather than a negative one. Instead of saying, "I will quit smoking," say, "I am a nonsmoker" (positive and present tense).

3. Personal action. Make it personal. There are two ways to do this. For many people, it's most effective to begin each goal statement with the word "I" followed by an action verb: "*I* have a 34-inch waist." Other people may prefer to address themselves as "You" with each goal statement. Try saying, "*You* are enjoying your brand-new office" or "*You* have achieved your goal."

The shorter and more precise your goal statements — starting with the word "I," followed by an action verb, in the present tense with a positive tone — the more rapidly they are accepted by your subconscious mind. Once your goals are programmed into your consciousness (which is the reason for writing them down), your subconscious and superconscious minds go to work to bring them into your life 24 hours a day.

Once you have made a list of 10 present-tense, positive, personal goals, go over your list and imagine that you could accomplish the goals on this list sooner or later — as long as you wanted them badly enough. But imagine also that you could accomplish any one goal on this list within 24 hours. Here's the question: What one goal, if you could accomplish it in 24 hours, would have the greatest positive impact on your life? Do something every day that moves you forward.

Action Orientation

The final key to building a great life is *action orientation*. The ultimate law of attraction says that when you apply the law of action first, you put into motion everything that demonstrates to other people (and further convinces you) that you are excited about your future. Nothing is more infectious than your excitement about doing what matters to you.

All successful people are intensely action-oriented. They are in constant motion. They try, try again and then try something else. They believe in "doing it, fixing it, trying it."

The Law of Probabilities

Success in life is more a result of the law of probabilities than of the law of attraction or plain luck. The law of probability says that there is a probability that anything can happen, including your achieving your most important goals. This law also says that "the more things that you try, the more likely it is that you will triumph."

The more action you take in the direction of your goals, the greater the probability that you will achieve those goals. The more things that you learn and try, the faster you move, the more ground you cover and the more likely you are to achieve your most important goals on schedule.

The truth is that you can do, be and have anything that you put your mind to. Decide what you want, write it down, make a plan and take action today. ●

RECOMMENDED READING LIST

If you liked *Now, Build a Great Business!* you'll also like:

1. ***It's Your Ship* by Captain D. Michael Abrashoff.** Abrashoff's primary focus to make his warship more effective was getting the most from his crew.
2. ***How the Best Leaders Lead* by Brian Tracy.** Learn how to set clear goals and objectives and develop an exciting vision for your business.
3. ***Great Work, Great Career* by Stephen R. Covey and Jennifer Colosimo.** Dr. Stephen R. Covey and change consultant Jennifer Colosimo offer a complete handbook for anyone seeking a path to a new, better career.

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Rick Kash and David Calhoun

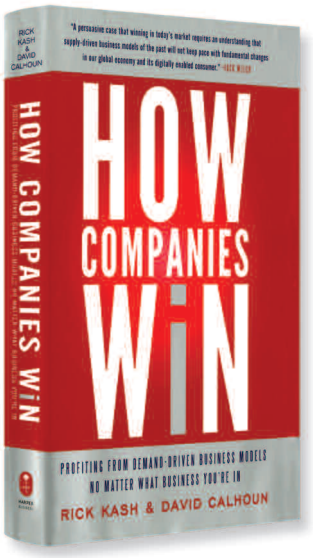
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Management: Hands On

How Companies Win

Profiting From Demand-Driven Business Models No Matter What Business You're In



by Rick Kash and David Calhoun

THE SUMMARY IN BRIEF

For more than 20 years, the growth formula for business has been to increase revenues by expanding product offerings while simultaneously streamlining supply. But with the recent "Global Recession," the world economy has changed, in all likelihood forever. The old tools — most notably supply-chain management — are no longer enough. In this Demand Economy, characterized by long-term oversupply and virtually all goods and services flat to contracting demand and diminished pricing power in almost every market, the challenge is to locate and capture the elusive pools of high-profit demand.

The answer is a revolutionary, demand-driven model that has already proved successful for some of the world's most admired companies. At the heart of this powerful new business model is an achievable vision for a new kind of winning company, one that uses sophisticated new tools and techniques to discover, characterize and then serve these pools of high-profit demand — and, in the process, gain pricing power in that marketplace.

How Companies Win shows how organizations can use everything from social networks to more revealing and effective consumer-research techniques, and then introduces the demand chain, the logical new partner to your supply chain. The principles, case histories and insights presented in *How Companies Win* will help your business run faster, cut costs, and become better able to deliver high-quality products and services, even in the tightest economic climate.

IN THIS SUMMARY, YOU WILL LEARN:

- How media companies, retailers and manufacturers work together to serve demand with much greater precision.
- What it takes for companies to win in a new era of heightened global competition.
- How to engage every level within a company, small or large, local or global.
- How to find real-world solutions that take advantage of the rise of social networks.

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THE COMPLETE SUMMARY: **HOW COMPANIES WIN**

by Rick Kash and David Calhoun

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Introduction: A New Strategy for a New Era

The "big idea" in the air in the 1990s was *disintermediation*: the notion that business systems, empowered by the new information and communications technologies, would strip out the middleman and grow more efficient in the process. The dot-com era was essentially this idea of disintermediation, propelled by the Internet, reaching the retail world — replacing traditional bricks-and-mortar businesses with e-commerce companies.

As we all know, the explosion of thousands of new online retailers that targeted almost every retail business from overstock inventory to groceries to pet food was followed instead by a massive shakeout in the industry that quickly killed the vast majority of those companies. The dot-com bubble was followed by the dot-com bust.

Those companies that did survive the shakeout — Amazon, eBay, Yahoo, Orbitz, Google — have proven to be some of the most important and influential companies of recent years. And they in turn set the pattern for the Web 2.0 social media firms such as Twitter, MySpace, Facebook and YouTube that have redefined modern life. What did those survivors have in common? Their business was based on what customers wanted, rather than what the suppliers already had. They were the harbingers of the demand-driven economy, if only we had noticed.

One of the lessons they taught is that we have now entered an era of oversupply. Oversupply is a situation where significantly more supply exists than there is demand to absorb it. Oversupply is often characterized by a lack of differentiation, with price becoming the primary factor underlying purchase decisions. As a consequence, pricing power virtually disappears and organic growth and profitability become increasingly difficult to achieve.

The Concept of 'Need States'

The second lesson to be learned is that in an era of oversupply it is imperative that you construct a framework in your company that encompasses and aligns everyone toward meeting, not just the current, but also the latent and emerging demand of your highest-profit customers and consumers. And before you can do that, you need to understand who those customers and consumers are, where they are and what "need states" they exhibit as they make their purchasing decisions.

The concept of need states is important for developing an in-depth understanding of demand. Need states are the circumstances or the occasions that cause someone to want something and to take action in its pursuit.

This is not reengineering; this is *rethinking*. This is not reorganizing, it's reshaping manufacturers, retailers and the media into a collaborative network that will work to the benefit of all who participate. For a long time, this new model of organizing and collaborating has been intuitively felt, and now it's real. It's called the "demand chain." ●

Part I: Shift

The Demand-Driven Company

By almost any measure, McDonald's is one of the most successful and influential companies of all time.

But from the mid-1990s until 2002, the company lost

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

its way by choosing to focus almost exclusively on supply — in its case, building even more restaurants and acquiring other food chains — rather than on what its millions of customers really wanted. It was only when McDonald's went back to paying attention to those customers — what they liked, what they wanted and what they might like — that the company found its way back to success.

The modern McDonald's story traditionally begins in 1955, when franchisee Ray Kroc opened the ninth store of the 15-year-old company. McDonald's had already pioneered the idea of "fast food," but it was Kroc who systematized the process and, buying the company, turned it into an international corporation and a global symbol of American culture.

By the end of the 20th century, McDonald's was enjoying revenues of almost $15 billion annually from more than 28,000 stores around the world. Net income was nearly $2 billion in 2000.

McDonald's Winning Shift

In 2002, McDonald's suffered its first quarterly loss since 1954, ending a celebrated half-century of continual growth. And the bad news kept coming: Even as profits disappeared and revenues flattened, consumer satisfaction levels fell below that of the company's major competitors. As a further insult, a spate of articles from 1998 to 1999 that eventually became the book *Fast Food Nation* in 2001 singled out McDonald's as contributing to America's health and obesity problems.

And so McDonald's began 2003 by embarking on one of the most remarkable restructurings in modern business history.

What did "doing better" really mean? McDonald's developed a table that showed the components of customer satisfaction and how they related to the company's own values. McDonald's called this its "Plan to Win" and it addressed five components that constituted McDonald's new model for total customer service: people, products, place, price and promotion.

The result? After hitting bottom in 2002, McDonald's revenues and income both returned to their historic upward march, even during a growing recession. Since 2004, McDonald's total sales have increased from $50.8 billion to $72.3 billion in 2009, a jump of more than 42 percent.

It hasn't been easy, but McDonald's has transformed itself into a demand-driven corporation.

The single most important lesson to take away from McDonald's remarkable turnaround is this: In a world where supply is growing ever more efficient while demand is flattening or even contracting, understanding demand becomes the new imperative for how companies will compete and win.

With the high levels of competition that characterize the present and the foreseeable future, the margin for error has gone down and the need for precision has gone up. In particular, precision in understanding exactly which pools of customers and consumers offer the greatest potential profitability for your company has increased in importance as well as degree. With this knowledge you can align your supply and your resources to better satisfy this demand and thus capture the largest possible share of the most profitable markets. ●

Two Types of Customer Analysis

Several tools are available to enhance precision in a company's operations. Here are two:

- **Demand Gap Analysis.** Demand gaps are the distance between what your customer wants and what it gets from you or your competitors.
- **Customer Demand Analysis**. It is designed to determine first who the most profitable customers are for your business. The second step is to actually contact those customers, who provide valuable insights.

The Demand-Driven Economy

Just how did McDonald's know that it was time to introduce salads and to keep their stores open 24 hours per day? How did Apple know that consumers wanted to bring the best of mobile phones and PCs together into a device that might ultimately reinvent both industries? How did IBM know that it was time to evolve from the world's largest technology hardware supplier to one of the world's most respected technology services providers?

The simple answer is that each of these companies understood, in a very deep way, the facts, the economics and the content of what their customers and consumers demanded. Companies like these, which win on a continual basis, operate above all by understanding demand at the higher market and sector levels.

By comparison, companies that struggle to compete quarter to quarter operate at lower levels of understanding that encompass only basic customer needs and product attributes. The result is that informed by an under-

standing that markets evolve at the level of current, latent and emerging demand, demand-driven companies consistently have a larger and longer perspective than their competition.

The demand-driven company not only thinks about today and tomorrow, but next year and the next five years. The supply-driven company only thinks about today, tomorrow and the end of the quarter.

What these great companies do is the result of a business model that operates beyond the simple — and increasingly risky — strategy of "asking customers what they want."

These great companies see trends and recognize patterns forming in their markets, their category, among their different customer segments — and even outside their businesses, in adjacent markets and across the entire culture — and develop hypotheses about what those customers *will* want. Only then are they in a position to query customers — and even then, only the right customers — and begin to align current strategies, resource allocation, products and other offers to intercept this demand as it approaches.

This is a far more powerful and multifaceted approach to identifying your *real* customers than was ever before possible.

About Supply

Supply is the sum total of what the provider does to satisfy the customer's demand, both physical and emotional. It is important to recognize that supply is not just the product itself, but also all the elements that support the product including price, packaging, messaging, the channels of distribution, customer service and the brand. ●

Part II: Strategy

Imagine how your business would benefit if you had a single integrated framework to:

- Find the high-profit customers who can raise your margins and revenues.
- Understand current, latent and emerging demand.
- Determine which channels are growing and which channels are slowing.
- Assess where your competitors are strong and where they are weakest.
- Understand the media habits of your most important consumers.
- Identify the best potential opportunities for innovation.
- Build a financial model for resource allocation to drive faster growth.
- Develop insights about the demand of your most profitable customers that your competitors don't know.

Differentiated Demand

When you build an effective demand landscape and understand the demand profit pools within it, all of these questions can be readily answered. Once you have this understanding, you are in a better position to satisfy the demands of the most attractive of these demand profit pools. You can use your knowledge and understanding to align your differentiated brands and products so that you capture a larger percentage of the profitable demand than your competitors. The framework also becomes the basis for how to manage your brands and products as a portfolio. And because it includes information about virtually every function within the company, from finance to manufacturing to marketing and sales, it is the integrated framework through which all can understand, talk about and manage the activities of their operations.

Demand profit pools exist because demand is not homogeneous. Indeed, in the world of demand, no size fits all, which ultimately means that in any given market there are likely to be multiple distinct pools of demand. Mercedes sedans, GMC pickup trucks, Honda Hybrids and Cadillac Escalades can all be successful and profitable car brands while serving very different demand profit pools within the larger vehicle market. Most markets feature at least six different demand profit pools. That's a lot of opportunity.

Customers within those demand profit pools are attracted to both the rational and emotional benefits of these submarkets. So why the range of products? Because people have different lives, tastes, lifestyles, needs and personal histories. They also live in different environments and are at different points in their lives. The result is a wide spectrum in both rational benefits (quality, performance, safety, comfort, eco-friendliness, mileage, power, price) and emotional rewards (status, "greenness," hipness, safety).

Demand profit pools are groups of customers who make similar decisions based on the common needs they want satisfied. Any given market, whether in consumer or business-to-business industries, will have several distinct demand profit pools. These should be defined not simply by who these customers are or what they purchase but, most important, by why they make the decisions they make. And beyond understanding the who, what and why of customers by group, businesses that win must fully understand the economics of each demand profit pool. Determining which ones spend the

most, which are most and least price sensitive, and which offer the highest and lowest profit potential are all critical to determining which demand profit pools to focus on and how to serve them.

The Fifth *P*

In the new demand economy, the margin for error for all businesses grows smaller and smaller.

In the flagrantly expansionary economy of the past several years, sloppiness in planning and execution were hidden as business sales and profits went up constantly. These days, you are not only competing with ever-growing sources of supply from competitors all over the world, but all of that supply is competing for flattening — even contracting — demand. In this new competitive reality, *any* mistake can have significant consequences.

The solution must go beyond tightening the screws still further on the supply chain. Now the precision must occur on the demand side of the equation.

Achieving a New Level of Precision

One reason for this is a shift in expectations. Today's customers and consumers expect more precision from business because, thanks to the tech revolution, the world around us has become much more precise. GPS devices will show you within inches how to get from point A to point B. Atomic clocks measure to the billionths of seconds. Twitter can tell you exactly what your friends are up to at any given moment. YouTube, TiVo and iTunes allow you to access the history of recorded entertainment to find exactly the experience you want at that moment. And cellular telephony lets people contact you anywhere on the globe.

In the face of this unprecedented increase in precision, is it any wonder that customers and consumers are increasingly impatient with inaccuracies, delays and imprecision? Precision has become the leitmotif of the lives of your consumers — and if you fail to match that precision, those failings will seem even more amplified.

What consumers also instinctively understand is that precision has long been a precursor to progress. In high technology, ever smaller chips also have ever more functionality. In medicine, laparoscopic and laser surgery enable doctors to work in small, almost microscopic, spaces instead of using more invasive procedures. Heart stents are implanted with precision to prevent heart attacks and strokes. The Kindle delivers thousands of books to your home on a small device within seconds, and soon tiny chips called RFID (for radio frequency identification) will track individual packages as they travel across America or around the world. Precision is almost always the path into the future.

The New Marketing Mix

Supply chain management became a science through the creation of more rigorous approaches that increased quality, reduced costs and shrank production cycle time. Every aspect of what before had been the siloed functions of purchasing, manufacturing and distribution was now assessed, optimized and interlinked using several fact-based approaches.

Today, an equally rigorous approach to demand is both necessary and practical. It needs to be done and it can be done.

The marketing mix is best known as the "four *P*'s of marketing": product, promotion, place and price. If we apply the philosophy of precision to this mix, the potential benefits become enormous.

It is time for the adoption of a fifth *P*, precision, to make sure that each of the first four P's operate at their maximum efficiency and lowest cost. A lot of companies have already noticed; Coca-Cola, for example, has already declared this "the Age of Precision Marketing."

Total Innovation

Myth-Free Innovation

Of all of the activities that companies engage in, *innovation* may be the one that is most mythologized, misperceived and misunderstood. According to studies, American corporations spend more than $1 trillion per year on innovation, and only get a fraction of that back in return on their investment, in large part because of this misperception.

The confusion begins right at the start, with the very definition of the word. In everyday usage, "innovation" is perceived as a creative exercise. It is nothing of the sort; in truth, at least in the world of business, *innovation is a disciplined, demand-based process.*

There has never been a successful long-term innovation that did not better satisfy an existing or emerging customer demand. That suggests a definition: **Innovation is finding unsatisfied profitable demand and then fulfilling it.**

Total Innovation

You'll note that in defining innovation, no constraints were placed on where that innovation may occur. That was intentional, because a big mistake companies make is to narrow their idea of what innovation should result

in, typically focusing on new products alone.

It is also worth noting that the word "innovation" itself has a way of freezing people in their tracks. Over and over we've heard people say, "I'm just a creative person, so I can't be very good at innovation." That's why, when Jim Kilts was CEO of Gillette, he and his SVP of strategy, Peter Klein, took the pressure off of everyone by reframing the entire topic. They told the company to stop referring to innovation and to just "find a better way."

Gillette's Success

Kilts and Klein applied what they called the "Total Innovation" process at Gillette to great effect. While Gillette had enjoyed a reputation as a highly innovative company, the truth was that its innovation pipeline and innovation successes were running out of steam in the years before Kilts and Klein arrived.

Within six months of putting the Total Innovation process in place, Gillette's revenues increased by approximately 15 percent and net income jumped by more than 18 percent. While there were arguably other factors at play contributing to Gillette's financial success during this time, for example favorable exchange rates and a series of hurricanes spurring battery sales, the Total Innovation process was clearly a major contributing factor to Gillette's success. With the new innovation process and a new confidence throughout the organization — all begun by taking the pressure off the need to be "creative" — Gillette began to post double-digit revenue gains each year after having suffered several years of declining revenues.

Real innovation is total innovation. That is, it begins, like all new products or services, with the idea or market analysis, but it continues all of the way through the manufacturing process, packaging, distribution, retail, consumption and even beyond, through that product's or service's entire lifespan. In a world of oversupply and flattening demand, this is the only strategy that ensures that all of the potential profit is realized from the process, and that the product or service itself is precisely aligned with the most important demand pools. ●

The Price Is Right

Pricing strategy is often the one area where managers feel least confident about their approach. On the one hand, these managers recognize that if they price their offerings too low, they risk leaving money on the table. And on the other hand, if they set prices too high they risk losing valuable consumers or customers; or just as bad, risk pricing themselves out of the retail or distribution channels they need to reach those customers. It is a dichotomy that haunts almost every business on the planet: Lose profits or lose customers.

Surely there is a better way, one that ends not with compromise, but with a win.

Pricing Power

There really is a rational and systematic way to price products and services in such a way as to escape the lost profits/lost customers dichotomy. Better yet, this kind of intelligent, demand-driven pricing can actually uncover new sources of customers and profits. And that can be a very valuable advantage.

How valuable? The numbers are so compelling and decisive that it is astonishing that every future manager isn't taught this in business school. A 1 percent price increase has a *50 percent* greater impact on operating income than does a 1 percent decrease in variable cost. More remarkably, that same 1 percent price increase has a *215 percent* greater impact on operating profit than does a 1 percent volume increase in sales.

If you can find a way to raise the price of your product or service by just a few percent — through more targeted marketing, by improving product image, by finding more lucrative profit pools or by adding new features without adding cost — the impact on your bottom line will be so great that almost no realistic amount of cost cutting or increased production will be able to match it. ●

Part III: Execution

You need to ask yourself: "Does my company have a simple — and easily understood — plan for how it will succeed?" and "Does everyone in the company understand that plan and their role within it?"

Great companies (the ones that stay on top of their markets for decades) align their internal operations, from the boardroom to the receptionist, to be in total support of that plan. And they regularly communicate that message to their employees.

We call these external/internal strategies the "thesis for winning" and "mental models."

The Thesis for Winning

As the years have gone by, it has become absolutely clear that all truly outstanding leaders have a thesis for winning — that is, a set of individual principles, each in itself important, that when taken together represent the strategy to take and the pathway to follow for that busi-

ness to win. It is what Ed Liddy, former chairman and CEO of Allstate Insurance, calls "The Theory of the Game."

Liddy speaks with authority and experience, because his own thesis for winning across his eight years at the top of Allstate produced remarkable results. When Liddy became CEO in 1999, company revenues were $27 billion and net income was $2.7 billion. When he retired in 2006, revenues had increased to $36 billion, but profits had skyrocketed to almost $5 billion.

Liddy credits the success, in part, to giving Allstate a strong thesis for winning. Liddy had three elements in his thesis:

1. *Deliver better service* at all levels of Allstate, starting with their agents.

2. *Deliver better pricing* based on the lifetime value of the customers.

3. *Communicate constantly* to Allstate's 12,000 agents the importance of good service in attracting and retaining customers and to its millions of insureds that Allstate puts its "good hands" commitment to customer service foremost.

Here is a definition of the thesis for winning:

Management's set of beliefs and objectives, which, taken in combination, establishes the basis on which a corporation intends to win versus its competitors.

The Mental Model

A mental model is the same picture in every employee's mind of how their company is going to compete and win — and their own role within that plan.

It is the commitment by the company to the notion that every function in the company — and every person within those functions — must share the same understanding of what they are going to do, and how they are going to do it, to win. And that this message must be shared with the entire company, ratified by employees and made manifest in every move the company makes.

The mental model creates comfort for employees because they understand the larger picture and their important role within it. From that comfort springs confidence, which is the hallmark of high-performing employees and winning companies. ●

The Demand Chain

Today, perhaps more than in any time in the past 80 years, manufacturers, retailers and media companies are all finding themselves under assault, not just by a deep global recession but by a seemingly inexplicable loss in effectiveness of some of their most important and proven business tools and strategies.

These companies watch helplessly as their consumers, now networked, get smarter — and realize, to their dismay, that they aren't keeping up. The game keeps changing and the rules are evolving quickly. Clearly there's universal demand by business leaders for a new solution.

This period of economic complexity and turmoil will be a historic opportunity for some companies to gain enormous market share and profit share by participating in a new collaborative business model. This model includes a new level of collaboration and coordination between manufacturers, retailers and media companies that goes beyond traditional data-sharing efforts and approaches such as category management.

This certainty of winning is driven by a truly proprietary understanding of what consumers demand and which of these consumers offer the greatest profitability. With these in hand, a network is formed between manufacturers, retailers and media companies to capture the largest share of profitable demand. The commitment to this network allows all of the participants to grow at faster rates and to higher levels than would be possible without the collaboration of the network.

This new model is the demand chain. It stands as the counterpoint to the traditional supply chain, its information flowing in the opposite direction, with results driving capabilities rather than the other way around.

For manufacturers it means aligning their different brands and products so that they capture the highest share of the most profitable demand.

For retailers it means organizing and merchandising their stores so that they better meet the demand of the people who shop in their stores versus those of their competitors.

For media companies it means that on the horizon there is a new level of precision that will enable them to reach the specific consumers that the manufacturers and retailers most want to communicate with and motivate.

In the collaborative environment of the demand chain, where information is shared and plans are coordinated, everyone becomes more efficient in what they make, how and where they distribute their products and how they use their marketing and media budgets to motivate consumers and stimulate purchase behavior.

A demand chain is a collaborative network composed of a manufacturer, retailers and media companies that enables each participant to better

understand and more completely and precisely fulfill customer demand. ●

Supply, Meet Demand

In the years to come, the real power of the supply chain will have less to do with the micromanagement of details regarding cost and performance, or with one's comparative advantage relative to competitors' supply chains. Instead, the true measure of power for one's supply chain will lie in its ability to more precisely target and serve the right demand at the right time at the right place in the right package and in the right environment. Supply chain advantage will now be driven by how closely it is guided by, and responsive to, the demand chain as it enables the supply chain to deliver the right product to the right place at the right time.

Simply put: *Your supply chain can no longer be optimized without a complementary, and equally optimized, demand chain.*

Going Forward

Going forward, winning supply chains will precisely align demand and supply in ways that have never before been possible. New technologies, combined with the intellectual capital of demand profit pools, will afford companies the ability to align the right supply to precisely the right demand — thus enabling growth in the only way possible in flat markets: taking volume, share and profits from your competitors.

One important implication of this is that managers will need to focus much greater attention on:

1. *Identifying* the target, highly attractive demand profit pools of customers.

2. *Determining* how the supply chain can best respond to, and satisfy, this precise group of consumers.

The strategy of having a demand-led supply chain goes beyond organizational alignment; it is in fact a structural change with enormous implications for organizational efficiency and continual profitability. There are four key benefits:

1. Start Better. One of the first benefits of this partnership is the demand chain's ability to get the right product to the right retail outlet at the right time. This essentially converts the supply chain from its current task of replacing what is on the shelf today with more of the same to that of determining what *should* be on the shelf.

2. Communicate Better. In the shared network of the demand chain, the communication between retailers and manufacturers improves greatly. The improved communication is the result of shared data, shared inputs and shared outputs. The result enables better coordination and provides consistent opportunities for high-level supply chain performance.

3. Align Better. This balanced approach also drives much greater internal alignment and communication. As the benefits of the partnership between the demand chain and supply chain become apparent, it fosters further collaboration and helps resolve the potential tension between identifying and responding to demand opportunities and the desire to maintain the discipline of the supply chain.

4. Structure Better. Over time, this partnership leads to improvements in the overall structure of the supply chain and its ability to serve profitable demand. Fully informed by an understanding of demand on a store-by-store, local market, regional and national level, the flexibility, adaptability and responsiveness of the supply chain can be improved. ●

Afterword: A Fresh Start

These tools work, as the case studies show, and they can be applied right now.

Evolving from a supply-driven company to a demand-driven company is as much a matter of attitude as it is a process. If your thesis for winning is revised to include the critical challenge of finding your high-profit demand pools and then giving them what they want; if your orientation shifts from asking what your best customers want now to what they want next; and if your company's mental model realigns your organization away from making your supply chain a little more perfect to making it a lot more accurate, then these are not going to be the worst of times, but the best of times.

Your company will enjoy bigger profits, greater market share and higher customer loyalty, even as your competitors struggle and fade. And it all begins with a change of perspective.

Business is always about change, it always has been. The constant companion of change is opportunity. ●

RECOMMENDED READING LIST

If you liked *How Companies Win*, you'll also like:

1. ***Always a Winner* by Peter Navarro.** Navarro shows how your organization can be a winner over the course of its entire cycle.
2. ***Leading Outside the Lines* by Jon R. Katzenbach and Zia Khan.** Katzenbach and Khan examine how two distinct factions together form the bigger picture for how organizations actually work.
3. ***Overpromise and Overdeliver* by Rick Barrera.** Barrera shows that today's most successful companies master Touchpoint Branding — the art of making sure that every point of contact between a company and its customers is well-executed and fulfills an over-the-top brand promise.

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Laurie Bassi

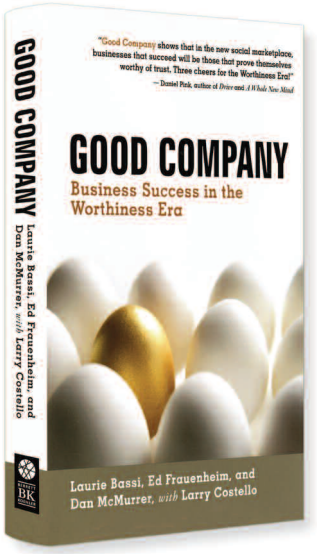
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Management

Good Company

Business Success in the Worthiness Era



by Laurie Bassi, Ed Frauenheim and Dan McMurrer with Larry Costello

THE SUMMARY IN BRIEF

Companies shirk taxes while padding profits. Firms foul the planet but keep raking in revenue. Reckless greed on Wall Street goes largely unpunished. More evidence that bad guys finish first in business? No. A different story is unfolding.

In *Good Company*, noted economist Laurie Bassi and her co-authors, Ed Frauenheim, Dan McMurrer and Larry Costello, show that, despite the dispiriting headlines, we are entering a more hopeful economic age. They call it the "Worthiness Era." And in it, the good guys are poised to win.

Good Company explains how this new era results from a convergence of forces ranging from the explosion of online information sharing to the emergence of the ethical consumer and the arrival of civic-minded Millennials. Across the globe, people are choosing the companies in their lives in the same way they choose the guests they invite into their homes. They are demanding that companies be "good company."

Using a host of real-world examples, Bassi and company explain each aspect of corporate worthiness and prove that virtue is now more than just its own reward.

IN THIS SUMMARY, YOU WILL LEARN:

- How the business world is changing for the good.
- How a convergence of economic, social and political forces is now pushing businesses to behave better — or else.
- How you can assess other companies with which you do business as a consumer, investor or employee.
- How to determine who the good guys are — those companies that are worthy of your time, your loyalty and your money.

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THE COMPLETE SUMMARY: **GOOD COMPANY**

by Laurie Bassi, Ed Frauenheim and Dan McMurrer with Larry Costello

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PART I: THE WORTHINESS ERA

Home Depot didn't look bad on paper in early 2007. But online, the home improvement giant didn't look good. And the story of that disconnect gets at the heart of this book: We're entering an age when goodness matters for companies like never before.

In January 2007, Home Depot ousted an unpopular, highly paid CEO, Robert Nardelli. And although Nardelli's whopping $210 million severance package irked investors, the company signed a much more reasonable deal with his successor, Frank Blake. The Nardelli-Blake transition earned Home Depot positive press. And although Home Depot was suffering from the housing market decline, Blake announced a hopeful outlook in late February.

But one month later, this corporate giant — which, in 2006, had ranked 14th in the Fortune 100 — was beset by the consumer equivalent of a mosquito swarm. The trouble started with an essay by personal finance columnist Scott Burns at website *MSN Money*. In the article, Burns lamented that Home Depot no longer held an intimate place in his life.

"Sixteen years ago, I sent my wife a love note. It went like this: *Carolyn: I've gone to Our Store. Be back soon. Love, Scott.* We called Home Depot 'our store' because we spent a lot of time there back in 1990. We're house freaks. ... But I have a confession to make. I still love my wife, but we don't shop much at Home Depot anymore. Indeed, we generally try to avoid it and grieve for the loss."

The reason Home Depot fell from his good graces, Burns wrote, is that the company shifted from serving customers well to abusing their time through skimpy staffing. "The result is that a once-iconic, wonderfully American store has become an aggravation rather than a blessing," he wrote.

MSN Money invited readers to share their own experiences with the "Big Orange Box." They did. By the thousands. Within the first week alone, some 4,700 comments were posted at the site. The bulk of them told withering tales of unhelpful employees and unpleasant visits.

Amid all the lamenting and lambasting, Home Depot stepped into the fray — in an unconventional way. Rather than have the firm publish a traditional press release, Frank Blake himself posted a comment directly on MSN's discussion board. Blake said the company was taking steps to improve its service and shopping experience, and apologized for the disappointment.

"There's no way I can express how sorry I am for all of the stories you shared," Blake wrote. "I recognize that many of you were loyal and dedicated shoppers of The Home Depot. ... And we let you down." The torrent of unflattering testimonials about Home Depot by everyday people and the fact that its CEO felt compelled to make a personal, direct appeal to customers speaks to a profound change under way in the business world today.

More and more, companies must be good to succeed. That is, they have to be good to their customers — as Home Depot wasn't a few years back — as well as good

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stewards of communities they touch and of the broader environment. And they must be good employers. Not just generous and caring, but also smart about managing people effectively and inspiring them — something that Home Depot apparently wasn't doing well at the outset of 2007.

Companies Behaving Better

Chief among the factors pushing companies to behave better are the rise of interactive Web 2.0 technologies and a corresponding culture of participation and disclosure, whereby millions of people are publishing their experiences and opinions online. Also forcing companies in the direction of worthiness is a growing global consciousness. Heightened appreciation of human interdependency — fueled by factors like international trade, travel and concern about global climate change — is making people care more about how companies treat workers, customers, communities and the environment.

Now more than ever, people are interested in and able to evaluate which companies are worthy of their business as customers, their best efforts as employees and their capital as investors. In short, people have newfound power to reward and punish corporations for their actions and they are doing so in a rising wave of "ethical" economic behavior.

The idea that good behavior is becoming a requirement may seem far-fetched at the moment. After all, among the companies profiting during the recent downturn were financial services firms like Goldman Sachs, which bet against its own clients and whose trading practices arguably worsened the economic crisis. And American workers have never been more "disposable," as a Bloomberg *Businessweek* cover story in early 2010 put it. Many workers have had little choice but to settle for precarious or part-time jobs amid high unemployment, greater use of temporary labor and continued offshoring.

Green-Washing Won't Work

Exactly how a company puts worthiness into effect will depend on its particular industry, work force and abilities. But it won't be enough to have piecemeal corporate social responsibility programs. Nor will greenwashing — the all-too-common practice of cloaking less-than-good environmental stewardship with eco-marketing — fool a public ever-more savvy about what true sustainability looks like. Organizations will be increasingly judged on how thoroughly worthy they are.

Not many corporations receive a top grade on that test right now. We developed a measurement of worthiness based on multiple criteria associated with customer care, people management and stewardship called the Good Company Index. Our research shows that just two Fortune 100 firms — shipping titan FedEx and entertainment giant Disney — earned an A, thereby meeting our definition of a Good Company. Plenty of the largest companies are laggards with grades of D or F.

If we are right about the dawning of a new era, such less-than-fully commendable companies may still be able to survive in the years ahead. But unless they shift to a course of real reciprocity with their stakeholders, they will not flourish. As Home Depot discovered in 2007, the business world is changing. Changing for good. ●

The Economic Imperative

The Disneyland employees most pivotal to the famed theme park's customer satisfaction aren't the ones roaming around in Mickey Mouse and Goofy costumes. They're the folks carrying brooms.

Scholars John Boudreau and Peter Ramstad have shown that the sweepers who continually tidy up the park and often answer guest questions are vital to Disney. The caliber of these workers and their ability to solve problems are crucial to the holistic "magic" Disney aims to create for visitors.

"Disney sweepers have the opportunity to make adjustments to the customer-service process on-the-fly, reacting to variations in customer demands, unforeseen circumstances and changes in the customer experience," Boudreau and Ramstad have written. "These are things that make pivotal differences in the 'Happiest Place on Earth.' … At Disney, sweepers are actually front-line customer representatives with brooms in their hands."

The importance of sweepers to Disney speaks to the way in which consumers' desire for integrated experiences is propelling companies to greater worthiness. For Disney to delight customers on premium-priced vacation packages, the company can't just focus on excellent rides, good food and friendly costumed characters. It has to make sure even the employees carrying out clean-up duties are sharp thinkers and sociable to boot. It has to recruit the right people to be sweepers, train them, engage them and retain them — it must be a good employer.

Consumer hunger for more than just goods and services is one of several economic factors ushering in the Worthiness Era. Others are technological change, global trade and the public's growing focus on economic security.

Ultra-Hipness at Virgin America

Virgin America airlines has lured travelers away from existing airlines largely because of its ultra-hipness, including a commitment to fuel efficiency, cabin mood lighting, sleek black-and-white seats and irreverent flight attendants. The airline, launched in 2007 and partly owned by Richard Branson's Virgin Group, reported a net profit by the third quarter of 2010, when it also saw revenue jump 28 percent year over year to $202 million.

Customers continue to patronize low-price specialists, but even discount giant Walmart has taken a page from the customer experience playbook. In 2007, Walmart de-emphasized its "Always Low Prices" motto in favor of a tagline that tries to connect bargain shopping to a more profound goal: "Save money. Live better." ●

The Social Imperative

In the past decade or so, people have begun disclosing aspects of their experience as never before. They are documenting their daily lives, emotions, observations and opinions through public venues such as blogs, Twitter, YouTube and Facebook. The number of active Facebook users, for example, jumped from 12 million in late 2006 to more than 500 million in early 2011. Half of those users log on to the site on any given day.

Much of the self-expression spills over into people's experiences as workers, consumers and investors. Facebook has page after page devoted to businesses, some of which are created by employees and consumers.

Publication of the Personal

This growing publication of the personal is fueled and made forceful by emerging social media technologies. Blogging sites like LiveJournal.com and social networking sites like Facebook make it easy for people to start online journals and discussion groups, contributing either named or anonymous entries. And the interactive, viral nature of these Web 2.0 tools — where people can comment on postings and pass links to the content to their network of friends and contacts — helps explain why an anonymous lament about working conditions at Electronic Arts elicited more than 2,000 comments.

Related to the upsurge in public autobiography is a rise in online involvement more generally. Through the Internet, many people are becoming more participatory as consumers, citizens, investors and employees. They are joining conversations about the strengths and weaknesses of products and services, stocks and employers.

Time magazine captured the emergence of "user-generated content" and the democratization of media by naming its 2006 person of the year "You."

In this world, individuals have the power to call attention to business successes and shortcomings as never before. And they are. They are using the site Glassdoor.com to assess employers. They are praising and panning stocks at Yahoo Finance. They are tapping Yelp to post reviews of restaurants, pet services and dentists. ●

'Real People. Real Reviews.'

Yelp depends on people submitting unpaid assessments of local businesses. With a motto of "Real People. Real Reviews," the site has generated more than 15 million reviews since it was founded in 2004. And Yelp is popular. More than 41 million people visited it during a single month in 2010.

The Political Imperative

Computer chip maker Intel, famous for its "Intel inside" motto, got dinged from the outside in 2009. Outside the marketplace, that is.

European regulators slapped Intel with a record-large fine of $1.45 billion for abusing its dominant position in the market for chips. After a lengthy probe of the market for chips known as x86 central processing units, the European Commission concluded that Intel engaged in illegal anticompetitive practices, such as making direct payments to a major retailer on condition it stock only computers with Intel x86 chips.

"Intel has harmed millions of European consumers by deliberately acting to keep competitors out of the market for computer chips for many years," said European Commissioner for Competition Neelie Kroes. "Such a serious and sustained violation of the EU's antitrust rules cannot be tolerated."

Kroes' indignant tone is telling. The antitrust penalty her organization levied on Intel is part of a pendulum swing back toward greater regulation of businesses by governments around the world. That regulatory push is among several political factors forcing companies in the direction of greater goodness.

Regulation Rising

In the United Kingdom, sweeping legislation known as "the Equality Bill" began to take effect in 2010. Among other things, the measure gives additional power to employment tribunals and protects employees who discuss their pay to uncover discrimination, even if their employment contract bars them from talking about their pay. What's more, in late 2008, Britain's Equality and

Human Rights Commission announced it would probe the financial services and construction industries because of inequality in pay or ethnic minority representation in the work force.

The U.S. push toward more regulation began in earnest when Barack Obama took office in early 2009. One of his first actions as president was to sign into law a measure that makes it easier for workers to sue employers for pay discrimination. His administration declared that greenhouse gases are hazardous to public health and welfare, opening the door to tighter emission controls and regulations under the Clean Air Act. The U.S. Congress passed major pieces of legislation to overhaul the healthcare system and increase oversight of the financial services industry. And Obama's 2011 budget called for $25 million to crack down on the problem of employers misclassifying employees as independent contractors. ●

PART II: EVIDENCE AND RANKINGS

A growing body of evidence shows that companies can do well by doing good. But that's only part of the story in the world taking shape. The individual trends outlined in Part I — when taken together — indicate that goodness is rapidly becoming necessary to doing well.

What's more, the convergence of the trends we've identified calls for a comprehensive response. Many companies during the past decade have launched disparate initiatives, such as becoming an employer of choice, reducing carbon footprints and beefing up compliance efforts. But firms that aim to succeed in sustainable ways must move to become good companies through and through.

Doing Well by Doing Good

The stock market — despite all of its wild swings and, at times, seeming irrationality — provides one of the best available lenses for understanding the payoff that good companies enjoy over an extended period of time. To be sure, the performance of any given stock can be erratic, as can the performance of the entire market at any point in time. But over the long haul, the performance of "good companies" (relative to the market) has a great deal to teach us.

Fortune magazine's annual list of the best companies to work for provides one of the best available methods for looking at how being a good employer relates to subsequent performance in the stock market. From 1998 to 2009 the average annual return on a portfolio of the (publicly traded) companies on this list was 10.3 percent, compared to an annual average return for the S&P 500 (the standard U.S. benchmark) of 3.0 percent. Even after controlling for company characteristics, the companies on this list outperformed risk-adjusted industry benchmarks. They also exhibited significantly more positive earnings surprises — occasions when their quarterly earnings surpassed what analysts predicted they would be — than their industry benchmarks.

While this evidence does not necessarily prove that being a good employer causes these results, the findings strongly suggest that companies can do well by doing good as employers.

Sustainability Spelled Stock Success

Sustainability also spelled success in the stock market during the recent financial crisis, according to a study by consulting firm A.T. Kearney. Although the study covered a relatively short time frame of six months, the findings were telling. A.T. Kearney discovered that in 16 of 18 industries studied, companies committed to sustainability outperformed industry averages by 15 percent from May through November 2008. ●

Ranking Companies' Goodness

More and more, people are demanding that the companies in their lives be "good company." The convergence of economic, social and political forces put us at the dawn of a new economic era in which genuine, broad-based worthiness is no longer an added bonus, but a necessity. Some of the world's largest companies are in the vanguard, pointing the way and serving as examples for others to follow. Many others, however, are laggards, apparently oblivious to these forces — and to the fact that ignoring them imperils their existence, their employees' livelihoods and their shareholders' investments.

The Good Company Index

In our framework, being a good company is based on how a company acts in three different arenas: as an employer, as a seller, and as a steward of its community, the environment and society overall. In order to (1) identify which organizations are already behaving as good companies, (2) identify which ones have a long way to go and (3) track progress in the years ahead, we sought to create an objective system of ranking companies' actions in these areas. We explored multiple sources of information to feed into this ranking system, seeking data that ideally had all of the following characteristics:

- Reflective of our concepts of good

employer/seller/steward

- Reliable and of high quality
- Available for a large number of companies
- Timely
- Publicly available

In sum, we consider this first-ever Good Company Index to be an important step in the right direction. In the years ahead, we expect to both improve and update these rankings, including expanding them to a larger range of companies. ●

PART III: GOOD EMPLOYER, GOOD SELLER, GOOD STEWARD

A "value-creating organization" might sound like a corporate motto more appealing to CEOs or shareholders than to employees. But the truth is that great places to work also have to be places that create value for customers and other stakeholders, including owners who expect a good return on their investment. Only those organizations are capable of a long-term commitment to their employees, providing job security and opportunities for development and advancement. It can be a self-reinforcing cycle because organizations committed to employees typically bring out the best in their workers — who in turn create value.

In other words, chief among the ingredients for a value-creating organization is a long-term commitment to employees.

An organization with a long-term commitment to its employees is one where employees:

- Are rewarded for developing skills needed to meet the organization's business goals
- Are provided with opportunities for advancement
- Receive recognition for their accomplishments
- Feel secure in their jobs

Job Security

It is this last point — job security — that has been among the most contentious in recent decades. Globalization and changes in technology have rendered lifetime job security a quaint relic of the past. As the pendulum has swung, some employers have gone too far in the opposite direction and shed workers at the first sign of trouble (or even before it). This, too, is not sustainable. A tendency toward hair-trigger layoffs is one of the manifestations of an excessive focus on short-termism. And, not surprisingly, it has long-term, negative consequences. It is a form of unworthiness.

Worthy employers — employers that are committed to their employees — get this. HCL Technologies, an India-based technology company with an "Employees First, Customers Second" ethos, announced a no-layoffs policy in the midst of the Great Recession. What's more, in recent years HCL has increased employees' income security by reducing the percentage of compensation that is variable (based on bonuses). HCL appears to have been handsomely rewarded for its foresight, enjoying significant growth during the downturn and gaining market share against rival Infosys Technologies. That's what happens when employees reciprocate their employer's commitment and give the gift of their discretionary effort.

Other elements are necessary to complement commitment to employees in developing and maintaining a value-creating organization. These fall into three categories: leadership, work environment and learning.

Reams and reams have been written about leadership. It all boils down to what leaders say and what they do — their communication and their behavior.

The work environment is more complex. It consists of multiple components, including hiring practices, job design, work processes, conditions, accountability and compensation practices.

Much has also been written about an organization's ability to learn. This too can be winnowed down to two components — formal means for fostering learning and informal means for doing so. ●

The Good Seller

From its origins as a shipper of valuables in the 1850s to its charge card with the famous tag line, "Don't leave home without it," American Express has had a long legacy of strong service. But the company left the 20th century without it. AmEx hovered in the 50th percentile for service quality during the years 1999 to 2004, according to research firm wRatings.

Like many companies, American Express was focused on cost containment. The priority was reducing time on the phone with customers. American Express' nod to service came primarily in the form of a checklist for such behaviors as saying the customer's name three times during a call and avoiding 10 seconds of awkward dead time on the phone.

This not only led to a stiff experience for customers but also robbed employees of the autonomy that helps make for meaningful work. Annual turnover in its service centers, although not as high as the 100 percent annual turnover sometimes experienced in the call-cen-

ter field, was nonetheless in the double digits.

To their credit, executives at American Express saw the service slide as a serious problem. Jim Bush took over the company's service organization for the United States in 2005, where he began a push to upgrade customer satisfaction partly by upgrading the employee experience.

Instead of ending calls as quickly as possible, AmEx call center agents now seek to deepen relationships with customers by providing relevant information and asking about their use of the card. This might sound like the irritating "upselling" consumers frequently face, but under the new American Express program, dubbed Relationship Care, agents typically aren't selling anything new. Rather, they try to help customers understand all the features of their card so they will use it more.

The service surge is paying off. American Express' wRatings scores on service quality dipped in the first several years of the initiative but spiked to the 97th percentile in 2009.

American Express embodies key features of good sellers. Good sellers offer safe products, communicate honestly and seek reciprocal relationships. The win-win scenario of American Express customers taking greater advantage of card features — thereby spending money that translates into transaction fee revenue for the company — falls into this latter category. Good sellers also show restraint, avoiding practices like aggressive upselling. ●

The Good Steward

Seventh Generation is among the most environmentally responsible companies in the world today. But leaders of the household and personal care products company will be the first to tell you they aren't perfect.

They did just that in their 2008 Corporate Consciousness Report. "We are still working to replace the remaining synthetic ingredients in our products and to eliminate the contaminant 1,4-dioxane from our cleaning products," co-founder Jeffrey Hollender wrote.

A likely carcinogen, 1,4-dioxane can form in cleaning products when modifying natural oils with the petrochemical ethylene oxide and sulfur trioxide. Both Seventh Generation's fabric softener and its soap dish liquid tested positive for 1,4-dioxane, the company said in the report.

Despite this admitted black eye, Seventh Generation's track record has been a bright shade of green. Among numerous environmental awards, it was ranked as the best company on the planet by Better World Shopping Guide, a buying resource for ethically minded consumers. And Seventh Generation's actions back up this honor. For example, in 2008, the company upgraded its product-testing regime, which led it to discover phthalates in its automatic dishwasher gel with a synthetic green apple scent. Although the particular phthalate found — DEP — is not a suspected carcinogen or endocrine disruptor, other phthalates have been found to be probable or possible health hazards. The company discontinued use of the green apple scent, replacing it with a natural grapefruit fragrance.

The firm, founded in the late 1980s, has also taken steps to reduce its carbon footprint. It estimates that a plan to decentralize manufacturing and distribution operations would cut delivery miles to retailers by 48 percent.

It's all in line with Seventh Generation's deep commitment to environmental and social responsibility. The company's very name refers to the Iroquois concept that decisions today should account for their effect on the next seven generations.

Communicate Honestly with the Public

Seventh Generation embodies many key features of a good steward. To start with, it communicates honestly with the public and other stakeholders about its effects on people and the planet. And its warts-and-all candor about challenges in making effective cleaning products that are environmentally sound — in contrast to many glossy, annual reports that only tout a company's greenest side — captures the kind of transparency that is increasingly necessary.

Seventh Generation also takes care of communities and the environment. This includes philanthropic giving, work to limit the environmental damage of its operations and products, and efforts to educate the public on eco-friendly habits, such as washing clothes in cold water.

Beyond all this, Seventh Generation demonstrates another vital trait of good stewards — a degree of restraint. In particular, the company embraces the precautionary principle, which presumes a chemical may cause harm unless tested and shown otherwise. After all, DEP has not been shown to carry health risks like its chemical relatives. Still, the company is erring on the side of caution. ●

PART IV: THE FUTURE

The ability to move fast, companies are learning, involves both weight and strength. And strength has to

do with beefing up rather than breaking down connections with workers, suppliers and customers. To be sure, companies can grow fat and bureaucratic. Some streamlining of workers and processes may be needed. But quickness also has to do with reciprocity and trust. As consultant Stephen M.R. Covey has pointed out, lower trust taxes a firm through lower speed and higher cost. And a growing field of research is highlighting the power of the *connected enterprise* — meaning companies with active, decentralized networks of communication and healthy relationships within their walls as well as with external parties such as suppliers and customers.

Companies have started to move toward greater connectivity and stronger ties. HR outsourcing deals focus more on creating partnerships with frequent interaction between company and service provider. In general, businesses have moved toward selecting preferred vendors with whom they have deeper relationships. Those bonds, in turn, offer greater odds that final products will be safe and environmentally sound. And after years of trying to minimize customer service costs through skimpy staffing levels, outsourcing or a focus on minimizing time on the phone, companies like Home Depot and American Express are investing in thicker ties with customers — which can lead not only to heightened loyalty but also better real-time feedback. ●

A Hope*fully* Idealistic Vision

The Great Recession could have crushed the momentum toward better corporate behavior. Consumers, workers and investors could have concentrated strictly on selfish needs like low prices and high returns. But they didn't. People continued to seek out good companies. It's worth repeating findings from Edelman's 2009 study of 6,000 consumers globally. Fully 61 percent bought a brand that supports a good cause even if it wasn't the cheapest brand, and 64 percent said they would recommend a brand that supports a good cause, up from 52 percent only a year before.

This new economics of purposeful profit is unlikely to dissipate with a recovery. It will be easier, rather than harder, for people to buy, take jobs and make investments based on their principles. Indeed, in 2010, 70 percent of global consumers said that a company with fair prices that gives back is more likely to get their business than a company that offers deep discounts and doesn't give back.

Technology-Enabled Transparency

The participatory culture of disclosure is unlikely to ebb anytime soon. If anything, it seems to be expanding into the massive Chinese working class. Consider the way Chinese workers at a Honda plant used cell phone text messages and the Internet to organize strikes for higher wages in mid-2010. The workers in Zhongshan uploaded video of security guards roughing up employees and urged co-workers to resist factory bosses.

It turns out those workers were inspired in part from an earlier protest in another Honda factory in Foshan, China, where workers used Internet forums to organize.

The Honda strikes are part of a broader shift in China, where younger workers are standing together and standing up for themselves in ways older Chinese workers didn't. Listen to Lan Yimin, a 22-year-old migrant worker in the Pearl River Delta. "The young generation has a wider social circle," she told the *China Post*. "We talk more about factory conditions and we know more about our legal rights."

This is the world that is emerging. One that is fundamentally a more connected one. Where people are, in effect, keeping each other company like never before.

Bad companies won't be invited into the new world that is taking shape. They will wither. Good companies, though, will find themselves welcome and they will flourish. ●

Rising Shareholder Activism

Taken as a whole, shareholder activism is on the rise. Consider a study of activism trends from 2006 to 2008 that examined SC 13D disclosures. This type of U.S. Securities and Exchange filing applies to persons and institutions that take a 5 percent or greater stake in companies and reserve the right to influence management. The study by research firm Audit Analytics found that such activist shareholders expressed concern over share price five times more in 2008 and 2007 than they did in 2006.

RECOMMENDED READING LIST

If you liked *Good Company*, you'll also like:

1. ***Spark* by Frank Koller.** Lincoln Electric has fulfilled its unique promise of "guaranteed continuous employment." Koller tells the story of how this unusual and profitable company challenges conventional wisdom.
2. ***Enchantment* by Guy Kawasaki.** This book explains all the tactics you need to prepare and launch an enchantment campaign,to get the most from both push and pull technologies, and to enchant your customers.
3. ***Beyond Performance* by Scott Keller and Colin Price.** Learn everything you need to build an organization that can execute in the short term and has the vitality to prosper over the long term.

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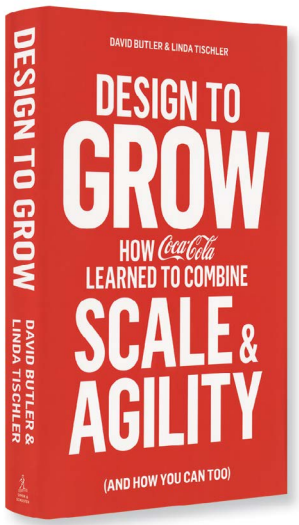
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Design to Grow

How Coca-Cola Learned to Combine Scale & Agility (and How You Can Too)



by David Butler and Linda Tischler

THE SUMMARY IN BRIEF

In today's ever-changing marketplace, every company is at risk of having a "Kodak Moment"— watching its industry and the competitive advantages it has developed over years, even decades, vanish overnight. The reason? An inability to adapt quickly to new business realities. Established companies are at risk, but it's no easier being an agile startup, because most of those fail due to their inability to scale. Tomorrow's business winners — regardless of size or industry — will be the ones that know how to combine scale with agility.

In *Design to Grow,* a Coca-Cola senior executive shares both the successes and failures of one of the world's largest companies as it learns to use design to be both agile and big. In this rare and unprecedented behind-the-scenes look, David Butler and *Fast Company* senior editor Linda Tischler use plain language and easy-to-understand case studies to show how this works at Coca-Cola — and how other companies can use the same approach to grow their business.

Design to Grow is a must-read for managers inside large corporations as well as entrepreneurs just getting started.

IN THIS SUMMARY, YOU WILL LEARN:

- Key differences between scale and agility.
- What it means to design on purpose.
- The three realities underlying the new normal of today's marketplace.
- The power of modular design for creating agility.
- How open systems can help you create a leaner organization.

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THE COMPLETE SUMMARY: **DESIGN TO GROW**

by David Butler and Linda Tischler

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PART I: DESIGNING FOR SCALE

It's not enough to be big: At its peak, Blockbuster had about 9,000 retail stores across the United States. It had the scale but not the agility to remain relevant. And, while every founder dreams of creating the next Twitter or Instagram, 90 percent of companies won't live to see year two. While they're all designed to be agile, most of them struggle with scale. Every company needs both scale and agility to win.

If you're working for a startup, you *get* agility. You're iterating your product/market fit daily and pivoting when necessary, just to stay alive. But the thing that keeps you up at night is *scale* — stabilizing your business model so that you can move to the next stage and become a company. This requires more funding, more staff, more customers, more of everything.

If you're working for an established company, you *get* scale. You're successful because you know how to leverage scale with a high degree of effectiveness and efficiency. Managing your scale is always a concern, but what keeps you up at night is mainly agility — how to meet expectations this quarter but also create the speed and flexibility your company needs to drive innovation and create the culture you need to remain relevant to the next generation.

What if there were something that you — your startup, your team, your function, your division — could use to create the kind of scale and agility you need to win? Design can create both scale and agility.

Coca-Cola and Design

When you think of Coca-Cola and design, your mind probably goes immediately to the company's most iconic brand — Coca-Cola — with its familiar color, distinctive logo and iconic packaging. While logo and colors are important, it's the stuff you can't see, the stuff that's invisible, that's often doing the heavy lifting.

For example, when Coca-Cola designs a new package, its goal is to actually solve business problems, not simply to pick colors, specify materials or determine its shape and size. All those things are important, but the new package must also connect to its supply-chain strategy, help the company meet its sustainability goals, work within the constraints of its bottling and distribution system, fit well with its retail customers' business plans and, of course, meet the needs of its consumers. When all these things connect, the company is using design strategically to help it grow.

Originally, Coca-Cola used design to simplify, standardize and integrate its business, which made it much easier to drive its growth strategy. That's essentially how the Coca-Cola company grew from a little startup in 1886 to a company valued at over $120 billion in 2001. By 2002, the same design strategy would no longer work for a product portfolio that ranged from sparkling beverages to coffee drinks to dozens of juices. Coca-Cola needed an approach that would help it to leverage its scale but also help create more flexibility and adaptability across its business.

The company's design revolution had to start with Coca-Cola. An idea was mapped out called "designing on purpose." Designing on purpose refers to design that is strategic, with a clear connection to our growth strategy; design that creates scale and agility — across markets and media; and design that inspires people. Designing on purpose should ultimately be design that leads culture.

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Rebecca Clement, Publisher; **Sarah Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **Carissa Bobenchik**, Contributing Editor

Over time, Coca-Cola introduced a systems-based approach to design. This would give both the consistency that was needed to design at scale and the agility they were lacking to quickly adapt to a rapidly changing world. It was a journey based on learning by doing.

They began with an area that most people could easily understand — branding and communications. They then moved to packaging and equipment. Then, they tackled retail experiences. Finally, they expanded the approach deeper into the operations of the business, into the distribution system and supply chain.

However, what really made the difference was opening up design to everyone, every function and every geography. The goal was to change how everyone designed — to make everyone a designer using a common approach — no matter what his or her title was.

In the past decade, Coca-Cola has added 10 billion-dollar brands to its portfolio and doubled its stock price. It is now on a trajectory to double the size of its business by 2020, essentially replicating in the space of a decade what took the company 100 years to build. Design isn't the only factor that's created this kind of growth, but it is an important one.

Design

Everything you see is designed by somebody. That coffee mug you're holding, or the plastic cup holding your airline O.J., the lamp beside the chair, the pattern of the fabric on the seat. In fact we're all designers — we all design things like meetings, deals, plans for the weekend, the menu for dinner. It's just that each of us is better at designing some things than others. The challenge, for all of us, is to design better — to get the most value out of the way we design.

Design is about intentionally connecting things to solve problems. Design is only good if it solves a problem. Good design makes something easier to read, easier to understand, easier to use. If you want to run a company successfully, you have to solve problems for your firm, your customers or your stakeholders. As a business, you may use art to stimulate. But you need design to solve problems.

Once you understand that we're all designers and the difference between good and bad design, we also need to understand how design relates to the stuff that we can't see. To really understand the value of design, you have to begin to understand how the visible and the invisible elements connect.

Another way to think about how visible and invisible elements connect is to think about them as a system. A system is a set of elements and behaviors that connect to do one thing.

If you're in business, your goal is to make sure the visible stuff (your products, communications, employees, etc.) connects to the invisible stuff (partnerships, processes, culture) in a way that helps your company succeed. If they don't connect in the right way, this can actually hinder growth. And this is how design becomes *strategic* — the way you design, or the way you connect the visible with the invisible can actually enable growth or prevent it.

Anyone can learn how to connect things in a way that makes them less complicated, simpler and easier to do. Connecting can apply both to very tangible things like machines to abstract things like supply chains, organization charts and customer relationships. When you design the solution as a system, you can begin to solve many connected problems across your business.

Designing for the Why

The Golden Circle is a model that Simon Sinek, researcher, author and educator, first introduced in his book, *Start With Why*. Sinek uses a simple model — three concentric circles — to discuss the interdependencies between the what, how and why great people and companies succeed. Great leaders, companies or individuals "think, act and communicate" and "inspire action" by starting with the Why. They focus on their purpose first — why they do what they do — not how they do it or what they make.

Most companies focus on what they design. But companies that get the full value out of design start with why they design and then shape how they design — their process — around their purpose.

Ask yourself these three questions:

1. Is design aligned with your growth strategy? Start with the Why — what's the purpose driving how you design in your organization? Is your growth strategy more about growing through scale or agility?

2. Then move to the how — what's your design process? Have you codified how your organization designs? Does it align with your growth strategy — your Why?

3. Do your products (or services) enable your Why? Does everything connect to enable your purpose? Does the invisible connect with the visible? When you look at your products or services — are all of the elements and behaviors connected to drive the Why?

Scale

Scale is the ability to increase in quantity without reducing quality or profit. All companies struggle with scale on some dimension. Every company is trying to expand to the next level, however they may define it, but startups have an especially hard time. All startups are temporary. They only exist to find a viable business model.

These are the questions startups need to answer if they are to become viable companies:

- How can we create a product that can scale up and down? As sales grow, patterns begin to develop. Your challenge is to figure out how to make more stuff when your customers need it and less when they don't.
- How can we create a business model that will scale? Your goal is to figure out how to do more for the same cost.

Scale is all about flawless execution — to create or leverage scale, everything must be designed to make it as easy as possible to execute with precision. To do this, you must eliminate all ambiguity, excess and waste. To achieve scale, everything must be simplified and standardized to integrate with the least amount of friction.

You must understand the critical details that make your product unique — the specific things people love — and then codify them so that they remain fixed over time and across geographies. Once you do this, it's time to standardize as much as possible. Standardization helps a company plan, resource, predict and, ultimately, grow consistently. Everyone moves in the same direction. That creates massive efficiency. Standards create a common language and clear direction.

Scaling Coca-Cola

There are seven different systems the company has used to scale Coca-Cola. Each of them was designed for scale and contributed to helping the company reach the vision to be "within arm's reach of desire."

1. The Formula. Very little has changed in the Coca-Cola pattern since it was launched over 100 years ago. The formula, locked in a vault in Atlanta, is still the basis of the product. That has made it much easier for the company to scale into so many markets.

2. The Spencerian Script. The company's first accountant thought using a cursive form of the brand name would differentiate Coca-Cola from other brands. The company standardized the logo in 1923, and it's exactly the same today, 90 years later. It is one of the most recognizable logos in the world.

3. The Contour Bottle. By 1920, the contour bottle, as it's been called, had become the company's most celebrated artifact. That bottle has become one of the most recognized objects of the 20th century, available in more than 200 countries.

4. Thirty-Six Degrees. Coca-Cola was designed to be consumed at 36 degrees Fahrenheit. The ice-cold language the company used on its various pieces of point-of-sale communication was a subtle reminder that the company expected retailers to always serve Coca-Cola at no more than 40 degrees.

5. The Nickel Price. For 70 years, from 1886 to after World War II, a bottle of Coca-Cola cost a nickel. The nickel price was a part of a very innovative form of brand building. Keeping the price fixed for seven decades greatly simplified the business and was critical in helping Coca-Cola scale globally.

6. Brand Marketing. By 1895, everywhere an ad for Coca-Cola appeared, it had the same four words: "Drink Coca-Cola. Delicious and refreshing." By 1908, some 2.5 million square feet of American building facades were advertising the delicious and refreshing properties of Coca-Cola. Designing for standardization helped scale the brand and the company on a national level.

7. The Franchise Business Model. The genesis of the company's franchise business model was an interdependent partnership between The Coca-Cola Company and more than 250 independent bottling companies around the world. This model has allowed the company to leverage global brands but remain very local. The Coca-Cola Company isn't one giant company; it's a system of small companies.

In 2001, the company's management decided that it would become a total beverage company. This changed everything. Simultaneously, the environment in which Coca-Cola was doing business was also changing, becoming more challenging and complex.

If the company wanted to build the next set of billion-dollar brands — in juice, in coffee, in water — it needed to figure out how to combine its expertise in designing for scale with a new aptitude: designing for agility.

Complexity

Our world is more complex than ever. This complexity is making it harder for every business to grow. What used to be called "getting back to basics" doesn't always work. Marketers must now be experts in *social listening*. Listening and reacting quickly is everything. Your management

team used to worry about taking costs out of your supply chain and meeting monthly sales targets. They still have to do that, but they also worry about big societal problems.

Everyone Needs Agility

Let's take a look at three new realities that create more complexity for everyone — from the startup that launched yesterday to the century-old multinational.

Reality #1: We are surrounded by wicked problems. Wicked problems are highly complex — they have many connected issues with no single solution. Examples include political upheaval, economic turmoil and natural disasters. Everyone is affected by wicked problems: people, governments and companies. However, for a company, some wicked problems not only disrupt business but can fundamentally change the industry, significantly challenging long-term goals and short-term results.

One of the most global wicked problems that affects Coca-Cola's business and the communities in which it operates is water. There's the issue of scarcity, of quality, of pricing, of policy, of flooding, of climate change and of infrastructure, to name just a few.

In 2010, the company outlined a goal to be *water-neutral* by 2020 — to safely return to nature and to communities an amount of water equivalent to that which it uses in all its beverages and production. To date, Coca-Cola has close to 500 water projects in development around the world.

Reality #2: We live in an After-Internet world. Today's world is open sourced, collaborative, dynamic, two way, co-created, always on, constantly evolving, shifting, linked, fluid and changing every second of the day. According to Internet visionary Joi Ito, one of the biggest disruptors for established business is that the cost of innovation, collaboration and distribution has decreased significantly. That means that big companies no longer have a monopoly because of their capital resources, factories or networks.

A couple of guys with a big idea in Bangalore can go to Startup Weekend for $100, rent a desk in a coworking space for $500 per month, buy some space in Amazon's cloud, and possibly disrupt companies that have huge assets and have been around for decades. This is what an After-Internet world looks like. What's more, young entrepreneurs don't need the permission of an organization to act on their ideas.

Reality #3: Winning is about creating shared value. Companies must think much more holistically about value creation beyond simply doing the responsible thing in the geographies in which they do business. Growth must be based on a shared understanding of the goals of everyone involved. Truly sustainable companies create not only economic value but also value for the communities in which they operate. Michael Porter and Mark Kramer call this shared value.

You have to create value in all areas of a company's activities to win — for you and for your suppliers, your customers, your consumers, your community.

PART II: DESIGNING FOR AGILITY

Only a few brands make it to the billion-dollar status — a special club of brands that have a market value of at least 1 billion dollars. While it's getting easier than ever to create a brand of this magnitude, it's getting harder than ever to keep one.

Billion-dollar brands only stay that way by finding new ways to create competitive advantage and relevance. Resting on your laurels in today's world is an open invitation for disruption. Unless companies, especially big, established companies, can actually embrace complexity by being more agile, they put their billion-dollar brands at risk.

Startups like Airbnb, Square and Uber started very lean — with little to no cash — and focused on a big unmet need and their business model from day one. By the time they reached billion-dollar status, they had devised and validated a repeatable business model that could challenge the old guard and even disrupt entire industries. The way startups design everything, from their products to their staff, partnerships and revenue model, enables agility.

If big companies, with their huge assets and global scale, can adopt new entrepreneurial behaviors — like the agility of a startup — they can actually lead in this new era.

Smarter

Like a startup, in many cases, a company doesn't fully know what consumers want or how a market may evolve; no one does. The only thing it knows is that things will change, and it needs a way to change with the market. The way it designs must help it learn and adapt.

One example that perfectly encapsulates how we need to think about design in fluid situations is Legos. Think about it. All the Lego bricks work together to help you make whatever you want to make — a wall, a house, a bridge, a starship.

And the great thing is that they are designed so that it's super easy for a child to make something great. You don't have to know anything about physics or architecture or en-

gineering to create a masterpiece. Plus, they're easy to use right out of the box. You don't need a manual to tell you how they work. They come in just enough different colors and sizes to bring an idea to life, simply and intuitively.

Integrated systems work best when you want to scale, but modular systems work best if you want to create agility. Like Legos, each element in a modular system is designed to be interchangeable and connect with other interchangeable elements in many different ways. This difference may sound small, but it is actually quite big.

Modular systems, like Legos, allow you to learn by doing. They give you options. They let you learn and adapt on the fly. When you were a kid playing with Legos, if you didn't like how your house or castle or airplane was looking, it was quite easy to change it. In this massively volatile world, this is how we need to learn to design our products.

More is More

Design must connect to a company's growth strategy. And for most companies, growth is all about agility. For agility, less is actually *not* more — in fact, *more* is *more*. To adapt, we need more elements, more options, not fewer. We must use design to adapt — to figure out what works — to move quickly in rapidly changing conditions.

The Coca-Cola Company is acutely aware of this. For example, most of what the company sells tastes better when it's cold. One of the biggest challenges for the company, especially in developing countries, is simply to keep Coke cold — not perfectly cold, just cold.

But most people in China have never even had a Coke or know that it tastes better when chilled. In fact, lots of people have never even heard of drinking a cold beverage. And since everything is new, there are no standards, no patterns, no formats for anything. That's a problem if the perfect way to enjoy your product is for it to be frosty.

The company doesn't need one standardized cooler in China; it needs an adaptive system that can respond to very different and changing conditions. It needs little ones, medium ones and big ones. It needs low-cost ones and premium ones. It needs coolers that are easy to service and ones that can essentially service themselves. It needs coolers that can manage different types of electricity.

It needs coolers that it can brand Coca-Cola, Sprite, Minute Maid or VitaminWater, depending on what the shopkeeper wants to feature. The bottom line is, the company doesn't need one perfect cooler. It needs a box of Legos — an adaptive system it can use to design different kinds of coolers that can flex to different conditions. This approach itself is infinitely flexible. The company has used it to design everything from musical signatures to coolers, to its distribution systems.

These days, companies must learn how to continuously disrupt themselves, or someone else will. It only happens by design. The way you design your products, your relationships, your operations and your organization can help you learn and adapt. Most of the issues that companies face today are not only complicated but connected. However, any company can design for the agility that it needs to fail fast, adapt to constantly changing conditions and remain relevant.

The fundamental difference in designing for agility is that you need to think about many solutions to many problems simultaneously. This goes against our natural inclination to think that there's one right answer, one elegant solution, which will adapt to all situations.

Understanding the need for flexibility, allowing for continuous iteration — being constantly open to better ideas or solutions as they present themselves — is a powerful way by which to stay ahead of the game and keep your business viable and ahead of the competition.

Faster

There are two things that make Legos modular. First of all, Legos have *fixed* and *flexible* elements. Among the fixed elements are color and shape. Their material — plastic — is also fixed. This helps Lego manage a global supply chain and maintain consistency and quality across its manufacturing and fulfillment processes.

In addition, all Legos connect in the same way, with little round studs on top that snap into holes on another brick's bottom. They're super easy. This is what makes the whole system of bricks modular — each brick, no matter what size or color, connects with the other ones quickly.

Designing this way, with both fixed and flexible elements, has created agility for Lego. The company is able to easily create, delete or combine various elements to introduce new sets into the marketplace based on changing consumer behavior.

What if you could design your products, your factories, your supply chain, your marketing campaigns and even your strategies to be modular systems? Imagine that you could add a new feature or quickly swap a component or bolt on a new acquisition as quickly as you used to add a few bricks to your Lego house when you were a kid. That's the power of designing this way as a company.

Coca-Cola used this approach to design a new modular system for one of its fastest growing categories: juice.

Global Juice Visual Identity System

A brand's visual identity system has to do two things. First, it must translate the brand's emotional connection to people. Second, it must connect with the product's rational attributes, creating a unique identity for the brand. Then, art directors, designers and brand managers can use the visual identity system to brand everything from packaging to advertising to the retail experience.

The company needed a visual identity system (VIS) that could provide a common look and feel across its juice portfolio. To do that, it needed a modular system that would give it the flexibility and speed it needed to add (or delete) various brands and products as it tried to capture maximum share of the juice market.

They needed a solution that could adapt from Beijing to Buenos Aires.

From their research, they knew that the packaging needed to reflect the actual fruit inside with visceral resonance. Then it hit them: "The one core truth around Coca-Cola's juice business is that the company is in it from grove to glass," said Coca-Cola design director Tom Farrell. "It owns the farms. It partners with the growers. It doesn't buy juice on the open market. So this notion that it's connected to the land is fundamental." How do you translate that into a brand's identity? What does "from grove to glass" look like?

They finally landed on a very deliberate presentation of the fruit. They knew they were on to something when one person in the test group, looking at the cartons lined up next to each other in the refrigerator case, said, "Oh, it looks like the produce aisle."

Local marketers amplify the pieces that resonate in their regions, while the design's DNA remains recognizable worldwide. Take the Minute Maid logo, with its black rectangle, white text and green horizon line that appears above. That green line acts as a metaphor for the company's deep connection to the land, and it stays the same across all packages.

The Global Juice Visual Identity System that was created had three parts: the brand identity elements (fixed and flexible), the information architecture (the logic) and the standards (the rules) for how everything connected to one another. Together, they created a consistent, or common, look and feel across the portfolio. And because they had designed a modular system, the company could pivot faster than before.

Minimum Viable Product

There's a lot we can all learn from how startups develop products. When companies like Twitter, Foursquare or Evernote were startups, they first began designing features or products by learning what end users really wanted or needed, which was often very different from what the developers thought they wanted.

The only way to do this is to get a very rough version to market — in front of actual users — as quickly as possible. The process for doing this is often called hack, release, repeat. The goal is to design a *minimum viable product*, a product that's just good enough to get in front of users — real people, often early adopters — who can use the product and give feedback on what's working and what isn't, as quickly as possible. Then developers go back and hack, or tear their product apart, to make it better, stronger or more intuitive to the user. The more users like it, the more users. The more users, the faster the startup can get to scale.

Then, Do It Faster

In short: Speed is the critical differentiator in a world driven by relentless change and daunting unpredictability. Every company wants to be able to get its products out faster and better than its competitors. Here's the rub: Could you be both faster and better at the same time?

The key to success is learning by doing. Constant iteration, a willingness to test ideas with real customers and gauge their responses, then pivot if they're not working, is critical. Rather than betting the ranch on a big idea, small tests can help a team determine if an idea has the legs for a bigger rollout.

Using design to learn by doing — using minimum viable products to learn as fast as possible — actually reduces risk and the fear of failure for everyone. You don't have to be a startup to move as fast as a startup, but it never happens by chance — only by design.

Leaner

Design can actually make a company leaner: You can design to use fewer people, less time and less money to get better results.

Open, Not Closed

Modular systems have fixed and flexible elements. But there is a third aspect: Modular systems are designed to be open. This openness makes it easier for everyone to take part in the design process, to contribute new ideas, elements and behaviors into the system. Open systems allow others to play in your sandbox.

Why is this important? Modular systems enable more collaboration and create much more diversity. Opening up and letting others in allows the system to develop in ways it never could by remaining closed. Crowd-sourcing, crowd-funding, coworking and open-source development are all based on this kind of approach to design.

While it may seem counterintuitive, opening up, sharing and allowing others to codesign, develop and build your products actually makes you leaner. When a company opens up, it can tap into the creativity, resources and passion outside its own team, group, function or company, often for free.

When you're designing an open system, the goal is to enable sharing. With an open system, if you can get your whole company to join in, the very act of participation creates a lot of buzz and excitement, since everybody feels as though he or she is contributing to the company's success.

Emergence

Emergence is when individual elements interact or work together to create something new, something that couldn't be created if each element acted alone. The word may be unfamiliar, but we've all seen emergence in action.

In the startup community, a good example of emergence is Kickstarter. In November 2010, Scott Wilson, a Chicago designer, posted his idea — a watch that grafted an iPod Nano onto an aluminum case — on the popular funding platform for creative projects. Within a week, he had raised $400,000 from 5,000 backers. Within a month, he had amassed a war chest of $1 million from 13,500 people in 50 countries. Kickstarter had enabled Wilson's project to emerge.

Emergence relies on self-organization. To create emergence, you have to design in a way that creates order between diverse elements so lots of people can share lots of stuff. The order must be spontaneous and decentralized, not directed or controlled by anyone. It must come from within the system and feel intuitive to everyone involved.

Focus

To win, you have to focus. Without focus, it's easy to waste resources, like time, money and people.

There is a great tool that startups use to stay focused on what really counts — it's called the "One Metric That Matters." As the name implies, it's the one indicator of real progress. At any given time, you'll be trying to answer a hundred different questions and juggling a million things. You need to identify the riskiest areas of your business as quickly as possible, and that's where the most important question lies. When you know what the right question is, you'll know what metric to track in order to answer that question. That's the OMTM (One Metric That Matters).

One of the OMTMs Coca-Cola has created is around the packaging it uses in its products. In 2009, the company set a goal of sourcing 25 percent of their PET plastic for packaging from recycled and renewable materials by 2015. This easy-to-remember (but hard to do) metric has created great focus for employees. It's easy to understand, actionable and fundamental to reaching the company's sustainability commitments.

A more recent goal is to use PlantBottle Packaging in 100 percent of its PET packaging by 2020. PlantBottle is not only the name it uses for the material but is actually another great example of a very open modular system.

"The majority of our products are produced locally," says Scott Vitters, head of Coca-Cola's global PlantBottle Packaging program. "We're not shipping products all over the world. Because of that local production, we can actually shift the type of packaging we use for local markets."

When you design for agility and let others play in your sandbox, everybody wins.

Epilogue

In his book, *Massive Change,* designer Bruce Mau said, "It's not about the world of design; it's about the design of the world."

As the world becomes more complex, we all have the opportunity to use design to make our world — our families, our communities, our companies, our cities, our countries — better, more agile and adaptable to change, if we design on purpose.

RECOMMENDED READING LIST

If you liked *Design to Grow*, you'll also like:

1. ***Change By Design* by Tim Brown.** Brown introduces the idea of design thinking, the collaborative process by which the designer's sensibilities and methods are employed to match people's needs with what is technically feasible and a viable business strategy.

2. ***Moments of Impact* by Lisa Kay Solomon, Chris Ertel.** The authors provide a creative process by which leaders can make good strategic choices while engaging more people with different perspectives more effectively.

3. ***A Team of Leaders* by Stewart Liff, Paul Gustavson.** By improving the core design components — the systems, processes, knowledge, management and visual management — teams will take responsibility for delivering better results.

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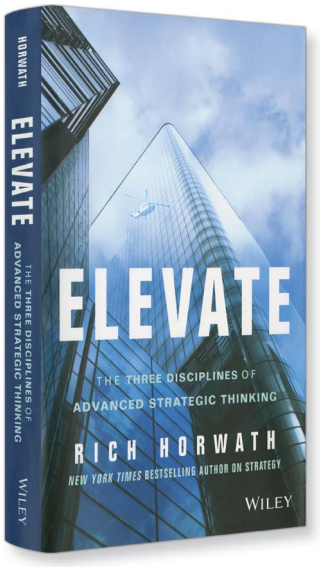
35-30 What Keeps Leaders Up At Night

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Management



Elevate

The Three Disciplines of Advanced Strategic Thinking

by Rich Horwath

THE SUMMARY IN BRIEF

Understanding the basic principles of strategy is just the prerequisite for becoming a truly strategic leader. In *Elevate,* Rich Horwath focuses on advanced strategic thinking that will drive results in the short- and long-term. His three-discipline approach breaks strategy down into its fundamentals: Coalesce, Compete and Champion.

Effective strategic leadership starts with a bird's-eye perspective, but it doesn't end there. Incorporating new insights and influencing commitment are part and parcel of advanced strategy. Through research, exercises, thought models and lucid explanations of key concepts, *Elevate* guides leaders in the process of building these essential skills.

Too often, managers are so busy with day-to-day business operations and fire drills that they forget to take a step back — to *elevate* their thinking. Horwath demonstrates that more advanced strategic thinking among managers would lead to greater strategic innovation and fewer fire drills, freeing leadership to take the initiative necessary to drive the organization to the next level.

Leaders who are unable to think strategically could find themselves being phased out. *Elevate* helps leaders get ahead in their careers by stepping back to focus on the big picture.

IN THIS SUMMARY, YOU WILL LEARN:

- What strategic thinking really means.
- How executives can practice strategic thinking daily to guide their businesses.
- How to use a concrete framework to keep your career vital through innovation and inspiration.

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THE COMPLETE SUMMARY: **ELEVATE**

by Rich Horwath

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Introduction

To elevate means to lift up or to raise to a higher rank or intellectual level. One of the biggest challenges I continually hear from CEOs and talent management leaders is, "We need to elevate our manager's thinking." In essence, they're saying that managers need to be able to quickly elevate their thinking from down in the tactical weeds of day-to-day operations to a higher level. At this higher level, they can expand their perspective to understand how the core foundational elements of their business fit together and provide superior value to customers.

The inability to elevate thinking in order to set strategic direction can have devastating long-term effects on an organization. To enable managers to elevate their thinking to a level that allows them to see the foundational elements of the business from a higher, more holistic vantage point, I've developed a framework called *the three disciplines of advanced strategic thinking*:

1. **Coalesce:** Fusing together insights to create an innovative business model
2. **Compete:** Creating a system of strategy to achieve competitive advantage
3. **Champion:** Leading others to think and act strategically to execute strategy

The three disciplines of advanced strategic thinking provide leaders with new concepts to change mindsets and practical tools to enhance behaviors so that they are maximizing their strategic leadership potential. The fact that the framework elements are referred to as "disciplines" means that it takes time, effort and commitment to master them.

In our action-oriented world, where we're electronically tethered to one another, investing time to think on a regular basis can be a challenge in itself. While it's easy to be pulled into one more meeting that you really don't need to be in and check email for the 47th time today while meeting with others, this lack of discipline is going to chain you to mediocrity.

The adrenaline rush that comes from scrambling to fight another urgent but unimportant fire is addicting and much more exciting than spending 30 quiet minutes thinking about the business. But it's these types of decisions that create your patterns of thinking and behavior. It's the discipline, or lack of discipline, that can make or break your career and determine the success or failure of your business.

Discipline #1: Coalesce

Strategic thinking is the ability to generate insights that lead to competitive advantage. Using the lens of *new value* on the ideas, projects, initiatives and tactics proposed each day provides a powerful filter for eliminating meaningless activities. It forces you to more closely examine *why* things are being proposed and pursued instead of just *what* is to be done.

Advanced strategic thinking requires not only the insights generated but the ability to coalesce these insights into meaningful differentiated value. Coalesce means to bring together, and we see this skill evident in great strategies and the strategists who have devised them.

Patterns in Strategy

The patterns of decisions your managers make regarding their strategic direction will ideally lead to the

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **S. Dayton**, Contributing Editor

achievement of their goals and objectives. As strategy involves the intelligent allocation of limited resources, it's imperative that positive patterns emerge in how those resources are allocated and, just as important, reallocated.

For many managers, resources stuck in dead-end projects and unproductive tactics simply stay there until the next planning process rolls around. The strategic thinking trap of the sunk-cost effect — continuing to invest in a losing endeavor because resources have already been spent on it — can put an anvil around the effort to elevate thinking. The results can be damaging not only for companies but also for their individual leaders.

One clear indication of a lack of strategy is a random and patternless hodgepodge of decisions with no consistency in approach. Leaders who describe their strategic approach as *opportunistic* believe that every opportunity is considered a good one. These opportunistic leaders fail to create a disciplined pattern of focus on providing maximum value to the right type of customer.

Inherent to identifying patterns in the marketplace and within the customer and competitor arenas is the ability to understand the business context. One method of pattern detection is to examine snapshots of the business at different points in time to identify combinations of activities or tendencies. To do so, a series of Contextual Radars can be created on a periodic basis and then examined for patterns.

Contextual Radar provides a visual snapshot of the four primary components of business market, customers, competitors and the company. At the center of the radar are any issues or activities that are at the core of changes in the business. It's the recording and review of events within the Contextual Radar framework over time that can then be mined for patterns. Once the patterns are detected and described, thoughtful conversation around their meaning, impact and warrant of resource allocation can occur.

Systems

A strategist's ability to see the big picture involves not only the elements of the picture but also how those elements are connected and what functions they serve. When these elements have connections and a purpose, we can refer to their whole as a system. As the first core skill of the advanced strategic thinker is to coalesce, or bring together, it's fitting that the concept of a system helps us do just that.

One of the ways we know a soccer team is a system, for example, is because if we take away elements, connections or purpose, the system is fundamentally changed. Remove the players or ball (elements), rules (connections) or score (purpose), and you no longer have a soccer game. As rules of thumb, if you cannot identify the elements, connections or the effects they have upon each other, then they most likely do not form a system.

As a system develops, it generates patterns of behavior due to the connections between elements in an organized fashion. That's one of the reasons it's important to look at your business strategy as a system, involving your employees, customers, suppliers, competitors and shareholders. Changes in any one of these elements or their connection (relationship) to others can fundamentally alter the course of your business. Understanding the systems that comprise your business is an important part of developing long-term strategy.

Business Model

At the foundation of a company is the business model. A business model is a structural description of how the organization creates, delivers and captures value.

The three phases of a business model can be described as follows:

Phase I: Value Creation

- Core competency: Primary area of expertise (what you know)
- Capabilities: Activities performed with key resources (what you do)
- Value proposition: Rationale for the offering (customer, need met/job done, approach to satisfy need, benefit to customer)

Phase II: Value Delivery

- Value chain: Configuration of capabilities to provide value (how you do it)
- Channels: Customer access points for offerings (where you offer it)

Phase III: Value Capture

- Price: Amount customers pay for the offering
- Revenue: Price multiplied by volume sold
- Cost: Expenditure of resources to provide offering
- Profit: Revenues minus costs

Profitable Growth

The point of coalescing insights into strategic direction is to generate profitable growth. Building pipelines of continuous, profitable growth is the lifeblood of any business. Therefore, it's important to understand the potential levers for growth as well as the pitfalls that can stall it.

A research study found that 87 percent of stall points, a term for the start of a prolonged financial decline, are caused by factors that are within management's control.

A staggering 70 percent of these stall factors result from choices about strategy.

To spur your thinking on organic growth, it's helpful to have an understanding of the range of potential pathways to increase profits. A tool to help leaders explore their growth options is the Strategy Spectrum. The Strategy Spectrum graphically lays out six columns of levers for creating new value for customers that can stimulate profitable growth.

1. **What:** Offerings (products/services)
2. **Who:** Potential target customers
3. **Why:** Customer need or job fulfilled
4. **Where:** Channels to access offerings
5. **When:** Time of access to offerings
6. **How:** Activities

Beginning with the current business model, items are placed in the columns representing the business as it operates today. Then new items borrowed from other companies and industries are used to complete the columns. The key is to play with combinations from the various columns to generate new ways to profitably grow the business.

Strategy and Innovation

Strategy and innovation are often shown to be two primary contributors to sustained financial excellence and competitive advantage. The common denominator for both strategy and innovation is insight. An insight is described as the joining together of two or more pieces of information or data in a unique way to come up with a new approach, new product, new service or new solution that delivers value. Insights come from the ability to wade through the waves of input we receive each day and mentally connect the dots in new and creative ways.

Business strategy is defined as the intelligent allocation of limited resources through a unique system of activity to outperform the competition in serving customers. The only way to truly intelligently allocate resources is to have strong insight into how your product or service provides value to customers in ways that are different than competitive offerings.

Innovation is the continual hunt for new value; strategy is ensuring that we configure our resources in the best way possible to deliver that value. When a leader embarks on innovation efforts, there are four potential outcomes:

- **Differentiation:** providing a distinct offering that leads to new profits.
- **Neutralization:** eliminating a gap in offerings or performance relative to the competition and market standards.
- **Productivity:** increasing efficiency or efficacy of processes in order to reduce costs.
- **Waste:** efforts that don't result in the first three outcomes and miss the mark of providing new value at an acceptable cost.

Discipline #2: Compete

To compete means to strive toward a goal. In attempting to reach the goal, we strive with others seeking that same goal, which supplies the motivational catalyst for us to try harder.

Research shows that in the arts, athletics and academics, the act of competing helps most people perform at a higher level. This motivational aspect of competition is even stronger when people know that they are just slightly behind those they are competing with.

Winning in any endeavor is often a result of competing to one's maximum potential.

A leader is a company, product or service that has market leadership and is in the position of protecting the business they have while looking for new, profitable growth. A challenger actively seeks ways to increase brand awareness and expand business. A spectator is a "me-too" type that operates in either a constantly reactive or mind-numbingly passive way. The goals and strategies you set can be conditional, depending on which of these positions you find yourself in.

Leader

When a new challenger enters the leader's market, there exists the temptation to immediately react with a flurry of tactics or completely ignore the new player altogether. But before either of these approaches should even be considered, a thoughtful assessment of the new entrant will provide a range of available options to strategically manage the situation. The following are the top 10 questions to catalyze your thought process and initiate a productive conversation around the topic of the new challenger:

1. Does the challenger's offering provide different benefits from our offering?
2. Do the challenger's unique benefits include functionality, quality, reliablility, convenience and/or cost?
3. Does the challenger enter the market with a different business model?
4. Does the challenger's business model differ from ours in how they create, deliver or capture value?
5. What is the challenger's value proposition?
6. What is the challenger's core competency?

7. What are the challenger's top three capabilities?
8. Does the challenger's offering target the same customer segments as our offering?
9. Is the challenger capable of taking away our current customers?
10. Should we respond to the challenger at this time or just monitor their activity?

Challenger

A challenger may be a new entrant into the market or one that has maintained a secondary or tertiary position for various reasons. One of the reasons failure rates for newly launched products are as high as 50 percent is that the challenger sees the market from a product perspective instead of through a customer-need lens.

When you find yourself in the role of challenger in a market, consider the following 11 questions to stimulate your thought process and initiate a productive conversation around how to topple the leader:

1. What customer needs or jobs are not currently being fulfilled?
2. Which customer segments are underserved by the leader?
3. Does the leader's offering provide different benefits from our offering?
4. Do the leader's unique benefits include functionality, quality, reliability, convenience and/or cost?
5. How does the leader's business model differ from ours?
6. What is the leader's value proposition?
7. What is the leader's core competency?
8. What are the leader's top three capabilities?
9. Are we capable of taking away customers from the leader?
10. Are we capable of transforming non-users into customers?
11. In what part of the value chain can we establish a foothold of success in this market?

A challenger mindset demands the discipline to make real trade-offs and focus one's resources with laser-like precision in only one or two areas that allow them to provide the greatest differentiated value to their targeted customers. It means not whining about a lack of resources and realizing you can't do a little bit of everything in order to play it safe. It means embracing risk and breaking with industry convention to do something that truly stands out.

Spectator

Many products and services continue to receive time and budget each year without providing much value to customers or profit to the company. These spectators either mindlessly react to the competition's moves, or they sit passively by and watch competitors continue to grow at their expense.

If you find your product or service in a spectator role, it's time to honestly answer the following five questions:

1. Why are we in this category?
2. Is this offering contributing profits to the business?
3. How can we redesign or reposition the offering so that it brings unique value to key customers, resulting in greater profit?
4. Would the customers we value most miss this offering if we discontinued it?
5. Could we bring more value to the market if we discontinued this offering and focused our resources on more profitable offerings?

Taking into account your position in the market when developing strategy means it's conditional. Not taking into account your position in the market when developing strategy means you're ripe for getting beat.

Competitive Advantage

While it's been debated how long a company can sustain competitive advantage in a market, the aim of most firms is to deliver superior value to their customers in a profitable way. Research shows that the primary means to profitably deliver superior value is through differentiation.

Creating, developing or discovering real differentiation that fuels that delivery of superior value takes time, thought and the courage to make trade-offs with one's resources. True differentiated value isn't determined by you. It is determined by your customer, and it shows up in the form of your profits.

Competitive advantage can be defined, then, as the ability to deliver superior value based on differentiation rooted in capabilities. Capabilities are comprised of resources and activities that are competitively relevant. Capabilities are what you do (activities) with what you have (resources). Competitive advantage isn't defined as having the best product or a better service, because in the end, best and better are subjective, depending on the customer and the type of value they seek.

Indirect & Intangible Competition

When we think competition, we think rivals. However, the true intent of business competition is not to beat the opponent. The real goal is to earn greater profits for the company. The battle for these profits is fought on multiple fronts, only one of which is with direct rivals. The indirect competitors for profits include customers, suppliers, potential entrants and producers of substitutes.

While direct rivals consume most of the mind share of leaders, it's the indirect competitors that can quietly eat away at your profits and position in the industry value chain.

In addition to direct and indirect competitors, there is also the effect of intangible competition on a company's profits. Intangible competition by its very nature involves factors that you can't see or touch. Intangible competition includes affinity for the status quo, apathy and priorities.

Status quo. An affinity for the status quo is a human condition where people tend to favor the way things are versus potential change. Internally, the affinity for the status quo manifests itself during the strategic thinking planning process as managers continue to allocate their resources in virtually the same way year after year.

A customer's affinity for the status quo is a formidable competitor. When you introduce a new product or service, in most cases you're asking customers to make changes in their thinking and behavior. Then you're hoping they sustain those changes over time.

Apathy. Apathy is described as a lack of interest or excitement in something that others may be passionate about. Apathy is indifference to the product, service, event, person or situation at hand.

Priorities. Internally, priorities can prove to be an intangible competitor because different groups are often tasked with different goals. The external challenge with competing priorities can be seen when companies are not truly driven by fulfilling customers' unmet needs. Instead, they work off their own internal agenda and hope it somehow meshes with the customers' agenda so they can be considered strategic partners. Unless an organization has taken the time to observe customers, identified their key jobs to be done, and produced solutions that deliver differentiated value on those unmet needs, the term strategic partner is a farce.

Your ability to assess, understand and outperform the various types of competition will influence your organization's trajectory. Competition involves striving together, reaching for higher levels of performance. Higher levels of performance are directly related to your insights for providing customers with differentiated value.

Discipline #3: Champion

To effectively champion a group's strategic direction could very well mean the difference between success or bankruptcy and employment or unemployment for thousands of people. Developing a strong strategy means that you've made trade-offs, and trade-offs mean that some of your potential customers aren't going to be happy.

While we know good strategy is not going to please all potential external customers, what's often overlooked is that good strategy is also going to upset some of your internal customers as well. Moving resources (time, people and budget) from one area to another is sure to stir up emotions as some people will see the changes as hurting their ability to run their part of the business. Therefore, any good strategy will come under attack internally because of the changes it causes.

And when the strategy comes under attack, you'll need to defend or champion it. In championing the strategy, a disciplined approach to managing time, influencing others, and continually developing new skills will be critical to success.

Using Time Strategically

As leaders move to higher levels in an organization, it's natural for them to continue applying their expertise to a wide variety of operational and tactical issues that arise, even if those issues are no longer within their realm of responsibility. While performing these unnecessary types of tasks is a natural inclination, it also does them a disservice in the long run. Their inability to let go of past tasks results in not cultivating new skills that will be instrumental to the firm's future success, and it hinders the development of other managers who should be fulfilling these responsiblities.

Leaders who are unable to delegate often rely more heavily on multitasking. While working on several things at once may provide a feeling of overachievement, it's in fact a smokescreen for lower productivity.

Leaders lacking a disciplined approach to applying their expertise and time can also become meeting magnets, where they are pulled into far more meetings than they actually should attend. If you're constantly being pulled into meetings without firm decision-making intent or an agenda not aligned with key priorities, you're wasting precious time. As managment guru Peter Drucker noted, "Time is the scarcest resource, and unless it is managed, nothing else can be managed."

To more effectively utilize time in your leadership role, consider the following three ideas.

1. Dedicate chunks of time to a single task.
2. Send fewer emails.
3. Make time trade-offs.

People want more time. What most people really need is more direction and greater discipline in how to use the time they already have.

Influencing Strategy Commitment

Influence is defined as "the power to change or affect someone or something; the power to cause changes without directly forcing them to happen; a person or thing that affects someone or something in an important way."

In the matrix organizational structure employed in many companies, the ability to influence is crucial if one is to gain their share of internal resources and effectively align their priorities with those of other key players.

During the strategic thinking phase of the strategy development process, people from different functional areas and different levels in the organization should have the opportunity to contribute insights. Having representatives from these different areas share input sends a powerful message to the organization that there is real importance in their work and ideas. It's equally important to share with everyone *why* the strategy being pursued has been chosen. People don't have to agree with the strategy or the rationale behind the why. The important thing is they want to know what the strategy is and why. In essence, they need the *because*, as in "We're doing X, because Y."

Increasing Buy-In with Social Proof

In addition to providing people with the reason or *why* behind the strategy, you can also gain a greater level of commitment to the strategy using social proof. The principle of social proof explains that someone is more likely to behave in a way that is similar to how they see others behave.

When it comes to strategy, social proof can be a powerful influence. When employees see their leader fully engaged and committed to a strategy, it demonstrates to them that it isn't another flavor-of-the-month initiative. A leader's words can move people to action, but a leader's actions can move people to commitment.

One of the challenges leaders face in getting their people to commit to a strategy is in the nature of strategy itself. New strategies are instantly working against a tide of doubt, not to mention people's reluctance to change. Therefore, another application of the principle of social proof is to provide people with evidence that the chosen strategy provides the best course of action.

As you hone your strategy and communicate it with others in the organization, it's important to bring it to a personal level. One of the reasons strategic planning has become a mind-numbingly ambiguous exercise is because it's not translated to the individual level. The lesson for leaders: Tailor the meaning of the strategy to your audience and how it relates specifically to them and what they're doing on a daily basis.

Strategic Behavior

The ability to influence others to commit to goals and strategies over the long-term doesn't come from a one-time motivational speech or a colorful banner. The success of influence is determined by one's ability to shape others' behaviors. A behavior is defined in its simplest form as an observable activity.

Whether it's at home, school or work, behavioral direction needs to be specific, concrete and observable. When developing new behaviors for a group to effectively create and implement strategies, remember the power of games. A game typically involves goals, rules, challenges and interaction. Professor Mihaly Csikszentmihalyi, a leader in the field of positive psychology, showed that activities involving game criteria such as goals, rules and clear feedback can create *flow*: the state in which people become so engrossed with an activity that it creates an optimal state of inner experience.

As you design new behaviors to implement strategies, attempt to include built-in opportunities to loop in goals, guidelines, challenges and frequent feedback. The important thing to understand is that the behaviors you develop should contain the game and flow criteria to build a greater sense of inner fulfillment and drive within your team members. A strategic leader understands that their role is not only to stimulate this new thinking for their group, it's also to ensure it's accompanied by the appropriate behaviors to generate new growth. We can capture this notion in an advanced premise: **New thinking inspires new behavior, leading to new results.**

Practicing Strategic Thinking

Once you've identified the behaviors that will have the most impact on the success of your business, it's important to give your people an opportunity to practice them on a regular basis.

In order to effectively develop a new behavior, it's helpful to break the behavior down into its component pieces, practice those pieces individually, and then practice those pieces together. When practicing the individual pieces, it's more effective to do so slowly, allowing for mistakes and then correcting those mistakes as you go.

A skill deteriorates if the primary circuits comprising the activities in a particular behavior are not used for 30 days. If you're not dedicating time at least monthly to questions and frameworks to think strategically about the business, then you will not be strategic.

Leaders have the opportunity to practice key behaviors and hone and develop their people's skills during their daily interactions. Opportunities for shaping how your

managers practice include one-to-one conversations, customer visits and staff meetings. Monthly strategy dialogues and workshops can be highly formative experiences that raise everyone's performance. As these situations arise, there are three practice principles that can guide your instruction.

Practice Principle #1: Begin with the Goal. Each practice needs to have at least one goal to work toward. Once the goals have been identified prior to the practice, the activities that build toward the goals can be chosen.

Practice Principle #2: Break the Whole into Pieces. Once a manager has a goal to practice, the next step is to break that behavior into its individual pieces. Mastery is then demonstrated when the manager can seamlessly weave together the individual elements of the behavior into its whole.

Practice Principle #3: Correct with a Solution. The correction provides specific, concrete direction on how to improve and then gives the person a chance to enact the feedback immediately.

Strategy Conversations

Strategy should be an ongoing conversation. One of the keys to maximizing your strategic leadership potential is to facilitate effective strategy conversations. A strategy conversation is a systematic method of encouraging the exchange of ideas, beliefs and opinions on the key strategic elements of a business. In a strategy conversation, the participants mentally move with one another from point to point. Three characteristics promote healthy strategy conversations:

1. **Candor:** The willingness to express honest ideas and opinions.
2. **Suspension:** The discipline to actively listen without judging.
3. **Openness:** The ability to thrive in a situation where the outcome is unknown.

The participants' ability to embrace these criteria can encourage new and different perspectives that can generate breakthrough strategy.

New strategy conversations begin with *dialogue*. A strategy dialogue facilitates the exchange of insights and understanding between two or more people on the important issues of the business. Once the group has exhausted the topics of strategic relevance through dialogue, the facilitator directs the group to begin *discussion*. Through discussion, the group breaks down the insights generated in the exploratory dialogue phase and harnesses them to develop solutions that move things forward. What emerges from the discussion are the actionable strategies, accountability and implementation that bring the conversation its end result. This is where focus becomes clear, trade-offs are weighed, and decisions are made.

Strategy discussions should not be concentrated at the top; they must take place at every level of the organization. Strategy will remain stranded in the executive suites unless teams throughout the organization can effectively translate broad corporate objectives into concrete action.

Conclusion

Just as a helicopter pilot monitors his planned course during flight for conditions that would warrant adjustment, we too must monitor our strategic direction to determine when a change in strategy is appropriate. Here is a checklist of five moments when it is critical to evaluate your strategy:

1. Goals are achieved or changed.
2. Evolution in customer needs.
3. Innovation in the market.
4. Competitors change the perception of value.
5. Capabilities grow or decline.

What's your end game? How will your colleagues, employees and customers describe you? Most important, how will you assess your run? It's not about the little things. It's about how you create the defining moments that shape the trajectory of a team, a business, a life. It's about coalescing insights into competitive advantages that you champion. It's about rising above the fray and seeing things others don't. And you can make that happen, if you're willing to elevate.

RECOMMENDED READING LIST

If you liked *Elevate*, you'll also like:

1. ***Moments of Impact*** **by Chris Ertel, Lisa Kay Solomon.** Learn a creative process by which leaders can make good strategic choices while engaging more people with different perspectives more effectively.

2. ***The Learned Disciplines of Management*** **by Jim Burkett.** Burkett presents a framework of individual disciplines that form a self-reinforcing management system for making the right things happen.

3. ***The 80/20 Manager*** **by Richard Koch.** Koch helps managers to focus on the issues that really matter, ask the right questions, find the right connections and realize meaningful achievement for their businesses and themselves.

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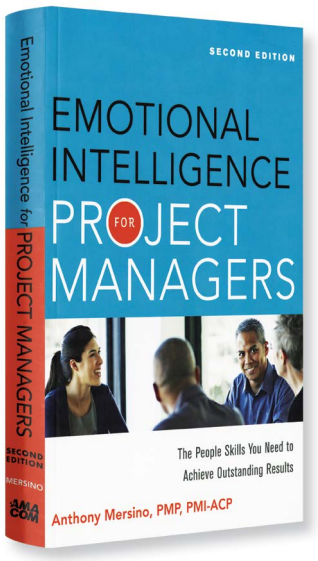
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Emotional Intelligence for Project Managers

The People Skills You Need to Achieve Outstanding Results



by Anthony Mersino, PMP, PMI-ACP

THE SUMMARY IN BRIEF

Without good people-management skills, even the most carefully planned project can fall apart in a flash. And managing people effectively means more than just keeping them in line: It means using finely tuned interpersonal skills and astutely reading emotional cues to get the job done right and on time.

According to the latest research, an astounding 70 to 80 percent of management success rests on this kind of "emotional intelligence" (EQ). Even if you already recognize the important role of EQ in the workplace, *Emotional Intelligence for Project Managers* by author Anthony Mercino will help you take your understanding to the next level.

This indispensable guide provides tips on using EQ to lead and coach Agile Teams and explores the concept of Servant Leadership, which enhances productivity by promoting emotional connection with your staff. Also, there are sections on self-awareness, self-management and self-care because before you can build and lead a winning team, you need to understand and nurture yourself.

The keen insights and practical tools you'll find here will help you transform your results from "good enough" to "beyond expectations" — all by improving your ability to read between the emotional lines. Improve your EQ, and you'll soon be getting the best work out of everyone involved — including yourself.

IN THIS SUMMARY, YOU WILL LEARN

- How to establish the kind of high-energy approach that attracts top performers.
- How to encourage flexibility and collaboration among team members.
- How to deal productively with change, blame, stress and criticism.
- How to leverage emotional information to make better decisions.

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THE COMPLETE SUMMARY:
EMOTIONAL INTELLIGENCE FOR PROJECT MANAGERS

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PART 1: AN INTRODUCTION TO EMOTIONAL INTELLIGENCE

My Growth in Emotional Intelligence

"Do you have any idea how dangerous it is not to be in touch with your feelings?" This question was posed to me by Rich, my career coach and mentor. Rich's question resonated with me, but I wasn't sure why. The truth was that I wasn't aware of my feelings or emotions. I knew I needed to make some changes. Until then, my relationships with my project teams and other stakeholders were weak or nonexistent. That was largely the result of my project management style as a taskmaster. I was all business. Unfortunately, I placed a higher value on tasks, productivity and outcomes than on relationships. I lacked empathy. I had a way of driving the people on my project teams that was hostile and irresponsible.

My big shift came when I began to recognize the value of emotions and relationships in the workplace. I became aware of feelings and learned to trust them as a source of information. I learned how critical relationships and support were to achieving success on large projects. My relationships began to grow along with my ability to lead others.

What Is Emotional Intelligence?

The term *emotional intelligence* was actually coined by two psychologists, Peter Salovey and John D. Mayer, in 1990. They gave it the following definition: "the ability to monitor one's own and others' feelings and emotions, to discriminate among them, and to use this information to guide one's thinking and action."

As a project manager (PM), I hold a pragmatic view of emotional intelligence, thinking of it as "knowing and managing our own emotions and those of others for improved performance." I am interested in the application of emotional intelligence to life in general as well as specifically to the field of project management. In a project setting, the understanding and use of emotions helps us to have more enjoyable, predictable and successful projects. ●

A Brief Primer on Emotional Intelligence

Emotional intelligence is a popular though often misunderstood term. It would be hard to have missed the buzz about it since Daniel Goleman's 1995 book *Emotional Intelligence* became a national bestseller. What made Goleman's book so popular were two claims: (1) that emotional intelligence may be more important than intelligence quotient (IQ) and (2) that you can improve your emotional intelligence. Those claims are what made headlines and got emotional intelligence noticed. And while I believe those claims are true, it is not as simple as that to be successful with emotional intelligence.

Can we objectively measure emotional intelligence? If objective and accurate emotional intelligence tests were available, they would be at least as valuable as IQ testing — perhaps even more valuable. Unfortunately, this has led to a proliferation of various emotional intelligence instruments. It has also fostered a great deal of criticism among the various authors of emotional intelligence instruments.

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The good news is that some level of agreement has been reached about the framework to be used for applying emotional intelligence.

Let's take a brief look at this framework and the five domains.

- **Self-Awareness.** The first domain of the framework is self-awareness, which means understanding ourselves and our emotions. It involves the competencies of emotional awareness, accurate self-assessment and self-confidence. Self-awareness is the first building block of emotional intelligence.
- **Self-Management.** Building on the emotional understanding we gain with self-awareness, we use self-management to manage and guide our emotional state. Self-management is the ability to control our emotions so they don't control us. In fact, the domain of self-management includes just one competency — self-control.
- **Social Awareness.** Social awareness occurs when we expand our awareness to include the emotions of those around us. The domain of social awareness includes empathy, organizational awareness, seeing others clearly and emotional boundaries.
- **Relationship Management.** Relationship management means using the awareness of our own emotions and those of others to build strong relationships. Those strong relationships will serve us on our projects. After all, projects are nearly always team efforts. The domain of relationship management includes the competencies of stakeholder relationships, developing others and truth telling.
- **Team Leadership.** Team leadership is focused on the emotional skills needed to effectively lead project teams. This includes communications, conflict management and inspirational leadership.

Project managers (PMs) need to be great communicators. The larger the team, the more important communications become. The communications competency includes the ability to understand and manage the emotional tone of the project team through communications as well as the ability to be congruent between actions, one-on-one communications and communications in groups.

PART 2: PROJECT MANAGEMENT BEGINS WITH SELF-MANAGEMENT

Self-Awareness

Self-awareness, which is the first building block of emotional intelligence, is our ability to recognize our own emotions and their effects on us and others.

Self-awareness is about the here and now. With self-awareness, we strive to get in touch with exactly what we are feeling right now. It is about knowing ourselves in this moment.

Self-awareness is not about what happened yesterday or what will happen tomorrow. Yesterday's events are only relevant if they affect how we are feeling right now. Otherwise, leave the past in the past. The key to self-awareness is to focus on what we are feeling now.

Emotional Self-Awareness

Self-awareness is the ability to understand our own emotions. It is about being conscious or mindful of our own emotional state. Self-awareness may be challenging for us for a number of reasons. First, our emotions can be as volatile as the weather. Feelings mix, morph and evolve, often in a short span of time.

Second, we may actually experience a mix of emotions at any time. We can be excited, happy, scared and angry all at once.

A third reason that self-awareness may be difficult is due to childhood wounds that inhibit our ability to access our feelings or simply to poor modeling of emotions by our parents.

Learning about emotional intelligence often includes unlearning what we were taught and breaking unhealthy bad habits.

It's rare that you can work on a project without experiencing at least one emotion, and this emotional awareness directly affects how successful we are in our work. We actually become stronger when we recognize the underlying feelings we're experiencing. Self-awareness is about developing this capacity. It is similar to building a physical muscle in our bodies.

Self-Confidence

Like accurate self-assessment, all PMs need self-confidence. No one wants to follow a leader who lacks self-confidence.

Individuals who lack self-confidence don't give themselves the freedom to laugh at themselves. It is as if they are on the defensive all the time, trying to make sure no one sees through their façade.

Ask yourself the following questions:

1. Are you aware of your weaknesses or the areas where others might get a chuckle about you?
2. Are you willing to let others have a laugh at you about those areas? Would you even make a joke out of it and let others laugh at you?

3. Do you ever feel as if you wouldn't dare let others know about mistakes you've made?

If you are too serious about yourself or feel threatened by the idea that others might see your weaknesses or flaws, consider loosening up a bit.

Self-Management

Self-management happens when we use our awareness of our feelings to manage ourselves. Building on the base of self-awareness, we use that information to control and manage our emotions. Self-management is the ability to control our emotions so that they don't control us.

Individuals who don't manage their emotions in the business world are called rage-aholics and drama queens. They cause others to sigh, roll their eyes, even leave the room in fright, and respond themselves with anger. If you cannot manage yourself, you cannot manage others.

Awareness can be a big help when it comes to managing negative emotions. When we are feeling a negative emotion, we can often disarm or control the impact of that feeling just by being aware of what it is and why we are feeling it.

Self-Control

Self-control is the ability to remain composed in spite of our emotional state. For most PMs, managing the negative feelings is going to be the biggest priority.

Here are some of the ways to improve self-control and emotional resiliency and reduce the likelihood and severity of emotional breakdowns.

1. Know Thyself. The key to self-control is self-awareness. Make it a point to understand your specific emotional triggers, your patterns of distorted thinking, and things that reduce or build up your emotional resiliency. Try to avoid putting yourself in situations where you aren't able to choose a graceful response.

2. Use HALT. HALT stands for Hungry, Angry, Lonely and Tired. These four conditions are warning signs that we might be vulnerable to emotional breakdowns. The key thing that the HALT acronym tells me is whether or not I am putting myself at risk.

3. Evaluate Your Physical Environment. If you are a work-at-home professional, try staying connected with Instant Messaging, or go to work in a public space like a Starbucks rather than staying at home in isolation.

4. Take Care of Yourself and Stay Healthy. If you don't take care of yourself, it will be hard for you to care for others.

5. Sharpen the Saw. Stephen Covey talks about the importance of sharpening the saw in *The Seven Habits of Highly Effective People*. In essence, he is talking about self-renewal. This means taking your vacations as well as investing in training and development.

6. Avoid Long Work Weeks. If you are working more than 45, 50 or 60 hours every week, you are likely setting yourself up for fatigue and illness.

7. Get Support. Reach out to others and engage them on an emotional level. Get the help you need to stay on top of your game.

8. Reduce Your Stress Level. There are a multitude of stress-reduction methods, from easy things such as exercise and self-care all the way through more radical approaches such as getting a new job or leaving an abusive relationship.

9. Talk It Out With Someone. If you don't have someone in your professional life whom you can bounce ideas off, find someone.

10. Give Yourself a Time Out. If you find yourself heading toward a breakdown, give yourself a time out. Leave the building, go to lunch early, quit for the day, or just head out to the nearest coffee shop for a snack.

PART 3: BUILDING PROJECT STAKEHOLDER RELATIONSHIPS

Social Awareness

Social awareness is the ability to understand the emotions of others. It includes the competencies of empathy, organizational awareness, seeing others clearly and emotional boundaries.

Simply put, social awareness is the ability to accurately read situations and people and to understand and empathize with the emotions of others.

Empathy

Empathy is one of the most important parts of social awareness and, perhaps, one of the most critical people skills for PMs and other leaders. Empathy is the ability to understand and relate to the emotions of others. It helps us walk in the shoes of another person or to see things from another's point of view.

The importance of empathy was explained perceptively in Stephen Covey's book *The Seven Habits of Highly Effective People*. Covey's fifth habit was empathy: Seek first to understand, then to be understood.

Embedded in that phrase is the simple wisdom of orienting first to the other person. A great deal of con-

flict that we experience on projects could be reduced or eliminated if we simply tried to understand the other person's point of view before we tried to convince them of our own message. We need to listen with the intention of understanding what others are trying to say.

One of the key applications of empathy is empathetic listening, listening without judgment. When we listen empathetically we 1) focus on the words and behaviors of another without judgment and 2) periodically summarize what they think, feel and need in the moment. PMs who master empathetic listening benefit by

- Making the speaker feel valued and important.
- Improving the depth of the communication.
- Understanding the underlying emotions, which adds richness to the conversation.
- Building trust and the relationship with the other.

Seeing Others Clearly

For those of us who want to improve our abilities to see others clearly, here are some steps we can take:

1. Recognize Our Own Biases. We can start by recognizing that we all have biases and prejudices.

2. Practice Studying Others. We can expand our understanding of others by viewing life as a game of exploration.

3. Practice Looking for the Best in Others. Make it a regular practice to evaluate your team and identify the strengths and weaknesses of each team member.

Organizational Awareness

The third competency of social awareness is organizational awareness. This awareness includes not just the project but also the company, customers and vendors related to the project.

The two main aspects of organizational awareness that Daniel Goleman and co-author Richard Boyatzis discuss are identifying key power relationships and understanding the values and culture of the organization.

Emotional Boundaries

The next facet of social awareness for PMs is the competency of emotional boundaries. An emotional boundary is where one person's emotions leave off and another's begin.

Empathy does not mean we should take on the emotions of others. As PMs, we need to recognize that we are separate and distinct from others. We need to be responsible for our own emotions and let others be responsible or theirs.

Here are some ways that we can respect our own emotional boundaries as well as those of others.

- **Set Limits.** It is often helpful to set limits in advance so that you can establish a clear boundary with others when you start. The point is to limit their ability to impact you. This can be as simple as establishing a length of time that you will be together, whether on the phone or in person; establishing limits on the type of behavior you will tolerate, as for example, you won't tolerate others yelling at you, or you won't sit by while someone criticizes your team.
- **Respond Appropriately.** How we respond to the emotions of others is a key to our own emotional sanity. While we want to understand the feelings of others, we need to be careful not to become "hooked in" to the emotions they are experiencing.
- **Take Responsibility.** Our response should include taking responsibility for our feelings. This means acknowledging that they are my feelings alone and that I have a choice about them.
- **Let Them Be.** The flip-side of our responsibility is letting others be responsible for their feelings. We cannot control others. Often we need to simply let them react to our words or actions. If they are going to be angry or sad, so be it.

Relationship Management

Relationship management is about using our emotional understanding of others to create relationships with them. The relationship management domain builds on the first three emotional intelligence domains. In other words, our success in relationship management is a function of our success in self-awareness, self-management and social awareness.

The PM Framework for emotional intelligence includes the following three competencies for the domain of relationship management: stakeholder relationships, developing others and truth telling.

Stakeholder Relationships

The goal of the stakeholder relationships competency is to strategically establish meaningful one-on-one relationships that are going to do the following:

- Increase our likelihood of success on the project.
- Provide cushioning to weather the inevitable storms that occur on every project.
- Provide an environment that is personally satisfying.

Stakeholder relationship management is the process of systematically developing stakeholder relationships that

help us with the project. We can break it down into the following four steps:

1. Identify our project stakeholders.
2. Collect and analyze information about the stakeholders.
3. Develop relationship strategies.
4. Manage the ongoing relationships with the stakeholders.

Developing Others

The second competency in the relationship management domain is developing others. For PMs, developing others means to invest in and grow the project team. Most PMs would agree that developing their staff is an important component of the job.

As PMs, we need to recognize that developing others means making an investment in them. As a result of this investment, we create goodwill and deepen our relationship with our team members.

Telling the Truth

The third relationship management competency is telling the truth. Being honest and forthcoming with the people we interact with on our projects sounds quite simple, but it is rarely a simple thing to do.

Fortunately, there is help for those of us who have a hard time telling the truth with diplomacy. Here are some tools and techniques to provide a framework for telling the truth in the project environment.

• **Providing Your Reaction.** What others do and say affects all of us. It is entirely appropriate to provide your reaction, especially if you are asked.

• **Saying No.** Many of us struggle with saying no. When we are asked to do something, most of us like to oblige by saying yes. For some of us, saying no is a muscle we simply have not practiced using. As a PM, saying yes too much can damage our careers. We need to know when to say no. If we don't protect ourselves and our team by saying no, we will alienate our team and perhaps even cause them to leave the project.

• **Using "I Like/I Dislike" Statements.** A very helpful technique for relationship building is to state what you like or dislike. You might say, "I like when you get your deliverables done on time" as a way to encourage your team members. A higher-risk version is to say, "I didn't like when you made that disparaging comment about Bob." That type of communication is clear and to the point.

PART 4: USING EQ TO PROJECT TEAMS

Project Team Leadership

Project team leadership is the overarching aspect of the emotional intelligence framework for PMs. It is about getting the right people on your team, successfully communicating with and motivating them, and then clearing conflicts and other roadblocks so that they perform and achieve the project objectives. This domain includes the project management competencies of communications, conflict management and inspirational leadership.

Communications

Undoubtedly, PMs need to be great communicators. The reality is that for most PMs, a big part of the job is communications. That may take the form of walking around and talking with team members or stakeholders. It may also mean sitting in lots of meetings. That is communications. Communications can also include talking on the telephone, writing emails and instant messages, preparing for meetings, creating and delivering briefings, and generating status reports.

No matter what form they take, communications contain and evoke emotions. Well-planned communications, therefore, help the PM set the emotional tone for the team. Poorly executed communications can trigger negative emotions in the team.

Communicating with emotional intelligence involves applying the domains of self-awareness, self-management, social awareness and relationship management. PMs who are competent in each of those domains will do a better job of communicating with emotional intelligence. If you want to be intentional about your project communications, consider the following steps:

• Determine your objective.
• Understand your own emotions.
• Choose an appropriate time, place and mode.
• Approach others with empathy.
• Listen and respond to the emotions of others and not only to the content of what they say.
• Share your own emotions when appropriate, being as open and honest as possible.
• Check for understanding and reactions.

Conflict Management

Project conflict can be disruptive. If not properly channeled, conflict can stifle communication, kill creativity and squash productivity. Project teams that are not able to manage conflict may ultimately fail to reach their objec-

tives. The PM is the one who will make the difference between leveraging conflict and having conflict wreak havoc on the team.

Conflicts involve both facts and feelings. It is important to probe to find out what the parties in a conflict are feeling. When we understand the underlying wants and needs of the affected parties, we better understand their motivation. Then we can work together to address the issue or conflict that is caused by the underlying want and need.

Inspirational Leadership

The third and final competency of team leadership is inspirational leadership. This is the ability to inspire others by casting a vision for the individual and the team. PMs who are inspirational leaders make work attractive and interesting to the team, create high team morale, and attract and retain good resources.

Vision casting is the process of stating a future, positive picture of the goals or objectives for the team, assisting the team to understand why they are important, and helping the team to connect with those goals and objectives. Vision casting for projects is the responsibility of the PM.

One way to cast a vision is through the use of the mission, vision and values statement for the project or team. The mission is a short statement about the overall objective for the team or what is going to be accomplished. The vision is a statement on how that mission will be accomplished. And the team values are the framework for pursuing the mission.

Creating a Positive Team Environment

As PMs, we want to create the best possible team environment to attract and retain great team members and help them to be productive. If we want to get the best from our teams, we need to create an environment that will support our team members and encourage them to perform at their best. The PM is responsible for creating that team environment and setting the stage so that team members can do their best work.

Creating a Positive Team Environment

Here are seven techniques for creating a positive team environment:

1. Assess How Team Members View the Team Environment. I have found it helpful to poll my team to see how they feel about the environment. Most members will be flattered if you ask how they think you are doing in this area. Consider a mini-assessment that will evaluate how you are doing in terms of creating safety, establishing and communicating values, and resolving conflict.

2. Put It in Writing. PMs may choose to document their expectations for their team members to make sure those expectations are clear. Consider working with the team members to create a set of values, rules or expectations for team behaviors.

3. Establish Clear Accountability and Hold People to It. Once you have established responsibility and accountability for deliverables, you need to hold others to it. Rate yourself on how you are doing in this area. If you are not doing as well as you would like, think about what you need to do to make it better.

4. Hold Others to Your Highest Vision for Them. Dedicate a chunk of quality quiet time to think about each person on the team and his or her true potential. Try to see people at their very best. Envision what their future could look like and how you see them succeeding.

5. Catch People Doing Something Right. Develop the habit of catching people doing something right, and make it part of your leadership style. Make it a point to track your efforts for each individual. Give more to those people who are junior or new to the team to help them integrate.

6. 1001 Ways to Recognize People. Some time ago I stumbled across a book entitled *The 1001 Rewards & Recognition Fieldbook*. The title helped me to appreciate that the ways to recognize and reward the individuals on our teams are nearly unlimited.

7. Fix Your Broken Windows. Take a moment to conduct an honest assessment to see if there are any rules or standards that people don't adhere to in your environment. Develop an inventory of the rules and standards, and if there are lapses, develop action plans to address any regulations that are not being followed.

Leveraging Emotional Intelligence on Large and Complex Projects

In the large project environment more than any other place, the PM has to be flexible in approach and have the ability to vary leadership style. In *Primal Leadership*, Goleman and his co-authors described six inspirational leadership styles.

Applying Different Leadership Styles

Four of those styles are considered to be resonant; that is, they cause a positive effect on the team environment.

• **Visionary Leadership.** Visionary leaders tell people where they are going; they provide the vision and the big picture. On a project, visionaries describe the end goals but leave individuals plenty of latitude on how to achieve them.

• **Coaching Style.** Coaching style focuses on personal development rather than on the accomplishments of tasks. The project becomes the vehicle that we can use to help people stretch and develop. The key outcome for the coaching style of leaders is the growth of the team members.

• **Affiliative Style.** Affiliative leaders are great relationship builders. They tend to focus less on tasks and goals and more on building relationships with their team members. Affiliative leaders create an environment of harmony and friendly interactions. They work to nurture personal relationships, using empathy and conflict management.

• **Democratic Style.** The democratic style is similar in some ways to the affiliative style. Democratic leaders tend to take input from many sources. This input leverages the experience of the team, provides for better decisions and gets buy-in from the entire team.

• **Pacesetting Style.** The pacesetting leader expects excellence and models that to the team. They have high expectations for performance and for continuous improvement. Pacesetting leaders tend to put pressure on everyone on the team to perform at their very best.

• **Commanding Style.** The commanding style is one in which leaders require everyone to do it their way. PMs who use the commanding style don't want questions; they want compliance. They are reluctant to share power and authority, and they rarely take the time to explain themselves fully.

The commanding style should be used sparingly. It works best during emergencies or crisis situations, such as during a project turnaround when there is no time to explain the rationale behind every decision. Otherwise, the commanding style takes a toll on the team and should be avoided.

Success with Agile Projects

The last five to 10 years have seen a tremendous growth in Agile projects. Whether Scrum, Lean, XP or some other methodology, Agile methods are quickly becoming mainstream for software development projects, and inroads are being made into other types of projects.

PMs usually have different titles and roles when working in the Agile environment. Scrum is the most common Agile method used today; it is a project management framework for Agile teams. The Scrum Master is the facilitator for the Scrum Team and is the rough equivalent to the PM.

Anyone who has used Agile methods, though, will attest to the fact that leading Agile teams is not the same as leading traditional teams. Agile teams are expected to be self-organizing. This doesn't mean there are no leaders, but it requires a style of leadership that is less prescriptive and more supportive. It is often called Servant Leadership, and it requires a lot of emotional intelligence.

Servant Leadership

Servant leadership is about making the needs of others a priority and then serving them. In the case of Agile, it means putting the needs of the Agile team first. The key ways that Agile leaders do this is through removing impediments and supporting the team to work better together. When leaders make the resolution of impediments a top priority, they help the team be productive, and more importantly, they send the signal to the team that the leader is there to serve and contribute.

Be a servant leader. Agile team leaders, Program Managers and Functional Managers all need to support the Agile team. They frequently need to serve as a buffer between the Agile team and the rest of the organization. Tune in to the organizational norms that run counter to Agile and run interference for the team. Help streamline mandatory documentation or other PMO requirements so that the Agile team can be empowered and self-organizing.

We can always improve in the area of people skills. And the great news is no matter what our current level of EQ is, we all have the ability to improve our level of emotional intelligence.

RECOMMENDED READING LIST

If you liked *Emotional Intelligence for Project Managers* you'll also like:

1. ***Emotional Intelligence: Why It Can Matter More Than IQ*** **by Daniel Goleman.** Goleman explains five crucial skills of emotional intelligence, and shows how they determine our success in relationships, work and even our physical well-being.

2. ***The EQ Difference*** **by Adele B. Lynn.** This useful book helps professionals at all levels understand how emotions can have a profound effect on performance, values and relationships in the workplace.

3. ***The 7 Habits of Highly Effective People*** **by Stephen R. Covey.** Covey presents a holistic, integrated, principle-centered approach for solving personal and professional problems.

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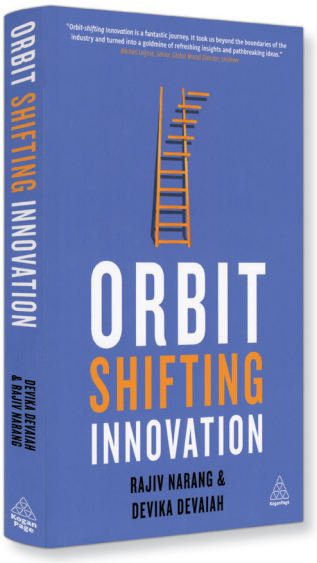
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Orbit-Shifting Innovation

The Dynamics of Ideas That Create History



by Devika Devaiah and Rajiv Narang

THE SUMMARY IN BRIEF

Orbit-shifting innovation happens when an area that needs transformation meets an innovator with the will and the desire to create, and not follow, history. At the heart of every orbit-shifting innovation is the breakthrough that achieves a transformative impact. Businesses, social enterprises and even governments need orbit-shifting ideas to create a transformative impact. But how does that groundbreaking idea come about, and what translates it into actuality?

Charting the vast global landscape of orbit-shifting innovation and using unique examples from prominent businesses, the social sector, entrepreneurs and public services, authors Devika Devaiah and Rajiv Narang build insight into the key drivers behind taking on a transformative challenge and provide a unique framework to navigate the pitfalls and challenges in making it happen.

Orbit-Shifting Innovation empowers everyone to overcome the obstacles to innovation and provides the tools to maximize the impact of transformative change. The inspirational examples and tools for success compel leaders and entrepreneurs to not only pursue impossible challenges but lead the successful journey from conception of an orbit-shifting idea to actually creating history.

IN THIS SUMMARY, YOU WILL LEARN:

- Powerful myths about innovation and how to overcome them.
- How to define and take on orbit-shifting challenges.
- How to break through mental-model boundaries and generate groundbreaking insights.
- How to excite stakeholders and stand out as an orbit-shifting leader.

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THE COMPLETE SUMMARY: **ORBIT-SHIFTING INNOVATION**

by Devika Devaiah and Rajiv Narang

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Introduction

What are the real dynamics of executing an orbit-shifting innovation with as much focus as it takes to conceive it? Surfing through the multiple uncertainties of innovation has revealed many innovation myths. The first innovation myth is at the heart and soul of every innovation endeavor: the WHY of innovation. Most managers interested in innovation have become mesmerized with newness to such an obsessive extent that "What's new about this idea?" is almost always the first evaluative question. Orbit shifting is the real passion, and the driving purpose and innovation are merely the means to make the orbit shift happen.

There is also the myth that innovation equals ideation. In reality, an orbit-shifting innovation emerges not with a search for ideas but by recognizing boundaries. To create breakthroughs, we need to move from ideation to breaking through mental-model boundaries.

Most big ideas don't get killed; they just get diluted. Orbit-shifting innovation brings insights into overcoming execution obstacles. As much, or more, innovative thinking is needed to execute a new idea than was required to come up with it. Another well-established myth is that breakthrough innovation starts with an out-of-the-box idea. Orbit-shifting innovation really starts with an out-of-the-box challenge. An out-of-the-box challenge is what is needed to propel thinking beyond the current box to generate an orbit-shifting idea.

A common myth is that the fear of commercial failure prevents us from taking on orbit-shifting challenges. In reality, it is the fear of personal failure and the loss of credibility that prevent leaders in organizations from burning their bridges or removing their escape buttons. Another myth is that the top management can mandate innovation. The reality is that innovation *cannot* be mandated because ownership and excitement cannot be mandated: people have to take charge. How do those who lead innovation inspire others to also believe in the new idea, the new proposition, with as much commitment as they do?

The final myth is that once the big idea has been developed into a working prototype, then taking it to market is a simple case of Test and Launch. But a new idea entering the old pipeline may suffer its greatest dilution in the last mile.

Here, finally, is the compass to navigate the fog of innovation in all its messiness, uncertainties, complexities, paradoxes and ambiguities, not just a sanitized formula or a tool or process for innovation. A compass that doesn't stop at conception but that navigates an orbit shift end to end: from conception all the way to realization.

PART I: ORBIT SHIFTS THAT CREATED HISTORY

Orbit Shifts That Created History

The Swiss firm Vestergaard Frandsen has invented a product that is and will have a transformative impact in areas where there is a pernicious shortage of clean drinking water. It has created a straw through which water is purified as it is drunk from any water source, regardless of quality. With an ultra-filtration cartridge embedded into it, this straw filters 99.9 percent of water-borne bacteria and parasites. A single straw costs about $6.50 U.S. and

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filters about 1,000 liters of water, which is enough for one person for one year. This has brought potable water within the reach of millions of people for whom traditional water purifiers or bottled water are simply not affordable. Vestergaard is truly saving lives with this orbit-shifting straw by safeguarding against water-borne diseases, which are among the commonest sources of illness. No wonder, then, it has been named LifeStraw.

Vestergaard was originally a clothing company, in the fabric industry. And yet fabric became the trigger, rather than the boundary, to create the LifeStraw — its central component is a cloth-based filter membrane.

Microsoft, Apple, Vestergaard Frandsen, Smart Telecom and Vodafone are all business innovators that have created an orbit shift. They all began by identifying a transformation need: an area where following the existing route and mere incremental improvement was just not enough. Once they had identified the potential for the orbit shift, it created a restlessness that got them to challenge and break out of the current orbit. This restlessness led to an orbit-shifting innovation: a breakthrough that has created a disproportionate impact.

Redefine and Recast Innovation

The vast landscape of orbit-shifting innovation provokes us, indeed, forces us to re-examine and recast *innovation as a concept*. The first myth to be shattered is the deep belief in the romance of innovation. Today, the world is seduced with the act of coming up with novel, world-first ideas. For orbit shifters, however, the spotlight shifts from innovation itself to actually making the orbit shift happen. For them, orbit shifting is the purpose and the passion, and innovation is merely the means. Orbit shifters first set out to create a transformative impact. What follows later is the innovation.

The next myth to be shattered is that innovation equals technology and product innovation. Most traditional models of innovation are still preoccupied with R&D, technology and product innovation. The orbit-shifting innovation landscape painted earlier breaks this myth. What stands out is that equally powerful orbit shifts have come about through service, process and business-model innovation. The canvas of orbit-shifting innovation doesn't furnish only new products, business processes and business models. It goes further with innovating the *people engagement model* and even further to include *ecosystem innovation*.

Orbit-shifting innovation is not just about innovating the technical or operational process; it is as much about innovating the managerial process.

PART II: SEEDING ORBIT-SHIFTING INNOVATION

Confronting Gravity

Orbit-shifting innovation stories are very romantic in hindsight. They inspire, encourage and even provoke dreamers into positive restlessness and action.

However, what is usually not visible behind these stories are the extreme odds that orbit shifters had to overcome in making their dreams a reality. It is here that most people give in and give up. Most orbit shifters recognize and realize that when the rubber hits the road, they are all alone.

What drags down and even decimates orbit-shifting dreams and ideas? Most people are stuck because their mindsets block them. They have come to perceive "reality" in a certain way, and this, more than anything else, limits them from innovating. Just as gravity is an all-pervading force that cannot be seen or even felt, day after day, but prevents us from breaking the bonds of earth, so is mindset gravity a pervading force that traps people, without conscious realization, into their current orbits.

Four layers of mindset gravity stall orbit-shifting innovation:

Organization gravity: Organizations accumulate gravity with frightening ease. Past successes become best practices. Best practices become templates. And templates become the unquestionable sacred truths. Organization gravity not only stifles a new market entry strategy but also prevents the emergence of new opportunities. Managers and organizations excel in slicing and dicing the market into neat categories: customer categories, usage categories, sociocultural categories. Categorization simplifies, but it also becomes the mindset gravity that prevents the emergence of the new.

Industry gravity: Organizations in highly regulated industries like pharma and finance often fall into the trap of attributing the reason for not innovating to the imposed regulations. While regulations are necessary and mandatory, over time what begins to happen is that gravity makes organizations follow the regulations to the letter rather than to their original intent and purpose. Over time, gravity sinks in and more and more assumptions get treated as facts.

Country gravity: Any game-changer at the industry level is strongly influenced by the undercurrents of country and culture mindset gravity. If these mindsets are not surfaced and resolved, this deep, unquestioned gravity can become the silent killer to a disruptive innovation

attempt. So powerful is country and cultural gravity that it sweeps across sectors and traps entire nations of people into "self-limiting beliefs" that are invisible, endemic and even paralyzing.

Cultural gravity: Cultural gravity embeds itself even deeper than country gravity and can breed the extremes of arrogance and subservience — instinctive arrogance in developed markets and deep-rooted subservience in the developing markets. Cultural subservience in developing countries is all-pervading: most people are not aware of how deeply it runs in their veins and how much it drives the way they think and operate with respect to the developed world. Cultural arrogance builds a blinding self-confidence that can become an equally strong force of gravity.

Take on an Orbit-Shifting Challenge and Burn the Bridge

Most orbit-shifting innovations did not start with an out-of-the-box idea but with an out-of-the-box challenge, an orbit-shifting challenge. It takes an orbit-shifting challenge to create the escape velocity needed to break through gravity. An out-of-the-box idea is a consequence. An orbit-shifting challenge leads to an orbit-shifting idea and not the other way round.

Triggering the Orbit-Shifting Challenge

How does a leader or an organization go about uncovering and identifying orbit-shifting challenges? What are the new reference points? What triggers the identification of an orbit-shifting challenge as against a traditional performance goal? Orbit shifters, unlike followers, don't reference last year and create stretch goals. They trigger orbit-shifting challenges with a series of nine triggers.

First trigger: Discovering a positive inflection point. While followers look at market trends, orbit-shifters sense a positive inflection point in the market — an ecosystem-need gap that when bridged can unleash a huge wave of demand.

Second trigger: Designing for extreme conditions. Extreme conditions present extreme challenges. There are many instances of orbit-shifting innovations emerging when a society or an organization has been thrust into extreme conditions. Coming up with solutions for an army that is based in extreme terrain and for astronauts in space has led to an array of new ideas.

Third trigger: Turning around a threat. When faced with a threat, gravity-infested followers play safe and even withdraw into a shell. Orbit shifters turn a threat into an orbit-shifting challenge.

Fourth trigger: Making an exception the new reference point. Some followers look at the average and create stretch goals; others benchmark with the industry best practices and create catch-up goals. Orbit shifters go beyond the average, go beyond best practices. They search for the exception across industries and domains and make the exception the reference point for an orbit-shifting challenge.

Fifth trigger: Rediscovering lost pride. Sometimes it is not an intellectual but an emotional trigger that leads to an orbit-shifting challenge. A strong impulse to reclaim lost pride can lead to an orbit-shifting challenge with the highest escape velocity. Nothing fires people up more than reclaiming dented pride.

Sixth trigger: Refusing to accept a suboptimal equilibrium. A suboptimal equilibrium occurs when a community or society has learned to live with an inequality or a gap that causes great dissatisfaction as an inherent part of life. Orbit-shifting challenges get triggered when an orbit shifter spots and chooses to eliminate a suboptimal equilibrium rather than live with it.

Seventh trigger: Pursuing a causal adjacency. What do we do when we reach a point where growing a business is not enough to motivate us — where business as usual has reduced itself to a series of meaningless chores without inspiration or drive? Most people give up or get out. Orbit shifters can literally reinvent the path forward by finding a causal adjacency to the business. A cause becomes the anchor around which the next business is built or pursued.

Eighth trigger: Not targeting the best possible but the theoretical best. What is practical and what is possible are two questions rooted in the current orbit. They become the gravity that reduces a challenge to the point of being immediately doable.

Ninth trigger: Transforming the input-output equation. Orbit shifters take on orbit-shifting challenges that upend the established input-output equation. They take on development and growth challenges that are deliberately non-linear.

Breaking Through Mental-Model Boundaries

An orbit-shifting challenge needs orbit-shifting ideas to bring it to reality. To discover orbit-shifting ideas, mere ideation is not enough. What is needed is the ability to

first recognize and then break through mental-model boundaries. Orbit-shifting aspirations pursued with mental models that are trapped in the current orbit fail to take off.

To move the innovation and growth drive into the next orbit, an organization needs to recognize and confront the invisible limits of the existing orbit and uncover the strategic blind spots embedded in the current orbit.

Uncover Boundaries and Not with Ideation

Faced with an orbit-shifting challenge, traditionalists launch themselves straight into "idea generation" sessions. Orbit shifters, on the other hand, restrain their natural instinct to rush into ideation and instead start by deliberately mapping and identifying the boundaries of their thinking. They probe and push the boundaries of their thinking by exploring questions like, "Why are we in this business? What is currently hitting the wall of diminishing returns? Where are we saying no to the customer? What do we consider impossible? What are the suboptimal equilibriums that we have become used to? What parts of our industry do we consider saturated? How do we break out of this capital-intensive business model? They use a series of such triggers to first uncover and identify the mental-model boundaries.

Redefine the Core

Over a period of time, the best of industries get caught in the trap of value adding. In the zest to add value, they forget to question and re-examine the core. Every bit of value added seems good when seen independently, but if the core remains the same, the additions can soon become peripheral. Unknowingly and inevitably, the product or service gets over-engineered.

The airline industry became the epitome of an industry that focused on adding value with vision and zest. Reward miles, gourmet meals and increasing freebees were among the never-ending list of value adds that they hoped could build the franchise and ensure loyalty.

This mental model was broken with the emergence of low-cost airlines. At the heart of it, the core need is to get from one point to another on time and at the lowest cost. The rest is peripheral — desirable but not essential. A service that promised comfortable seats and on-time arrival at a low, in fact unbeatable, cost became the success model of budget airlines.

Orbit-Shifting Insight

An orbit-shifting insight will break through mental-model boundaries, join new dots and make the orbit-shifting idea visible. Orbit shifters believe that the one thing that cannot be delegated or outsourced is market insight. They demonstrate the will and the focus to immerse themselves in the market and get first-hand insights. They believe only first-hand market experiences have the power to uncover new questions and new insights. Insight is the capability to go beyond what customers want to why they live the way they do or don't and to find solutions to questions that genuinely mean something to them.

The Origin of Microfinance

The microfinance model that broke through the mental model of traditional banking began when Muhammad Yunus had an orbit-shifting insight. Muhammad Yunus spent long hours with the people at the bottom of the pyramid, trying to understand their context and needs. What stood out for him was that these people lay completely outside the mental model of traditional banks that needed assets as collateral in order to sanction a loan. It was a vicious cycle: they had no asset for collateral, but they needed loans to move out of the poverty cycle.

His determined and empathetic drive led to a social insight: "For people in this part of the world, losing face in their community was far worse than losing money." This further led to the breakthrough business insight: use community, rather than assets, as collateral. It was then developed into a business model of small loans to women, with community as collateral. This started the microfinance revolution.

The microfinance insight did not come from a bank! What made it genuinely difficult for even a very progressive bank to get a "microfinance-like" insight? Self-projection traps us into seeing the world through our own lens. Looking at the third world through a first-world lens blocks an orbit-shifting insight, and the organization remains stuck in the existing mental model.

PART III: COMBATTING DILUTION IN EXECUTION

Overcoming Walls of Doubt: Excite and Enroll Stakeholders

The notion of a maverick acting like a Lone Ranger to conceive of and succeed with a radical idea can and does work for entrepreneurs. However, in large organizations, if mavericks become lone rangers, though they still can and do conceive bright new ideas, they are rarely able to make

them happen. An idea can begin to crumble when it comes up against skeptical gatekeepers and indifferent peers.

What does it take to excite and enroll stakeholders? What does it take to move stakeholders from doubt to confidence and conviction? What an orbit shifter really needs are generative stakeholders, who not only help to solve unsolved problems but are also proactive in uncovering and leveraging opportunities to maximize the innovation.

Co-Building with Stakeholders

Moving stakeholder engagement from "evaluating" to "co-building" is what an innovation champion needs to be able to do. The biggest realization for an orbit shifter at this stage is that she/he has to move from thinking of the orbit-shifting idea as "my dream" towards building it into a "shared dream."

This move can be emotionally and intellectually tough, as the innovation champion is by now in love with the idea, and as new stakeholders are enrolled, chances are that the idea could grow and be shaped differently from the creator's original thought. But orbit shifters also realize that to get the stakeholder to go the extra mile, to solve problems beyond their current know-how, will take extraordinary motivation. And this can only happen if the stakeholders' ownership of the idea is as big as their own.

Orbit shifters also reach out and think and act as equals with their bosses and peers. Orbit shifters do not get preoccupied with managing perception; they enroll their bosses into the purpose. They put the purpose before the position of the person they are talking to.

From Unconditional No to Conditional Yes

Innovators often come up against decision makers who might say "no" to one part or to the whole of the big idea. The orbit shifter recognizes that a "no" is not unconditional — that behind a seemingly absolute and irrevocable "No!" is usually a genuine concern or a series of assumptions that is leading to the stakeholder's conclusion of "no."

Faced with a "no," the orbit shifter doesn't back off. Instead she/he steps forward to engage with and uncover the underlying concerns and also enables the stakeholder to recognize these as concerns, which if not handled is leading to "no." However, the orbit shifter reframes it to become a conditional "Yes!" Solving the concern has opened up a path to go from a "no" to a "yes."

After an engagement like this, a stakeholder is likely to feel more understood, and his/her resonance with the orbit shift increases.

Navigating the Fog: Overcome Daunting Obstacles

Executing an orbit-shifting innovation is a journey filled with tunnels of fog — multiple points where the orbit shifter is confronted with new, unforeseen problems. Faced with fog, orbit shifters don't give up or give in. It is their capacity to navigate the fog that differentiates an orbit shifter from a settler.

Orbit shifters navigate the fog in execution in three dominant ways:

By turning around never-faced-before problems. Navigating the execution fog is not just about dogged persistence. Overcoming execution obstacles sometimes calls for as much innovation as was needed in coming up with the orbit-shifting ideas. Where is the fog confronting you? How can you move your team to positively navigate the fog — shift from seeing the obstacle as an "idea-maximizing threat" to an "idea-maximizing opportunity"?

By attacking the known and persistent problems with a new lens. The toughest fog is actually caused by recurring, often predictable problems. Faced with persistent execution problems, managers and bureaucrats take refuge in "powerlessness" — they don't confront and navigate the fog; they simply avoid it. As a result, most actions lose all impetus, and everything settles at the lowest common denominator.

Where have you attempted to execute an orbit shift with an over-simplistic organization-restructuring exercise? Making a structural change that sharpens accountability for executing the new is not enough to navigate the fog in execution. Where do you need to complement the structural change and inspire your managers to make the mindset shifts needed to navigate the fog in execution to attack persistent problems with a new lens?

By not letting a new idea enter an old pipe in the last mile. For most organizations, a mature, proven, well-organized, well-disciplined and almost regimented take-to-market model is the last mile. It is here that the new idea almost inevitably enters the old pipe. Most organizations mature their sales channel into an efficient pipe and lock it down. A new idea now has to either fit in or die in the last mile. Hence, the idea ends up getting retrofitted to suit the old pipe rather than innovating on the old pipe to leverage new ideas.

Re-examine the last time you took an innovation to market: How many complementary innovations were deployed to reshape the last mile? What has been the real cost of avoiding the fog in the last mile?

In-Market Versioning and Fissioning

Orbit shifters see the first go-to-market stage not as the first stage of market launch but as the last stage of proposition development. They recognize that the new idea will need to have space to play out and evolve in the market, and that will in turn impact how it should scale up and grow. Therefore, they are prepared to iterate and grow the idea in market. The approach is how to make it work.

Settlers, on the other hand, approach the go-to-market stage as the first stage of launch. Hence, their motive is not to evolve the idea in the market as much as it is to see *whether it works*, and if not, then to park it and move on. This testing mindset, "see if it works," often results in an orbit-shifting idea being abandoned too early.

In-Market Versioning, Not Piloting

The most effective way to deal with the uncertainties inherent in taking a new idea to market is to have an in-market evolution process: a series of in-market experiments that systematically uncover and resolve the unanswered questions and discover opportunities to maximize the market impact.

What is needed is in-market versioning in three stages: best conditions, real conditions and scalable conditions. These three stages of in-market versioning are designed to systematically uncover the unanswered questions and evolve situations for the three key unknowns: customer engagement, channel engagement and execution team engagement.

Best condition version: The market chosen is the one with the most conducive customers and the most ready distribution channel. The focus of the best conditions version is on customer engagement only. The sole intent is to evolve a tipping customer value proposition — a proposition that will engage and enroll the maximum number of customers. The best team from the organization is directly involved in the execution.

Real conditions version: The team implementing it is the actual go-to-market team and not the best team. The market chosen is not the best but the average/normal market — one where the customers and the channel are both the most natural representative of the target market. The real conditions version is focused on finding ways to engage the team and the channel in making the orbit-shifting idea successful while further evolving the successful customer value proposition.

Scale conditions version: Once the orbit-shifting proposition has achieved the promised impact in real market conditions, it is now ready to be taken into the scalable version stage. The focus is to evolve the in-market success model to a level where it can reach the promised impact over a large spectrum of target markets. A market/cluster of markets are chosen where scale variables in customer engagement, channel engagement and team engagement come into play.

Scaling-up the Orbit Shift: Fissioning Across Geographies

Having succeeded in one market, traditional organizations like to build the success model into a formula and then cascade it to other geographies. For a traditional manager, "Once an innovation has succeeded in one market, all that is needed is to cascade the success formula to other markets." This works for incremental ideas, but attempting to simply replicate the success formula in other geographies can run into major hurdles in the case of an orbit-shifting idea.

Orbit shifters recognize that scaling-up an orbit-shifting idea is more like building a social movement, where the idea catches fire as it moves across large swatches of community and yet is localized to reverberate with that community. An orbit-shifting idea, no matter how successful it was in the previous market, will disrupt the comfort zones of whichever market it enters next. The idea has to be adapted to the market rather than blindly replicated.

PART IV: LEADING ORBIT-SHIFTING INNOVATION

Ascending the Orbit-Shift Mountain

Making orbit-shifting innovation happen is more like scaling a daunting, unclimbed mountain than like managing just another tough project. An orbit-shifting innovation journey is not a process to be achieved stage by stage. It is more like a journey from one energy threshold to the next. A burst of energy needs to be unleashed at each threshold to bear with not just the visible organization dynamics but also with the unanticipated fears, uncertainties and doubts of all stakeholders including the innovation team. It is not only about the task or process; it is as much about the people involved.

The Five Orbit Thresholds

To create and not follow history, to scale the orbit-shift mountain, orbit shifters need to prepare for and cross five thresholds:

Threshold One: The first threshold is crossed only when the orbit shifter has taken on an orbit-shifting

challenge that is beyond the current capability, one that is anchored in uncertainty, in the unknown, and has shown the courage to *burn the bridges.* Now the orbit-shift mission is at the point of irreversibility. To scale and cross this first threshold, the orbit shifter has to first uncover and then confront the gravity of the current orbit.

Threshold Two: The second threshold is crossed when the orbit shifters have identified the orbit-shift keystones: the key boundaries that when breached have the power to yield orbit-shifting ideas.

Threshold Three: This is an orbit-shifting Insight Quest that will take orbit shifters into insight dialogues with a wide spectrum of market and knowledge insight sources, with edgy customers, ecosystem players, and the market and knowledge intersections.

Threshold Four: The business proposition is presented to stakeholders for their assessment. The first step is accomplished when they have shared and co-evolved the orbit-shifting market proposition with the key decision stakeholders. Successful co-evolution leads to shared conviction.

Threshold Five: The final step is in-market versioning: to evolve the product/solution into an in-market success model. It is only by experimenting and developing the idea in live market conditions across best conditions, real conditions and scale conditions that the orbit shift grows to its fullest potential.

What Differentiates Orbit Shifters?

What gives orbit shifters the capacity to scale the five thresholds, to confront gravity and new unknowns at every threshold, and restart again and again without feeling demotivated? Six mindsets are the core drivers that these orbit shifters share:

Attitude towards growth: Orbit shifters have a deeply held belief that growth comes from the size of the challenge rather than the size of the kingdom. In their minds, growth comes from handling a bigger, more exciting challenge, not from the number of people reporting to them. This motivates orbit shifters to move out of their comfort zones into the unknown and take on the next big challenge.

Attitude towards an orbit-shifting challenge: The orbit-shifting challenge is a transformation vehicle and not a performance goal. And hence, the orbit shifter approaches it as a direction and not a destination. Orbit shifters believe that the orbit-shifting challenge is the ultimate peak, and in the pursuit of it they will get much further than where they are today, even if they never get there.

Attitude towards gravity: Innovators will repeatedly need to break through gravity to come through with solutions. Attackers look at the current orbit with a sense of positive irreverence rather than with deference. Where others see "how the world is" and accept it, orbit shifters see "how the world could be" and attempt to transform it.

Attitude towards new insight: Orbit shifters believe that what points the way towards new insight is the discovery mindset, which comes alive in the quest for new questions, rather than a validation mindset, which only searches for answers. The discovery mindset is curious and exploratory: looking to join new dots, find new meanings and connect the unconnected. It is only a new question in the discovery state of mind that can create a seismic shift and point towards a new reality.

Attitudes towards stakeholders: Orbit shifters don't convince; they tip stakeholders into adopting and even co-owning the orbit shifting idea. They do this by engaging stakeholders in tipping conversations and tipping experiences.

Attitude towards execution obstacles: Faced with an obstacle, orbit shifters' response is never "if we can find a solution to the problem — only then will we pursue our challenge"; it is always "How can we overcome the obstacle; How and how else can the problem be solved?"

Whether in fiction or reality, the most enduring stories, the ones that excite us the most, are the ones of orbit shifters, where extraordinary people achieve the extraordinary. Where they create history rather than follow it. Where they show us that there are no impossible dreams or problems, only limited dreamers and problem solvers.

So what is your orbit-shifting story going to be?

RECOMMENDED READING LIST

If you liked *Orbit-Shifting Innovation*, you'll also like:

1. ***Best Practices Are Stupid* by Stephen Shapiro.** Shapiro shows that nonstop innovation is attainable and vital to building a high-performing team, improving the bottom line, and staying ahead of the competition.

2. ***Adaptability* by Max McKeown.** The ability to adapt smarter and faster than the situation changes is what makes the powerful difference between adapting to cope and adapting to win.

3. ***Serial Innovators* by Claudio Feser.** A company must be able to continuously reinvent itself to stay relevant. Feser offers a guide for how to build a company that is adaptive, innovative and can survive well into the future.

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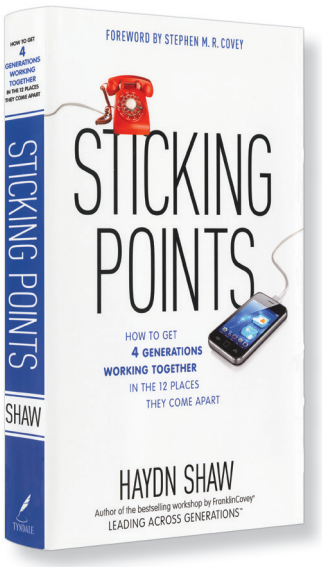
35-30 What Keeps Leaders Up At Night

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Sticking Points

How to Get Four Generations Working Together in the 12 Places They Come Apart



by Haydn Shaw

THE SUMMARY IN BRIEF

Leaders and companies face a new challenge: For the first time in history, there are four generations in the workplace: Traditionalists, Baby Boomers, Generation Xers and Millennials. Anywhere people get together, the "ghost stories," or histories, of the different generations impact the way they think. Generational tensions are inevitable, but they don't have to leave you stuck.

Sticking Points is a practical resource for those people who need a guide to generational differences. In this up-to-date, readable guide, popular speaker and consultant Haydn Shaw offers valuable comparisons and a clear five-step plan for how to get the four generations working together in the 12 places they tend to come apart. When we understand why another generation thinks the way they do, we are much more likely to appreciate their differences and speak their language. We are much more likely to "stick together."

Let *Sticking Points* show you how to lead in today's uniquely rewarding and challenging organizations.

IN THIS SUMMARY, YOU WILL LEARN:

- To understand how different generations think.
- A five-step plan for leading rather than managing generational differences.
- Ways to apply this five-step plan to each of the 12 generational sticking points.
- Answers to the most common questions asked about generational differences.

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THE COMPLETE SUMMARY: **STICKING POINTS**

by Haydn Shaw

The author: Haydn Shaw has researched generational differences for over 20 years. He is the author of Franklin-Covey's bestselling workshops Leading Across Generations and Working Across Generations. Haydn has worked with more than 1,500 businesses (from Fortune 500 companies to startups), not-for-profit organizations and governmental agencies, speaking and consulting on generations, leadership, management and change.

Sticking Points: How to Get 4 Generations Working Together in the 12 Places They Come Apart by Haydn Shaw.
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For additional information on the author, go to www.summary.com or visit www.mygenerationalcoach.com.

Sticking Together or Coming Apart

Generational friction is inevitable today. Sticking points are inevitable, and they often get teams and families stuck. But they don't have to. The same generational conflicts that get teams stuck can cause teams to stick together.

Stuck in the past or sticking together going forward: It's a matter of turning a potential liability into an asset.

The most common complaint I hear from frustrated people in all four generations is "They don't get it." "They," of course, means a boss, coworker or family member from a different generation who the speaker believes is the cause of the problem. And in my experience, "it" usually refers to one of the following 12 sticking points — places where teams get stuck: communication, decision making, dress code, feedback, fun at work, knowledge transfer, loyalty, meetings, policies, respect, training and work ethic.

"They don't get it" is usually a sign that a sticking point is pulling the team apart. Each generation attempts to maneuver the others into seeing the sticking point their own way. And that's the first mistake — viewing a sticking point as a problem to be solved rather than as an opportunity to be leveraged. The irony is that when we say another generation doesn't get it, we don't get it either.

Once we get it, we realize that these sticking points are more than intergenerational differences. They are catalysts for deeper understanding and appreciation that can make teams stronger and better balanced. Sticking points can make things worse or better depending on whether the four generations can work together in the 12 places they naturally tend to come apart.

Blue Screen of Death: The Difficulty of Leading Four Generations

When there were only three generations, the time-proven process of "wait your turn" worked. But now we have four generations. "Wait your turn" is history because people live longer. Life expectancy was 47 years in 1900. Today, most people are just getting warmed up at 47. Second, there has been a huge acceleration in the speed of information, resulting in generations developing much more quickly and younger generations contributing significantly at earlier ages in knowledge-worker jobs. And finally, the "wait your turn" approach no longer works because we raised the last three generations as consumers. They were taught to question authority, shop for the best deal, and expect to be entertained.

Even if the people on your team came from the same town and attended the same schools, they did not grow up in the same place. The 1924 town that Traditionalists grew up in was very different from the one their grandkids experienced in 1984. If we miss that, we get frustrated and wonder what is wrong with others for not responding like we do. Frustrations lead to stereotyping. Once we begin talking in stereotypes, conflicts get worse.

Leadership starts with understanding, no matter what generational differences we face. Leadership is understanding other generations and how the world looks from their point of view, learning how to solve problems with them without first trying to "fix" them. It's not that hard to move from management to leadership; it means understanding five steps for leading through differences.

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Getting Unstuck: Five Steps for Leading Through the 12 Generational Sticking Points

Having four generations at work causes scores of conflicts every day, but 12 sticking points come up most often:

1. Communication: What is the best way to interact with my coworkers?
2. Decision making: How do we decide what to do?
3. Dress code: How casually can I dress?
4. Feedback: How often and in what ways do I want input?
5. Fun: How much fun at work is allowed?
6. Knowledge transfer: How do we pass on critical knowledge to new employees?
7. Loyalty: When is it okay to move on?
8. Meetings: What should happen in our meetings?
9. Policies: Are policies rules or guidelines?
10. Respect: How do I get others to respect me?
11. Training: How do I learn best?
12. Work ethic: How many hours are required, and when must I work them?

Knowing what the 12 sticking points are isn't the same thing as knowing what to do about them. Having a process makes all the difference. Whoever your are, whatever your role, you can help your colleagues work through generational differences by using the five steps.

Here are the five steps for leading through the sticking points the four generations encounter:

STEP 1. Acknowledge: Talk about generational differences. Competitive advantage goes to the team that can bring differences and frustrations into the open where they can be resolved.

STEP 2. Appreciate: Focus on the "why," not the "what," and the common needs. Appreciating other generations keeps generations talking instead of fighting. Emphasizing the common needs early on redirects the goal from "fixing" another generation to resolving the sticking point. Appreciating common needs settles down the emotions so we can start talking about the whys.

STEP 3. Flex: Agree on how to accommodate different approaches. Once people acknowledge and appreciate their differences, they can decide how to flex for each generation. When it comes to generational sticking points, the hardest thing for many people is separating their preferences from the needs of the organization. Clear definitions can protect your team from generational preferences masquerading as business policies.

STEP 4. Leverage: Maximize the strengths of each generation. At best, cutting a deal produces a compromise, but maximizing differences produces leverage. Leveraging generational differences so that one person's strength makes up for another's weakness provides a large impact from a small team. Leveraging the strengths of each generation builds a better team.

STEP 5. Resolve: Determine what option will yield the best results when flexing isn't enough. If there are four generations in the workplace, you can't rotate a policy every four weeks in order to please each generation. Therefore, when flexing isn't enough, we have to resolve the issue. You will ultimately have to decide how you will move forward in those situations where everyone's preferences can't be accommodated.

PART ONE: GHOST STORIES: UNDERSTANDING THE FOUR GENERATIONS

Telling Ghost Stories

Historical events are like ghosts because their impact lingers long after the events are over. Each generation has its own historical ghost stories, especially the "I remember what I was doing when…" moments. We don't fully appreciate another person until we understand his or her ghost stories. In the same way, we won't appreciate another generation until we understand their ghost stories. The historical events during a generation's childhood years shape their values, worldview and definitions of success. Their shared experiences are what distinguish them as a generation in the first place. Telling ghost stories helps get four generations working together in the 12 places they come apart.

Traditionalists: Born Before 1945
The Four Biggest Ghost Stories

Ghost Story #1: The Great Depression. With little welfare and no Social Security, millions of people barely fed their families despite sacrifice and hard work. Traditionalists became more economically conservative, and that spread to other areas of life. They learned to sacrifice and show patience.

Ghost Story #2: World War II. World War II united the country like no other war. Sacrificing individuality for the cause was the norm, and complaining was the exception. World War II proved that large, hierarchical organizations could get things done. World War II introduced

large numbers of women to mission-critical jobs outside the home. Authority figures at home were not questioned because the threat overseas was far more terrifying.

Ghost Story #3: The Move from Farm to City. The transition from an agricultural to an industrial workforce accelerated after World War II. At the beginning of the 20th century, two-thirds of the United States and Canada lived on farms or in rural towns. By 1970, almost three-quarters lived in the city and suburbs. Farm life was significantly different because it made it easier to instill work ethic; it provided meaningful adult roles at a much earlier age; it made it harder to commit crimes; and it was driven by the sun, not the electron.

Ghost Story #4: Mass Marketing and Confidence in Experts. Radio changed things for the Traditionalists. It became their link to the broader world and created the voice of "the expert." The golden age of radio (1920s-1940s) was also the golden age of mass marketing. Each radio show was sponsored by a single company. The stars of that show plugged the sponsor's products, creating powerhouse brands. Traditionalists valued the guidance of experts. Traditionalists ended their childhoods trusting in experts, confident in their leaders, and tuned in to mass advertising.

Baby Boomers: Born 1946-1964
The Four Biggest Ghost Stories

Ghost Story #1: The Boom of Babies. Never before in history were so many babies born so quickly. The Baby Boomers were taught that you have to compete to get what you want. Baby Boomers come across as domineering because they are used to being the center of attention.

Ghost Story #2: Affluence. Boomers grew up in one of the most economically optimistic times in history. Affluence strengthened the Boomer focus on self because parents no longer needed to have lots of children to support the farm.

Ghost Story #3: Television. For the first time, television allowed the entire country to see the same thing at the same time. And when the "thing" was Kennedy's funeral or the first moon landing — powerfully emotional events — the nation shared common experiences as never before.

Ghost Story #4: The Generation Gap. Teenage Baby Boomers questioned their elders' beliefs, listened to rock and roll, grew their hair long, and tried to spend all of their time with friends, embarrassed to be seen with their parents. The generation gap signaled a massive shift in values far more important than the music, tie-dye or protests that usually get the focus. The "Me" generation had the money, time and freedom to explore self and search for meaning.

Generation X: Born 1965-1980
The Four Biggest Ghost Stories

Ghost Story #1: Squished. Numerically, Gen Xers are 25 percent smaller than the huge generations of Boomers that preceded them and Millennials that followed them. Marketers and the entertainment industry pay less attention to them, and they have less political clout. Being squished also meant they could forget about working their way up quickly, because they were stuck behind the Boomers. Boomers moved up twice as fast as Xers in their early years as the postwar economy expanded. Organizations also eliminated layers of middle managers just as Xers came along.

Ghost Story #2: Divorce. The first half of Generation X watched divorce become commonplace during their childhood. Between 1960 and 1982, the rate of divorce nearly tripled and then leveled off. The rocket rise of divorce left many Xers feeling alone. They turned to friends to find a family. This affected all Xers, even if their parents stayed married because they read about it in stories at school, watched it on TV, and listened to adults whisper about "another couple splitting up."

Ghost Story #3: Downward Mobility. The confidence in the economy went bust for the Xers. It was now clear to everyone that lifetime employment and job security were history. Generation X missed the almost magical economic growth that made the Boomers so optimistic. What it did not miss was the growth in prices. In addition to being squished for jobs and housing, Gen Xers saw college expenses quadruple while grants and aid were slashed.

Ghost Story #4: Parody. Parody creates a poor imitation of something serious in order to make light of it and expose its perceived flaws. Access to information creates parody, as does skepticism — and the Xers have both. Generation X was the first to question and verify the backstory behind the news on their computers; they knew that news is always shaded by someone's perspective. They learned that you can't believe everything you are told. Gen Xers are skeptical of organizations. At work, they may trust their managers, but they wonder about their companies. They want organizations to quit spinning the facts and "get real."

Millennials: Born 1981-2001
The Six Biggest Ghost Stories

Ghost Story #1: Heavy Parental Involvement. The Millennials were a "wanted" generation. There were half

as many children per family in this second Baby Boom, but far more women gave birth. Safety became an increasing concern during this time, with parents reluctant to tell their children to "go outside and play until it was dark" like their parents did. Parents became their children's activity directors, arranging play dates, driving their kids to activities, and staying involved even when they went off to college. They stay involved in their children's work lives, too. This is not just a case of overprotective parents — Millennials and their parents have a mutual affection and admiration. Millennials want their parents involved in their lives.

Ghost Story #2: Fear of Low Self-Esteem. Millennials are confident. Their parents and teachers convinced them they are special, and they believe it. Also, while they had less freedom to be outdoors without parental supervision, they had more freedom to disagree with their parents and to express their feelings. They have the confidence to speak up even if they've only been on a project for a few days.

Ghost Story #3: The Consumer Age. The Millennials were raised as consumers. Their parents could offer them choices previous generations never had. That's taught them to ask for what they want and look someplace else if you can't give it to them. This often gets interpreted as an entitlement mentality. However, there are two halves to this generation. The first half grew up in a strong economy with available jobs, so they could be picky because there were plenty available. The second half has struggled in an economy with unemployment at record-high levels. Millennials are facing increasing college costs, a difficult job market and lower wages.

Ghost Story #4: September 11, 2001. Traditionalists and Baby Boomers believed in delayed gratification — work hard today and get rewarded tomorrow. But these young adults have grown up knowing that tomorrow may never come. September 11, 2001 shaped Millennial culture in at least two ways. First, they have learned not to wait until tomorrow to do something important. Second, they have a strong impulse to keep work and life in balance. They see no reason to sacrifice everything today for a future reward that may never come.

Ghost Story #5: Technology Everywhere. Millennials are the first generation to grow up digital. Millennials spend more than 53 hours a week with media because they use more than one kind at the same time. Millennials love technology because it makes them important to the older generations; it gives them freedom; it shrinks and expands their world; and it gathers them into tribes.

Ghost Story #6: Emerging Adulthood. Some Millennials take longer to figure out what they want to do than members of the older two generations did. There are many reasons emerging adulthood is more obvious today, but the biggest one is that we don't believe a person is an adult until around 26. Remarkably, twentysomethings agree, thinking it takes that long to figure out what they want to do, commit to a long-term love relationship, and have enough saved up for their own place.

PART TWO: STICKING POINTS: HOW TO GET FOUR GENERATIONS WORKING TOGETHER IN THE 12 PLACES THEY COME APART

Decoding the Generations

If the four generations will acknowledge the 12 sticking points and work through them as a team, they will find themselves liberated to become a team with a unified vision instead of a group with different agendas. But to lead through the sticking points, you must be able to decode what the generations mean — and don't mean. Use the five-step process (acknowledge, appreciate, flex, leverage and resolve) to lead through the following generational sticking points with your team.

Communication

Communication is one of the easier sticking points to get out on the table because people already speak openly about new technology and the differences in the way the generations communicate. When one generation says that another generation's preferred method of communication isn't as effective as theirs, things can get tense. Differences with communication etiquette get people even more upset. How much you should flex is based on business necessities and generational preferences. Here are some things to remember:

The older generations will need to flex with more technology, and sometimes younger generations need to go "old school."

Acknowledge that every generation has its own communication preferences, which all have strengths and weaknesses.

Etiquette guidelines should be clearly established, because people say things online that they would not say in person or even in an e-mail. What employees say can impact the organization.

We can all increase our proficiency with the different communication preferences of the people we work with, live with or serve.

Decision Making

The six most common ways decisions are made are as follows: 1) The boss decides; 2) The boss asks all employees for input and then decides; 3) The boss asks more tenured employees for input and then decides; 4) The boss and a few employees meet and decide; 5) The savviest person on the topic decides; 6) The team talks it over and comes to a consensus or clear majority. If not, the boss or savviest person decides.

Older generations are used to decisions coming down from the top, while younger generations are more comfortable with a flexible approach, usually deferring to the person most knowledgeable or savvy on the given topic. Each of the approaches has its place, but numbers 2, 5 and 6 better fit a global, information-driven economy.

The generational differences can help your organization become more effective by pushing employees to pick the best decision-making process for each situation rather than staying ingrained in their standbys.

Dress Code

Any dress code conversation must begin with acknowledging that the four generations give four different answers to the question of which clothes communicate the professional image you want for your organization. But it's also helpful to remind people that all generations want the same things: to be comfortable, attractive and to be taken seriously.

The different generations help one another by being translators who can help decode what clothing means to each generation. Older generations can help younger generations understand that clothing sends a message to other generations, even if that message is unconscious and unintended. Older generations also need to understand when clothes have no message other than what is now the style for an age group. Let the generations help one another understand the messages that are being received.

Feedback

Millennials grew up with constant feedback, so they expect that in the workplace. But all generations report that they want more feedback but aren't getting it. If the Millennials' push for greater feedback helps us all get more of it, then they, like a lever, will lift everyone's performance.

Your organization can dramatically increase that leverage if your people start asking one another for feedback, because they will be tapping into the wisdom of all the generations. Get your team to talk about what they want and new ways to provide it. Then, the five-step process will transform generational tensions into a competitive advantage.

Fun at Work

The Millennials value fun more highly than other generations, but every generation wants to find enjoyment in their work. You have to ask your team what could make things more fun. It's also important to come to a resolution, an agreement as to when people can have fun as long as they get their work done. Clarifying the policy and sharing your intentions will ease generational tensions.

Just realize that the Millennials won't "grow out of it" if that means separating work from fun or personal life from work life. Technology allows them to blend these aspects of their lives. It's a 24/7 work world, and they know they have to take fun when they can get it.

Knowledge Transfer

It's a business necessity that we have the knowledge we need and that we eventually transfer it to the next generation. Because it's foundational, we need Step 5, Resolve, for this sticking point. When you understand each generation's preference regarding knowledge transfer, you can find the process that works for you.

Traditionalists and Baby Boomers need to acknowledge that Gen Xers and Millennials are comfortable with technology and would rather learn at their own pace, using high-tech methods rather than the observational and oral methods of their predecessors. Huge companies can use video (and other web-based technologies like podcasts and online discussions) to speed communication and increase knowledge transfer.

Loyalty

Getting unstuck around loyalty has two parts. First, we have to help the generations get a clear definition of loyalty that fits current economic and work realities. If we don't, older generations will always think younger generations have a moral defect because they're not as loyal as the older generations, and the younger generations will think the older generations don't understand the new economy.

Second, we must shift our energy away from criticizing other generations and towards discovering ways to make our organizations better so all generations want to stay longer. Loyalty is one of the sticking points that requires step 5, resolution. Here are five ideas that will help your organization resolve this issue:

- Remember that loyalty is the by-product of everything you do.

- Gather a cross-generational group, and let them bring you ideas.
- Quit measuring yourself by Boomer-era standards. There will be more turnover.
- Millennials get bored easily and need new challenges.
- Make sure employees know what opportunities you have internally because new jobs are only a screen away.

Meetings

Acknowledge that the four generations view meetings differently:

Traditionalists met infrequently, and the boss did most of the talking.

Baby Boomers held meetings to gather information, and they created new political opportunities for everyone.

Gen Xers will multitask if meetings are not relevant or do not keep moving. They would rather do some of it electronically.

Millennials think meetings are okay, but don't want to be bored. They want meetings to be interactive and may interrupt.

Put this sticking point on your next meeting's agenda, acknowledging that each generation can improve meetings. Traditionalists are a stabilizing force, because they've faced many of the challenges that make people emotional in meetings. Boomers bring process and remind us of the value of face-to-face meetings. Xers help us get to the point. Millennials will make meetings a lot more fun if we let them.

Policies

You can't manage generational differences using top-down policies in today's workplace — you have to lead. This is one of the sticking points in which generational differences really stand out. Here's an overview of how policies have been viewed by each:

Traditionalists: Everyone needs to do what they're told.

Baby Boomers: Let's create a policy or procedure so everything runs smoothly and is fair for everyone.

Gen Xers: Rules are made to be broken.

Millennials: If it doesn't make sense, I'll assume it's a guideline.

A different approach to policy creation that recognizes all generational preferences is to use step 3, Flex. In this approach, a policy task force is created made up of representatives from all four generations. This task force has great leverage when using this recommended process:

Find representatives who are respected by colleagues of their generation.

Tell them you're not promising to agree with every detail of their recommendations but that you have complete confidence that by leveraging their generational differences, they can come up with something better than you could.

Lay out the business challenges. Tell them about prohibitive regulations, customer complaints and budget limits.

Let them work through the five-step process.

Because Millennials feel comfortable questioning policies and see them as guidelines rather than rules (if they don't buy the reason for them), the question is, "How do we get the Millennials to follow our policies?"

This is a generational collision. For Traditionalists and Boomers, policy is a reason. For the other two generations, it's an invitation to ask more questions. Boomers were the last generation to respond to policy. Millennials respond to people. Show them how policy impacts people.

Don't neglect two key things when dealing with Millennials and policy:

You need to translate the generational differences so that the Millennials understand why what they're doing is bothering Traditionalist customers. And you must relate the policy to the Millennials' values. Ask them to relate older customers' preferences to someone in their own lives of the same age. Link it to showing respect for that person.

Respect

Respect is foundational to relationships and often raises emotional misunderstandings. All four generations need respect, but they meet that need in different ways. Stereotyping other generations can be a real problem.

Many of the other sticking points — work ethic, communication, decision making, dress code and meetings — intensify if you and your colleagues don't understand how to navigate through differing definitions of respect. When people appreciate why the generations see respect differently, they naturally want to figure out how to flex so that everyone's common need is met. Here are some ideas on how to flex:

Identify their definition of respect, then flex. Like a person visiting another country, employees need to better read the reactions of the other generations and flex their personal preferences.

Don't take it personally. Realizing that the four generations have different views of respect helps to not take individual actions personally. One simple rule will keep your team working together when stereotypes threaten to pull them apart: They didn't mean it personally, so don't take it personally.

Approachable and respectful works for everyone. Randstad's 2009 World of Work survey showed that all four generations want their managers to be approachable (92 percent for Boomers, mid-80s for the other three) and have an attitude of respect (91 percent for Traditionalists and Boomers; 89 percent for Gen X and 85 percent for Millennials).

It doesn't matter if you are the manager for a team or project or are simply an associate. It doesn't take big things to make a real difference when it comes to respect.

Training

Employees of all generations want more training. Both organizations and individuals have one thing in common — they will both have to learn to survive. It's a business necessity to make training work for all generations. That requires organizations to offer content in forms that suit the different generations best. Here's how each generation has viewed training:

Traditionalists: We got trained in the "school of hard knocks."

Boomers: Training is a reward.

Gen Xers: Training is my security. If I'm not learning, then I won't be prepared for the future.

Millennials: Who would work for an organization that didn't provide training?

Let me suggest four lessons: Don't complain that the younger generations don't have what it takes. Don't assume you know what your people need. Create hands-on practice opportunities. Be clear on what you want your employees to be able to do when they're done.

Your organization will increase the time, energy and money they spend on training not only to attract and retain all four generations but also for your own survival.

Work Ethic

Tensions around work ethic come up more than any other sticking point. When you're addressing generational sticking points, it is critical to find the common need. For the sticking point of work ethic, the common need is fairness and balance. We all want everyone to do their fair share so no one feels taken advantage of.

The older two generations see work as the steak and everything else as the vegetables, salad and dessert. The younger two generations see life as a waffle. Work is one quadrant of the waffle, and everything else — friendships, family, volunteer work, and other things they value — make up the other three squares. So please, boss, keep your work syrup off the other three squares of my waffle.

Focusing on results rather than hours places the emphasis on business necessities rather than generational preferences. But that means if an employee doesn't deliver results, you need to address performance.

Your team will work best when you leverage the strengths of the four generations. Together they will help each other get more done while having more fun doing it:

Traditionalists know that there is no trophy until you put in the hard work.

Boomers know that good processes save time and prevent errors.

Xers can show us how to cut to the chase.

Millennials can figure out where the shortcuts are.

Work ethic is the most common sticking point in the workplace, but it doesn't have to leave you stuck. The generations need to help each other figure out how to get things done and balance their lives in our 24/7 world.

Conclusion: Sticking Together

You've learned how to spot generational sticking points and what to do about them, and you can do it. You can turn stuck to sticking together with your teams, organizations and families.

And you can also use the five-step process when you're stuck around generational differences with individuals. The most powerful impact of learning about generational sticking points for most people is that they realize those differences play a part in the frustrations they have with coworkers or family members.

Instead of getting irritated, look for ways to leverage generational strengths rather than getting stuck around the differences. Remember these two things, and you've got this: 1) Don't take it personally; the other person doesn't mean it personally; and 2) Speak the other person's generational language.

RECOMMENDED READING LIST

If you liked *Sticking Points*, you'll also like:

1. ***The 2020 Workplace*** by Jeanne C. Meister and Karie Willyerd. Meister and Willyerd present a functional guide to help you and your organization create tomorrow's workplace of choice.

2. ***Grown Up Digital*** by Don Tapscott. If you understand the Net Generation, you will understand the future. If you're a Baby Boomer or Gen Xer: This is your field guide.

3. ***Generations at Work*** by Claire Raines, Ron Zemke, Bob Filipczak. The authors show how to overcome the clash of generations to create a cohesive, collaborative work environment.

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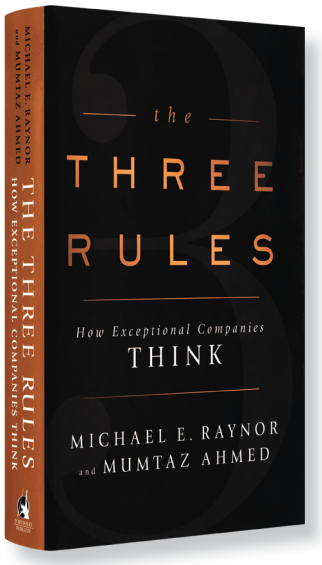
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Management

The Three Rules

How Exceptional Companies Think



by Michael E. Raynor and Mumtaz Ahmed

THE SUMMARY IN BRIEF

Finally, an answer to the ultimate business question: How do some companies achieve exceptional performance over the long term?

Michael E. Raynor and Mumtaz Ahmed have analyzed 45 years of data on more than 25,000 companies. Their five-year study began with a sophisticated statistical analysis to identify which companies delivered truly exceptional performance — 344 in all. In collaboration with teams of researchers, Raynor and Ahmed then put a carefully chosen representative sample of 27 companies under the microscope to uncover what made the standout performers different. They found that exceptional companies, when faced with difficult decisions, follow three rules:

1. **Better before cheaper.** They rarely compete on price.
2. **Revenue before cost.** They drive profits through price and volume, not thrift.
3. **There are no other rules.** Everything else is up for grabs, and they are willing to change anything to remain true to the first two rules.

The Three Rules provides an indispensable compass that any company can use to chart its own path to greatness. Is it better to keep price down or invest in creating value that commands a higher price? Should you focus on talent and developing the abilities of your people or build processes to extend the capabilities of your organization? According to Raynor and Ahmed, the right answers to these and just about every other question are the ones most closely aligned with the rules.

IN THIS SUMMARY, YOU WILL LEARN:

- What the rules are and how following them drives superior profitability.
- What challenges you can expect when attempting to follow the rules and how to overcome them.
- What it means to treat the rules like *rules.*

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THE COMPLETE SUMMARY: **THE THREE RULES**

by Michael E. Raynor and Mumtaz Ahmed

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More Than a Fortune Cookie

The quest for greatness leads naturally to the study of great companies. Unfortunately, the study of great companies does not lead naturally to great insight. Inquiries into the ebb and flow of top performers yield, as often as not, explanations built on the concatenation of unlikely and impossible-to-repeat events. These often amount to little more than entertaining corporate biography, falling far short of the powerful generalizations we seek.

With this in mind, our search for the drivers of superior, long-term performance began with a radically different premise: that what constitutes standout performance is not obvious. It is not enough simply to set up a performance benchmark, no matter how demanding it might seem, and see who clears it. We wanted only those companies that were good enough for long enough that we could be confident something special was going on. We wanted companies that were truly *exceptional*.

To that end, we analyzed 45 years of Compustat data on more than 25,000 unique companies — nearly 300,000 company-year observations from 1966 to 2010. From that universe we identified a population of 344 exceptional companies in two categories: 174 Miracle Workers, or the best of the best, and 170 Long Runners — still exceptional but at a lower level and for a longer period of time.

From this population of exceptional companies we selected a representative sample of trios, three companies from each of nine industries. Each trio consists of a Miracle Worker, a Long Runner, and a third company of average performance that we call an Average Joe. By comparing the very best with the very good and both with the merely average, we hoped to shed light on two different types of exceptionalism. First, what does it take to pull away from the pack, that is, how do Miracle Workers and Long Runners separate themselves from Average Joes? Second, how do Miracle Workers — the very best — pull away from Long Runners — the very good?

Better Before Cheaper

At the most generic level, whenever we buy anything, there are two dimensions to the value we get from our purchase: *price* and *non-price*. Price value is a function of how much we pay for something, and the less we pay, the more price value we get. Non-price value is a function of all the other dimensions of value that are not price: durability, functionality, quality, convenience, ease of use, style, brand, etc. How much of each of price and non-price value a company provides relative to its competitors defines its *position* in competitive space; that is, how a company creates value for its customers.

Of course, no company can afford to ignore its relative price position. That is why the rule is "better *before* cheaper": being price competitive is far from irrelevant, but when it comes to *position* in the market, exceptional performance is caused most often by greater non-price value rather than by lower price.

Revenue Before Cost

A company's position defines how it creates value for customers relative to other companies. A company's *profitability formula* describes how it captures value for itself compared with others. It turns out that just as there is a pattern in how exceptional companies create value (*better*

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before cheaper), there is a pattern in how they capture value.

We measure profitability using return on assets (ROA), which is defined as income divided by the book value of assets. Return on assets is the product of return on sales (ROS), or income divided by sales, and total asset turnover (TAT), or sales divided by assets. Consequently, there are only three ways either individually or in combination that a company can improve its ROA: increase revenue, decrease cost or decrease assets.

Our research reveals that exceptional companies are systematically more likely to drive their ROA advantage through higher relative revenue than by lower relative cost or lower relative assets. Going down one more level, a revenue advantage can be driven by higher unit price or higher unit volume, and exceptional companies tend to rely more on price. And so rule number two is *revenue before cost*.

We see evidence of our profitability formula rule in many industries, even ones in which you might think cost leadership would be indispensable. Take, for example, Family Dollar, a discount retailer. For more than 30 years Family Dollar delivered performance that has been hidden in plain sight, besting the legends of discount retailing since the mid-1970s and doing it in ways few might have guessed.

Family Dollar's Position

Family Dollar has consistently focused on serving the needs of customers from lower economic strata. You might think that if ever there were an industry in which lower prices and lower cost were key to superior profitability, discount retailing would be it. Certainly that was our assumption. It did not turn out that way. Family Dollar's success has been a function of *higher* prices earned through a willingness to incur *higher* cost and tolerate *lower* efficiency than many of its larger, lower-performing (but still successful) discount retail competitors.

How is that possible? How does a discount retailer serving the most cash-strapped customer segments turn in superior profitability for more than three decades with higher prices and higher cost than its most ferocious foes?

Start with Family Dollar's position compared with its competition. To capture the benefits of the low prices of the largest discount retailers, customers must often drive several miles to 100,000-plus-square-foot suburban locations and purchase products in relatively large quantities. In stereotypical but representative terms, spending $5 on gas to buy a package of 150 diapers at a unit cost of 15 cents adds up to $27.50. That makes more sense than walking three blocks and buying 15 packages of 10 diapers at 20 cents each for a total of $30.

When a customer has $27.50 to spend, the larger discounter wins the business. However, in the days or weeks leading up to the next paycheck when money is especially tight, a customer's calculus is much different. In these circumstances, poorer people can afford only smaller quantities and typically are shopping only for a smaller range of items that vary on a week-to-week basis. This week one has run out of diapers; last week it was laundry detergent; next week it might be toothpaste. In these circumstances, walking to a 20,000-square-foot Family Dollar located in an urban center for a package of 10 diapers at 20 cents each makes a lot more sense.

Serving customers coping with these constraints has led Family Dollar to build a position defined by convenience, selection and lower basket size — all non-price dimensions of value. An analysis of the company's financial statements reveals the economic implications of these choices. Family Dollar enjoys a gross margin advantage over its most significant competitors but suffers a sales, general and administrative (SG&A) cost disadvantage and inferior asset turns. Of course, a gross margin lead could well be driven by lower cost of goods sold (COGS) and not higher prices, but this is not the case: Family Dollar appears to have consistently higher quality-adjusted prices.

Now, Family Dollar has lower cost, greater growth, lower prices and better asset turns than high-end retailers such as Bergdorf Goodman. But then, Family Dollar does not compete with Bergdorf Goodman. It is when stacked up against another leading discounter that the nature and significance of Family Dollar's choices become clear: It has incurred the higher cost required to establish a position based on non-price dimensions of value. This has inflicted an efficiency penalty, but the company has been compensated with relatively higher prices. The net result has been more than 30 years of exceptional profitability.

There Are No Other Rules

The first two rules tell you what you *should* do: *better before cheaper* and *revenue before cost*. The third rule tells you what you should not do, namely, think anything else matters in a systematic, specific way.

Finding Signal in the Noise

In many success studies, claims of generalizability most often turn on the diversity of the companies in the sample — the range of industries, the time periods examined and so on. We have adopted this approach as well: Our nine

trios are drawn from a diverse set of industries, including pharmaceuticals, electrical wiring, confectionary, trucking and fashion retail.

A diverse sample is certainly more likely to be generalizable than a homogeneous one, but diversity per se is far from sufficient, especially given what is at stake. The problem is that we cannot know what characteristics of similarity and difference are relevant. Should the industries studied be different with respect to asset intensity or growth rates? Regulatory constraints or technological change? Competitive pressures or exogenous shocks? There are simply too many ways to be different for any sample to be different in every possibly relevant way. Diversity helps, but it will not suffice.

In our case, we identified the population of exceptional companies and then chose a sample essentially at random from that population. We can confidently claim that our case studies at least potentially matter because they shed light on a much larger number of companies. Our explanations have a hope of saying something about companies other than the ones we happened to study.

Great Companies

Similarly, the study of great companies can leave us wondering if we have set our sights too high. Google is *Google*, for heaven's sake. The company certainly captures our imagination, but perhaps we are kidding ourselves if we think that the drivers of its exceptional performance are relevant to the rest of us.

The good news is that alongside the iconic, magazine-cover material of Microsoft and Oracle in software or Amgen and Genzyme in biotech, we find many companies and industries that exist on a much more human scale. Precisely because our method isolates the effect of managerial decision-making on performance, we find exceptional performers of all shapes and sizes.

Our methods are not perfect; no method is. But we believe that we have developed and employed material improvements in the identification of truly exceptional performance, isolating periods of higher and lower performance and connecting behavioral differences to performance differences in ways that justify a higher level of confidence in our conclusions.

Better Before Cheaper

Better before cheaper distills to its essence what our research reveals about the relationship between competitive position and exceptional performance. Of course, competitive position has been the subject of research and discussion for decades. For all the seeming differences among the various approaches, competitive space has typically been defined in terms of the non-price value the customer receives and the relative cost of production of competing suppliers.

For us, competitive position defines how a company creates value for customers, and thus the more useful of these two traditional dimensions is non-price value. For example, when buying a car, customers typically consider a variety of attributes, including safety features, reliability of operation, customizable features (for example, color or interior upholstery), the sales experience, ease and accessibility of servicing and so on.

Most elements of non-price value can be measured, albeit with different degrees of precision: a car's acceleration is highly quantifiable, safety ratings less so, and the "stylishness" can be given at best perhaps the appearance of specificity. Tools such as conjoint analysis can use these measurements to estimate the relative importance of each dimension, allowing companies to assess on which aspects, alone or in combination, they should seek to surpass the competition in order to win the business of specific customers or customer segments.

The second dimension of traditional approaches to positioning analysis, relative cost of production, is not directly relevant to *better before cheaper* because it does not describe how companies create value for customers. Companies can choose to exploit a lower-cost position to enjoy superior profitability at prices similar to their competitors. In that situation, although lower production cost is good for the company, it is irrelevant to the customer. Since *better before cheaper* is about creating customer value, our second dimension of position is relative price value, where price value (as perceived by customers) typically goes up as price goes down. Price — what a customer pays for something in money — is readily quantifiable, so one can usually determine fairly easily which of two sufficiently substitutable offerings is less expensive (has superior price value).

A car that was better than all other cars on all dimensions of value in the eyes of all customers would have 100 percent market share. No car has 100 percent market share, however, because different customer segments want combinations of dimensions of value that are necessarily negatively correlated. Some customers want a larger car (say, for seating capacity) and some want a smaller car (say, to fit in small parking spaces). In any pair-wise comparison, no car can be both larger and smaller. Similarly, speed and energy consumption are negatively correlated (all else equal) because it takes more power to move a given mass

faster. Still other limitations are entirely contingent: Creating a minivan that has more sex appeal than a sports car requires only that people's tastes change.

In other words, constraints impose trade-offs. No product or service can be all things to all people, and everything we know about the power of market segmentation and focus is based on this inescapable fact. Companies that refuse to accept trade-offs among different dimensions of performance very often end up "splitting the difference" in ways that make few people happy.

In summary, the dimensions of position are price value and non-price value. Products or services occupy different locations in competitive space to the extent that they differ along these dimensions. Thanks to the existence of trade-offs among at least some dimensions of value, differentiated competitive positions can be profitable, while positions based on being better along all dimensions of performance simultaneously are rare.

Non-Price Positions

Non-price positions are systematically more profitable and more sustainable than in-the-middle or price-based positions. This falls far short of a complete blueprint for success, but it does, we hope, provide valuable guidance when you have to make tough choices among equally viable alternatives.

For example, when your customers are yelling for price cuts, you can drop prices and then squeeze your company elsewhere to try to preserve profitability, or you can see through their complaints on price to the more difficult truth that maybe you have gotten lazy or lost focus or that the competition has upped its game, and you no longer provide the superior value you once did. Addressing that problem means taking on the challenge of increasing and perhaps even changing the value you provide; it could mean changing any or all of your technologies, processes, markets or customers. Both courses of action — cutting price or increasing value — can be difficult to pursue successfully, and each of them can make equally good sense.

It is in just these circumstances that *better before cheaper* proves its worth. Faced with a choice between two difficult, similarly plausible but mutually exclusive solutions to what can be an existential challenge, the best you can do is play the odds. Our research suggests strongly that the most profitable course of action is to devote your resources to tackling the hard problem of creating anew the non-price value your customers will pay for, not the hard problem of how to remain profitable at lower prices.

Position comes first. It is the height to which your roller coaster climbs, and so it defines the upper limit of the profitability you can aspire to. Execution comes second, for it defines the thrill of the ride promised by that climb, or how much of that potential you capture as kinetic energy. Poor execution wastes potential energy in the form of noise and heat. So execution matters, but no level of greatness in execution can make up for poor positioning any more than a smooth ride can compensate for a short climb.

Industry, of course, is critical: It is difficult to imagine how any company could hope to be successful running clearly counter to the dictates of its context. All of our exceptional companies, in their heydays, were astute surfers of industry waves. But the key to winning is standing out from the background noise, not blending in.

Revenue Before Cost

How best to create value for customers is a question that can be usefully seen as a choice between competitive positions defined by an emphasis on price value (that is, low price) or non-price value. Perhaps somewhat unusually, seeing the question in these high-contrast terms is not a dangerous oversimplification. It is instead an accurate distillation of an underlying structure that is too often hidden beneath unnecessary complexity. Sometimes the world is nuanced and complex and colored with shades of gray. But sometimes there are clear choices to be made, and we simply do not want to face up to them. *Better before cheaper* is an unambiguous answer to a straightforward but too often ignored question.

Creating value for customers is a necessary condition for exceptional performance, but it is not sufficient. The value you create is only the "size of the pie." Whether or not a given company is an exceptional performer is also a function of the "size of their slice," or how value is divided between customers and the corporation. In other words, exceptional companies must not only create value but also capture it in the form of profits.

A company can increase its ROA by increasing price, volume or both, or by decreasing overall cost, the sum of cost of goods sold (COGS) and other costs, or reducing assets. As with the trade-offs among the dimensions of performance that define position, however, there are typically trade-offs among the variables that determine a company's profitability. For example, increases in both price and volume increase revenue, which increases income and hence ROA. However, price and volume can be negatively correlated, making it difficult to increase both simultaneously.

On the other hand, although higher cost (which reduces ROA) can be a consequence of inefficiency, it can also be a function of using higher-quality materials or more skilled labor, each of which can contribute to non-price value, thus justifying a higher price (which increases ROA). Consequently, price and cost can move in the same direction. Volume and assets also often move together yet exert contradictory pressures on ROA: Higher volume can increase asset turnover, which increases ROA but only if the higher volume does not require disproportionately more assets.

The key to superior profitability, then, is not how well a company manages any one variable in the ROA equation but how it manages the interdependencies among them in light of often unavoidable trade-offs. We call this a company's profitability formula.

We discovered that exceptional companies, by an overwhelming margin, have a common profitability formula, which we have summarized in our second rule, *revenue before cost*. This means that when exceptional companies face a trade-off between increasing profitability by increasing revenue or by decreasing cost, they systematically choose increasing revenue *even if that means incurring higher cost*. We have never seen an exceptional company spend with abandon. Rather, we have concluded that sustained profitability advantages are rarely driven by disproportionately lower cost or asset bases when compared with the competition and instead are very often driven by disproportionately higher revenues.

A large part of the significance of this finding lies in the fact that our data could have revealed the opposite, namely, that superior profitability is typically driven by relatively lower cost. But it is not. Profitability advantages driven by higher revenue, even when they incur higher cost, prove to be more valuable than advantages driven by lower cost.

The Structure of Differences in Profitability

The ROA decomposition analysis on our case study companies suggests very strongly that Miracle Workers (top companies) rely most heavily on a gross margin advantage for their overall ROA lead. Disadvantages in other costs (SG&A, R&D and so on), asset turnover or both are simply the consequence of unavoidable trade-offs, the cost of the differentiated products or services that earn the higher gross margins.

We wanted to know if this pattern was reflected in a meaningful way in our full population of 174 Miracle Workers, 170 Long Runners and 1,208 Average Joes. To figure that out, for each year that each company is in our database, we calculated the difference in gross margin, other costs and asset turnover between the company and the industry median. We then regressed each of these differences against each company's ROA difference from the industry median in that year. This allowed us to see how changes in advantages in these three drivers of ROA translated into ROA advantage. In other words, we could see how much an additional point's lead in gross margin percentage over the industry median affected the ROA lead over the industry median for Miracle Workers, Long Runners and Average Joes.

The results were telling and entirely consistent with the patterns revealed in our case study analysis. For each additional point in gross margin percentage advantage, Miracle Workers realized 0.51 percentage points in additional ROA advantage. The same increase in a Miracle Worker's advantage in other costs, however, yielded only 0.47 percentage points in additional ROA advantage. The implication is that Miracle Workers tend to have a profitability formula that is more efficient at translating a relative gross margin improvement into a relative ROA advantage than it is at translating a relative reduction in other costs into a relative ROA advantage. In more practical terms, it means that Miracle Workers have positions and profitability formulas that favor *revenue before cost*.

Companies classified as Long Runners will necessarily have a smaller ROA advantage over the industry median than Miracle Workers since these categories are defined by their different profitability levels. This does not say anything, however, about how efficiently they turn gross margin or other cost advantages into ROA advantage. Long Runners could easily have been more efficient at translating advantage in one or more of the drivers of ROA but simply have been unable to generate a similar magnitude of advantage.

Average Joes, not surprisingly (but by no means necessarily), are the least efficient of the three performance categories but, like Miracle Workers, are more efficient with respect to gross margin than other costs.

There Are No Other Rules

It might seem somewhat precious to posit "there are no other rules" as our third rule, but we feel it serves two important purposes. First, it is our admission that we were unable to find any other meaningful patterns in the behaviors of our case study companies that were associated with differences in performance. We cannot prove a negative, but in what follows we will explore at greater length why we dismissed such perennial favorites as M&A

or diversification as systematic drivers of performance. The irretrievably idiosyncratic and contingent nature of how these and many other behaviors contribute to performance led us to conclude that exceptional companies all have the same recipe (*better before cheaper, revenue before cost*) but use different ingredients.

Second, in addition to creating superior levels of performance, exceptional companies deliver superior levels of performance for longer than anyone has a right to expect. It seems worth exploring, then, if and how exceptional companies adapt. Is exceptional performance a function of deep moats and thick ramparts, or does it require agility and flexibility to cope with competitors' attempts to imitate a winning formula or with the technological, regulatory or other environmental changes that can render onetime advantages useless or even turn them into liabilities?

We found that not only were there no patterns between companies from different performance categories; there were no patterns across time within individual companies. So not only did Miracle Workers and Average Joes show no differences in their appetites for M&A, but individual Miracle Workers were just as likely to adopt M&A as to abandon it over time. In short, what mattered when assessing how a behavior affected performance was not the behavior or even its implementation but the contribution made to a company's adherence to or deviation from the first two rules. Where Lost It Miracle Workers typically changed in ways that violated the rules, Found It Miracle Workers became more aligned with the rules. Most revealing, Kept It Miracle Workers often showed evidence of the greatest degree of change in their specific behaviors, but always in the service of remaining in alignment with the rules. We conclude from this that exceptional performance demands an ability to change in order to stay the same.

Change to Stay the Same

The absence of any rules beyond the first two has important implications for how exceptional companies adapt. As with questions of position (*better before cheaper*) and profitability (*revenue before cost*), whether exceptional companies change over time is an empirical matter. It could have been that exceptional performance is typically achieved through relative intransigence: Find a winning formula and stick with it. Eventually it will be overtaken by events or the competition, but little matter; nothing lasts forever. On the other hand, superior performers might be characterized by change. In this case, we would like to know if there are any guiding principles that might help determine when and what to change.

We found that just as the specific recipes for exceptional performance were unique to each Miracle Worker, the nature of the changes each employed in order to create or sustain its exceptional performance defied meaningful generalization. There was neither a small, consistent subset of activities that responded to competitive or environmental shifts, nor did "everything" have to be reinvented. About all that seemed to matter was the first two rules.

Why You Should Use the Three Rules

An efficient market depends on the ability of a buyer to assess the merits of a purchase either before or after purchase and trial. The more completely and inexpensively one can make these assessments, the more efficient the market is.

By these criteria, the market for, say, instant coffee is likely to be relatively efficient. When faced with the challenge of deciding whether or not to try a new brand, you could explore the design and execution of the focus groups and surveys the coffee company undoubtedly conducted before launching its product. But you probably will not do that. Instead, because there is relatively little at stake in any given trial and few lingering aftereffects if it goes poorly, you will more likely listen to your friends or people who like what you typically like and try it out, or not. If you are the victim of a false negative, and you erroneously forgo trying something you would have liked, there is no real harm done there, either: You cannot miss what you have never known.

The market for pharmaceuticals that treat life-threatening, chronic illnesses is very different. When it comes to figuring out whether you should take blood pressure medication and, if so, which one, listening only to your friends is a very bad idea. The cost of a false negative — not taking something you should — could materially shorten your life, but so could a false positive (taking something you should not). Worse, we often cannot know after the fact whether taking the drug was good or bad for you, because your condition and the drug are but two of many factors affecting your health, and we cannot redo the experiment on you. Consequently, the mechanisms of market efficiency are much more heavily skewed toward understanding what is likeliest to work before you try it out. That means experimental design, data collection and analysis are absolutely critical to making an informed choice.

The most relevant companies to look to for indications of what works are most likely your competitors, but if you

do what they are doing, you will not improve your relative performance. No individual can hope to have had a sufficient quantity or variety of experience — never mind the challenge of avoiding well-documented psychological biases that would render difficult an objective interpretation of that experience — to come to reliably correct conclusions of their own. Adopting any study's advice typically requires a commitment over time, often many years, and connecting outcomes to adoption of the advice can be very difficult since a company's performance is a function of many other variables.

Yet the behavior of both purveyors and consumers of popular management advice, including and perhaps especially that an offer in success strategies, suggests to us that we are treating what is more appropriately seen as a beta-blocker as if it were a caffeine-free breakfast blend. It is only too frequently that otherwise accomplished executives endorse and adopt the findings of prescriptions of a given work because the advice offered confirms what they already felt were the key drivers of corporate success. That is, they like what they have read precisely because it does not tell them anything fundamentally new.

Hence our emphasis on questions of research design and standards of evidence.

Glider Pilots

Glider pilots, like all airplane pilots, know the expression "takeoffs are optional; landings are mandatory." It means that no matter how high, fast or far you fly, you are going to come back down. Gravity always wins.

The same can be said of corporate performance. The only certainty for any company doing well is that eventually it will be doing worse. Every company that has ever soared has or will eventually become entirely average — or worse. Although you might not be able to predict precisely what will bring down any given high flier, it is a sure thing that something will.

Sometimes greatness erodes because of internal failings: Inertia born of complacency might lead you to resist obvious and necessary changes; or entropy born of hubris might dilute your focus on key customers or markets. Sometimes external forces undermine performance: Competitors, spurred on by your success, emulate your behaviors or even improve on your original insights, leaving you with no advantage at all; changes in customer preferences or regulatory or legislative constraints can render historical strengths irrelevant or even turn them into encumbrances. Whatever the proximate cause, just as no glider can stay aloft forever, no company can remain on top eternally.

This unfortunate fact of corporate life imposes an upper bound on the extent of the claims one can hope to make about the drivers of long-term, superior profitability. No advice can come with a credible promise of perpetual superiority. It might be theoretically possible for a corporation to deliver endlessly standout profitability, but as an empirical matter, we lack even an existence proof, never mind the sort of sample that might make possible the inference of general principles.

We have concluded, however, that even if defeating gravity is impossible, we can realistically hope to defy it. Despite the inevitability of a return to earth, some glider pilots do fly higher, faster and farther than others. Using the same equipment in the same circumstances, some pilots — the exceptional ones — remain airborne far longer, soar far higher, and travel far greater distances than others. For these pilots, gliding is not a passive experience. They understand their aircraft, the conditions and themselves and use that understanding to find lift where others find only the void, to achieve just the right angle of attack or to exploit the paradox of diving earthward to generate lift and head skyward again. Even exceptional pilots must land — but not until long after the rest of us.

Similarly, some companies are exceptional. They are able for a time — and occasionally for a long time — to overcome inertia, resist entropy and adapt to competitive or environmental changes. They create better performance and sustain it for far longer than anyone has a right to expect. Nothing lasts forever, but then, that is not the goal. The objective is to deliver the best possible performance for as long as possible.

Every glider lands eventually. But how long it stays up, how far it flies and the heights it reaches are all profoundly affected by the pilot's choices. It is our belief that by consciously adopting the three rules — *better before cheaper, revenue before cost* and *there are no other rules* — you can reasonably hope to defy gravity its due for just that much longer.

RECOMMENDED READING LIST

If you liked *The Three Rules,* you'll also like:

1. ***The Innovator's Solution*** **by Clayton M. Christensen and Michael E. Raynor.** Christensen and Raynor provide helpful advice on the business decisions crucial to truly disruptive growth.

2. ***The Innovator's Manifesto*** **by Michael E. Raynor.** In his 2011 book, Raynor shows how Disruption theory can help managers more accurately predict which businesses will survive – and which will die.

3. ***The Strategy Paradox*** **by Michael E. Raynor.** Raynor shows business leaders how to achieve results as they reduce the risks they must accept in the pursuit of success.

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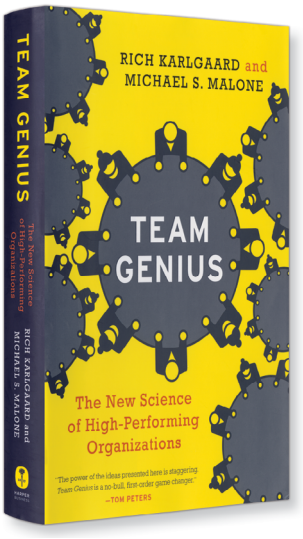
37-25 Team Genius

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Team Genius

The New Science of High-Performing Organizations



by Rich Karlgaard and Michael S. Malone

THE SUMMARY IN BRIEF

Teams — we depend on them for both our professional success and our personal happiness. But isn't it odd how little scrutiny we give them? The teams that make up our lives are created mostly by luck, happenstance or circumstance — but rarely by design.

In trivial matters — say a bowling team, the leadership of a neighborhood group or a holiday party committee — success by serendipity is already risky enough. But when it comes to actions by fast-moving startups, major corporations, nonprofit institutions and governments, leaving things to chance can be downright dangerous.

Offering vivid reports of the latest scientific research, compelling case studies and great storytelling, *Team Genius* shows managers and executives that the planning, design and management of great teams no longer have to be a black art. It explores solutions to essential questions that could spell the difference between success and obsolescence.

Throughout, Rich Karlgaard and Michael S. Malone share insights and real-life examples gleaned from their careers as journalists, analysts, investors and globe-trotting entrepreneurs.

IN THIS SUMMARY, YOU WILL LEARN:

- Why good "chemistry" often makes for the least effective teams.
- Why cognitive diversity yields the highest performance gains.
- Why groups of 7(±2) and 150 are magic sizes for teams.
- Why "pairs" are so special and how many types there are.
- What the life cycle of a team is.

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Michael S. Malone is one of the world's best-known technology writers. A veteran newspaper reporter and columnist, magazine editor and entrepreneur, he is the author or coauthor of nearly 20 award-winning books, notably the best-selling *The Virtual Corporation, Bill & Dave* and *The Intel Trinity*.

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Introduction

Successful teams are at the core of powerful organizations. But what explains game-changing teams — start-up teams, creative teams, R&D teams, project teams and sales teams?

Let us be clear. When we talk about teams, we are not talking about formal teams as depicted in company org charts and Web pages. *Team Genius* is about how work really gets done. Experience says that the world's most creative and impactful work gets done by informal teams.

It's time to take a look at teams systematically and scientifically. To prepare ourselves for the world to come in the rest of this century, we need to find the genius that resides in great teams.

Change Kills — If You Don't Have the Right Teams

Talking about the rapid pace of technology-driven change has become commonplace. Our acceptance of the reality of this change doesn't necessarily mean that we understand it or that we have developed effective strategies to cope with it.

Here is the uncomfortable truth: Humans run to a much slower evolutionary clock than our inventions. To use an engineering term, we are the "gating factor" that keeps a process from running faster. It is people, not scale or technology, who determine how well an organization adapts to change.

So, whether we know it or not, the difference in our rapidly accelerating world between a perpetually successful enterprise and a struggling, dysfunctional also-ran comes down to the people in those enterprises — and even more, to how those people relate to each other as they form and re-form into teams. Maneuverability will become the new essential for sustained rising value, and it will come from the combination of global reach, great technology and highly optimized teams — *team genius.*

Mastering Maneuverability

Maneuverability is more than rapid evolution. Sometimes even that is too slow. Rather, maneuverability is the capacity to turn, even reverse direction, quickly, to deal competently with whatever new change — technology, market opportunity or competition — has just burst onto the scene, and to do so without losing internal cohesion and breaking up. This is a challenge facing almost all institutions, from small retailers to the governments of great nations around the world.

The exponential forces at work in today's culture and economy reward winners quickly and punish losers mercilessly. Over here you'll find a resurgent Apple, but over there is sad, old Eastman Kodak; Germany on the one hand, Greece on the other; Silicon Valley and Detroit. Whether the global economy improves or worsens, this new unevenness is here to stay.

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That's not to say that older and larger organizations cannot maneuver effectively and even make stunning reversals in direction. But it is exceedingly rare. And it almost never happens unless a small, cohesive team is found at the center or top of that organization and is endowed with two other crucial factors: the power to execute its decisions across the entire organization and the trust of its players in the periphery around that team. Indeed, even the largest organizations can maneuver widely and with stunning speed in the face of rapid change if they are built out of genius teams in support of an empowered leadership.

The Magic Numbers Behind Teams

Researchers into the nature of leadership recognized decades ago that even the best leaders have a limit to their successful *span of control,* usually six to 10 people — the number of individuals whom they can personally manage at the highest levels of productivity. Beyond that, even the most talented leaders simply don't have enough intellectual, emotional or temporal bandwidth to provide the requisite personal attention. Thus, smart leaders begin to divide up their direct reports into multiple teams; each with a subordinate emplaced and empowered to serve as the new team leader.

A second force at work in creating team archetypes is *structural stability.* Here one can draw an analogy with atomic theory. Certain molecules are inherently stable due to the nature of their atomic bonds and structure. Others are much more volatile, and unless constantly maintained in the unstable condition, they will quickly revert to more stable structures.

Human teams exhibit the same combination of stability and volatility. Some teams, most obviously pairs but also large groupings such as the 150-160 people in a typical tribal village, are considerably stable. Pairs, of course, are the most stable of all, not just because of their simplicity but also because they manifest those most basic of all human relations: friendship and marriage.

But add a third team member and things become much more complicated — sometimes even explosive. Trios work, of course, but often it seems they do so only by serial pairing. After all, history doesn't show many triumvirates and troikas, especially among rulers, that have survived for long.

Beyond three members, the next optimal team size has been the subject of considerable debate. Susan Healthfield, a human resources expert, offers this: "So, optimum team size is not an easy answer. From experience and research, the optimum team size is five-seven members. The team size that continues to function effectively is four-nine members. Teams are known to function cohesively with a size up to 12 members."

Studying everything from Hutterite religious communities to the Yanomamo people of the Brazilian jungle, British anthropologist Robin Dunbar discovered that the same human group sizes appear over and over. He called them "clusters of intimacy," and he identified "cliques" of five people, "sympathy groups" of 12-15 people and "bands" of up to 35 members.

Dunbar's biggest discovery, now named after him, was that there appeared to be an upper limit to team size. Precisely: 147.8, normally rounded up as the "Dunbar number" to 150.

The figure of 150 seems to represent the maximum number of individuals with whom we can have a genuinely social relationship, the kind of relationship that goes with knowing who they are and how they relate to us.

Until now, teams have by necessity largely been recruited and formed by hunch, intuition and experience, with little to no empirical support. That is about to change.

The New Science of Teams

The most fundamental questions one can ask about teams are, "Are human beings designed to work together?" and "Can each person grow and perform at his or her best if properly fit into the right team?" Some of the most compelling new research in brain science says yes.

In fact, the human brain is evolutionarily designed so that individuals can adjust to one another's perspectives and emotions in order to engage in cooperative activity. When we engage with another person, we are, in fact, embarking on an intimate brain-to-brain connection with that person. The deeper that engagement, the greater that relationship affects our brains and our well-being to the point of actually activating genes controlling our immune systems. Thus, nourishing relationships really are beneficial for our health, while toxic ones can actually be physically destructive.

Mirror Neurons, Spindle Cells, Oscillators

The discovery of mirror neurons, among the most important findings of the last decade in neuroscience, helps us understand many heretofore paradoxical social phenomena, including the evolution of language, emotional empathy and personal social identity.

Mirror neurons are nerve cells in the brain whose purpose appears to be creating a copy of an observed action — either by the owner of that brain or, even more astonishingly, the action of others.

The discovery of mirror neurons could be a game changer, with the potential to offer breakthroughs in everything from how teams are created to the nature of leadership.

It is because of mirror neurons that people are able to emulate within seconds the emotions and actions of others. Mirror neurons also allow us to navigate our social world and create an instant sense of shared experience. And they are particularly important to leadership, because followers don't just act out the orders of leaders, they actually tend to mirror the feelings and actions of those leaders. For example, a leader who smiles and laughs will trigger similar laughter in his or her team — a process that also helps in team bonding.

Mirror neurons aren't the only cells in the brain that help regulate how we interact with others in team settings. In practice, intuition can seem like ESP, coming from a place deep in the recesses of your mind. But recent research has found that intuition is partly produced by a class of neurons in the brain called *spindle cells*. The role of these spindle cells is to quickly transmit thoughts and feelings to other cells. Within one-twentieth of a second, spindle cells trigger neural networks designed to make judgment calls with only a minimum of evidence — such as deciding whether one person is trustworthy or whether another is right for a job. In our fast-moving digital world, this ability to make accurate "gut calls" can be crucial for team leaders.

Meanwhile, another class of neurons called *oscillators* regulates physical coordination between people. When two cellists play together, they hit their notes in unison because of their respective oscillators. In a sense, human beings find harmony when their oscillators do.

For now at least, we don't know how to strengthen or regulate the firing pattern of mirror neurons, spindle cells and oscillators. But what we can understand is that these fundamental factors do exist, and not only are happiness and stress contagious, but they can spread within seconds across a team.

Measuring Teams in Real Time

Teams these days are not just being studied statistically or as part of isolated experiments, but in real life and while they are in operation.

Alex Pentland, the director of MIT's Human Dynamics Laboratory, and his team have used "sociometers" to generate data on communication patterns and productivity of teams in real organizations. Sociometers are wearable electronic sensors that measure patterns of communication — including the amount of face-to-face interaction, conversation time, physical proximity to other people and physical activity levels — using social signals derived from vocal features, body motion and relative location. They capture tone of voice, how one faces others in groups and how much people listen and talk. For Pentland, great teams do the following:

- They communicate frequently.
- Team members talk and listen in equal measure.
- They communicate informally.
- They look for ideas and information outside the group.
- They adjust their patterns of communication.

Another way of looking at teams in real time is called *team neurodynamics.* This is the science of modeling teamwork through the measurement of members' neurophysiologic indicators. In other words, wire the team up and send them back to work. The field of neurodynamics is based on the discovery that an individual's brain rhythms become synchronized to the frequency of the stimulus presented to him or her.

All of these experiments and observations lead to the possibility of one day being able to assemble teams, test them in action and then see if their individual and group responses indicate a team that will work well together.

The Power of Difference

When it comes to teams, traditional definitions of "diversity" are meaningless. Cognitive diversity — *how* people think — is all.

One common source of this cognitive diversity is cultural and is the result of different patterns of socialization. For example, in some cultures, people tend to be holistic thinkers, and in others people tend to be more analytical. Another form of cognitive diversity can be found between

socially contextual (context-dependent) and independent (context-independent) thinkers.

Here's the thing: A team needs both independent and socially attuned thinkers. Leaders also need to know the distributions of the different types of thinkers on the team and manage accordingly. Studies have found that the optimal balance of people on radical-innovation teams requires that 50 percent of the members have the following distribution of personality types:

- Creative: 20 to 30 percent. Teams with too many creative types struggle with implementation. That's because (surprise!) creatives are not always practical, are not concerned with rules and may initiate conflict.
- Conformist: 10 to 20 percent. Conformists are the backbone of the teams, and their key role is to support the creatives. Conformists help boost cooperation and improve team confidence. They make teams predictable in a good way.
- Detail-Oriented: as much as 10 percent. Detail-oriented people may often be risk-averse, but they help strengthen important team functions such as budgetary control. The detailers make sure that the team is still there each morning.

More than 40 years of research on diversity has been conducted by psychologists, sociologists, economists and organizational scholars. A review of this literature in 1999 by Katherine Y. Williams and Charles A. O'Reilly of Stanford Graduate School of Business underscored that diversity is a double-edged sword.

The good news is that group diversity can enhance performance, because group members bring to bear varied ideas, knowledge and skills to accomplish tasks. However, in a diverse group, members may view each other through a biased lens of stereotypes based on social categories (the same differences in race, gender and so forth that are supposed to help). This bias invariably reduces the effectiveness of the group's interactions.

Getting the Best from Diversity

The bottom line is that your greatest chance to create a successful, productive team involves a diverse membership — but the more diverse that membership becomes, the worse the odds are that the team will survive long enough to produce those results. So you need a strategy to mitigate the cost of that increased diversity. The scientific evidence suggests that this strategy should take two tracks.

First, diverse teams need to be actively managed. Abandon now any notion you have that you can build the most powerful team possible, wind it up and let it run by itself. In fact, the more diverse the team, the more hands-on management it will need.

Besides increasing the quality and participation of direct management, you will also need to be constantly vigilant against a number of threats to the team's continued existence. These threats include but are not limited to the following:

Turnover: Turnover is a problem in groups in which the members perceive each other as too different. The added stress of dealing with the "other" will drive some people to seek the safety of being with people more like themselves in other teams.

Framing: Framing is how a potential challenge or opportunity is presented to team members in relation to their overall project. So, how the challenge of the workforce diversity is framed by the team leader will affect how team members manage diversity-related tensions. Here, it is best to frame the value of your team's diversity as a matter of staying competitive and emerging victorious.

Belief: Research has found that teams with pro-diversity beliefs are better at harnessing the power of that diversity. That is, if they believe that their diversity is a competitive advantage, it will usually turn out to be so.

Tenure: It turns out that the longer you keep a team together, the fewer the negative effects of its diversity. Teams with high degrees of familiarity are better able to take advantage of diverse experiences among team members.

Now that you've built your team and populated it with a diverse group of members, your final challenge to keep it running at its full potential is not just to drive it to full productivity but to keep it running at that pace by minimizing its long-term losses.

Managing Teams to Genius

Fortunately, there is more than one path to team success. Fully armed with this knowledge, you should be able to find the team for you — as well as a leadership style that suits your personality and your organization's culture.

Here again, research in the last decade has revealed some interesting discoveries. One of them is that the values instilled in a team at its formation will shape the way its members approach tasks and their social interactions, and that over time those attitudes will solidify as a feature of the group's structure. That means that how your

team begins will determine how it ends and how it will perform during its existence.

J. Richard Hackman, an esteemed expert on teams, summarizes the leadership challenge most aptly. He notes that you cannot guarantee team success, but you can increase the probability of it by managing at the margins and setting up the right conditions. According to Hackman, these "right conditions" are

- The team has a compelling direction: The team task is clear, challenging and consequential.
- The team is bounded (it is clear who is and who is not on the team) and stable (the team's membership is not constantly fluctuating), and its members are interdependent (that is, they interact with one another to accomplish the team's work).
- The team is set up with the right mix of members, who have norms of conduct that guide their behavior. Team members are different but not so different that they cannot work with each other. Team members have the right set of skills and expertise for the team task.
- The team has a supportive organizational context that provides team members with access to resources, information and training to help accomplish their task.
- The team receives coaching from experts, peers and leaders.

Up to now, all information has been concerned with the inside of teams. Now, we follow by looking at teams from the outside — from the perspective of a manager assigned to build them and ensure their success.

The Power of Pairs

In today's tough and competitive economy, the demands of daily life at work and play are almost impossible to manage by oneself. What's needed instead are people with complementary skills. And we find such pairs everywhere: the engineer who teams with the technical writer, the trial lawyer with the researcher, the executive with the operations expert, the inventor with the entrepreneur.

Pairs often take on a wide and colorful array of forms, some of them quite unlikely at first glance. Not only is the success of these teams not correlated with compatibility, but some of the most successful pairs consist of two people who have nothing in common and may actually despise each other. Stranger still are the pairs in which one member may be long dead — or have never existed.

Needless to say, this is not the way we normally think of pairs nor how we typically assemble them in business, government or academia. Rather, we tend either to team up people who we think will work well together, or simply stick together the two best individuals for the job we can find. That this selection process remains so crude even into the 21st century is shocking. And yet, when those talented individuals are finally hired and put to work, they are paired with others, or put into larger teams, through a process that hasn't changed in millennia: perceived compatibility, common interests, similar personalities, intuition and, more often than not, proximity and expediency.

Is it any wonder that, for all the empirical tools that are now brought to bear on corporate HR functions, we still have almost no ability to predict whether a given pair will actually get the job done?

When the revolution in team construction and management finally arrives, it will no doubt start with the very foundation of all teams: pairs. After all, pairs are not only the most common of human (and animal) teams, but they are also the basic bricks from which the edifices of larger teams are built.

Successful Pairing

To be human is to be a member, both serially and in parallel, with a succession of pairs — numbering perhaps in the hundreds — over the course of a lifetime.

There are pairs defined by occasion. For example,

Chained Together by Success: These are "antagonistic partnerships," and they can be the strangest, scariest and most remarkable of any pair type. "Chained" pairs feature a duo of people who are hugely successful together but for various reasons simply do not get along with each other. An example here would be movie critics Gene Siskel and Roger Ebert.

There are pairs defined by similarity. For example,

Castor and Pollux: These are the "perfect partnerships," the ideal among teaming individuals who are so much alike that they each can take on the other's duties with barely a hitch. These partnerships can range from near clones — often taking the form of siblings such as Orville and Wilbur Wright — or very different people who still match each other in the details of their joint efforts, such as Bill Hewlett and David Packard.

There are pairs defined by difference. For example,

Yin and Yang: "Yin and Yang" pairs are teams of two individuals whose different skills combine to produce a

complete and competitive force. These pair teams are typically found among salespeople, educators and law-enforcement officers, and in the creative business professions such as advertising, art design and copywriting. In the classic Yin and Yang teams, one individual is artistic, the other empirical. Think of the many songwriters and lyricists, from Rodgers and Hart to Elton John and Bernie Taupin.

And there are pairs defined by inequality. For example,

Remember the Force: "Force" pair-teams are mentor partnerships in which the two members are unequal. In a typical case, these teams consist of an older veteran who serves as an adviser and guide to a younger partner. The title of this type of team comes, of course, from *Star Wars* and the relationship between Obi-Wan Kenobi and Luke Skywalker.

Matchmaker, Matchmaker

When it comes to the care and feeding of perfect pairs, you should start as a leader by identifying your most talented people, especially those who are described as difficult, unpopular, eccentric or odd.

Don't look at the obvious strengths of these individuals, but instead focus on their weaknesses. Compare these weaknesses to see if they can fit together in a way that neutralizes them. If you can't find a suitable match among this select group of individuals, look elsewhere in the organization. Remember, the best pairs may be quite alike, complete opposites or somewhere in between. The key is that, on the job if nowhere else, these individuals fill each other's voids.

Next, put these potential pairs in close proximity, as isolated as possible from outside influences — especially peer groups — which may amplify their differences and undermine their synergies. Assign the pair a task for which they have the requisite skills but are unlikely to accomplish as solo operators.

You should now step back but continuously monitor what happens. If the team proves to be either dysfunctional or, conversely, enjoying itself too much to get any work done, dissolve it. If it proves to be highly productive — and this will be obvious quickly — keep it intact, find more challenging projects for it and clear a path for it through the company's bureaucracy.

Trios – The Plutonium of Teams

If pairs are like inert gases — pairing up and becoming profoundly stable — trios are more like radioactive elements: They seem to exist for only a brief time before they break down to their natural state, pairs. Make the most of your trios for as long as they exist, but don't depend on them to survive, and don't be surprised when they fail.

Trio teams inevitably take one of four forms:

2+1 Trios: This, at its core, is a pair to which has been added a third player in a vital but not an intimate partner-like role. The greatest strength is it's a pair with a third peripheral person acting as a consultant or specialist.

Parallel Trios: Often what we perceive as a trio is, in fact, two pairs sharing a common member, while the other two members rarely interact. Parallel Trios are the most powerful because the members of the trio don't actually all work together; it is possible to fill the two outside roles with individuals who are the best at what they do without worrying about their compatibility with the other, only their compatibility with the sole inside member. This architecture also features its own inherent hierarchy. Inside, because he or she is the traffic cop between the two outsiders, is the uncontested leader of the trio. This solves a lot of the stress found in most trios.

Serial Trios: Serial Trios differ from Parallel Trios in a temporal way. Rather than the one common member dividing his or her time between the two other members, the various members of the trio simply and sequentially work briefly with each other in pairs.

Instrumental Trios: If 2+1 Trios are the easiest to construct and Parallel Trios the most powerful, Instrumental Trios — three people with carefully defined roles working together on a single, equally well-defined task — are the most consistently successful.

Creating and managing trios can actually be easier than doing the same thing for pairs. That's because trios can exhibit an internal structure and a level of self-management not typically possible with pairs. They can also usually be created simply by taking a successful pair and adding a third player, compatible or not, who brings the requisite skills.

Four and More – The Wild Bunch

Most of the successful small teams range in size from five to nine members — referred to as **7±2 teams**. These teams show up almost everywhere: sports, the number of key players in sitcoms (think Friends), rock bands

(the Rolling Stones) and the number of members of the United States Supreme Court.

Managing a 7±2 team usually means that you are a member of that team. And while in theory that shouldn't make a difference, in real life it always does. And so, while you are still trying to assemble the best possible team, in the back of your mind is the lingering thought that whomever you pick you will have to work with closely on a daily basis for the duration of the project. So if you aren't careful, subjectivity can sneak into what should be a hard-nosed, objective decision.

15±3 teams are the smallest teams that can actually divide their labor and still have dedicated management for each resulting subteam. This formulation offers some real advantages; in particular, it means that those subteams can truly operate independently and not have to wait on a single manager racing back and forth among those teams making command decisions.

The basic rules of management theory apply: work through your subordinates, but maintain a connection with all the team members; continuously monitor the team's health; recognize hard work and achievement; defend the team against outside challenges; manage the budget carefully; and shepherd the team through major challenges and transitions. If you've built the team properly, it will take care of the rest.

The Birth and Life of Teams

Every team is a narrative, a story that typically begins with a **formation phase** in which strangers are thrust together under unusual circumstances and then are forced to quickly establish their relationships with each other even as they rush to understand their assignment, divide it up and then parcel out the pieces to the right members. Soon thereafter, the team enters into an **establishment phase,** in which it needs to establish rules, metrics, milestones and its communication apparatus. And all of this must be done even as those same members begin to work on the task itself. That shift of focus from organization to actual work on the assignment marks the transition to the **operational phase**.

As time passes, and as the initial results of its work are known, the team inevitably has to adjust — resetting milestones and deadlines and coping with the personalities, idiosyncrasies and the strengths and weaknesses of its members. This is the **functional phase**. External forces are in play as well: New competitors with threatening new products or services may appear unexpectedly, deadlines may change and budgets may shift. All of this puts further stress and confusion on the teams.

Assuming the team survives, these events ultimately have another effect: They become elements in the team's growing story, the legends and experiences that help define its internal culture. This is the **cultural phase**. The longer a team endures, the more likely it is to lose original members. The healthier a team's culture, the less productivity it will lose to newcomers making their way up the learning curve. This is the **sustainable phase**.

As the team overcomes any technical obstacles and approaches its goals, it now moves into a **maturation and consolidation phase.** The challenge now is to resist the desire to rush ahead and, instead, to maintain the pace and finish the project properly. Good teams survive to enter the **completion phase.** Once everything is packaged, bundled up and either handed or sold off, the team reaches its **end phase**.

When you do reach that end, formally announce that fact — and then celebrate. This is not a time for reserve, or weary acceptance or polite acknowledgment of a job well done. Even if you've failed to achieve all of your goals, your team deserves a full-blown recognition of its loyalty and hard work.

The teams in which we work, and the teams we lead, may not change the world. But they can make the world a better place, make our company (and everyone who depends on it) more successful and secure, and give ourselves and our teammates a more rewarding and fulfilling career.

RECOMMENDED READING LIST

If you liked *Team Genius* you'll also like:

1. ***A Team of Leaders*** **by Stewart Liff, Paul Gustavson.** Gustavson and Liff present the Five-Stage Team Development Model, which outlines the progression to creating teams of people who think and act like leaders.

2. ***Power of 2*** **by Gale Muller, Ph.D., Rodd Wagner.** Wagner and Muller teamed up to crack the code on collaboration and to discover what elements are crucial for two people becoming a successful team.

3. ***The Synergist*** **by Les McKeown.** McKeown reveals a proven method to build highly successful teams while stimulating personal and organizational growth.

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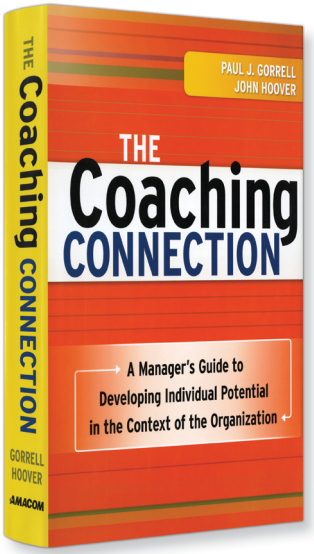
37CS10A The Coaching Connection

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The Coaching Connection

A Manager's Guide to Developing Individual Potential in the Context of the Organization



by Paul J. Gorrell and John Hoover

THE SUMMARY IN BRIEF

The Coaching Connection presents a useful framework for coordinating a coaching culture throughout your organization, whether you're a coach-at-large, a mentor, an onboarding specialist, a career coach, a manager in an advisory/guidance role or an individual being coached. You will become expert in Contextual Coaching, a methodology that can help align what individuals do best with what organizations need most, ensuring a win-win for all involved.

If you are new to coaching, this book outlines the beginning of an exciting journey. If you're an experienced coach, you are about to learn and apply a new systemic model that aligns the growth and development needs of the individual with those of the organization. As the authors say, "Coaching is never only about the organization, nor is it about individuals in isolation. It is about all of it, all of the time."

IN THIS SUMMARY, YOU WILL LEARN:

- The single key success factor underlying most positive outcomes in coaching.
- How to align coaching design and execution with organizational strategy.
- A winning formula to address the three critical ways individuals enhance — or inhibit — alignment.
- Methods for dealing with the difficult coaching client.
- How to apply a 360-degree assessment that covers the 10 most essential skill sets of well-balanced, effective leaders.

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THE COMPLETE SUMMARY: **THE COACHING CONNECTION**

by Paul J. Gorrell and John Hoover

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The Coaching Connection by Paul J. Gorrell and John Hoover. Copyright © 2009 by Partners in Human Resources Intl., LLC. Summarized by permission of the publisher, AMACOM, a division of American Management Association, Int'l. 266 pages, $29.95, ISBN 978-0-8144-1414-9. To purchase this book, go to www.amazon.com or www.bn.com.

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The Tale of Two Clients, or The Coaching Conundrum

Executive coaching has often in the past been used to remediate damaging behaviors demonstrated by those with enough institutional authority to do significant damage to people and to the organization that employs them.

Anything, such as coaching, that helps managers and executives make good decisions is worth the investment, whether that means turning around a manager's or executive's thinking or involving them in more productive habits, skills and activities.

The Coaching Connection is, in part, about connecting the dots between the need for highly skilled, knowledgeable and wise coaches and the exponentially increased benefits of pre-emptive managerial and executive skill and competency building, as opposed to reactive, after-the-fact interventions.

The Conundrum

Who, then, is the coaching client? Is it the individual or small team receiving the coaching or the organization that is paying for it?

Our final answer: The individual *and* the organization that employs the individual are *co-clients*. We are talking about the growth and development of individuals specifically in how they do their jobs and interact professionally with others now and in the future, both of which are inexorably linked to the well-being of the organization that employs them.

Conundrum solved. The tale of two clients unfolds. The highest value a coach or manager who coaches can bring to the individual or to a small team is to find the place where the best interests of both converge. Ultimately, if the coaching is successful, the individual's and the organization's interests become one — or as blended as humanly possible. A well-coached employee who has experienced such convergence will be able to articulate how his or her function adds value to the organization.

The Contextual Coaching process provides leadership development to everyone who shows potential. All growth and development of your coaching clients take place within the context of the organization. As the coaching progresses, the identity, agenda and priorities of your clients begin to merge with those of the organization, resulting in more continuity and consistent alignment between the organization's needs, the client's needs and ultimately your clients' performance.

The Benefits of Using the Contextual Coaching Model

The 10 components of the Contextual Coaching model shouldn't be thought of as the 10 Commandments of Coaching. They represent architectural knowledge for a well-balanced organizational leader. However, you should be knowledgeable about all 10 if you want to serve the organization well and help it become an employer of choice filled with well-balanced employees of choice.

A Coaching Culture

Besides generally educating and raising awareness, there are three primary categories within which people contribute to or detract from the success of the organization — three ways they enhance or inhibit the

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Rebecca S. Clement, Publisher; **Andrew Clancy**, Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Deborah Roselle**, Contributing Editor

alignment between what individuals do best and what their organizations need most: habits, skills and activities.

Habits. As coaches, we help our clients discover where, when and how their habits enhance their careers or how they might adopt new ones in order to overcome old behaviors that impede their growth and development.

Skills. You can help your coaching clients make better choices in developing and applying their skills/natural talents.

Activities. Activities are totally deliberate, chosen because of their functional purpose and strategic benefits.

Change starts with "C," and so does coaching. There is virtually nothing you will do as a coach that is not about creating or sustaining positive change in your organization. There is nothing individuals do in the coaching process that is not about changing habits, skills and/or activities.

The 10 Contextual Coaching categories, representing competencies in well-balanced leadership, are paired into five dyads as follows:

Strategy and Structure. How the organization's strategy creates an impact on leaders and how they manage relationships across different levels of authority within the structure.

Culture and Communication. How cultural markers of the organization create challenges and opportunities and how communication style affects success.

Talent Systems and Talent Solutions. The use of processes related to the acquisition, management and successioning of talent and the learning and development opportunities created by the organization.

Development and Dynamics. Specific areas of individual development for the coaching process and the impact of any change in behavior on the dynamics of the leaders' team.

Career and Competence. The career plan of the leader and the gaps the leader has vis-à-vis the organizational definitions of leadership.

Whether it comes fast or slow, if your clients' new habits, skills and activities are demonstrably improved, everybody wins. Creating a coaching culture in your organization might mean pushing back the boundaries of everything you have ever thought about coaching and venturing into a space where it is never about either only the organization or about only individuals in isolation.

The Basics of Contextual Coaching

The idea of working with a client may seem threatening at first. If you are an experienced coach or manager who coaches, you know the feeling. You also know that your clients just as often feel threatened. Two key points to remember and share with your clients: 1. Executive coaching represents a major investment in your clients. 2. Truly effective coaching must be conducted within the context of your organization.

Confidentiality is the cornerstone of any effective coaching in engagement. Your clients must be assured that what is discussed between the two of you stays between the two of you unless your client decides to share information with others and/or expressly grants you permission to discuss selected information.

Steps in the Contextual Coaching Process

A well-managed Contextual Coaching process will accelerate the development of your clients' leadership potential and provide a connection between what your clients do best and what the organization needs most. The program comprises five key stages, each with a specific focus.

1. Engagement Launch. This introductory phase begins with a dialogue involving you as the coach, your client's human resource partner and/or the client's direct supervisor regarding a general set of objectives for the engagement. Once selected as the coach, in the initial coaching meeting between you and your new client, discuss the coaching process, identifying initial goal(s), make plans for the assessment process and begin to build rapport and trust. In the ensuing sessions, you and your client will focus on initiating the assessment process, often including 360-degree feedback and/or personality assessments.

2. Assessment and Exploration. Assessment tools fall into two broad categories: (1) those that guide your clients toward self-knowledge through directed self-insight and (2) those that provide your clients with the objective observations of others (360-degree assessments). These assessments are incorporated into the coaching process early on so that the engagement can be used to address issues that the assessments identify.

3. Strategy and Goal Setting. Your clients will be challenged to grow in personal performance as well as leadership capability through a personalized experiential learning process in the Coaching Action Plan.

The plan is further broken down into specific actions and incremental accomplishments that will make the

individual's progress seem realistic and doable and ensure that your clients are developing in areas that they value.

4. Ongoing Development and Reinforcement. This stage involves several steps:

- Tracking of behavioral changes.
- Ongoing development and reinforcement.
- Modification of goals and strategies to adapt to changing conditions.
- Filing of a midterm report on your client's progress.

5. Engagement Conclusion. Here you identify strategies for your client to use in the post-coaching process and roundtable discussions with your clients, HR partners and your client's manager.

Area of Behavioral Focus: Strategy

Coaching your clients around theoretical strategic planning and execution will produce limited results, benefiting neither the individual nor the organization. The best opportunity and incentive for your clients' growth and development related to strategic thinking, planning and execution takes place in real time and, of course, within the context of the organization.

There are specific behaviors that are part of the Contextual Coaching 360-degree assessment that measures your clients' proficiency in using strategy as a tool:

- Successfully managing resistance to new ideas
- Formulating a strategy related to business goals
- Applying organizational strategy and managing strategic planning within an area of responsibility

One of the main ways to connect Strategy to the Coaching Process is to raise your clients' collective consciousness about how strategy is the fascia tissue that connects their career ambitions to the ongoing well-being of the organization.

360-Degree Feedback Questions for Strategy

Sitting and talking through questions and noting the answers (verbal and nonverbal) of your clients and their feedback providers is a terrific way to assess the state of your clients' relationship and mastery of the 10 Contextual Coaching components.

Here are questions specific to strategy that you should ask your clients:

- How would you describe your management of strategic responsibilities?
- Can you provide some examples to illustrate this description?
- Who looks to you for strategic guidance and information related to the company's strategy?

Use the 360-degree feedback data as a global positioning satellite to plot where your clients are now, where you want them to go and any detours that might be encountered along the way. Comparing what you have at present and what you want in the future will provide you with some gaps to be filled.

Area of Behavioral Focus: Structure

Structure is the way an organization sets up its employees, property and other resources to manage process, determine lines of authority, identify workflow within and between departments and create a management architecture that maximizes opportunity while minimizing risk.

The Coaching Connection Among Organizations, Individuals and Structures

Structure is an element of the Contextual Coaching model because organizational alignment is an essential element of the company.

In the Contextual Coaching model, structure and strategy are partnered to remind ourselves that organizational structure is not in place for its own sake. The goal of any organization is to think critically about strategy and to determine how the people in the company can best meet the company's goals and objectives. This includes the way people are organized and assigned tasks.

As a coach, your exposing your client to a broad view of organizational structure can provide a roadmap to new levels of success.

360-Degree Feedback Questions for Structure

As a means of further assessment, here are questions specific to structure to ask your coaching clients:

Please provide examples of when you worked with people from multiple departments to solve a problem, and describe your role in the process.

The earlier anyone in the organization starts talking structure, the better. Knowing who is tuned into organizational structure and who is not will ensure that your client's coaching engagement is aligned with your position in the organization's structure.

Area of Behavioral Focus: Culture

Culture is reflected in the predominant behaviors, beliefs and values characteristic of a particular organization. Not only do humans create culture whenever they organize, but also those cultures can change shape and intensity as individuals at various levels of an organization influence them.

Why Culture Is Important to the Individual and Organization

Your coaching clients will benefit when you consider how different aspects of the organizational culture will bring success to your clients or present them with obstacles.You can help clients remain adaptable in the face of shifts in culture and also become "culture carriers" who communicate the culture to others through their words and deeds. If an organization wants to maximize the skills, competencies and capacity of its population, there must be a deliberate, methodical effort to synchronize all that the organization members have to offer.

360-Degree Feedback Questions for Culture

If your coaching client has direct reports, you want to know how your client's management style supports the strategic imperatives of the organization.

Here are questions specific to culture that you can ask your coaching clients:

- Can you describe any aspects of the culture that challenge your integrity?
- Can you provide examples of change processes in which you have participated?
- When the organization is facing change, what role do you take?
- How do you reflect the cultural values of your organization in your day-to-day work?

You will be able to tell from your clients' answers if they have habits that resonate with the kind of culture your organization is seeking to build. If not, then you play a vital role in helping them shed counterproductive tasks and replace them with productive habits and new skills.

Area of Behavioral Focus: Communication

Communication is serious business when it comes to individual and organizational success. Perhaps more than anything else, an organization expresses its culture by the way it communicates.

As a coach, when dealing in the context of culture, you and your client will consider how communication is managed within the organization. Do your clients share information openly or on a "need to know" basis with others above, below and/or beside them on the organization chart? Understanding how an organization communicates internally and externally will help your clients create communication plans for customers at critical times within the execution of coaching strategies.

Why Communication Is Important to the Individual

As a coach you need to help your clients understand that their career moves, both up and down the ladder, are determined during conversations between people who have the institutional authority to alter careers.

The ability to communicate effectively with direct reports, peers, superiors and customers of all kinds is pivotal to developing the legacy your clients need to succeed.

360-Degree Feedback Questions for Communication

- What are some examples of your communication style when essential information is necessary for completing work?
- How do you acquire a sense of where others stand on important matters?

By defining good communication habits like active listening, clear and concise writing, and expressing oneself succinctly, you identify a platform for your clients to build on. If you begin with a conversation about the Contextual Coaching model and show how effective it is in dealing with all 10 components, your clients will surely agree that effective communication is one of the most important. Your clients can work toward an enhanced skill level that

will make them more effective in their current jobs and prepare them for expanded responsibilities in the future.

Area of Behavioral Focus: Talent Systems

A talent system is any structured process that helps organizations manage their people; it forms a bridge between the individual and the organization. Through talent systems, employers of choice manage employees of choice across an organization to meet specific goals like talent acquisition, retention, career management and succession.

Talent systems are sometimes known as performance-management systems. These are some examples of generalized talent systems processes: talent acquisition, career management, performance management, potential management, succession planning, rewards and recognition, compensation, and health and well-being.

As a coach or a manager who coaches, you need to help your clients continuously seek optimal balance in their emerging leadership styles and delivery. Mastering talent systems is part of their complete balance as leaders and effective team members.

360-Degree Feedback Questions for Talent Systems

As a means of further assessment, here are questions specific to talent systems to ask your clients:

- Can you give examples of how the management of talent is a major investment of time, energy and focus for you?
- How do you acquire a sense of where others stand on important matters?
- How do you give people the feedback on their performance that will help them do a better job?

The very act of exploring these topics with your clients and gathering data about them will heighten your clients' awareness of the many hats a manager must wear. If your client is on track to become a manager, this is a good opportunity for your client to learn about talent systems in the context of the organization.

Area of Behavioral Focus: Talent Solutions

Talent systems define, measure and monitor the raw and experienced talent that talent solutions develop and optimize. More and better talent solutions based on ever-evolving definitions of needs, new measurements and feedback provided by talent systems can keep individual and organizational learning alive and growing. Solving a talent challenge can be seen in three prongs of the talent solutions fork: new knowledge, restorative knowledge and enhancing knowledge (making something better).

Talent Solutions in Perspective

Talent solutions can be put into the context of sales and customer service. The term "solution selling" involves convincing customers that it is in their best interest to buy into a solution that offers a people-based advantage. In a solutions world, investment in product development should be matched with a corresponding investment in staff development, of which your coaching activities are a part.

360-Degree Feedback Questions for Talent Solutions

As a means of further assessment, here are questions specific to talent solutions to ask your coaching clients:

- Can you give examples of times when you have provided learning opportunities for members of your team?
- How have you assigned job responsibilities that might have caused difficulties or dissensions within your team?

You will use your clients' answers to see how well their understanding and perspectives on talent solutions align with yours. Then you will use the answers your clients' feedback providers provide to see how the three perspectives align and where the gaps exist.

Area of Behavioral Focus: Development

For our Contextual Coaching purposes, "development" encompasses three main activities: training, education and development. Development is a holistic approach to improve and enhance everything professional about your

clients for current and future benefit of your clients and the organization.

Developmental Change is Simple – Not Easy

There are two things required before people will change and develop: People will participate in change, support change and even champion change if they think they (1) will be happier with the new outcome than they are with the present situation and (2) believe the change is possible. Participants can discuss their challenges, receive assessment that provides self-insight, build an action plan for change and reflect on behaviors and relationships that impede success. Coaching is the most successful individual-development activity.

360-Degree Feedback Questions for Development and How to Use the Responses

Here are questions specific to development to ask your coaching clients:

- What areas of individual development are most important for you in this process?
- How open are you to feedback from others in the organization when individuals communicate concerns, feedback and/or advice?

You will explore where your clients struggle when trying to execute the activities associated with growth, if their development plans resonate with the objectives of the organization, and how they can shift focus from the tactical tasks of the moment to what will be needed in the future.

You need to state that planning and executing their own development plan is a large part of what they're getting paid for. A strong, well-developed leadership team is essential for the organization's future.

Area of Behavioral Focus: Team Dynamics

Team dynamics is the study of how teams influence the environment in which they exist and how teams are influenced by their environments. A team can be united by a common cause, a goal or an objective, which may be short term or long term, official or unofficial, naturally forming or synthetic. As a coach you can discuss these elements of team dynamics with your clients:

Working Style. You can calculate the composite personality of the team by considering the individual personalities through a personality assessment.

Interrelationships of team members. These include histories of work experiences and the ways in which team members form alliances.

Group Knowledge and Experience. The way a team uses its competencies and balances the power dynamics can determine the team's level of success. As a contextual coach, you need to observe your clients leading teams.

Level of Clarity in Roles and Responsibilities. You must conduct critical conversations with your clients about how important it is that a team make fullest use of the skills individuals bring to the process and that a team create an equitable balance in the work expected of individual members.

360-Degree Feedback Questions for Team Dynamics and How to Use the Responses

- Can you provide examples of how you engage the team that reports to you?
- Can you describe the best and worst team meeting that you have attended in the past year?

Do not get caught in your clients' defensiveness. Not all of your clients will defend themselves unreasonably against critical feedback. However, some will. Be prepared. It is perfectly natural for human beings to be, at the very least, nervous about receiving feedback. Never take the position that, since everybody seems to think your clients have problems, they are a problem. Gaps can be corrected with perception-altering behaviors.

Area of Behavioral Focus: Career

Your clients' careers and professional futures are the culmination of the balanced abilities you help them acquire through the Contextual Coaching model. Career development is a strategic practice to fortify the enterprise while at the same time providing practical career development to your clients. Companies have merged career planning with talent management and employee development as a retention strategy. Companies are also providing processes for internal mobility through which individuals can identify open roles inside the company and create career plans that follow organizational templates. As with talent solutions,

you as the coach need to help map out your clients' career-development opportunities. You might focus on how to build a deeper network of relationships or on how to close experience gaps in your clients' resumes.

Why Career Is Important to the Individual and to the Organization

If employees experience opportunities for growth and career planning, they feel more in control of their future. As well, career expertise provides employee engagement and greater loyalty, which translates into effective performance. A key benefit from career development is the employment brand, a magnet that attracts new talent because the organization is known in the marketplace as a great place to work. In short, when people are the most important resource within an organization, developing them for future roles is a wise investment.

360-Degree Feedback Questions for Career and How to Use Those Responses

Here are questions specific to career to ask your coaching clients:

- What are your ultimate career goals?
- What is your plan to attain those goals?
- What is your commitment to the career aspirations of others?

The internationally acclaimed professional photographer Dewitt Jones said that we must all place ourselves in the "place of greatest opportunity" if we are to reap the rewards that opportunity offers. That is his message to your clients: Prepare constantly so that you will be recognizably ready when the opportunity to move up presents itself. Your clients need your help to navigate the uncharted waters of career mobility and to negotiate their way toward maximum career success for themselves and for the organization.

Area of Behavioral Focus: Competence

Competence is at the very core of your clients' abilities to add value to the organizational equation. Beyond the organization at large, competence relates to the ways in which our field, marketplace and competitors identify standards for career potential. As a coach you can help your people understand competence on the company level, and you can measure progress against goals, hire the right folks and promote people with potential.

360-Degree Feedback Questions for Competence

- What is the most constructive feedback you have received regarding competence?
- What gaps do you believe exist between how you view your competence and how the organization views leadership competence?
- What are some examples of how you plan to close these gaps?

Coaching using the Contextual Coaching process is the only way to achieve total and unquestionable success for the individual and the organization.

Epilogue

As you coach, you are riding the cutting edge in individual and organization development because the most remarkable and sustainable organizational improvements take place one person at a time.

Never forget that you are "never not communicating." Make sure everything about how you do your work and everything you preach to others reflects the impact that coaching has made in your job and your career.

The power of the Coaching Connection begins with you and resides at that critical juncture where you embrace what is best for you and what is best for the organization in the same moment and in the same context. Although you might eventually retire from it, the work of a contextual coach is never done.

RECOMMENDED READING LIST

If you liked *The Coaching Connection*, you'll also like:

1. ***The Fearless Front Line*** by Ray Attiyah. Learn to use the Run-Improve-Grow model to stimulate a culture of growth and continuous improvement.

2. ***Follow This Path*** by Curt Coffman and Gabriel Gonzalez-Molina. Backed by Gallup research, Coffman and Gonzalez-Molina describe how organizations should value and develop relationships with their employees and customers.

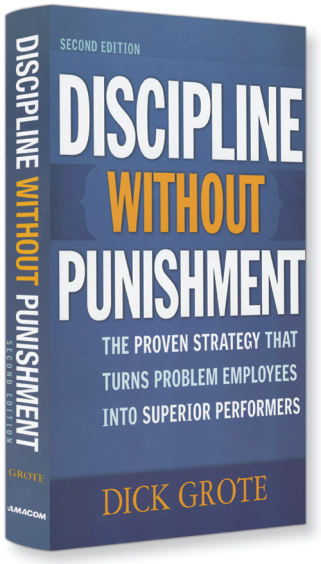
3. ***The Learned Disciplines of Management*** by Jim Burkett. Burkett presents a framework of individual disciplines that form a self-reinforcing management system for making the right things happen.

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37CS10B Discipline Without Punishment

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Discipline Without Punishment

The Proven Strategy that Turns Problem Employees into Superior Performers

by Dick Grote

THE SUMMARY IN BRIEF

More than 30 years ago, Dick Grote developed a powerful, nonpunitive discipline system that turned a troubled Frito-Lay plant from a hotbed of employee sabotage and toxic relations into a productive, respectful environment — one where employees took personal responsibility for their behavior, and managers helped problem employees become productive players.

Grote's method gained national recognition with the release of *Discipline Without Punishment*. The book has become a management classic, helping thousands of companies and managers move to a responsibility-based approach for handling unacceptable performance and problem behaviors. But many companies continue to cling to their long-established system of verbal warnings, written reprimands, suspensions without pay and probationary periods — all fear-based approaches that instill lots of resentment, with little or no payback in improved performance.

IN THIS SUMMARY, YOU WILL LEARN:

- How to become better at confronting a subordinate with the need to change.
- The procedures for Reminder 1 and Reminder 2 steps of the Discipline Without Punishment process.
- Why Positive Contacts are essential to improving employee performance.
- Tips to prepare for and conduct a performance improvement conversation.

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THE COMPLETE SUMMARY: **DISCIPLINE WITHOUT PUNISHMENT**

by Dick Grote

The author: Dick Grote is Chairman and CEO of Grote Consulting Corporation in Dallas. He is the developer of the Grote-Approach Web-based performance management system and the author of *The Complete Guide to Performance Appraisal, The Performance Appraisal Question and Answer Book* and *Forced Ranking*. His articles and essays have appeared in the *Harvard Business Review, The Wall Street Journal, Across the Board* and many other publications.

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The Birth of Discipline Without Punishment

For some 75 years, American organizations have been using a standard procedure to handle lapses from organizational discipline. This approach, "progressive discipline," is described by attorney James R. Redeker as such because its "purpose is to correct behavior through progressively more severe penalties."

The traditional progressive-discipline system was created by unions. In the 1930s, unions demanded that companies eliminate summary terminations and instead develop a progressive system of penalties that would provide an employee with a new benefit — protection against losing his job without first being fully aware that his job was at risk.

The basic premise of the traditional progressive-discipline system is that crime must be followed by punishment. This system almost perfectly parallels America's system for handling criminal deviants, and it works no better than the criminal justice system works in transforming lawbreakers into responsible citizens.

Problems with a Punishment-based System

The use of punishment produces side effects and long-term consequences — anger, apathy, resentment, frustration — that end up being far more costly than whatever the original misbehavior might have been.

The new system retained the progressive aspect of the traditional approach but redesigned all of the steps of the system to eliminate punishment. Instead, the new system concentrates on personal responsibility and decision-making.

The New System

The Discpline Without Punishment approach redesigns all of the steps of the old system to eliminate punishment and concentrate on personal responsibility and decision making.

To begin, the Discipline Without Punishment approach includes "Positive Contacts" as a formal element of the system. Including "Positive Contacts" tells managers that recognizing good performance is as important as confronting poor performance.

Most supervisors see coaching as part of their ordinary day-in, day-out responsibilities for managing people. These coaching sessions tend to be casual, spur-of-the-moment discussions aimed at showing someone how to do her job better or immediately correcting some minor problem.

Instead of being spontaneous and spur of the moment, a Performance Improvement Discussion requires the supervisor to make notes in advance of the meeting and conduct it with all of the seriousness of a formal disciplinary transaction but to advise the employee that the matter is still between the two of them. The purpose of the Performance Improvement Discussion is to avoid the need for any more serious action.

The "verbal warning" and "written warning" have been renamed. The first step of disciplinary action has become a Reminder 1. Instead of being reprimanded for what he had done, the individual is now reminded of two things: the company's expectations and the employee's personal responsibility. The purpose of the supervisor's discussion is not to deliver a reprimand or warning; instead it is to make sure that the employee fully understands what is expected and that it is his responsibility to deliver.

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Rebecca S. Clement, Publisher; **Andrew Clancy**, Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Eileen Spatz**, Contributing Editor

The second step of the procedure is called Reminder 2. It almost exactly parallels the first step. the supervisor again meets with the individual privately, reviews the situation and in a serious and businesslike way reminds him of both the performance expectation and his responsibility for meeting it. Because the situation has now become more serious, he is told that he will be receiving a memo after the meeting documenting the transaction. While this memo will be placed in his personnel file, he can earn the right to have it deactivated and removed if he goes one year with no further disciplinary problems.

Decision Making Leave

The most remarkable change comes in the final step of the new procedure: the Decision Making Leave. This is a one-day disciplinary suspension. While the employee would be paid for this day, he would be required to use it in both his and the company's best interests. He must use the day off to think about whether he really wants to work with the company. On the day following the suspension, he must return with a final decision: either to solve the immediate problem and make a commitment to totally acceptable performance in all areas of his job or decide that working for the company was not for him, quit and go find more suitable employment elsewhere.

The traditional progressive-discipline system takes a problem employee, punishes him and leaves the organization with a punished problem employee. The Discipline Without Punishment system requires the problem employee to become one of two things: either a good employee or an ex-employee.

PART I: BUILDING SUPERIOR PERFORMANCE

Recognizing Good Performance

The Discipline Without Punishment system begins by recognizing that the overall objective of the enterprise's discipline system should properly be the development of well-disciplined individuals who are committed to the organization, its mission, its values and its vision. As a result, the first element of Discipline Without Punishment is Positive Contacts, the recognition of good performance and the development of motivation. In essence, "Behavior rewarded is behavior repeated."

Reinforcing Good Performance

Our greatest opportunity for increasing overall organizational performance lies with our solid, competent performers. And the best way to spur performance improvement is to make sure that we provide a positive consequence — recognition — whenever it happens.

Our challenge is to find examples of good performance to recognize. Somewhere between the parameters of barely acceptable and genuinely heroic are hundreds of people who are simply doing their jobs just a little better than they have to. If we actively seek out this level of performance, we will discover an abundance of it.

The single most important guideline for using Positive Contacts as a tool to influence good performance is, do it often. Positive Contacts are most influential when they rapidly follow the behavior being reinforced.

Recognition Tools

Managers have many tools at their disposal to use in arranging for positive consequences for good performance. They include, among other tools,

- Assigning the individual to work on a more desirable job;
- Buying her a cup of coffee;
- Ordering the individual their own business cards;
- Letting him take an extended lunch;
- Asking his advice about a business-related matter;
- Writing her a memo commending a job well done.

But of all these, the most important are the sincere and genuine words that come out of the manager's mouths: "Well done," "Thanks" or "I genuinely appreciate that."

Recognizing good performance — arranging positive consequences to increase the frequency of desired behavior — is not a way of being nice to one's workers and increasing one's popularity. It is a practical, tough-minded and demanding management tool to influence people's behavior on the job.

To use positive reinforcement effectively, we must not only provide it actively to those whose performance justifies our providing it, but we must also withhold it from those whose performance does not. Managers have no difficulty agreeing that positive consequences should be provided to those whose performance qualifies them for it. They have enormous difficulty accepting the corollary of that statement: that the intangible rewards of organizational life should consciously be withheld from those who have yet to earn it.

Solving People Problems

For an organization to enjoy universal high performance, it must recognize the good performance delivered by the great majority of organization members. The more

that the manager provides positive consequences (Positive Contacts) for good performance, the more likely it is that good performance will be delivered. In spite of any action that managers take, however, people problems will still arise. Some performance problems can easily be defined in a specific and measureable way. In other cases the gap between desired and actual is more difficult to define. But whatever the issue may be, problems cannot be solved until they can be identified specifically.

Types of Problems

To begin, it is useful to recognize that all problems of human performance in an organization fall neatly into one of three categories. Therefore, it is helpful to start the problem-solving process by narrowing down the specific category into which the specific concern falls:

- **Attendance.** Attendance problems arise when an individual fails to meet the company's expectation that she will be at work on time every day.
- **Performance.** These issues involve problems with the quality and quantity of the individual's work.
- **Behavior.** The behavior or conduct category involves those issues that deal with violating the organization's rules or standards.

It is helpful to note that the three categories of performance problems are mutually exclusive; there is no overlap between the three.

Determining the Cause

Once we have clearly identified the specific gap between desired and actual performance, the next step is to determine why the employee isn't doing the job properly right now.

When a person isn't performing the way we expect, there are only two causes. The performance deficiency involves either a lack of knowledge or a lack of execution.

It's important to distinguish between knowledge and execution problems because the solutions will be very different. Training is the obvious solution to a knowledge problem, but training won't help when the cause of the problem is a lack of execution.

Removing Obstacles

Deficiencies in knowledge are cured by training. What do you do when the person knows how to perform properly but still isn't doing the job right? The need here is not for training; it is for job engineering.

The solution to a great many performance deficiencies lies in re-engineering the job. Arrange for people to get feedback so that they know exactly how well or poorly they are doing, remove any obstacles that thwart good performance and rearrange the consequences so that performing well makes a difference.

Shifting the Responsibility from Manager to Employee

There are five things that clearly specify the exact gap between desired performance and the employee's actual performance:

1. Clarify expectations.
2. Provide training.
3. Arrange appropriate consequences.
4. Provide feedback.
5. Remove obstacles.

Once the manager has addressed these five aspects of honing in on the reason for the deficiency, he has done everything that he is responsible for. The burden for solving the problem now shifts to the employee. The individual with the problem now becomes the one who is fully responsible for its solution.

PART II: PERFORMANCE IMPROVEMENT

Preparing for a Performance Improvement Discussion

When performance problems initially arise, the effective manager starts by determining the most likely cause. This problem-identification process does not happen in a vacuum. Good managers are always talking with their people, doing the constant reviewing and discussing that causes problems to become visible early when they can be easily solved. He can determine the cause of a subordinate's failure to meet expectations by informally and casually talking with the individual whose performance is the source of concern.

A Performance Improvement Discussion is not a spur-of-the-moment event. It has specific goals and follows a definite structure. Holding a Performance Improvement Discussion with an employee allows the supervisor to communicate the urgency of change at the same level of seriousness as she would in one of the formal steps of disciplinary action, but without the sometimes burdensome administrative requirements of approvals and documentation and witnesses and other impediments.

Conducting the Performance Improvement Discussion

Performance Improvement Discussion involves three components: What the manager does before the meeting

to prepare for the face-to-face session, what she does during the meeting, and what she does when the meeting is over and the employee returns to work.

Start by determining which of the three types of problems is the primary concern. While an individual may have a need for improvement in several areas, keeping unrelated issues separated increases the chances of getting each problem solved.

The manager can concentrate on the most significant issue and then, once agreement to solve the critical problem has been gained, can mention the need for a total commitment to acceptable performance as the meeting is wrapping up.

The Purpose of the Discussion

What is your goal during the meeting itself? What needs to happen while you and the subordinate are talking to tell you that you can now bring things to a close because you have accomplished your objective? The goal of the meeting is to get the subordinate to agree to change. That's it. Period.

The reason that the goal of the conversation is to get the employee to agree to change is this: If the person agrees to correct a problem and then later the same problem arises again, the manager will hold another conversation with the individual. But the subject of this second conversation will be different than that of the first. This time the subject will be the employee's failure to live up to the agreement.

Determining the Consequences

Every choice brings consequences. When an individual chooses to perform in a way that the organization finds unacceptable, and the individual chooses to continue that unacceptable behavior even after learning that it is unacceptable and the reasons why, the individual has the right to know what the consequences of that choice are.

Once the employee understands that decisions have consequences, she can make an informed decision to meet the standards of the organization, not because of threats or intimidation but because she understands fully the consequences of both meeting and failing to meet the standards of the organization.

Conducting the Performance Improvement Discussion

Whether the discussion with the employee is a non-disciplinary Performance Improvement Discussion or a formal step of the Discipline Without Punishment system, the goal is the same: to get the employee to agree to solve the problem and return to fully acceptable performance.

Before initiating the discussion, it is important to prepare fully, anticipate any difficulties that may arise and create the conditions that will assure the highest probability of success. In order to be fully prepared for the discussion, create a short, written summary of the essential information that will be needed in the meeting.

Opening the Discussion

Perhaps the most difficult 10 seconds in a manager's life occur at the moment when a subordinate shows up at his door for a scheduled Performance Improvement Discussion. The manager knows that if he is able to get the meeting off to a good start, the chances of overall success will be great. So, how do you get things off to a good start? By getting right to the point, the manager will put the employee at ease.

"Joe," the manager begins, "I've got a problem and I need your help." With those 10 words, the manager has accomplished four worthwhile ends:

1. By using the employee's name, he has begun the discussion on a personal basis.
2. He has gotten right to the point.
3. By using an "I" message, the manager has prevented defensiveness that comes with a "you" message.
4. He has enlisted the employee's help.

The use of the magic phrase, "I've got a problem and I need your help," will command the individual's attention. Then immediately move to a full description of the concern you just introduced. Explain the problem in terms of actual and desired behavior. In a straightforward, businesslike way, the manager simply makes three statements: "Here's what I want;" "Here's what I get;" "There is a difference."

Letting the Employee Speak

Having opened the discussion and stated clearly the specific desired and actual performance, the manager now turns the conversational ball over to the employee by saying, "Tell me about it."

Listening carefully certainly indicates that you really are interested in what the other person has to say. By listening, you send a message that the other person — his feelings and perceptions — are really important to you. By careful listening, we can confirm that there is no other information that could cause you to change your decision about the actions to take.

Closing the Discussion

If the conversation has been a Performance Improvement Discussion, simply thank the person for agreeing to correct the situation, and express your confidence that the

two of you will never need to talk about the matter again. However, if the discussion is a formal disciplinary transaction, the manager must take two additional steps:

1. Advise the employee that it is a formal disciplinary transaction.
2. Advise the employee which step of the Discipline Without Punishment system is being taken.

When the manager has gained the employee's agreement, discussed and decided upon the action the individual will take to solve the problem, advised the employee whether or not the discussion is a formal disciplinary transaction, and expressed a personal belief that this will be the last time they will ever have to address the matter, the Discuss step has been completed.

PART III: DISCIPLINE WITHOUT PUNISHMENT

The Mechanics of Discipline Without Punishment

Let's look at the most important similarities and differences between Performance Improvement Discussions and formal disciplinary transactions. Both Performance Improvement Discussions and discipline steps are carefully planned, initiated by the immediate supervisor and have the same goal — getting the employee to agree to change.

But there are some significant differences. Disciplinary action usually requires the supervisor to get someone else's OK before proceeding, and a witness is often present. Also, there is no limit on the number of Performance Improvement Discussions a supervisor can conduct.

Procedures: Reminder 1

Before the meeting. The same information that you gathered for the Performance Improvement Discussion is needed before conducting a Reminder 1 or Reminder 2 transaction: category of problem, desired and actual performance, adverse effects, logistical consequences.

During the meeting. There is no reason to vary from the approach used to open the Performance Improvement Discussion of saying, "I've got a problem and I need your help in getting it solved," reviewing the desired and actual performance or the rule violation, and then asking the individual to respond.

After the meeting. The key difference in post-meeting activity between the Reminder 1 and the Performance Improvement Discussion involves documentation. A Reminder 1 must be documented. The simplest way to document a disciplinary discussion is to create a discussion worksheet that is a post-meeting summary.

Procedures: Reminder 2

Before the meeting. Since the worksheet the supervisor filled out in preparation for the previous Reminder 1 will probably be available, most of the information should be readily on hand. Virtually every organization requires that before initiating a Reminder 2 disciplinary discussion, the supervisor get approval from one higher level of management in her own department as well as the concurrence of the human resources function. With necessary approvals obtained, the meeting may begin.

During the meeting. The manner and approach of the supervisor is no different from earlier transactions. She is serious, calm, dignified, businesslike and unruffled regardless of what the employee's behavior may be. When the employee proposes an action that might correct the situation, the manager will press the employee, firmly but respectfully, to make good on his intentions.

After the meeting. The greatest difference between the Reminder 1 and the Reminder 2 is the documentation of the two steps. The Reminder 1 is documented by the supervisor's completions of a discussion worksheet and placing it in the department file. To document the Reminder 2, the supervisor should also complete the discussion summary form, but the primary documentation of the transaction is a memo confirming the discussion and the employee's commitment to correct the problem.

Effective disciplinary documentation provides complete information about the problem itself, the history of the problem and, more important, the discussion that occurred between the employee and the manager about the problem. After the meeting is over, the manager will write the employee a memo summarizing everything that was said and the fact that the meeting was a Reminder 2.

Decision Making Leave

Of all the elements of Discipline Without Punishment, certainly the one that attracts the most attention is the final step of the system — the paid Decision Making Leave. Managers who can comfortably accept the idea of dealing with employees who create problems as responsible adults during the first steps of the process sometimes have difficulty extending that same philosophy to the last step.

When the Employee Returns

While cynics may scoff at giving people a "vacation day" and managers may be concerned about the appearance of rewarding bad behavior, almost universally the individuals

who receive a Decision Making Leave treat it very seriously indeed.

With surprising consistency managers report that people that they did not expect to respond as adults actually take personal responsibility for their own behavior when the chips are down. In the frequent number of cases where this does occur, managers also report that the relationship between themselves and the individual is strengthened.

When problems arise after a Decision Making Leave, our human compassion may tempt us to give the employee a second chance. But is it a "second chance" we are actually providing? In the absence of gravely mitigating circumstances, it is time to say, "Enough is enough," cut your losses and hire a replacement who will appreciate employment with your organization.

Discharge

A few people fail to make the changes required to maintain membership in the organization. In these cases, termination is appropriate.

Reaching the Termination Decision

The most difficult terminations arise with an individual who receives a Decision Making Leave because her performance is simply not up to par. After her return, she struggles to do the job right, but in spite of her sincere efforts her performance still is unacceptable, and no compatible job exists within the organization.

Whatever scenario produces the decision to terminate, the manager's first responsibility is to the enterprise itself. Arrange the termination so that it occurs with the least damage to the company and fellow workers.

Creating a Discharge Plan

Good plans have three parts. The first part covers all the things you need to do before meeting with the individual to announce the termination. The second part involves the actual face-to-face meeting with the terminatee. This is your script — the exact words you will say to open the meeting and the checklist of points you will cover while the two of you are together. The final part of your plan covers exactly what will happen once the two of you shake hands and part company forever.

A good way to make sure that you are on solid ground in terminating an employee is to imagine yourself defending your action in front of a jury.

The Discharge

Bungled terminations usually result from the manager's acting without thinking. Before you utter a word, write down the most important things you plan to say, and then stick to your script.

Once you have written your script for the meeting, it is wise to prepare a written termination summary that spells out all of the information the person needs to know regarding benefits and final pay. Putting a written termination statement in the individual's hand also demonstrates the organization's belief that the interests of both parties are best served if there is a clear statement that summarizes all of the issues that surround the termination. Finally, the termination statement helps keep the meeting short.

When terminations are well justified and professionally executed, the rest of the work group realizes that the discipline system actually works. If the termination is handled with dignity and grace, the notion that this is a good place to work is strengthened.

Solving Attendance and Attitude Problems

Of all of the problems that supervisors in organizations have to deal with, the two that are most commonly reported are those of attitude and absenteeism.

Whatever the reason for the absence, the effect is always the same: The job doesn't get done. Your customers don't care why your staff is missing. They just know that they aren't being served.

Building Personal Responsibility

How do we build individual responsibility in each employee so that he understands that coming to work is, in fact, a condition of employment? It starts by having supervisors shuck off excuses and focus instead on delivering the personal-responsibility message. In counseling an employee about the need to be at work on time every day, it's important for the supervisor to start by stressing the organization's attendance expectation.

Managers can increase the probability that the employee will change and correct the attendance problem if they discuss the need for change in terms of the choices the employee makes. We each have the capability for choice; the coaching process turns that capability into reality.

Dealing With Attitude Problems

Just what is an attitude anyway? When you think about it, all an attitude is is a judgment that we make about a person based on what that individual says and does. It's the label we slap on another person's behavior when we don't like that behavior very much. But rather than using judgments and labels, the trick to solving attitude problems is

to focus on what you know for sure — the specific things that the person did or said.

Instead of using the word "attitude," instead narrow the problem down to specifics. What exactly is the person doing? Is he egotistical and credit-grabbing? Does she spend too much time socializing? Does he engage in pouting or sulking when he doesn't get his way? All of these behaviors are different, but all of them are commonly slapped with the "attitude problem" label.

The Administration of the Discipline System

Besides the inherent flaws of the traditional, punitive progressive-discipline system, there is another problem that causes this procedure to be an ineffective problem-solving tool: the way in which the system is administered.

Supervisors often hesitate to initiate a disciplinary action simply because they don't know the answers to the common questions that arise when the procedure begins, such as

1. Who should initiate the action in question? Almost without exception, the immediate supervisor is the person who bears the responsibility for initiating the elements of Discipline Without Punishment.
2. Whose approval must be gained before the action can be taken? No organization requires the immediate supervisor to gain approval before conducting a Positive Contact or Performance Improvement Discussion.
3. Where should the meeting be held? The critical requirement is that the location be somewhere private and on the premises.
4. Is a witness required to be present? No organization requires a management witness to be present for a Positive Contact or Performance Improvement Discussion. Many require a witness at the Reminder 2 stage, and most require a witness when an employee is placed on a Decision Making Leave.
5. How will the action be formally documented? Typical documentation involves a memo to the employee and sometimes a copy for their file.
6. Should the employee be required to sign the documentation? No employee signature is required until the final step, the Decision Making Leave.
7. Who gets copies of the documentation? Records are typically kept in the departmental file.
8. Does the employee's slate get wiped clean after he maintains satisfactory performance? Most organizations agree that having a disciplinary action deactivated after the problem is corrected is a good idea.

Creating a Discipline Without Punishment System

Individual managers can achieve a great deal of personal success by applying the techniques of dealing with people in a nonpunitive way. However, an organization-wide implementation of Discipline Without Punishment involves a major cultural change effort. Supervisors need to be trained in the new approach, and management must communicate to everyone concerned the purpose of the system and the reason for the change.

But Where's the Pound of Flesh?

Old ways die hard. Both in convincing senior managers to adopt the Discipline Without Punishment system and in convincing managers to give up their old ways and deal with troublemakers with dignity and grace, a lot of emotional resistance must often be overcome.

Giving up a deep-seated, visceral need to settle the score is the price managers have to pay for implementing Discipline Without Punishment. They get improved performance and a deeper commitment to the organization and its expectations, but they don't get revenge. You give up the ability to gain the emotional satisfaction of settling the score, and sometimes that is not enough. What we really want is that pound of flesh. It can take every ounce of maturity that we've got to turn loose of our need for revenge and be satisfied merely with solved problems and enhanced relationships.

The final test of the effectiveness and success of Discipline Without Punishment is when it stops being a program…a project…a policy. Discipline Without Punishment is finally and fully implemented when it has become so incorporated into the grain of organizational life that everyone considers it "just the way we do business here."

RECOMMENDED READING LIST

If you liked *Discipline Without Punishment*, you'll also like:

1. ***Why Motivating People Doesn't Work ... and What Does*** by Susan Fowler. Fowler's Optimal Motivation process shows leaders how to help people meet their needs for autonomy, connection and competence.

2. ***Fearless Leadership*** by Loretta Malandro. This step-by-step guide will show you how to properly handle uncertainty and how to hold yourself and your employees accountable.

3. ***Thanks for the Feedback*** by Douglas Stone and Sheila Heen. Stone and Heen explain why getting feedback is so crucial yet so challenging, and they offer a powerful framework for enabling learning.

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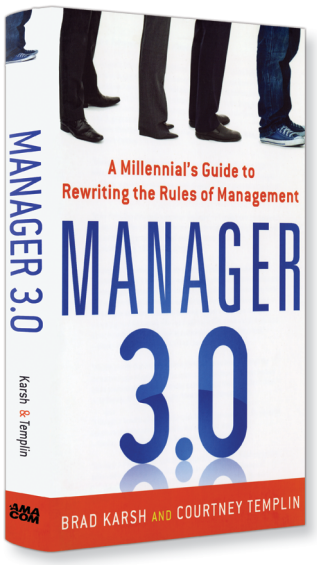
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Manager 3.0

A Millennial's Guide to Rewriting the Rules of Management



by Brad Karsh
and Courtney Templin

THE SUMMARY IN BRIEF

Millennials mean business, and they are shaking up the workplace as they enter management roles for the very first time. They are tearing down the corporate ladder, communicating on the fly and bringing play to work. Millennials are creative, big thinkers, and they will change the face of leadership — IF they can bridge the gap between the hierarchical management style of senior executives and the casual, more collaborative approach of their peers.

Manager 3.0 is the first management guide written specifically for millennials. You will learn to master such crucial skills as dealing with difficult people, delivering constructive feedback and making tough decisions — while gaining insight into the four generations in the workplace and how to successfully bring out the best in each. *Manager 3.0* will help new millennial managers enhance their unique talents while developing an effective leadership style all their own.

IN THIS SUMMARY, YOU WILL LEARN:

- How to recognize and understand the difference among the generations and capitalize on the benefits that a diverse team brings.
- A method to develop a management style that is collaborative, flexible, transparent, casual and balanced.
- Ways to give and take feedback, criticism and praise, regardless of the source.
- How to build a team culture that is rewarding, inspiring and inviting.

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THE COMPLETE SUMMARY: **MANAGER 3.0**

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Talkin' 'Bout Your Generation

According to a 2011 Society for Human Resource Management (SHRM) poll, 75 percent of respondents reported some level of conflict among the generations. These generations are comprised of unique individuals, and there are exceptions to every stereotype. However, each of the generations is shaped by the society and culture in which its members were raised. As a millennial manager, you likely will be working across all generations. You can't fall into the trap of managing people how you would like to be managed. Each of the generations' approaches works differently, and to succeed as a manager, you need to understand the driving forces and styles of each group.

Although there are exceptions, on the whole each generation has some predispositions.

Traditionalists (born 1928-1945). The traditionalists are the World War II generation, and they are a very loyal group. They mostly stay with one company. You go to work, you earn a living and you don't complain or ask for too much. As managers, traditionalists are more likely to give orders and resist change.

Baby Boomers (born 1946-1964). At 79 million strong, the baby boomers rightfully deserve serious consideration. To boomers, work is more than just work. Work is life. Boomers are much more defined by their work than other generations. As they have evolved in their careers, they became the first generation of workaholics. Boomers are overflowing with experience and insight, and as you are an emerging leader, they are excellent mentors for you.

Generation X (born 1965-1980). For 15 years, the birth rate goes down, down, down. Since they often had to fend for themselves while growing up, generation X is very independent. They are accustomed to doing things on their own. More entrepreneurs come from this generation. As managers, gen Xers typically are independent and hands off. Millennials — who love collaboration, constant structure and feedback — can struggle with an Xer manager. If you are managing Xers, it's best to give them some leeway and refrain from micromanaging.

Millennials (born 1981-2000). The tables turn as millennials — you! — are born. The birth rate goes back up, and there is a tremendous focus on community, family and importantly — babies, babies and more babies.

You grew up in a world where you were the most special, precious and extraordinary being. What did your parents tell you that you could be? — anything you wanted to be!

In addition to the idea that children are the single most important part of a family's life, you also grew up in a time where philosophies on parenting shifted. Boosting self-esteem among kids became a powerful notion in the 1980s. When it comes to the workplace, your generation doesn't abide by a strict chain of command. Your respect for authority must be earned, and you rely more on your network than a hierarchical ladder. You love working in teams, and you're a very hopeful and optimistic generation. You want to change the world, and you want to make a difference.

As a millennial manager, you can recognize and understand the differences and capitalize on the benefits that a diverse team brings. You can help bridge the gap. Each generation is molded and influenced by the society in which they were raised, and although everyone claims to be a member of the "best generation," there are no bests. When



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you are working across generations, just think, "They're not better. They're not worse. They're just different."

Millennials Defined

The millennial generation is comprised of more than 75 millions Americans born between 1981 and 2000. According to the Bureau of Labor Statistics, there will soon be more millennials than boomers in the workplace. If you already are a millennial manager, then you may be on the "older" end of the generation. You are what we call a "cusper" — an individual on the edge of two different generations.

Neil Howe and William Strauss, authors of *Millennials Rising,* use seven distinct terms to describe your generation — "conventional, sheltered, team-oriented, achieving, pressured, confident and special."

Here is a quick look at the assets and liabilities of your generation. It's important to know the "perception" of you as a manager, and it's also significant as you manage other millennials.

- **Asset:** Goal-oriented. **Liability:** Distaste for menial work.
- **Asset:** Positive attitude. **Liability:** Lack skills for dealing with difficult people.
- **Asset:** Tech-savvy. **Liability:** Lack of experience.
- **Asset:** Collaborative. **Liability:** Confidence beyond ability.
- **Asset:** Multicultural awareness. **Liability:** Impatient.

With a better understanding of what makes everyone tick, you can work more effectively with your bosses, colleagues and direct reports. As your generation enters management roles, you undoubtedly will shake up the way business is done and how managers manage. Having a firm foundation of understanding on all of the generations — including yours — gives you the leg up when it comes to building a strong and cohesive team.

From Individual Contributor to Manager

As you become a manager, you will begin thinking less about your individual performance and more about the performance of your team. We're going to look at what I hear from your elders as being a dichotomy in viewpoints. This will help you see where some of the struggles come into play as you go from individual contributor to manager. It's important to note that these are just perceptions, but as a manager, perceptions make a big difference.

On four separate measures the perspective of a millennial manager will be just the opposite of other generations. I'm not saying that once you're a manager, you have to "sell out" and go to the "other side," but it is helpful to see these ideas from different viewpoints.

Entitlement vs. Duty. When older generations are asked about millennials, the number one issue that is heard is entitlement. You want to get promoted instantly, or you believe you have a college degree so you shouldn't have to do any menial tasks.

Based on the downfall of summer jobs as well as the business icons of the day, you can see how your generation might act more entitled than other generations. Many professionals say they have learned critical skills through their sense of duty — working their way up and gaining experiences along the way.

Equality vs. Hierarchy. Maybe everything was perfectly equal when growing up. At work, there is a hierarchy. You have a boss. Your boss's boss has a boss, and so it goes all the way up the line. There is a hierarchy; there is a leader; and everything isn't always equal. In the working world, fair does not always mean equal.

Explanation vs. Action. This is the biggest and most profound difference between the generations, and it's very important to recognize as you enter a management role.

First, let's talk about the disappearance of "Because I said so." This is vanishing from the vernacular of the millennial parent. Parents are now taught to answer their children with real explanations to their questions. Now that millennial comes to work. His manager gives him a menial assignment to do. That millennial — accustomed to asking questions and getting real answers — asks, "Why?" Your generation likes to see how your duties connect and contribute to meaningful work or a purpose.

Let's look at another example. During their entire lives, millennials have looked up — at a coach, a teacher, a chaperone, a parent — and someone has told them EXACTLY what to do. As a result, when they come to work, they look up and expect their bosses to tell them exactly what to do. Boomers and Xers dislike authority figures telling them what to do, and they have an extreme distaste for structure.

This speaks to probably the biggest disconnect between the generations. This may sound counterintuitive, but due to the way you were raised, your generation almost needs to be taught to think on its own. As a millennial manager, you will have to think and act on your own, and you can teach your millennial employees to follow your lead.

Partnership vs. Ownership. Due to all of the group work in school, the clubs that you've been involved in and the team sports you've played, the tendency is to think in terms of shared responsibility versus ownership. But success or failure is up to you. I often hear that senior leaders complain that millennials don't see projects through from start to finish. The perception is that millennials think their boss will make the final touches and correct any problems. Of course, there will be collaboration, but millennials also need to have ownership over their responsibilities.

From Individual Contributor to Manager

Especially as you enter a management role, you must start thinking more in terms of "What can I do for my team and my company?" instead of "What can the company do for me?" Thinking on your own more and taking ownership of your responsibilities will help you bridge the gap among the generations and move from an individual contributor to a positive and influential manager.

Defining Management Characteristics: Shaking It Up

JB Training Solutions interviewed and talked with hundreds of millennials and works with thousands of millennials every year. In these conversations, we heard a few themes that rang true for the majority of millennials. For millennial managers, work isn't just work — it's an extension of themselves. The main characteristics that define your management style are collaborative, flexible, transparent, casual and balanced.

Collaborative: We're In This Together

It's all about the team, and it's all about the people. Millennial managers want to like the people on their teams — and they want the people on their teams to like them as managers. We had numerous quotations about how millennial managers don't want to be leaders who just issue orders; they want every person's voice to be heard. "Building a relationship" with your team is one of the accomplishments millennial managers are most proud of.

Your generation is known to care about your team members, encourage their growth and hear their opinions. Even as you move through the ranks to take on larger leadership roles, you will uphold your value of teamwork and working together.

Flexible: Open to How the Job Gets Done

When talking with millennial managers, they stressed the importance of flexibility not only in work schedules but also in what work is done and how it gets done. For millennials, there aren't hard and fast rules and policies for everything. There can always be an exception or a personal situation that warrants a targeted solution. Millennials are also flexible in their management style — they can decide as they go along.

Transparent: Being "In the Know"

Millennials say, "If you want my team to be part of the solution, then I think they deserve to know the full story." Millennials ask, "Wouldn't that help people make better decisions if they can see the whole picture?" They want companies and their leaders to be transparent in their strategies and values; according to millennials, it helps build trust and respect. The push for workplace transparency stems from their need to know "why?" and, importantly, the transparency that social media brings to the lives of millennials.

As a millennial manager, you will share the full story with your team, because you would want to know. Millennials think it's respectful and necessary to share. In general, millennials will forge a strong path toward transparent leadership.

Casual: Just Be Yourself

Gone are the days of suits and ties and pantyhose. Millennials are not backing down on this one. The casual tone isn't simply limited to clothes; it extends to their attitude, the way they work and the way they talk and interact as professionals.

Business is conducted much more casually, where ideas and strategies can come from anywhere. You blur the lines, so work is not just work and play is not just play. Work and play come together to create a much more casual scene. Millennial managers wanted to stress that the "casualness" of the generation isn't necessarily due to a lack of respect or interest. With the blurring of work and life, millennials are bringing a more casual way of dressing, writing, communicating and managing to the workplace.

Balanced: Successful at Life as a Whole

Millennials are not workaholics, and there is not a clear boundary between work and life. Leading a balanced life is not something that millennials aim for; rather, it's ingrained in them. Furthermore, for millennials, it's more of work/life integration and less about balance.

In our interviews with millennial managers, we often heard that millennials want to succeed in work AND outside of work. Friends, family and extracurriculars are very important to your generation. Here are a few of the anecdotes we hear from millennials:

I want to be known for working hard and playing hard. I love that I have things outside of work that make me happy. I think it's sad when all you have is work.

If you look at companies started by young professionals, they are little microcosms that reflect all of these millennial values. Millennials are attracted to companies that reflect their values.

Rewriting the Rules of Management

For millennials, it's not about the hierarchy ladder. It's not about busting your tail and working countless hours to move up a rung on the ladder. With social networking, connections can be made like a spider web. In previous generations, a chain of command was just that — a chain. It started and ended at specific points.

Millennial managers are breaking down the walls — figuratively and literally. Millennials do not want obstacles that put "walls" in between levels or groups of employees. Your generation does not see any benefit in bureaucracy. Millennial managers have an open-door policy. Millennials want their physical spaces to be transparent as well.

Millennials are also breaking down the walls between people. Millennials are more racially diverse than any generation before them. One of the most multiculturally aware generations, millennials see and connect with people first, and they are open to differences — gender, religion, age, culture, experiences, sexual orientation and the list goes on. In general, millennials are tolerant and accepting, and they appreciate the richness that diversity brings.

Millennials are making business communication much more casual. Many millennials are of the opinion that long e-mails will never be read, and most important things can be said in less than 140 characters. As stated, millennials are all about flexibility, and they want work to be enjoyable.

Leading Your Team: CONNECT

Most individuals are promoted because they are high performers and excellent individual contributors. Often, the skill set that makes you a high-achieving individual contributor is very different from those that make you a great manager of people. Going from individual contributor to manager is a significant change and requires a fundamental shift in your mindset. You may have to look for new sources of satisfaction — guiding an employee toward writing his first winning proposal or eliminating obstacles so your star employee can crank through her to-do list.

To guide us through this beast of a topic, the advice has been grouped under seven key themes. As a millennial manager, you want to make sure you CONNECT — Communicate, Own it, Navigate, Negotiate, Engage, Collaborate and Teach.

Doing some of this upfront work of connecting with your personal leadership values will help guide you as you face some of the tougher parts of managing. Once you understand and solidify your management ideals, you can focus on connecting to your organization and your people.

Communicate: Just Say It

The foundation of any good working relationship — or any relationship for that matter — is built on trust and communication. Communication is a key part of being transparent and collaborative — two core values of your generation. Here's the catch: The majority of the millennial managers we spoke with said "having difficult conversations" or "delivering tough feedback" is their main weakness. As you move through your career, holding people accountable through constructive conversations will become increasingly important. It's an essential skill that you can begin honing now.

Establishing Your Expectations: The Blueprint

Establish your expectations right from the start. For your team to be effective, you must have boundaries and something to shoot for. In laying out expectations, one fundamental thing that you can do is share the individual's job description and go through it together.

After reviewing the higher-level job description, discuss and describe their upcoming duties and projects. With a running to-do list, it's helpful to your team to know what the priorities are. It's your job as a manager to keep your team focused on what matters most.

Setting Push Goals: Infiltrating Fun

You can set a successful path forward by developing PUSH goals. At the heart of a push goal is a goal that pushes you past mediocre or pretty good into the realm of great and excellent. A PUSH goal is not easy to achieve. To break it down, a PUSH goal is Passionate (passion and excitement), Urgent (let's make it happen now!), Specific (can it be measured?), and Hairy (it's not easy). Once you talk through these goals, write them down and plaster them wherever they would serve as a reminder.

Giving Feedback: The Good, the Bad and the Ugly

The second overarching theme under "communicate" is feedback. You want to build strong, close relationships with members of your team, so you might struggle when it comes time to give constructive criticism. It may seem a little awkward or difficult to deliver, but people want to know.

If your employees are making mistakes or could be doing something better, they want to know sooner than later. As millennial managers, it may be tough to get in the habit of delivering constructive criticism. You may be afraid that the person will take it the wrong way or get emotional, defensive or discouraged. You must engrain this idea in your mind — feedback is for the employee's own good.

There are three types of feedback that you will deliver to your employees:

1. **Day-to-day feedback.** This is the best enforcer of behaviors — to let someone know how they did right after the fact. Think of it as on-the-spot coaching.
2. **Informal, regularly scheduled feedback.** Take 15 to 20 minutes every month to sit down and chat with each of your direct reports. These meetings are about your direct reports and how they are doing at work.
3. **Formal review.** Most companies have a formal annual or semi-annual review. The most important point is to not wait until the annual review to deliver your feedback. There should be no surprises at the annual review.

There is another side to this form of communication — listening. You also want to receive feedback openly. Listen. It's never as bad as you think.

Own It: Taking — and Giving — Responsibility

Ownership is holding yourself accountable for what you do and how you do your job. Since your job is manager, your ownership goes a step further. You are the leader of the team, so you must hold yourself accountable for how the team performs. What can YOU do to improve results? Some negative feedback we hear about millennials is that they don't take ownership of their position. Millennials often seek permission when it comes to incorporating new ideas, or they miss a few steps when "seeing a project through from start to finish."

As a manager, you will find that it is less about you. If you recall the way you were raised, it was all about you and your specialness. Now, as a manager, you have to take a step back from this mindset. Truly great leaders are concerned with values and ideals greater than themselves. To "own" your management position, you must put your team leaders and the success of your team first.

There are a few elements to think about when it comes to owning your role as manager:

- Failure is on the road to succeeding. Have confidence to make decisions. Don't be afraid of mistakes.
- Do what you say you're going to do. Own your words and actions.
- Be your own CEO, and ask others to be their own CEOs.
- Orchestrate success and ownership. Unify your group, set the tempo, execute and shape. Lead the way.

Navigate: Managing Through the Unknown

When you're "navigating," there's always an element of the unknown. The unknown makes it exciting — yet scary. As a millennial manager, you have to navigate quite a few things — changes in business needs, personality style of your team members, ups and downs of workflow and much more. Instead of fearing the unknown and skirting away from it, seek it out, run toward it and embrace it.

How do you gain a vision for your team? Navigating is easier if you constantly check in with yourself and your surroundings. Here are a few questions you can ask yourself to keep you and your team on track and moving in the right direction:

- What's next? What's new?
- How can we do things better, faster or bolder?
- What hasn't been working and how can we improve?

Work your way through tough situations by serving as an open and hopeful leader. Know what level of transparency is needed. You now have a larger responsibility to support your senior leaders and your company's initiatives positively. You have your team, but you're also on the management team, so you have to represent those views and perspectives as well.

Understand the unique communications styles on your team. Everyone is different and wants different things, so it absolutely makes sense that different people excel under different management styles. The business golden rule is to "Do unto others as they would have you do unto them."

Negotiate: Working Through Different Perspectives

One thing you need to do is reframe your thinking around negotiating. Negotiating is actually positive and essential in business. Done right, there isn't a winner and loser, and it doesn't always revolve around money. You negotiate every day. As a manager, you undoubtedly will come across people with different perspectives, and you will have to negotiate and sell your ideas — on your own.

Negotiating is a dialogue — a conversation. It's respectful and insightful. Everyone has a chance to talk, and everyone has an opportunity to listen. There doesn't always have to be consensus, and you don't want to fall into groupthink. Bringing up new and differing concepts truly is helpful to negotiation and conversation.

The idea of negotiating means that you have an opinion, and you have a stance worth taking time for. Have an opinion, find your voice and stand up for it when appropriate. This doesn't mean be close-minded to differing views. It means don't fold the second someone voices an opposite concern. Listen first, and know your value proposition.

Keep reminding yourself that negotiating is not bad and that it's worth standing up for your opinions and ideas. As you go along, you and your team will feel more comfortable negotiating, exchanging different ideas and arriving at the best conclusion.

Engage: Connecting to the Big Picture

An engaged and empowered team will go above and beyond. You want to get in tune with your team. How's the morale? How is everyone functioning individually? How are they working together as a team? You may find that you learn a lot more from observing rather than talking. I urge you to step back, listen and observe to get a real pulse on the engagement of your team.

Recognition goes a lot further than the employee-of-the-month star on the bulletin board. There are many options for recognizing your team! Praise, flexibility (when, where and what), visibility, responsibility, autonomy (freedom) and more. Appreciation and recognition go hand in hand. You can customize your appreciation, recognition and rewards for your team, and they will keep generating and customizing great results for you.

Recognize, appreciate, empower, challenge and engage to feed positive results and passionate people. It's all about building a team culture that is rewarding, inspiring and inviting. You want people to want to do an amazing job. Pepper in the "thank yous," and sprinkle in the fun. If you build it, they will come — and play — and stay.

Collaborate: Making It Happen

A strong team is powerful. Resilient. Seemingly unstoppable. You can build it, but it takes hard work and discipline. Part of collaborating is communicating expectations, delivering feedback, getting to know your people and adjusting your style. Here are some of the intricacies of maintaining a collaborative but action-oriented team:

- Matching the person with the responsibility: Do you have the right people in the right roles? Help your team members foster their strengths.
- Collaborating to take action: Just do it: One thing we heard from older generations is that millennials spend too much time in the "collaboration zone." You want to hear from everyone, and you want to solve problems together, but you must know when to move from information gathering to the decision-making stage. Just commit. Go for it. Not everything is going to go as planned, and maybe you won't make the best decision. Make a decision and own it. This is what your managers want more of from millennial managers.
- Manager or BFF? Drawing the line: Watch the fine line between friend and manager. You can be friendly without being a friend. Maintain your level of influence. If you don't, you will struggle with everything you have learned in this book. Choose being friendly over being friends.
- Collaborate and work together: But take action. Lead productive meetings. Just do it. Just say it. Decide.
- Make a difference in your company culture and your community: Be the change you want to see.

Teach: Being a Mentor — and Student

One of the first lessons you can teach your people — including yourself — is always to be learning and growing. Be a lifelong student and teacher. Take the time to teach. Give your people a push, an insight, a new perspective — just because. Teaching is more of a mindset. Everything that you do can be a teaching and learning moment.

Storytelling is an amazing and engaging way to teach your employees. You can tell stories to relate and show

understanding, and you can tell stories to share a vision and paint a picture.

Delegate responsibility to empower your team. Delegating can be hard work. It's about letting go and empowering someone else to own that responsibility. A few things NOT to do:

- Dumping without help or input.
- Checking in too much.
- Don't let them get too far off track.
- Refrain from assigning only menial tasks.
- Don't blame your team for reasonable misses.

Help your employees see what they can't see in themselves. Give them the benefit of the doubt that they will achieve and be downright awesome. Mentor, coach and expect greatness. When your people know that you believe in them, they start to believe in themselves.

Push, challenge, ask insightful questions and teach. Be that manager that expects greatness. Share your knowledge through storytelling and nurturing creativity.

Leading When Things Get Sticky

A theme that you have heard echoed throughout this book is that it won't be easy to lead and inspire a team. When talking with millennial managers, there were three scenarios that we heard time and time again as being prevalent and extra sticky.

Managing Your Peers: From Buddies to Boss

One of the biggest obstacles that millennials say they face is managing their peers. To make the transition from peer to manager, there are a few things to keep in mind:

1. **Go all in.** You are the manager. Assume your role with a humble confidence — an openness to ideas with a strong self-assurance in your leadership abilities.
2. **Determine your boundaries.** Right from the start, you must set clear expectations and boundaries when managing your peers.
3. **Find the balance between power-hungry authoritarian and friendship-preserving push-over.** Remember, you can be assertive AND nice.
4. **Chat it out.**
5. **Find a mentor.** Having a mentor gives you a great third-party, objective view of the situation, and you can play off their years of experience.

Managing Someone Older Than You: Building Credibility

If you're a millennial manager supervising older employees, they likely are skeptical of your performance. Employees who are older than you want to see that you're knowledgeable, action oriented and have your stuff together. With this perspective in mind, we have some ideas for you:

1. Know your stuff.
2. Respect their experience, but don't be intimidated by it.
3. Have confidence.
4. Share information and experiences.
5. Try to see the whole picture.

Although most of the CONNECT tips still apply when managing a remote team, there are a few specific things to consider.

1. Set crystal-clear expectations.
2. Resist the urge to micromanage.
3. Be creative with recognition and appreciation.
4. Give and receive regular feedback.
5. Make some face time.

Conclusion: Go Forth

This is it. This is your time. You already are rewriting the rules for the workplace; don't stop once you enter management — and leadership — and mentorship. Don't lose that energy.

Go forth. This is your guide. You can connect to your people, to results and to the big picture. You can go forth, rewrite the rules of management and forge a path toward open and collaborative leadership. Just CONNECT.

RECOMMENDED READING LIST

If you liked *Manager 3.0*, you'll also like:

1. ***Sticking Points* by Haydn Shaw**. Shaw identifies 12 places where the current generations in the workplace typically come apart. He provides a better way to help hold your organization together.

2. ***Thanks for the Feedback* by Douglas Stone and Sheila Heen**. Find out why getting feedback is so crucial and yet so challenging. Stone and Heen provide a method for enabling learning through cultivated feedback.

3. ***Overworked and Overwhelmed* by Scott Eblin**. Learn simple routines to reduce stress and sustain peak performance, including a personal planning framework.

· Book 47 of 304 ·

37CS12B New Manager's Tool Kit

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The New Manager's Tool Kit

21 Things You Need to Know to Hit the Ground Running



by Don Grimme
and Sheryl Grimme

THE SUMMARY IN BRIEF

The single greatest challenge in today's workplace is the management of that most inscrutable of resources — people.

All too often, organizations view their employees in much the same way as they view their material resources: as a commodity, homogeneous and easily interchangeable.

In fact, however, employees are not headcount nor merely the means to organizational ends. They are also ends unto themselves. A human being needs to be treated with respect. As a human resource, an employee deserves (and needs) to be viewed differently than the inanimate resources of the organization. The power tool to tap the full potential of your workplace is grasping this fact so that it influences every aspect of how you think about and interact with this invaluable "asset"— your fellow employees.

The various ramifications of this power tool are the 21 tools in this book. They provide a fresh approach to employee management.

IN THIS SUMMARY, YOU WILL LEARN:

- How you can engender open two-way communication.
- Why you need to coach the good employees ... and the not-so-good.
- A critical look at eliminating conflict, harassment and workplace violence.

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THE COMPLETE SUMMARY: **THE NEW MANAGER'S TOOL KIT**

by Don Grimme and Sheryl Grimme

The authors: Don Grimme and Sheryl Grimme are co-owners of GHR Training Solutions, which provides training for companies and government agencies, including Motorola, NASA's Kennedy Space Center and Auntie Anne's. They are frequent keynote speakers and presenters at national conferences.

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Introduction

The single greatest challenge in today's workplace is the management of that most inscrutable of resources: people. A human being needs to be treated with respect. The power tool to tap the full potential of your workplace is grasping this fact, not only intellectually but also in your gut, so that it influences every aspect of how you think about and interact with this invaluable "asset" — your fellow employees.

PART I: LEADING PEOPLE

Tool One: Turn On Talent…and Turn Off Turnover

There is a crisis in America today. We're referring to the diminishing ability of organizations in every sector of our society to attract, retain and motivate talented employees. In this tool, you will learn the secret to transforming this crisis into an opportunity. Here are four tips:

Tip #1: Pay employees fairly and well; then get them to forget about money.

If employees believe they are unfairly paid, they will be demotivated. They will complain, goof off and eventually quit. But assuming that wages are competitive and fair, studies have shown that pay itself has no impact on retention or productivity.

Therefore, the second part of our tip is to then get them to forget about money. Don't bother coming up with a complicated incentive pay program, particularly if it pits employees against one another. Such programs just get in the way of employees focusing their attention where it should be — on doing a good job!

Tip #2: Treat each and every employee with respect.

Show that you care about each employee as a person, not just as a worker. One of the things employees most want is sympathetic help on personal problems.

Tip #3: Praise accomplishments … and attempts.

Praise accomplishments using positive feedback. Remember, more than anything else, employees want to be appreciated for the work they do. And not only accomplishments but also good attempts. Make sure to

- Praise at least four times more than you criticize.
- Do it promptly, as soon as observed. Do not wait for the annual performance review.
- Do it verbally and in writing.
- Do it publicly and in private.

Tip #4: Clearly communicate goals, responsibilities and expectations.

Tool Two: Unleash Their Productivity

Excessive job demands detract from productivity and interfere with the enjoyment of our work, that is, job quality. These tips were developed to address both issues.

Tip 1: Make work more meaningful by applying your organization's core competencies in creative ways.

Try to identify a synergy between your products and services and your employees' values: home, family, recreation, education, giving back to the community and so on. For example, perhaps you could utilize available space and employees to provide ad hoc child care during school holidays.

Tip 2: Effectively communicate the mission and vision of your organization.

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Rebecca S. Clement, Publisher; **Andrew Clancy**, Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Nayomi Chibana**, Contributing Editor

One of the five principle reasons employees leave their jobs is they do not get or do not agree with their employer's reason for being.

Once you have a mission and/or vision statement, don't bury it in a desk drawer. Communicate it and reiterate it to all stakeholders, especially to your employees. Employees should constantly be asking themselves to what extent their actions are contributing to the fulfillment of the mission.

Tip 3: Link the mission and the job to the talents and aspirations of each employee.

One of the main causes of burnout is job mismatch (or culture misfit). Make hiring and promotion decisions based on

- Relevant talent more than on skills or experience.
- Culture fit and values.
- Temperament and lifestyle.

Tool Three: Balance Their Work and Life

Work-life supports on the job are powerfully related to positive work outcomes such as job satisfaction, commitment to employer and retention. Here are five principles for balancing employees' work and life:

Principle #1: Really care about the effects that work demands have on your employees' personal and family life.

Your employees can tell if you really do care. If, in all honesty, you don't care, you might want to reread the introduction to this book. And also think about the practical results of such caring.

Principle #2: Never show favoritism when responding to employees' personal needs.

Evenhandedly assess the significance of each employee's work/life issue, collaborating with that employee to develop a workable and perhaps creative solution.

Principle #3: Accommodate employees when they have personal business to take care of.

This could range anywhere from approving an extended lunch hour for a doctor's appointment (for the employee or family member) to flexible work schedules to assistance with day care.

Principle #4: Demonstrate understanding when employees talk about personal or family issues that affect their work.

Put on your fellow-human-being hat when listening to employees' work/life concerns. How would you feel in that situation?

PART II: DIFFERENT STROKES

Tool Four: Embrace Diversity

Many people regard diversity with some skepticism: as a fad or a code word for affirmative action. The reality is that diversity is one of the most fundamental and significant issues of the American workplace. The first thing to know about diversity is that it is not, or should not, be a code word for affirmative action.

Diversity is not a social problem to be solved but a business opportunity to be optimized: for example, an expanded customer base, a broader source of employee talent or a more harmonious workplace.

How to Break Down Stereotypes

How do we break out of this circle or break down our stereotypes? You need to ask yourself,

- Does your opinion hold true for everyone in the group?
- Is the person thought of as part of a group first rather than as an individual?
- Do your past experiences with members of this group affect this interaction?

Does your opinion reflect the knowledge, skills and abilities necessary to do the job? For example, do you view people in wheelchairs as cripples or as unique individuals with one obvious mobility limitation and all kinds of abilities?

Tool Five: Get a Grip on Generations

Another significant way in which we are different from or similar to each other is our generation. This can create conflict or, at least, tension and confusion.

For example, traditionalists tend to be motivated by duty and honor and climbing the career ladder. Boomers are more interested in a meaningful experience and personal growth. Gen X wants leisure time (they've been at the forefront of "work/life balance") and tends to be skeptical and pragmatic. Millennials crave stimulation and share Gen X's desire for leisure time, but more so.

To communicate and interact effectively with anyone, it helps to know where the person is coming from and adjust your style as much as possible to what is most familiar and comfortable for that person.

Tool Six: Focus On Ability

The Americans with Disabilities Act (ADA) of 1990 has had the most far-reaching impact on the workplace since the Civil Rights Act of 1964. Yet many Americans remain uncertain about their rights and responsibilities under the law. This tool helps to eliminate such uncertainty and will enable you to comply fully with the law and forge a productive and harmonious workforce.

Concept #1: Focus on Ability!

The image we hold in our mind to underscore this concept is Stephen Hawking, who has an extremely disabling affliction ... and is perhaps the most able person on the planet! Notice a disability only as it may impact performing essential job functions or as requested by the person.

Concept #2: Challenge assumptions, prejudgment and fear.

Our primary model for this concept is Christopher Reeve. After his accident in 1995 left him paralyzed from the neck down, most people assumed his career was over. He certainly challenged those assumptions — going on to deliver his most distinguished performances as an actor and director.

Concept #3: Focus on what is to be done … not how or when!

As you will see, this gets to the essence of reasonable accommodation and impacts job descriptions, pre-employment inquiries, scheduling and day-to-day interactions.

PART III: LEADER EFFECTIVENESS

Tool Seven: Tell Them What Worked … and What Didn't

What is feedback? It's simply information given to and received by people regarding their behavior. Notice: behavior, not character. Feedback is a continuous and interactive process, best given as close to the time of the behavior as possible. Do not wait until an annual performance review; instead, frequently have a two-way communication with employees regarding their performance and interactions with others.

Positive Feedback

Unfortunately, most of us are criticized four times more than we're praised. We need to reverse that! Here's how to do it:

1. Start by describing the behavior (not the person). Use specific language and examples.
2. Then describe the impact of the behavior. What positive consequences does it have? Why are you praising the person for it?
3. And show appreciation for the person's effort. This can be as simple as saying "Thanks!"

Be sincere, not manipulative. Your goal is to catch people doing something right and make them aware of it.

Tool Eight: Ask Them…Then Listen

The other side of the two-way communication coin is inquiry to solicit your employees' ideas and opinions and active listening to ensure that you hear them and that they feel heard.

What is inquiry? It is the opposite of telling or advocating. You ask for a person's ideas or input in a nonjudgmental way. You withhold telling what you think and avoid arguing your own point of view.

1. Inquiry can be used to confirm understanding, for example, as part of the constructive feedback process.
2. Most employees probably know their jobs better than anyone else. They are your in-house experts for many issues, including their own performance-improvement and development needs.
3. Inquiry gets the person involved. Remember that employees really want to feel in on things.
4. Inquiry helps build buy-in and commitment. Is gaining the commitment of your employees ever a challenge for you?
5. Inquiry helps build a person's self-esteem. Requesting a person's ideas and opinions implies that his or her thoughts are important, that the person is important.

PART IV: OPTIMIZING CONTRIBUTIONS

Tool Nine: Diagnose Problems

All too often, when dealing with an employee whose performance or behavior does not meet expectations, we attribute the problems to some flaw in the person's character — labeling the individual a "problem" employee. Such attribution usually is unfair and is always counterproductive.

The Five Root Causes of Performance Problems

The real cause of most problems falls into one or more of the following five categories:

1. Expectations. Does the employee know what is expected? Does the employee even know there is a problem?
2. Training and Ability. Does the employee have the requisite skills, abilities and aptitudes to perform the task? If he or she does not have the aptitudes, you may need to reassign or fire the employee. But if it's a skills/abilities issue, then they may need on-the-job training.
3. Job Design. Does the employee have the necessary tools and resources to perform the task? Those resources include not only physical tools but also convenient and timely access to information and to you, the manager. Does the system support good performance? This gets into such issues as communications, scheduling and teamwork, within a department and between departments.
4. Work Environment. This refers not only to the physical environment but also to how employees are treated. Is good performance rewarded or punished? For example, is there an informal standard set by peer pressure to not work too efficiently? Or are you assigning extra, more demanding tasks to your best employees without rewarding them appropriately? Is poor performance rewarded? That is, do you tolerate it? Do you treat your marginal employees the same as you treat your outstanding ones?
5. Personal/Motivational Problem. Does a problem exist in the employee's personal life that may contribute to poor performance? Low morale or even a negative attitude may be a symptom of excessive job demands or not receiving deserved positive feedback.

Tool Ten: Coach the Good Ones… and the Not So Good

Coaching is the first of three strategies we present to optimize employee contributions. It brings together all of the skills addressed in previous tools as a cohesive process to improve or enhance the performance of both marginal and good employees.

Although the process is essentially the same and the same skill set is utilized, it is helpful to distinguish two categories of coaching, based on the type of employee to be coached:

1. Performance-problem coaching for marginal employees.
2. Development coaching for good employees.

Performance-Problem Coaching

Performance-problem coaching is used with an employee whose performance or behavior is not meeting expectations. The purpose is to correct problems so that the employee meets standards or expectations.

Use performance-problem coaching whenever

- An employee's quality or productivity does not meet expectations.
- An employee's behavior interferes with his or her performance.
- An employee's behavior interferes with the performance of others.
- An employee violates a policy or procedure.

Development Coaching

Development coaching is used to further develop employees whose overall performance already meets expectations. The purpose is to maximize an employee's performance in the current job.

Development coaching usually is less intense or emotionally demanding than performance-problem coaching, because the stakes are not as high, that is, the employee's continued employment is not in question. Development coaching helps a good employee become a great employee.

Use development coaching to

- Add new skills or hone existing skills.
- Help the employee apply knowledge or skills to the job.
- Enhance performance so the employee works more effectively.
- Prepare for an upcoming project or assignment.
- Help the employee solve problems.

Four Steps of a Coaching or Mentoring Dialogue

Whether you will be conducting performance-problem or development coaching (or the mentoring discussed in the next tool), you'll be doing it in the form of a conversation.

To be most effective, there are four steps:

1. Set the purpose of the meeting. Describe what you want to discuss and why. Seek the employees' involvement in the meeting — why it is in their self-interest to actively participate.
2. Gather and clarify information to define the situation. Use inquiry to gain information. Offer your ideas, as necessary. Apply the diagnosis process described in the previous tool.
3. Identify and develop ideas to address the situation. Use inquiry to solicit ideas, offer your ideas and discuss and develop best ideas.

4. Determine an action plan. Agree on action steps that are clear, measurable, achievable and have target dates, and on a plan to monitor progress. Offer encouragement and support.

Four Tips for Performance-Problem Coaching

1. Address problems early. Nip them in the bud, so to speak.
2. Be a problem-solving ally, not an adversary. People move toward and with their allies but fight or flee from their adversaries.
3. Involve the employee as much as possible in the process. It is the individual's job or career that is on the line.
4. If the problem persists, document your actions. Keep your manager informed, and work with your HR department to take further action (e.g., the steps entailed in your organization's progressive disciplinary policy, up through termination).

Tool Eleven: Mentor the Great Ones

Mentoring is the strategy used with an employee whose performance exceeds expectations and therefore is ready for new opportunities. The purpose of mentoring is to groom and guide an employee to assume additional responsibilities and/or advance in his or her career.

Mentoring involves sharing your knowledge and experience to help an employee create and fulfill a career plan.

Tips for Mentoring

1. Inquire into your employees' career desires and frustrations. Do not make assumptions! For example, not all outstanding employees want to be managers.
2. Help them grow and advance. Whatever their aspirations, offer the developmental assignments, training, networking and personal/professional contacts that will aid in fulfilling those goals.
3. Do not make promises about promotions or future jobs. Instead, talk about possibilities.
4. Coordinate your efforts with senior management. Employees' careers may take them into areas that are outside your direct control.

Tool Twelve: Turn on Teamwork

Most so-called "teams" do not work for one of two reasons:

1. They're not supported or encouraged by the surrounding organization and are not recognized or rewarded for their efforts.
2. They're not really teams but merely groups (at best) or pseudoteams (at worst).

Teams without access to necessary resources that are discouraged from investing time in team activities or find their results and recommendations ignored eventually flounder in frustration.

The ultimate in team effectiveness is the high-performance team. Such teams possess all attributes of a real team plus a deep commitment to each other's personal growth and success. Their output is much more than the sum of individual contributions.

PART V: PERSONAL AND INTERPERSONAL EFFECTIVENESS

Tool Thirteen: Blow Away Burnout

The more overworked employees are, the more likely they are to make mistakes at work, feel angry at their employers and resent their co-workers. This tool unlocks what individuals can do to alleviate job burnout. Here are two Cool Tips:

Cool Tip #1: The Physical Arena

This tip is pretty straightforward:

1. Get a physical exam. How is burnout impacting your health?
2. Eat healthy. Consume all four food groups in moderation. No fad diets or binging.
3. Exercise. Work out regularly, moderately, appropriate to your age and condition.
4. Practice relaxation.

Cool Tip #2: The Mental Arena

Ultimately, stress is internally generated; it is how you process external triggers of burnout.

1. Develop or improve coping skills. These coping skills are perhaps best summarized by the Serenity Prayer, which can be viewed either as a religious prayer or a secular self-dedication: "…grant me the serenity to accept the things I cannot change, courage to change the things I can and the wisdom to know the difference."

2. Understand your strengths and weaknesses. Capitalize on your strengths and find ways to shore up your weaknesses, for example, through others and/or self-improvement.
3. Learn effective (not so much time management) but inner resource management:

- Take breaks.
- Relax during your time off (and work breaks).
- Delegate and/or swap tasks with others.
- Ask for time off, and use all allotted vacation time.

4. Set realistic goals. These are goals that are important to you, not to please others, and that are challenging but attainable.
5. Learn to schedule "me time." Not time for work, family or friends, but for you.

Tool Fourteen: Stay On Top of Stress

What causes stress? An over-demanding job? The juggling of work and family responsibilities? Having to deal with other stressed people?

Well, believe it or not, stress is what we do to ourselves. All those external-event stressors that seem like stress really are just triggers of our own erroneous thoughts.

It is the internal conflict between absolutes, such as "I must" and "I can't," that is the root of all stress. So how do you resolve it? By challenging either or both of those (erroneous) absolutes. Reframe the "must" to "want" and the "can't" to "can." Sounds simplistic. Well, sometimes it is simple but not necessarily easy. In general, this reframing requires extensive practice to become a habit, as well as a rethinking of many of your most closely held precepts, or fundamental convictions. Such flawed logic usually is deeply rooted and reinforced by the world around you.

Tool Fifteen: Accentuate the Positive

Attitude is the underlying way we think, feel and act: how we react to the world around us. It determines the quality and effectiveness of all of our thinking, emotions and behavior and, thereby, the positive or negative consequences of that behavior.

Attitude is the one thing we can count on as a lifetime companion. Jobs and relationships come and go, but attitude is always with you. You can't take a vacation from yourself!

Stay in the Present Tense

You cannot change the past. And you cannot yet take action on the future. What you've been given to work with is the present. In which of these do you spend most of your mental life? Ruminating about the past? Worrying about the future? Or are you in the moment, fully focused on what you're thinking, feeling and doing at this time. Be here now!

Tool Sixteen: Assert Yourself ... and Deal with 'Difficult' People

We've seen several definitions of assertion. This one is our favorite: Assertion is speaking honestly about your thoughts, feelings and desires, while considering those of others.

Sounds pretty good, doesn't it? Honesty. Respecting yourself and others. Considering its inherent uncontroversial virtues, it is puzzling that more people are not assertive.

When you assert, you take responsibility, you solve problems and you are straightforward rather than underhanded or devious.

A word of warning: Assertion is not a guarantee that you will get the response or results you want. There is no such guarantee. But, in addition to all the benefits enumerated, assertion stands a far better chance of getting those results than aggression or submission, at least in the long run and without the negative backlash inherent in those alternatives.

Tool Seventeen: Own Your Anger ... Don't Let It Own You

Anger is neither good nor bad. If you feel it, you feel it! Many people deny that they ever get angry. The first rule of anger is to acknowledge that you are angry.

It really is OK to feel your anger. Denying your anger or repressing it is the worst thing you can do. The second rule of anger: Let yourself experience it fully. Although you want to experience your anger fully, you do not want it to take you over and contaminate your actions. The third rule of anger is to process your anger instead of reacting to it.

Open, honest and direct expression can be the most effective way of managing anger. The fourth rule of anger: Whenever feasible ... express it!

Even if we don't immediately lash out at the person who has triggered our anger, too often we hold onto it, letting it fester and poison our interactions and well-being.

The fifth and final rule of anger: Give it a time limit ... then let it go.

Tool Eighteen: Rise to the Challenge of Change

Dealing with fear is one of life's greatest challenges. It tends to paralyze us. Rather than facing our fear, our impulse is to run from it, to evade, deny, escape. Perhaps you see yourself or people you know in some of these resistance behaviors. But in order to move forward we need to face our fear.

Six Steps for Dealing with Change

Here are six steps for dealing with change:

1. Recognize that change involves loss.
2. Accept or reject the change.
3. Approach change as a process.
4. Develop a positive outlook.
5. Make a plan.
6. Allow yourself to be flexible.

Remember, you can handle this!

PART VI: ELIMINATING CONFLICT

Tool Nineteen: Prevent All Forms of Harassment

What does harassment mean to you? This question elicits a wide range of responses, such as feeling bullied, disrespected, insulted, treated as an object, put down and so on. In essence, harassment is aggression against another person's body or mind.

Often, harassment is an abuse of power, whether physical power or the power of position.

How would you respond to harassment? You might be tempted to wallop the harasser. The hope is that, instead, you would practice some anger management and use less violent means of expression.

Those who work in the human-resources function have a significant role to play in harassment prevention and EEO compliance. Outside of HR, the role of the manager is no less significant, but it is more constrained. In addition to avoiding harassment yourself, you need to detect and respond to all forms of harassment.

Tool Twenty: Prevent Workplace Violence

Most of us have yet to wake up to what may be an even greater danger, certainly a more chronic one: that of unorganized terrorism — those so-called random acts of violence that have been plaguing this nation, and especially this nation, for years.

There are two prevailing myths regarding workplace violence. Myth 1: It can't happen here. This myth is "The Ostrich Syndrome." If the wave of violence over the past several years has demonstrated anything, it is that violence can strike at any time, in any community and in any workplace.

Myth 2: It can't be prevented. Balderdash! In fact, 99 percent of incidents have clear warning signs, if you know what to look for. Within just hours of the Lockheed Martin murders in Mississippi in 2003, reporters learned that the gunman had had frequent conflicts with managers and co-workers. He was a known racist and talked about killing people. You do not have to be a forensic psychologist to detect warning signs like these.

Tool Twenty-One: Defuse and Protect

In a sense, "postal" has become a metaphor for the potential workplace-violence perpetrator. When it comes to defusing a hostile co-worker or customer, turn to the postal carrier's traditional nemesis: DOGS. This is an acronym for Defusing of Grievance equals Safety.

Visualize a big balloon that's about to explode. Instead of puncturing the balloon with confrontation, you want to *gradually* deflate the balloon. You can do this by confirming a person's perspective without necessarily agreeing with it.

RECOMMENDED READING LIST

If you liked *The New Manager's Tool Kit*, you'll also like:

1. ***The Learned Disciplines of Management*** **by Jim Burkett**. Discover a framework of individual disciplines that form a self-reinforcing management system for making the right things happen.

2. ***Managing*** **by Henry Mintzberg**. Mintzberg continues in the tradition of Peter Drucker by putting the focus of the lens of executive thought on management. Find out why and how the best managers succeed.

3. ***The Good Ones*** **by Bruce Weinstein**. Ethics expert Weinstein presents 10 crucial qualities associated with high-character employees that can enhance employee satisfaction and the bottom line.

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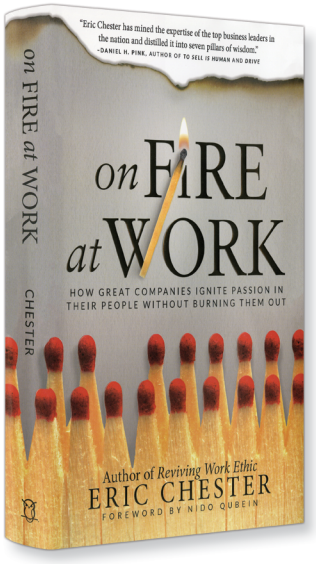
38-01 On Fire at Work

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On Fire at Work

How Great Companies Ignite Passion in Their People Without Burning Them Out



by Eric Chester

THE SUMMARY IN BRIEF

What key question do managers and supervisors at Marriott Hotels ask their employees each day, enabling them to maintain a turnover rate that is one-third of the industry standard?

Why are there more than 500 "co-presidents" at a software firm that has twice been recognized as the best place to work in Minneapolis?

Why does a burgeoning healthcare consultancy firm in Philadelphia ban its people from sending business-related emails after 6 p.m. and on weekends?

The answer to these intriguing questions — along with many others — can be found in Eric Chester's *On Fire at Work*. Chester reveals the *seven cultural pillars* that today's leading employers focus on to attract and retain top talent: compensation, alignment, atmosphere, growth, acknowledgment, communication and autonomy.

On Fire at Work is a practical field guide that leaders in any organization can implement to build more than an engaged workforce, but rather a workforce that's *on fire!*

IN THIS SUMMARY, YOU WILL LEARN:

- The seven cultural pillars used to attract and retain top talent.
- What sparks *on-fire* commitment to a job.
- Five ways to ensure core value alignment.
- The Four Ps of Recognition and Reward.

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THE COMPLETE SUMMARY: **ON FIRE AT WORK**

by Eric Chester

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The Old School and the New Deal

Your success — and the success of your business — is tied directly to the quality of the people you attract to your organization, your proficiency in getting those people to consistently perform up to and even beyond their potential, and your ability to keep them on your payroll for as long as possible. And all of that hinges on one thing: your culture.

The Old School Deal

Today's Old School employers don't place much credence in buzzword-sounding mumbo jumbo like *employee engagement* and *workplace culture*. What's inherent in the Old School mindset is the assumption that the exchange of money for time and effort is sufficient. In other words, the financial deal that exists between an employer and employee — compensation for work performed — is the *only* thing that really matters. You took the job knowing what you were going to have to do and how much you'd be paid to do it, so keep your head down and your nose to the grindstone.

When jobs are scarce or the wage offered is above market rates, workers will grudgingly accept "the deal" and do what's asked of them, for fear of getting kicked to the curb. On the other end of the spectrum, when the economy improves and jobs are plentiful — or when the wage offered is nothing to write home about — Old School employers struggle mightily to attract and retain highly skilled people.

Unhappy Employees

Regardless of which study you point to, there's little question that an overwhelming percentage of people aren't happy at work. They don't like their jobs or the company they work for. They can't envision the way up and out of the hole they're in.

Many if not most employees arrive to the job on day one fully engaged, which is to say they have a vested interest in meeting or even exceeding your expectations. The challenge facing employers isn't how to engage employees. It's how to keep the fires of passion burning once the honeymoon period is over.

Beyond Engagement = On Fire

Amazing things happen when either party in an ER (employer)/EE (employee) relationship begins to exceed the expectations set for them. For example, say an employee's exceptional performance allows her to advance faster than she anticipated. What often results is more than simple engagement — it's an ongoing cycle of *on-fire* commitment to the job, to fellow employees and to the company. When employees are on fire, their energy level increases, sparking a similar increase in productivity, motivation, creativity and performance. They're going to want to stick around a little longer, and you're going to want to reward, promote and invest more in them. This is the on-fire cycle.

Like all successful relationships, an on-fire employer-employee relationship requires commitment, focus and hard work. And that commitment, focus and hard work begin with you. Why begin with you? Because you can control what happens on your side of the ledger.

To whatever degree your authority reaches, begin with you. Make improvements where you can, and make those improvements early and often. If you want to create a legion of on-fire employees, making these improvements isn't negotiable. It's something you absolutely must do.

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Employees expect seven things from their employer: compensation, alignment, atmosphere, growth, acknowledgement, autonomy and communication. These are the *pillars* of workplace culture that reflect the true identity of the company and the workplace community you've worked so hard to build.

Compensation

Counterbalancing This and That

Your objective as a business leader is to find the best way to compensate your employees. And while having the right compensation methodology in place for your people won't guarantee that they will be on fire for you, the wrong one will almost certainly ensure that you won't get on-fire performance from them, at least not for any length of time.

At a certain point, money ceases to be a motivator. The time at which that point is reached depends on a variety of factors, not the least of which is the job itself, but what's clear is that it's reached fairly early on. After an employee hits that point, then money alone won't tend to motivate the employee to go above and beyond.

Compensation Models

The most commonly used compensation models tend to be Old School paradigms that do not lay the groundwork for on-fire employee performance.

For example, while it would be far simpler for a business to pay all employees the exact same amount, it would be unfair to each of them — and it would also be unfair to the business.

Also, exchanging money for time is easy to calculate, but without any additional incentives or performance bonuses these time-based compensation models will disengage and demotivate your people faster than you can say "train wreck."

Payroll trimming may often be standard operating procedure for businesses that compete solely on price, but it makes it extremely difficult to attract and retain a high-quality workforce.

And, the practice of assuring and promising bonuses or other perks to come to attract talent and effect high performance at bottom dollar is still commonplace. Even the best-intentioned ambiguous promises have no place in the compensation strategy of a great culture.

With all this in mind, here are three of the essential elements of today's most effective compensation models:

- **Strive for Transparency:** In many organizations, salaries and wages are a taboo subject, and in some organizations discussing what you make with coworkers is grounds for termination. Shrouded in secrecy, these cultures operate under a blanket of "don't ask, don't tell" thinking. The idea that what employees don't know won't upset them may have worked a few decades ago, but it's no longer the case. Employees now look for and expect sensible and uniformly applied compensation practices.
- **Pay People More Than You Have To:** A growing number of profitable companies spanning a wide range of industries attribute their sustained profitability and successes to the practice of paying some of the highest wages in their respective industries. Research from Towers Watson shows employees who believe they are paid fairly are 4.5 times as likely to be highly engaged employees compared with people who do not believe they are paid fairly.
- **Tie Employee Income to Employee Outcome:** People will support what they help to create. When employees have a selfish interest in the outcomes they create for their employer, they rejoice when company profits are high. They also feel the pinch when times are tight. Compensating employees in this manner eliminates the train wreck money-for-time models by aligning the motivations and goals of the employers and employees.

There's no question that compensation plays a significant role in how employees approach their jobs, how long they remain in their jobs and how they feel about their employers. But as crucial as compensation is to a company's workplace culture, there's no evidence to suggest that it can ignite and sustain on-fire employee engagement. It can, however, lay the foundation on which on-fire performance is built.

Alignment

Inculcating Core Values from the C-Suite to the Custodian's Supply Room

At a time when people yearn for the time-honored values and social mores of the past, words like integrity, excellence, service, respect and trust resonate. As consumers, we want to believe that these words mean something, that they're the foundational principles of the company that uses them. But the acid test of these claims is in how the company's employees live out those values.

The New School says that a company's values are much more than an expression of priorities or ethics; they're the markers by which a workforce and executive management

go about the business of fulfilling their mission and making a profit. Alignment between employer and employee is key.

Five Ways to Ensure ER-EE Core Value Alignment

These days, employees and customers alike demand more than lip service. They want to work for and buy from companies that believe in something and live and act according to those beliefs.

Start by creating, revising or at the very least reviewing your organization's core values. If you're creating or revising them, make certain you involve employees from all departments and at every level in the process. Next, follow this five-step process:

1. **Interview and hire according to your values.** Corporate values have meaning only when they're internalized — believed — by the employees themselves.
2. **Train around those values.** Sure, your corporate values will be listed in the piles of new-hire materials that employees receive, but mention of and reflection upon those values shouldn't stop there. Talk about values throughout your employees' tenures, and give employees constant opportunities to internalize those values.
3. **Discipline employees who don't honor the values, and reward those who do.** One of the best ways to show that your values really mean something is to recognize and praise employees who honor those values and reprimand and discipline those who disregard them.
4. **Evaluate performance in accordance with core values.** Every employee review should include — if not narrowly focus on — how the individual is performing according to the company's core values. Doing so ties aspirational words and phrases on the walls of the corporate headquarters to the specific actions and behaviors of the people who are expected to live up to those values.
5. **Model behaviors.** No matter what all those plaques say, your employees will do as you and your managers do. Take your company's values seriously every single day, and your employees will follow.

It doesn't matter how impressive your company values appear when displayed in the lobby of your headquarters. The only thing that matters is how your organization actually functions, how it goes about its daily business, and, most importantly, what guiding principles serve as the foundation for the important decisions made throughout your company each and every day.

Atmosphere

Ensuring Your Employees Are Safe, Well Equipped and Goofing Off!

Key employees in your business are perpetually pursued by headhunters, recruiters and competing employers. The bait most commonly used to lure them away is a sizable bump in pay. And if money alone won't get them to jump, an offer involving a better workplace atmosphere might just do the trick.

What one might consider a great atmosphere could seem dreadful or repulsive to someone else. One thing is certain: The atmosphere at your workplace is far too important to be left up to chance or happenstance. Atmosphere is a choice. It must be deliberate.

Generally, there are seven questions/issues that employees often ponder in relation to their employers:

- Is my employer doing everything possible to keep me safe?
- Can I be my authentic self while I'm at work?
- Do I have everything I need to excel in this job?
- Do I like, respect and trust my boss?
- Do I genuinely like the people I work with day in and day out?
- Does this environment energize me or make me want to find an escape hatch?
- Are we having any fun around here?

Because people are different, they'll reflect on these questions and your company's atmosphere at various speeds, intervals and sequences based on what they value most. However, it's doubtful that anyone who has options will ever be attracted to your company if any of these questions aren't answered "yes."

The trick is to never stop trying to create the best possible cultural atmosphere.

Growth

Grow Them Big or They'll Go Home

There was a time when an employee and his or her employer were in it together for the long haul. Back then, people tended to spend their entire careers at a company, and that company returned its employees' loyalty with secure jobs, reasonable pay and pensions. These days few companies can so much as guarantee a stable job with

steady pay and benefits anymore. So if the companies can't offer loyalty, then why should they expect loyalty from their employees in turn?

And yet, many companies do demand loyalty, and the frustration of their leaders is almost palpable when employees don't toe the line. Leaders who think this way don't understand that employees won't give their loyalty unless they receive it first (and even then it's a gamble).

The reason why is simple. Because it's not really loyalty employees are after. What they really desire is a chance, a leg up. Another thing they want is mutuality. An employee who helps a company become successful expects to get a piece of the pie, a share of that success.

The larger problem isn't that employees aren't loyal anymore; it's that managers have realized that buying loyalty doesn't work and have, therefore, given up on trying to instill loyalty in those employees. Giving up on producing loyal employees doesn't help anybody. It certainly doesn't help you, especially if you don't see the value in investing time and money in ungrateful people who are going to leave anyway. And it isn't helping the employees who, if they weren't looking for the exit before, are sure to start once they figure out that the company's goals and their own goals aren't even remotely in sync.

Deloitte released a benchmark study in 2011 titled "Talent Edge 2020: Building the Recovery Together: What Talent Expects and How Leaders Are Responding." For those employees looking to bolt, Deloitte found that a majority rated their current employers' "efforts at creating career paths, developing leaders and retaining top performers" as fair to poor. Indeed, 53 percent looking to leave said that they would reconsider their decision if their current employers improved their job advancement and promotion prospects. As the research shows, most of those who are secretly looking to leave would actually prefer to stay — as long as you give them a compelling reason to do just that.

Giving employees the chance to show their stuff, build stronger skills and grow at the company — this is the solution or at least an essential part of the solution.

However, a disconnect occurs when either the employer or employee feels as if they're getting the raw end of the deal — giving more than they're getting. The trick is to stay in that Growth Retention Zone — as long as there's growth on both sides, harmony exists and balance reigns.

It's simple really. You want them to grow, and they want to grow. So, let's focus on a five-step how-to formula to ensure your employees remain in the growth and retention zone, which leads to long-time on-fire performance.

Five-Step Process for Staying in the Growth and Retention Zone

Step 1: Agree on a growth agenda. One reason couples often cite for a failed marriage is that the husband and wife discovered over time that they each wanted different things. The employment relationship works the same way — both parties have to be moving in the same direction. This sort of mutuality requires both parties to meet at the onset of the hire as well as periodically discuss, agree to and map out each of their future ambitions.

Step 2: Establish the timetable. Just as both parties need to agree on what new skills and abilities the employee is going to be learning, they also need to establish and agree upon the time frame. Without a timetable in place, one or both parties are going to eventually disengage.

Step 3: Individualize the learning methodology. It's critically important to figure out how each employee learns best. Knowing how each employee learns and designing the learning agenda around what works best for them are the keys to ensuring that they stay on course.

Step 4: Celebrate milestones and success. Many of us can recall when our parents charted our height on a doorway. Even a half-inch of progress drew applause and cheers. The same principles are at work here. It's important to chart the growth progress of each employee and let them recognize how much they're learning, how much experience they're gaining and how much more valued they are becoming to you in the process.

Step 5: Rinse and repeat. Every employee, from your receptionist to your EVP, needs to be on a growth trajectory — and they need to understand and agree on that trajectory. Once they get where they want to be, they're going to see a new future for themselves off in the horizon. That's a good thing for them and your organization.

Acknowledgement

What It Really Means to Put Your People First

A company that has made *Fortune*'s "100 Best Places to Work For" every year since the list began in 1998 is Wegmans Food Markets. In fact, in 2012 and 2014 *Consumer Reports* named Wegmans the best supermarket chain in the United States.

People who go to work for Wegmans may initially arrive with a "just another job" mindset, but it doesn't take long until most realize they've found a career and never want to leave.

What company wouldn't kill to have this degree of loyalty? Wegmans must be offering some serious compensation and benefits packages to foster such a devoted workforce, right? Yet according to *Fortune*, Wegmans pretty much pays equal to or better than the competition, without leading the market. The company manages to be the employer-of-choice in grocery retailing by taking a holistic view of Total Rewards, one that embraces all aspects of the employee experience without having to offer pay for sabbaticals, childcare or 100 percent of healthcare. What is it, then, that sets them apart?

In a word, Wegmans *acknowledges* its employees. It's engrained in their culture as deeply as it's engrained into Maslow's hierarchy of needs. In a world where everyone wants to feel like they belong and that they matter, Wegmans is the high-water mark for employee acknowledgement.

Notice the word acknowledgement, not *recognition*. That's because acknowledgement is really a higher order of recognition. To acknowledge something requires thought plus action, whereas to recognize something is often a neutral, passive act. You *recognize* the distinctive human forms in a Picasso painting. You *acknowledge* the painting's beauty and the artist's mastery.

That's not to say recognition isn't important. It's no secret that employees crave recognition. Far too many companies, however, treat recognition as just another form of compensation. However, compensation and benefits are negotiated terms, mutually agreed upon, expected at regular intervals and in many cases legally enforced. In other words, they're *expected*.

Recognition by itself doesn't carry enough force or mean very much, which is likely why so many employers fall back on Old School incentive programs.

With rare exceptions, incentive programs are just that — programs. Everyone is treated the same. Every action is treated the same. You're just another brick, only this time you're a brick with a bonus.

If all employers have are rigid programs or contests, then they're missing most of what it means to recognize an employee. Because acknowledgement isn't a program, it can't be automated, nor can it be impersonal. It requires caring, personalization and a human touch.

Recognition 101

The four Ps of Recognition and Reward are

• **Personal:** Regardless of the type of recognition, its perceived value escalates when it's individualized for the employee.

• **Proportionate and pertinent:** Any recognition or reward should always match the level of performance being recognized and should always correlate directly with the employee's actions.

• **Prompt:** Celebrating an employee's "above and beyond" actions the moment you see them is far more effective than patting the employee on the back six months later during the performance review.

• **Public:** The value of a reward multiplies exponentially in the presence of peers and colleagues.

Wegmans tops the charts as a destination grocery store chain because it has reversed the Old School "customer is always first" model. Industry leaders like Apple, Firehouse Subs and Wegmans put employees first. In doing so, they gain harder-working, happier employees who then treat their customers the way they should be treated.

Acknowledging your people doesn't take anything out of your pocket, but it's sure to work better than an expensive incentive program.

Autonomy

Building an Army of Intrapreneurs

Remember the day you got your driver's license? Remember the excitement? For many of us, it was our first real brush with freedom. Looking back I can understand the anxiety my parents had watching me take the car out. It's the same fear most parents feel. The question for parents is whether their children will return their trust with thoughtful, responsible action.

No matter how well we think we raise our children, we can never answer these questions for certain. That's kind of what trust is all about. It's the absence of assurance. In this way, trust is a lot like faith. You can have faith in people only if you don't try to control their actions. The moment you begin to monitor their every move, out goes that faith.

So it's no surprise that many employers don't *really* trust their employees. After all, it's the employer's business, their department, their division at stake. It's their butt on the line if something goes wrong.

Trust is the foundational element of any healthy relationship. For the relationship to work, both sides need some independence — some autonomy — lest they suffocate from too much smothering.

Where the problem comes in is when leaders want their employees to give their all while doing exactly what they're told — no more, no less.

In this day and age, some companies still expect employees to be humbly submissive and overly dependent on their managers' orders and oversight. The way they

see it, employees are like children: watched so they don't misbehave. Halted in their tracks before they ever make a mistake. Employees arrive late, take long lunches, slack off, don't care about what's good for the company, and take every opportunity to exploit any chink in the carefully constructed corporate armor so they can kill time and goof off. Then to top it all off, they leave early if no one's watching. The way the managers see it, they have to crack the whip in order to keep the place from becoming a freewheeling fun fest or a sea of inertia.

Let's be clear: Employees who behave and act this way do exist. Want them to do the jobs they were hired to do instead of breaking their backs to get the hell out of Dodge? Leaders who are seeking on-fire performance from their employees need to be the ones to lead the charge. They need to show trust in order to earn trust.

Autonomy Means Different Things to Different People

On-fire employees — the kind you're looking to hire and keep — are looking for some latitude to make decisions in the workplace. The best companies in the world, in turn, trust and empower these employees to think and act on their own — everyone wins!

Say you're willing to step up to the challenge and give your employees your trust … what then? Well, the next step's a big one, but it's critical to the success of on-fire employee engagement: You foster a company-wide culture of autonomy where the employees work on behalf of your business while also working for themselves.

That's the essence of intrapreneurism. Take the best elements of entrepreneurism — independence, creativity, passion and a desire to succeed — and match them with each employee's day-to-day responsibilities. Then build a workplace environment where all of those employees perform as if it's their own company.

A culture of autonomy involves not just trust from the employer but also accountability from the employee. It's a two-way street. Telling employees they can start working in the way that fits them best without providing any guidance or overarching goals is like giving them permission to jump out of a plane without a 'chute. Cultures that promote autonomy need employees to work toward targeted, concrete objectives — priorities and deadlines set by the company or manager.

Think of it like establishing the rules of the game before the players take the field. The employees have the opportunity to use their strategic skills and creativity to score more points, but they also recognize that they need to play within the rules to win.

Following are 10 ways to cultivate a culture of autonomy for on-fire performance:

- **Share your vision.** Help employees feel part of something bigger than themselves. Communicate your missions and visions to them early and often so they see what you see and are committed to working toward that result.
- **Involve employees in goal setting and planning activities.** Seek out their ideas, knowledge and insights, and invite them to help make important decisions. At the very least, let them see your process for making difficult decisions.
- **Explain the why.** Don't just tell someone what to do without making absolutely certain they also understand why that task needs to be completed and why you've selected that individual for the job.
- **Let them choose the how.** Whenever possible, let your employees decide how to achieve the task you've assigned. Agree upon what constitutes a successful outcome; then let them chart their own course.
- **Delegate authority, not just work.** Give employees a leadership role in some of the meetings they attend. Leadership skills develop over time, and they require practice.
- **Trust them before you have to.** Eventually, you'll have to trust them, but sometimes it's worth the risk to trust them before that point to make a decision or step into a role that pushed them to the limit. Your trust in them will give them confidence, and that confidence is crucial to their personal development.
- **Encourage them to solve their own problems.** Listen to their problems, but don't bark out the answer. Instead, ask probing questions that will lead them to determine the right answer.
- **Hold them accountable.** Remember that employer trust and employee autonomy is a two-way street. Holding employees accountable for their work and for meeting established goals and deadlines motivates them to achieve better results.
- **Provide constructive feedback.** Regardless of the results, let them know how they're doing, and give them the coaching they need to improve.
- **Acknowledge them on the spot for stepping up.** A few seconds of genuine one-on-one acknowledgement and recognition can go a long way toward reinforcing an employee's willingness to step up and stand tall. Show you appreciate their above-and-beyond commitment with a reward that matches the result.

Communication

The Inextricable Link Between Transparency and Trust

Bad things happen to good companies, and even when employees aren't to blame and can't really do anything to right their ship, they still want to know what's going on. When management chooses not to disclose the extent of the difficulties they're facing, trust begins to erode, and the workplace culture is fractured.

Without straightforward information from the upper ranks, employees are left guessing, speculating as to what has really happened and what it means to them. Even if they don't quit, workers may begin to disengage and lose confidence in their company, feeling that their employer isn't looking out for their best interests. A bunker mentality develops as they shift into survival mode. Rumors circulate.

Regardless of the company or industry in question, there are three specific types of information that are controlled by management:

What Employees Need to Know: Employees must have some information in order to do their jobs effectively (e.g., job training, safety precautions, etc.).

What Employees Should Know: Employees should have a basic working knowledge of the company that employs them. This includes the company's history, ownership structure, management hierarchy, basic product/service lines, etc. In addition, employees should know anything that Wall Street knows about the company, as well as anything that is being reported about the company by the media.

What Employees Want to Know: In the employee version of a utopian universe, employees would be privy to everything their CEO knows about their company. Naturally, this is not possible or even plausible. Nor would it be wise for any company to share all of its information with every employee. But suffice it to say, employees want to know what's really happening, not only within their industry but also regarding all of the developments, changes and updates that are taking place within their company — especially those that can have any impact at all on their jobs and their future.

No matter what the situation, employees feel a stronger connection to their leaders and their company when they feel they are kept accurately informed and continually updated with any and all developments.

When leaders share current and future change with employees, they reinforce a culture of transparency. Rather than treating employees like cogs in a wheel, companies treat them like they have a stake in the game — which they do. Savvy employers recognize that employees deserve to know — and need to know — simply because they work at the company. They are part of the team.

A transparent company is one where information between employer and employees flows freely. As Warren Bennis and Daniel Goleman write in their book *Transparency: How Leaders Create a Culture of Candor,* "An organization's capacity to compete, solve problems, innovate, meet challenges and achieve goals — its intelligence, if you will — varies to the degree that the information flow remains healthy." In other words, transparency isn't just good for engaging your employees; it's just plain good for business.

When was the last time you asked your people what they needed to better perform their jobs? Employee surveys can be useful tools, but by themselves they're not enough to truly know what your people are thinking.

There's no survey and there's no digital app in the world that can take the place of a manager finding a few moments of quiet, pulling one of her employees aside and asking questions like, "Hey, how are you making out around here? Do you have all the tools and resources you need? What can I do to support you?"

And once her employees start to open up, the most important thing she can do is to shut up, listen, take notes and then take action.

When you go beyond what your workers expect, you'll build a workforce that will surprise you in ways you didn't think were possible. You'll find that they increasingly display a positive attitude, reliability, professionalism, initiative, respect, integrity and gratitude.

Live the seven pillars day in and day out — compensation, alignment, atmosphere, growth, acknowledgement, autonomy and communication — and you'll go further than that. You'll create not just an engaged workforce but a legion of loyal employees who are on fire.

RECOMMENDED READING LIST

If you liked *On Fire at Work*, you'll also like:

1. ***Make It Matter*** **by Scott Mautz**. Mautz reveals that fostering meaning at work by giving workers a greater sense of significance is the key to motivation and engagement.

2. ***Why Motivating People Doesn't Work ... and What Does*** **by Susan Fowler**. Fowler's Optimal Motivation process shows leaders how to help people meet their needs for autonomy, connection and competence for long-lasting motivation.

3. ***Full Engagement!*** **by Brian Tracy**. Business-success expert Brian Tracy shows managers how they can supercharge their employees' efforts.

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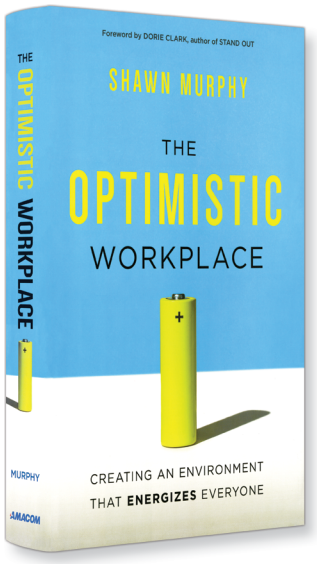
38-05 The Optimistic Workplace

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The Optimistic Workplace

Creating an Environment That Energizes Everyone



by Shawn Murphy

THE SUMMARY IN BRIEF

When it comes to work these days, we're expected to do more with less — but is this nose-to-the-grindstone philosophy the best way to run a business? Alarmingly low employee engagement numbers indicate otherwise.

So, if pushing everyone harder isn't the path to productivity, what is? Supported by the latest research, *The Optimistic Workplace* argues that our best work is the product of a positive environment. That's good news for you as a manager. While you can't personally transform the corporate culture, you can influence the workplace climate and create meaningful and lasting change.

Advocating a steward model of management, *The Optimistic Workplace* demonstrates how a people-centric focus ignites employee potential, increases innovation and catapults the organization to new levels of performance. Author Shawn Murphy reveals how to explore personal and organizational purpose and align them for astonishing results, build camaraderie and deepen loyalty, increase intrinsic motivation and more. Far from being a wish-upon-a-star discussion of workplace happiness, *The Optimistic Workplace* presents an array of surprisingly simple strategies to focus your actions and make employee optimism not just a worthy goal but a real and measurable result.

IN THIS SUMMARY, YOU WILL LEARN:

- Why workplace climate is easier to change than culture.
- The three dynamic elements of an optimistic climate.
- How to foster meaning and purpose at work.
- How to be a human-centered leader and cultivate optimism in yourself and others.

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THE COMPLETE SUMMARY: **THE OPTIMISTIC WORKPLACE**

by Shawn Murphy

The author: Shawn Murphy is an independent consultant with 20 years of experience helping organizations create workplace optimism. He is the co-founder and CEO of Switch & Shift, a company dedicated to helping leaders to create positive workplaces. He has been named as a Top 100 leadership speaker by Inc.com.

The Optimistic Workplace: Creating an Environment That Energizes Everyone by Shawn Murphy. Copyright © 2015 by Shawn Murphy. Summarized by permission of the publisher, AMACOM, a division of American Management Association.
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Introduction

The Optimistic Workplace is about modeling the expectations necessary to contribute to the emergence of optimism in the work environment. Optimistic workplaces need diversity in perspective and in people from all backgrounds and inclinations. What unites them is a workplace mood that gives hope that good things are possible from applying one's experiences to ultimately help the organization create value for its customers.

Stewardship is caring for people and things that don't belong to you. Conversely, the term "management" is associated with control and dominance: "I need to manage you." Or, "You're my subordinate, and because of my years of experience, I know what's best. Do as I say."

You are the steward of your people, of resources and time, and of the business. The subtle shift is in the focus. It isn't about the control you flex, the dominance you project or the power you wield. It's about purposefully crafting a work environment that allows the human side of business to flourish. The shift is in caring for people in a way that improves their lives and positively influences the value they create for your organization.

The truth is, management has become soulless. It's rote. It's impersonal. Why is that important? Simply put, business has always been and will always be about relationships. We have veered too far away from hiring and treating employees as mature, fully functioning adults.

Stewards create workplace contexts that assume people can be trusted to do their best work and to do the right thing. The human-centered business is fundamentally built on a foundation of helping people understand and leverage their potential for good — a good that benefits others. The good you can bring about is a positive work experience created through workplace optimism.

The Future of the Workplace

Culture is how things are done in an organization. It's the company's history, stories passed down over time. Yet what is equally important as culture is what it feels like to work day to day in the workplace. This is climate, and it's the element of organizational life that isn't discussed much. Harvard University psychologists Robert Stringer and George Litwin explain climate as the quality of the workplace environment and its influence on the work experience and team members' behaviors and perceptions.

In the workplace, who has the greatest influence on the climate? According to Hay Group's research, it's the immediate leader — you. You set the mood in the work environment. In fact, your leadership style impacts climate by up to 70 percent.

It's the words you use and the tone of your interactions with your team that influence climate. Purpose influences climate. Stringer and Litwin explain that clear role definitions help to positively shape climate. High performance expectations are also essential. Autonomy shapes climate. Trust and a sense of belonging are also key to a positive work environment. These are all elements within your control. This is what makes climate a powerful influence.

From a leadership perspective, climate is easier to influence than culture and is useful in creating lasting change necessary for the organization to create value. Culture is embedded deep into the bedrock of the organization and is hard to change. It can take years to shift culture.

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Through your leadership style, you can shape the climate to positively influence how team members perceive, experience and respond to work.

Workplace Optimism

Workplace optimism is a characteristic of climate and is the belief that good things will come from hard work. Research shows that you can transform the work experience by focusing on the best positive, potential realities. You can position employees to believe that work is a bright spot in their life. The following beliefs are essential to helping create a positive work experience:

1. The team is more important than any individual.
2. There's value to experiencing joy at work.
3. Doing good is good for business.
4. Relationships with employees need to be richer.
5. Work should align with purpose and meaning.
6. Leaders need to actualize human potential.

Origins of Optimism

Optimistic climates don't follow a people-first philosophy. They don't follow a profit-first philosophy either. Instead they follow a dynamic exchange among three elements that create a motivating environment: purpose, meaningful work and extraordinary people. These three elements are the Origins of Optimism.

The dynamics among these three work like this: Purpose informs employees' work, at the same time influencing a community of people to align with its own aspirations. The work directs what extraordinary people focus on. Simultaneously, the people influence what work needs to be done, how and when. Both extraordinary people and the work advance the purpose. The Origins of Optimism interact with each other in one dynamic exchange. There is no number one. The three elements are interdependent.

Destructive Management

Destructive management is really a collection of symptoms of ill-fitting practices for the modern workplace. They result from misjudged or uninformed choices. Mostly the symptoms present themselves when a steward doesn't shift along with the demands of today's workforce and workplace expectations. If you think of destructive management like a disease, people and the organization can't perform at their peak potential. Both are often distressed.

Along with distress, a host of unpleasant outcomes dominate people's experiences. Recovery from problems is slow. In severe cases, people just can't seem to shake the feeling that things just won't get better. The negative feeling of the workplace is alienating. Optimism is choked before it can even emerge. Ultimately, the impacts from destructive management can be traced back to six symptoms:

Symptom 1: Blind impact. A leader who is unaware of how her actions, attitude and words impact others, and damages any opportunity for workplace optimism.

Symptom 2: Antisocial leadership. This symptom is all about one's inability to encourage, build and evolve a community of people united by a shared purpose.

Symptom 3: Chronic change resistance. The seduction of the status quo overpowers rational thoughts and actions. With this leader in charge, only incremental change is possible.

Symptom 4: Profit myopia. The outdated belief that profit is the only success measure.

Symptom 5: Constipated inspiration. The leader is unsure of how to inspire people on her team. Often she is too focused on her own needs, giving little attention to what her employees experience when at work. At the core of constipated inspiration is ignorance of personal values.

Symptom 6: Silo Syndrome. Silo syndrome afflicts a leader when he cannot see beyond his immediate responsibilities. Also, silo syndrome blinds a leader from seeing the impacts of work on other people's lives.

Gallant Acts

If you are to move past the adverse effects of some decisions and create workplace optimism, you will need to face reality as it is and take action to move your team closer to optimism. Here are some leadership actions you can take to set you and your team down the path to the optimistic workplace:

- Bring your team together, and demonstrate that you understand how the team has been negatively impacted by management decisions.
- Meet one-on-one with members of your team, and learn what's important to them in terms of the workplace.
- As you continue to discuss what a positive work experience means with individuals and with the team, begin to talk as a group about what the team can do to support the goal of working in an optimistic workplace.
- Reduce the effects of blind impact by exploring what your team's purpose is.

- Participate in a 360-degree assessment. The goal is to learn how your leadership style positively and negatively influences people.

The Power of Contagious Emotions

Our emotions are contagious and influence how people feel. How people feel influences the quality of their work. The emotions people experience shape their willingness to connect and deepen relationships. It's a powerful insight for leaders to leverage when working to shift to the optimistic workplace.

Psychologist Barbara Fredrickson's research reveals that positive emotions broaden our "ideas about possible actions, opening our awareness to a wider range of thoughts and actions than is typical." In other words, we broaden our capacity to act positively based on the good actions of another person. The positive emotions we experience then help us build new skills, connections and knowledge, and have a positive impact on other people.

Pause long enough to understand the influence positive emotions can have on you and those on your team. Own the emotions that you're spreading. As the steward of your team, expressing such positive emotions as joy, gratitude, serenity, interest, hope, pride, amusement, inspiration, awe and, yes, love can positively influence how others feel and experience work. You get to help your people achieve their greatest potential through their work. Model what you want for and expect from your team, and grow from the effort.

The Downside of Optimism: Missteps and Excess

Even though the positive climate helps employees do better work and creates joy, your team is not impervious to the downsides of work life. So it is important to know the potential missteps and excesses that can surface when cultivating optimism in the climate.

Misstep 1: Believing it's somebody else's responsibility. Invariably the point is made that workplace optimism must start at the top. This belief lets us off the hook from doing something about the bad vibe hovering over the teams.

Misstep 2: Failing to build alliances to support your effort. Here are a few essential things to consider when identifying allies: You can have honest conversations with them. They are comfortable challenging your thinking. They believe in action and are not all talk. They genuinely believe the Origins of Optimism.

Misstep 3: Assuming you know how your team members feel about the climate. The best place to start is to have conversations with your team.

Misstep 4: Assuming people understand the importance of their work. Help employees understand their purpose in the organization: why their roles exist and why they matter to the team's and organization's success; how their strengths and talents influence outcomes and other people.

Misstep 5: Unknowingly over-promoting individualism. Not only is team cohesion compromised but so is a shared mood, both of which are vital to a positive work climate.

Too Much of a Good Thing?

What are the signs and outcomes of an excess of optimism?

Sign of Excess 1: The struggle from the balance of opposites. When only good news is shared and leaders don't acknowledge the influence discord has on the climate, employees' well-tuned BS detectors signal "fraud." Instead, assume that people have the skills to handle difficult conversations or conflict.

Sign of Excess 2: The country club effect. In the context of the workplace, when a team becomes isolated from the realities of business, the country club effect emerges. Keeping people "happy" becomes more important than holding them accountable for commitments and results. Unleash employees' potential by finding opportunities that deepen their skills, and build a relationship with each person on your team.

Sign of Excess 3: Overreliance on advocates. Advocates can fall into the trap of blindly promoting its importance, ignoring contrarian perspectives. The solution for this sign is in building and nurturing authentic relationships with peers and team members, relationships where confidants can freely share their thoughts, even if unpopular or difficult to hear.

Sign of Excess 4: Inflexible methods. Inflexibility is a result of too much comfort with the way things are. You should identify the inflexible methods that might interfere with your work to create an optimistic workplace and see if you can influence changing the rules and policies that cause them.

Values-Based Leadership

To know your values is to have insight into why you make decisions, with whom you make friends or the type of work you pursue or don't. Knowing your personal values helps you know where your line in the sand is — what you'll tolerate and what you won't.

Identifying, knowing and showing your values help prepare you to be a more effective, compassionate and understanding steward. In short, you are more relatable because of a deeper, evolving awareness of what you stand for, which attracts and appeals to others. To identify, know and show your values helps guide your decision-making process.

Values work begins with identifying values, such as accountability, achievement, collaboration, competence, creativity, decisiveness, fairness, generosity, integrity, joy, justice, loyalty, resourcefulness, stability and so forth. Select the top five that resonate most with you.

Now that you've identified your values, it's important to know what they mean to you. Take the time to define carefully for yourself your top five values. Use your life's events to define each value. Imagine explaining the value to other people. Would they associate the value with you?

Now it's time for you to think of ways to bring your values to life. List behaviors or ideas that bring to life your values. For example, for relationships, you might list "Block time on my calendar for one-on-ones with each employee to learn what or who is important in my employees' lives," or, "Each quarter take my team to coffee to discuss success and lessons."

Getting Employees to Think the Same Way

What would it take to begin integrating values-based conversations within your team? Tell the team why it's important to you to know your personal values. Open up by explaining what insights you got from doing the values exercises. Encourage your employees to complete the values exercises. Hold a team meeting to discuss insights.

Ask your team members how knowing and living by their personal values could be helpful to them in their work. In your one-on-ones with employees, explore more personal ways they can live and work by their values. Help employees identify where their values aren't present in work and where they are. Build a plan to strengthen the alignment.

The outcome of knowing and showing your values is a greater awareness of who you are. The awareness significantly influences how you show up as a leader. Consequently, you begin to create the stickiness that holds your team members together and helps them begin to see a positive picture of the workplace and of their team. Connecting the dots further, this helps shape the climate and supports your effort to create workplace optimism.

It All Starts With Purpose

The first element of the Origins of Optimism is purpose. Purpose is the reason you do something. It might be a calling. It might be a matter of ethics. Purpose calls each of us to act in a way that may be unpopular or different from what most would say, do, think or feel. Deeply personal purpose can and should be shared. It is the ultimate guide to your way of living. In the business world, it guides your stewardship.

Personal purpose has been segregated from the business world for too long. It's an unnatural bifurcation of your two worlds. Clarifying your purpose is essential to your leadership. It's no longer enough to focus on *what* you do as a leader. It's *how* and *why* that rounds out your effectiveness and your ability to work alongside people.

These questions are designed to help deepen your awareness of the role that purpose has in your life:

- Write down the meaningful or rewarding behaviors from your work. From the meaningful or rewarding behaviors, what new insights do you notice about yourself?
- When in your life were you most energized? What were you doing? For whom were you doing the energizing activity? What value did you get from the activity?
- What themes do you notice underlying your responses? What insights do the themes hold?
- What values of yours do you see in your examples?
- Now consider who was involved in your examples. What role did each person play? What support did they provide?
- What did you learn about yourself from the examples you referenced?
- What makes your heart sing? Are you doing enough of that in your life? How could you increase doing more of what makes your heart sing?

Aligning Purposes

The following questions are designed to help you connect your purpose to those of your organization and your team.

- What is your organization's purpose?

- What is your team's purpose? How does your team support the ultimate purpose? Where is there alignment between the organization's purpose and your team's? Where can you tighten the alignment?
- What evidence is there to show alignment between your purpose and your organization's? What about alignment between your purpose and your team's?
- What immediate next steps can you take to make alignment stronger?
- Who are allies who can help you better align your purpose with those of the organization and your team?
- What themes do you notice in your answers? What is the significance? Does the significance change your immediate next steps?

The Meaning Makers

We all want to be touched, moved and inspired by life. Meaning is a source not just for life but for work, too. As a steward of unlocking human potential, meaning is an opportunity to turn your people's work efforts and interest into something that matters. Meaningful work is the second element in the Origins of Optimism. It's also your shot at helping people see how their work contributes to a bigger picture and to feel connected to a group of like-minded people. Your part is to help shape the context for meaningful work to emerge. Let's look at the key actions of meaning makers:

Meet people's basic needs. You help employees meet their physiological and safety needs by paying them enough to have a roof over their heads and food on their tables. In terms of how employees perceive the climate at work, safety needs are key: Do employees feel secure in their work? Are expectations clear? Is there consistency in how you show up as a leader? Are your expectations of people clear and consistent? When basic needs are met, your team members can shift their focus to higher levels of functioning, helping them to do their work better, experience higher levels of happiness, and uncover meaning in what they do.

Make room for autonomous work. Today, having autonomy means team members can rely on their experiences and use their ideas to leave their mark. The intrinsic motivation inherent in autonomy is a source of fulfillment and helps employees find meaning.

Invite people to be in on things. Employees want to believe they are in on decisions and hear news in a timely manner. You can loop employees in on important ideas and considerations sooner to get their input before decisions are made.

Give people the freedom to express themselves. Meaningful work emerges when people know they can share what's on their mind and that a pink slip won't be on their desk the next day, or they won't be made to feel shame for speaking out.

Model values-based leadership. Learn what your employees' personal values are. Discuss how their personal values show up in their work and where they are absent.

Hold regular one-on-ones. At least monthly, discuss employees' progress in achieving their performance goals. Hold employees accountable to their growth commitments.

We Must Change the Way We Work

Employees are overwhelmed, stressed, burned out and disillusioned with their ability to positively make a difference through their work. Yet, the relationship employees have with work, the pace and quantity of it and how they achieve desired outcomes is central to cultivating workplace optimism. Leaders need to improve how employees relate to and go about doing their best work.

Work today needs a facelift, or a F.A.I.S.E. lift. F.A.I.S.E. refers to five domains leaders need to address when shifting how employees make sense of the importance of their work, how they approach their work, and ultimately how they generate value for the organization and its customers through their work. The F.A.I.S.E. domains are as follows:

Financial: Leaders balance long-term and short-term views on financial performance to determine work priorities.

Aspirational: Use of purpose and meaning help bring significance to work and how it's done.

Individual: Leaders leverage work to promote employee self-awareness. Work identity is important.

Social: Employees make sense of work by developing relationships within departments and teams as well as outside the organization.

Environmental: The conditions and climate of the workplace need to bring out employees' strengths and minimize distractions.

The domains are intended to guide you through how to identify and explain the value of work for both the organization and employees.

At PepsiCo, a program called Performance with Purpose shapes the work of employees. More than a program, Performance with Purpose is a set of beliefs. Whether PepsiCo is focusing on human sustainability (Social domain) or

talent sustainability (Individual domain), it makes decisions to do good for its customers (Aspirational domain) and those who create the value for the organization — the employees. With a comprehensive set of initiatives — ranging from corporate governance to supply-chain diversity to workplace diversity — PepsiCo positions itself for financial performance. According to a 2013 PepsiCo report, 89 percent of the company's employees, including executives, feel pride in their work (Environmental domain) and in what the organization accomplishes through its many efforts to improve the communities it serves and create a workplace environment that motivates and inspires employees.

Human-Centered Leadership

Human-centered leaders believe that financial success is accomplished through genuinely caring about people. These leaders hold employees accountable to continuously develop their talents so they can advance the company's purpose. But human-centered leaders also want employees to become extraordinary versions of themselves.

Employees are expected to anticipate needs, explore alternatives, expand their talents and leverage their strengths, and connect with partners to achieve desired results, not planned results. The marriage of the two — business and human potential — is what the human side of business is about.

What does the human side of business have to do with your relationship with your team? Everything. The human side of business grounds your perspective in truly human elements that help you relate to your team members as people. It guides you to discover commonalities between you and your team that deepen connections. It helps you see where you can make a difference in your people's lives. Such insight is not possible when employees are seen as controllable resources that can't be trusted.

The Universal Elements

The universal elements of the human side of business are health, family/friends, work, identity and purpose. The first element, health, includes the physical, psychological and social health of your people.

The family/friends element places value on the quality of time your employees have with their family and friends when not at work. It has been found to be most associated with happiness and meaningfulness in life. You positively influence the family/friend element by helping employees manage their work-life mix. When you can strengthen family, employee participation at work strengthens.

At the heart of this universal element, work, is helping employees find meaning not only in what they do but in the outcomes they help create. Work shapes our identity. How employees relate to their work self influences their motivation, performance, even job satisfaction. Researchers also find that a healthy work identity helps employees find meaningfulness in their work.

The final universal element is purpose. Purpose, in conjunction with the other universal elements, positions employees to have a remarkable life — personally and professionally.

What can you do to foster positive relationships? Model bidirectional accountability (for positive relationships to flourish, you must be accountable, too), promote employee activism, have your people's backs and recognize employees.

Next Comes Trust: Creating Community

For optimistic work environments, cooperation or self-interest isn't enough for success. You'll have to create a more compelling climate that fosters collaboration. Through collaborative efforts, people generate new insights not possible when working solo. Through collaboration, resources and people are shared. The sharing of resources and people is done because what knits a strong collaborative team together are mutual aspirations and shared goals.

What can you do to boost collaboration in your team? Send employees to learn other parts of the business. Inquire regularly into the team's effectiveness. Screen for collaborative tendencies during new-hire interviews. Develop routines that reinforce collaboration, and make time for face-to-face meetings.

Equation for Community

When collaboration is combined with connection, a community emerges. All stewards need to remember that:

Collaboration + Connection = Community.

This is the Equation for Community. If the Origins of Optimism are the bones to creating workplace optimism, and purpose and meaningfulness are the heart, then the Equation for Community is the blood that oxygenates the entire system.

The three parts to the equation are important by themselves. When you combine them, their influence magnifies. Collaboration is the active participation of people working

jointly together. Connection is a relationship between people focused on and held together by evolving shared interests. Community is a unified group of people with a shared interest. Each part of the equation feeds naturally into the other.

While too often groups of people develop a self-interest in winning and success, the Equation for Community helps people move past it. How? The very nature of each element of the equation strengthens only when the focus is on the group, or the team. The Equation for Community reinforces achieving success for the greater good, not for the select few.

The Cultivation of Optimism

To create workplace optimism, start small and show you care. These two seemingly simple pieces of advice reflect a shift in the quality of relationship employees hope to have with you. It also sheds light on the skills you need to cocreate the optimistic workplace.

The following skills will help you achieve strong relationships with your team, create and shape an optimistic work environment and achieve desired results together.

Two categories of skills and traits are Self and Us. Those under the Self category are the highest-value skills or traits that are needed to bring optimism to the forefront of people's experience at work. Those in the Us category rely on skills or traits necessary to deepen connection among members of your team as well as to create a sense of belonging that people experience while working in your team:

Know Thyself

Humility. Humility helps keep you grounded. It helps you build stronger relationships, a key factor in fashioning the optimistic workplace. It's also key to seeing your flaws and strengths and appreciating them in others.

Honesty. Self-honesty helps you assess situations and your response to them realistically. Are you respectful but honest when sharing difficult feedback?

Reflection. Take time to reflect so you can connect the dots between people and events to make sense of what's happening around you.

Grit. Grit can help you endure hardships and find greater enrichment in living while pursuing meaningful personal and professional goals.

Resilience. Positive emotions like joy, interest and pride help build resilience. Resilience helps generate positive emotions.

Sense-making. By showing your interest in learning the meaning behind people's words and actions, you create a path for mutual understanding and greater chances for collaboration. This is invaluable for cultivating optimism.

Vulnerability. We can relate more deeply to people when we know they also have struggles.

For the Greater Good

Noticing. BambooHR co-founder Ryan Sanders explains this skill as paying attention to the overt and subtle ways people positively contribute to the team and its goals.

Connecting. Your relationship with employees needs to go from transactional to relational. A skill critical to such innovation involves connecting your people to the resources they need to reach their potential.

Experimenting. Shape the conditions in your team that signal to employees it's all right to experiment. Openly share what's working and not working.

Prioritizing. Your ability to prioritize individual workloads with each of your employees positions them to make progress on what matters.

What Self and Us skills and traits have in common is their humanity. They help you become more relatable and more understanding of your employees' aspirations. Cultivating workplace optimism is something you'll go through together with your team.

We are at a time in business when two paths have presented themselves. One path is business as usual: It's management. It's control. Its philosophy is fear of change; keep things the way they are. The other path is business transformed: It's human-centered and values-based. Unpredictability is embraced as an opportunity to maximize success even when its definition is unclear or unknown. This path may appear riskier given its nature, but it's the best path forward if you want to thrive in our hyperconnected, socially enabled, relationship-centric business world.

RECOMMENDED READING LIST

If you liked *The Optimistic Workplace,* you'll also like:

1. ***Thirteeners*** **by Daniel Prosser**. Prosser shares how to transform an organization's internal connectedness so it can create a workplace environment that produces breakthrough results.

2. ***Engaged!*** **by Gregg Lederman**. Lederman teaches how to design and implement a sustainable culture and customer experience.

3. ***Delivering Happiness*** **by Tony Hsieh**. Hsieh shows how using happiness as a framework can help leaders in organizations of all sizes and types produce profits, passion and purpose.

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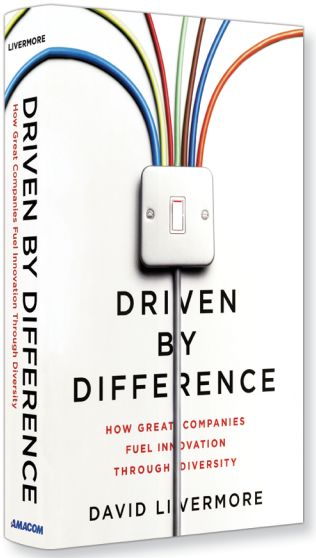
38-08 Driven by Difference

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Driven by Difference

How Great Companies Fuel Innovation Through Diversity



by David Livermore

THE SUMMARY IN BRIEF

Today's workforce is more diverse than ever before. But despite new perspectives and talents, the promise of increased innovation rarely materializes. Why are so few businesses seeing results?

Studies show that diverse teams are more creative than homogenous ones — but only when they are managed effectively. The secret is to minimize conflict while maximizing the informational diversity found in varied values and experiences. To do this, both leaders and team members need a high level of cultural intelligence (CQ).

Drawing on success stories from groundbreaking companies, *Driven by Difference* identifies the management practices necessary to guide multicultural teams to innovation, including how to create an optimal environment, build trust, fuse differing perspectives, align goals and expectations, generate fresh ideas, consider the various audiences when selecting and selling an idea, and design and test for different users.

Cultural differences can lead to gridlock, or they can catalyze innovation and growth. *Driven by Difference* offers a research-based plan to turn diversity's potential into economic reality.

IN THIS SUMMARY, YOU WILL LEARN:

- The meaning of cultural intelligence (CQ) and the benefits of using it.
- To adopt new perspectives and reveal assumptions in your products and organization.
- The five steps for creating the best climate for culturally intelligent innovation.
- The additional five steps of the *process* of innovating with cultural intelligence.

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THE COMPLETE SUMMARY: **DRIVEN BY DIFFERENCE**

by David Livermore

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Diversity Is

Today, 36 percent of the U.S. workforce is made up of people of color, and by 2040, there will be no U.S. ethnic or racial majority. That reality is coming even more quickly to Canada. The shift is happening in more traditionally homogenous places like Denmark and Sweden as well. Similar trends exist most everywhere. And when you add the diversity of perspectives that come from one's gender, socioeconomic background, sexual orientation, profession, faith and much more, indeed, "Diversity is."

What ultimately matters is not the source of diversity but the different values and perspectives that emerge from it. The differences that most strongly influence innovation are the varied approaches for communicating, planning and executing tasks. How do you align the values, expectations and work styles of four generations, dozens of nationalities and endless subcultures toward a universal vision and strategy for the organization?

Cultural intelligence is what makes the difference. The cultural intelligence of the individuals on a diverse team determines whether the team's diversity promotes or deters innovation. Cultural intelligence, or CQ, is the capability to relate and work effectively in culturally diverse situations. Research on cultural intelligence finds that the culturally intelligent have developed skills in four capabilities:

1. CQ Drive (Motivation): Having the interest, confidence and drive to adapt cross-culturally.
2. CQ Knowledge (Cognition): Understanding intercultural norms and differences.
3. CQ Strategy (Metacognition): Making sense of culturally diverse experiences and planning accordingly.
4. CQ Action (Behavioral): Changing verbal and nonverbal actions appropriately when interacting cross-culturally.

Fortune 500 companies expect the greatest revenue streams over the next decade to come from emerging markets, and top universities are recruiting students from around the world and from groups previously underrepresented on their campuses. The convergence of consumer diversity with workplace diversity is the nexus of the greatest challenges and opportunities for a culturally intelligent approach to innovation.

PART I: THE CLIMATE FOR CULTURALLY INTELLIGENT INNOVATION

The essential elements for building a climate that promotes culturally intelligent innovation include attention, perspective-taking, focus, space and trust.

The Power of Attention

The first critical element is paying attention to diversity and innovation. You innovate to the degree you *consciously* think about innovation. This is the power of attention. Your experience of any situation or event largely depends upon what you choose to pay attention to or ignore.

Why Are Some More Innovative Than Others?

The organizational culture where you work is the biggest factor for whether you successfully innovate. Three characteristics are consistently found in organizational cultures that foster innovation regardless of the location: a willingness to cannibalize assets, a future orientation and a tolerance for risk.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **A. Imus**, Contributing Editor

Most companies and institutions work hard to protect whatever provides their greatest profits. But an organizational culture that consciously promotes a willingness to sacrifice current profit-generating activities is an important part of conscious innovation.

Second, a future orientation primes people in the company to realize the limitations of current technology and systems, and they more readily consider the emergence of a new generation of technology that may become dominant in the future. Finally, innovative organizational cultures create a consciousness in people that views failure as an accepted, important part of the innovation process. They find concrete ways to demonstrate safety around the reality that not all innovations will lead to a guaranteed stream of profits.

How to Pay Attention to Innovation

Maintaining and developing a climate of culturally intelligent innovation among a diverse team requires a deliberate, ongoing effort. Here are a few practices that can help.

Prime for culturally intelligent innovation. The most important way to prime for culturally intelligent innovation is for the leadership to surround themselves with a diversity of perspectives, utilizing that breadth to drive their own innovative approaches. Innovation needs to be built into every person's role and across all the systems and processes for product development and implementation. Images, signs, town hall meetings and written messaging need to be used to keep everyone's attention on the customers of tomorrow.

Become conscious of blind spots. Consider which groups of people you find most difficult to trust. How might that difficulty connect to a deeply rooted bias? And how might it be closing you off from innovative breakthroughs?

Train yourself (and others) to think differently. Make a habit of forcing yourself out of autopilot. Work from a different space. Don't always run your meetings the same way or in the same place. When your team comes up with a solution, stop and ask each other whether this is the best option or whether a third alternative is worth exploring.

The Power of the Empty Chair: Perspective Taking

Jeff Bezos, founder and CEO of Amazon, frequently leaves one open seat at the company's most important meetings. It's there to remind executives and managers of the most important person in the room — the customer. Add an empty chair to *your* most important meetings, but don't stop at that. Learn how to take on the perspective of a diversity of users, known as *perspective taking*.

Perspective taking is "the capability to step outside [our] own experience and imagine the emotions, perceptions and motivations of another." It begins with realizing that two individuals can be presented with the exact same information and arrive at radically different interpretations.

Once you learn to accurately take the perspective of others, you have a whole new ability to design products and services in a way that truly brings solutions. And with a diverse team, you have a built-in mechanism for taking on the perspective of your users. This requires not only learning how to read individuals one at a time but also learning how to see the tendencies, patterns, motivations and connections across a particular cultural group.

The greatest challenges of perspective taking lie not so much in how we deal with entirely erroneous perceptions but how we deal with different, legitimate views and experiences that are each a part of the whole.

The goal is not for all of us to abandon the social group and identity with which we were reared. Neither should we pretend we don't have legitimate self-interests. We want to transcend our existing perspectives without leaving them fully behind.

How to Improve Perspective Taking

There are several practices that can help you make perspective taking a regular part of your innovation process.

Observing. Most innovators are intense observers. They observe people in a different environment and look for how they solved problems. They actively watch people as they use products. They observe people in real situations. They look for what's surprising.

Listening. Effective listening to gain the perspectives of others means intentionally hearing a customer's pain points and desires, and creatively getting them to share things that will enlighten how you go about the innovation process. How do customers order and purchase your product? Is there a way to make that easier and less costly? How do they receive it? What frustrations do they have?

Simulating the user's experience. If you can't actually sit in the home of a customer, like A. G. Lafley from P&G does, the empty-chair strategy can be used by assigning someone to take on the perspective of a particular demographic and to role-play in the meeting, as if he were someone from that cultural background.

Checking for accuracy. Perspective taking relies on your ability to consider other people's perspective accurately. If you don't really know what it's like to be poor, in pain or at the bottom of the corporate ladder, then the mental gymnastics of putting yourself in someone else's shoes isn't going to improve your innovation. Beware of confirmation bias, the tendency to look for and favor information that confirms what you already thought.

The Power of 90 Minutes: Focus

Distraction is one of the biggest roadblocks to innovation. And the more globally dispersed your team, the greater the potential for distraction. From managing countless religious and national holidays to dealing with round-the-clock virtual team meetings, the interruptions and ubiquitous ping of technology, speed and multitasking are often the enemies of culturally intelligent innovation. As a result, it's absolutely essential that we learn how to focus. Focus begins with self-control, and self-control requires focus. It's a symbiotic relationship that needs patience.

Self-control, patience and focus can be taught to anyone, but don't overdo it. Start with a 90-minute block, with no interruptions allowed. And then change tasks. The power of focus for developing truly innovative solutions often rests in simply distracting ourselves from distractions.

How to Increase Focus

Here are a few ways to get started as you build focus into your climate for culturally intelligent innovation.

- Do creative work first. Each task drains your energy and lowers your focus. Start with the tasks that require a greater measure of creativity and concentration and then move to the easier work.

Get out of the office. When you need to tackle a creative task, change environments. Simply being in a different surrounding can stimulate the experiential circuits of the brain.

- Mind your breath. Paying attention to breathing is a way of automatically putting life back into perspective by putting focus on our most essential function.
- Write. Writing encourages you to create a story line and structure that helps you make sense of what has happened and work toward a solution.
- Set three priorities. What three priorities are you focused on this week? If you can't list them right off, that's a red flag.

The more personalities and cultures you have working together on an innovative project, the easier it is to lose focus. But when a diversity of perspectives and styles coalesce around a shared objective, and each individual does the hard work of keeping focused on achieving that objective, the colorful solutions that result are well worth the effort.

The Power of Trees: Space

Few companies have spent as much time considering the power of the work space as Google. Its open office environment, on-site massages, all-you-can-eat gourmet kitchens and flexible work spaces have been featured in many discussions about how the workplace environment influences innovation and productivity.

Culturally intelligent innovation must account for the power of space. The work space influences the generation of ideas, the building of trust and the overall quality of life for individuals and teams as a whole.

Teams that meet in spaces with natural light report a more positive team experience than those who work together in windowless spaces. And people who look out at natural environments from the workplace feel less pressured and more satisfied with their jobs and suffer from fewer ailments such as headaches. Nature, light, temperature and noise have a consistent impact upon how diverse teams engage in productivity. These are universals that need to be factored into any space in order to most effectively leverage the potential of diversity for driving innovation.

Nature. The soothing influence of rippling water, drifting clouds, rolling meadows, trees, rocks and flowers is a refreshing contrast to the constant ping of email, text messages and sitting through PowerPoint presentations. Being absorbed in nature increases our flow.

Light. The best type of light to promote culturally intelligent innovation is natural light. Both the central nervous system and the neuroendocrine hormonal system are influenced by the powerful stimulus of light. Natural light also shapes your level of focus. It has a direct impact on productivity and your overall well-being, regardless of your cultural background.

Temperature. Cold is a stimulant and heat is a sedative. It's pretty simple: To decrease your body's heat production, you have to stop activity. To get warm, you need to move. The temperature in a room influences the way people are able to engage. A team member's complaint about the meeting room being too hot or cold can seem like a petty concern. But these kinds of discomforts are the very distractions that impede optimum performance when we're trying to nurture culturally intelligent innovation.

Noise. The degree to which sound acts as a stimulant or a distraction differs among individuals. Some come up

with their most creative ideas with some music playing in the background, while others are distracted by that. But the universal principle is to stop and consider how sound and noise shape the way different people engage in collaborative work. Quieter spaces typically produce higher productivity, but you have to find just the right degree of quiet. Too much quiet can be a sedative.

How to Use the Power of Space

What's a culturally intelligent way of utilizing the power of space to support the innovative process?

Determine need for more stimulation or less. This includes awareness of the kind of space that best sup-ports creative thinking for you, which may vary according to your current flow, mood and the project at hand. As you engage in creative work, look at the task, and consider when you need complete silence to focus and when working from a more active environment would help you better accomplish your goal.

Create the space you need. Set up your space intentionally. Eliminate distractions, arrange for exposure to natural light, allow for the physical breaks needed, and pay attention to the temperature and how it influences the way people engage.

Allow flexibility. Understand the diversity of preferences among the people on your team. Look for the space that works best for your team, and empower individuals to take control of making the space most conducive for them.

Take control of the innovative process by managing your space. Beware of the differences among your team, and leverage the universal power of light and nature.

The Power of Trust

Innovation involves risk, both for organizations and their employees. And it's unlikely individuals will make themselves susceptible to risk unless there's a climate of trust. When individuals feel trusted, they know they can take the risks required to pursue innovative projects. Failure is expected, and the key is whether bold attempts are made and lessons learned.

Trust means different things to different cultures. It comes down to whether you believe somebody is dependable. It's a subjective evaluation, but it's crucial for innovation to occur. The very same behavior can elicit trust for one individual and erode it for someone else, depending upon how the behavior is interpreted. We implicitly trust people like ourselves. We're all biased. Some implicit favoritism is inevitable. But acting upon that bias is not. We can consciously learn to trust people who differ from us and help others do the same.

What goes into calculating trust? Five factors consistently emerge when calculating trust: likability, competency, intentions, reliability and reputation. The degree to which these factors influence whether you trust someone depends upon the task involved, your personality and your culture.

How to Build Trust on a Diverse Team

Global leaders need to demonstrate trust-building capabilities in two ways. First, they need to gain trust from members from different cultural backgrounds. Second, global leaders need to build trust among team members. The culture and personality of individuals on a team influences how the participants calculate trust according to the five trust factors, so culturally intelligent strategies are needed. Here are a few leading practices.

Leverage the power of in-group bias. Work on developing some in-group identity as quickly as possible. This has to be done very carefully, or it erodes cultural intelligence and promotes an unhealthy "us versus them" mentality. But once you create a sense that you're an in-group together, it allows you to have greater authority in challenging some of the potential blind spots of the group, rather than doing so as a perceived outsider.

Build team competence. Find ways to demonstrate the value of the different skills and perspectives represented by your team members. Give some short-term manageable goals that are possible to achieve only with the shared competencies on the team, and then create a workflow that reflects the respective competencies and expertise among team members.

Develop team results. Create some small wins early on and allow the team to experience successes that they couldn't have had without being together.

Create psychological safety. Psychological safety is a group climate where team members are comfortable that they will not be negatively judged or ridiculed if they speak up with an idea. To create psychological safety, a culturally intelligent leader creates a team culture that builds trust based upon some shared values and practices agreed to by each member of the team.

PART II: THE 5D PROCESS FOR CULTURALLY INTELLIGENT INNOVATION

Once the climate is in place, you need to manage the *process* for culturally intelligent innovation. The 5D process

for culturally intelligent innovation includes the steps of define, dream, decide, design and deliver.

Define: Align Diverse Expectations and Goals

The global companies that most successfully and consistently innovate are the ones that spend more time developing a specific goal and strategy up front. Everyone on the team needs to be able to answer the who, what, why, when and how questions related to the innovation at hand.

Paradigms of Global Innovation

One way to gain a shared mental model is to discuss what paradigm for cross-border partnerships best characterizes what you want to develop and how. The most common paradigms for working across borders are internationalization, localization and globalization.

Internationalization is when Culture A expects Culture B to adopt A's way of doing things. Localization often emerges as a knee-jerk reaction to the perceived ills of internationalization. Culture A decides that the best way to relate to Culture B is to allow B to fully retain its own cultural values and way of doing things.

The globalization paradigm is usually a better way of moving toward culturally intelligent innovation than internationalization or localization because it can draw the best from each culture involved. Think of the globalization paradigm as a Venn diagram where cultures overlap at the point of an intersecting goal or interest. McDonald's has internationalized its fast-food system and brand but globalized its menu offerings. They don't serve beef burgers in India, and they serve beer in Germany with many overlapping food items most everywhere in the world.

The greatest opportunity for innovation comes from creating and sustaining a fusion paradigm for working together that utilizes the best of the differences involved. The fusion approach seeks to minimize the interpersonal conflict that comes from the cultural differences and leverage the informational diversity that exists from them. It combines creativity with realism, and it purposely amplifies the differences through passionate discussion and disagreement rather than simply focusing on what you have in common. Fusion allows different cultural norms to coexist, and each person is invited to transcend and include her personal preferences as part of the team process.

Fusion Lab: Define

Here are a few leading practices to use when defining the goal and aligning expectations on a culturally diverse team.

1. Map your differences. Identify each team member's differences. Create a list with names and the most relevant differences each member brings to the team. Start with the two kinds of diversity that are most relevant for how you work together: visible diversity and underrepresented groups. Consider other differences that might also be relevant. Calculate the relative importance of the five trust factors for each team member.

2. Compare your expectations. Next, compare your expectations for the job that needs to be accomplished, including a list of criteria for a successful outcome. What would "better" look like for reaching this goal? Find ways to get input from diverse groups. Avoid trying to convince each other at this point. The purpose right now is to understand the different expectations that exist. Solicit contrary opinions, listen and seek to understand.

3. Take each other's perspective. Once you've mapped your differences and expressed your varied expectations, try to empathize with each other's perspectives. Set personal expectations and preferences aside for a moment, and ask everyone to take on the perspective of someone who views the goal or project differently from how he does.

4. List what you have in common. Begin with the obvious (e.g., all working for the same organization, all serving on the same innovation team), and then explore some of the other shared similarities that might be easily overlooked. This can be a useful way of developing a sense of team, and you might find some creative ideas that lie implicitly within some of the unique similarities you share.

5. Define a common goal. Finally, define the shared goal for the innovation at hand. You want each individual to have a sense of personal ownership while also seeing the goal as something that is bigger than any one person can pull off alone. The best goals on a fusion team are viewed as "mine" and "ours." Get agreement around a one-sentence summary of the goal. Don't move on until you have consensus. Describe what successfully achieving the goal would look like.

Taking the time to create a shared mental model and define your goal is a non-negotiable for a diverse team.

Dream: Generate Diverse Ideas

Communication is the biggest challenge when trying to get diverse teams to dream up ideas together. Cultural

differences heighten individuals' anxiety and uncertainty for speaking up. What you say and how you say it is strongly shaped by your cultural background.

For example, direct eye contact signals attentiveness in some cultures, while it's a sign of rudeness in others. Some individuals come from a cultural orientation that feels ideas and emotions should be expressed openly, while others have been told to repress demonstrating their feelings. As trivial as these may sound, such differences directly shape team chemistry, trust and productivity.

Fusion Lab: Dream

Everyone wants to be heard. An intentional strategy is needed to give diverse participants culturally intelligent ways to voice their ideas. There are several practices you can use to effectively manage the process of generating ideas from a diverse team.

1. Redefine "speak up." The very words "speak up" sound like an assertive, verbal advancement of your ideas. Underscore that participation and offering ideas is what is needed most — but how that's done can vary according to the distinct preferences across your fusion team.

2. Give advance warning. Let groups know ahead of time that you want their input. Not only does advance warning reduce the anxiety of participants who don't like to be put on the spot, but all team members are likely to have more thoughtful input if they spend some time thinking about it ahead of time.

3. Be explicit about expectations. If every participant needs to offer something, be sure that's understood. You can say something like "I need to hear back from everyone by the close of business on Friday. You can either offer your input at our meeting this afternoon, by talking with me one-on-one or by sending me an email."

Decide: Select and Sell Your Idea

In order for ideas to be translated into solutions, you have to decide which idea to pursue and convince people to adopt it. Selecting an idea and selling it to others are two sides of the same coin. Part of how you determine the best idea to pursue involves anticipating how you will convince others that it successfully solves a problem.

Fusion Lab: Decide

Consider the fusion strategies that follow to decide and sell your idea.

Encourage bottom-up-intervene top-down. One of the biggest cultural differences on diverse teams is the varied cultural preferences for top-down versus flat approaches to leadership and decision making. A fusion approach utilizes both. Alibaba in China, HCL Technologies in India, Banco Galicia in Argentina and Pixar in the United States are all companies that have created an environment that fosters bottom-up innovation. They understand that the more ideas and decisions that bubble up from the bottom of the organization, the more innovation is likely to occur. However, the leaders in all these companies also exert strong and timely direction.

Vote. In many cases, a diverse team organically reaches consensus about which idea to pursue. But when conflict and indecision are keeping the team from making a decision, consider voting. Voting helps you move forward and prevents you from bulldozing ahead with an idea that is supported only by the most vocal participants.

Map reactions to the idea and pitch. Team members from more collectivist cultures may want to involve their sponsors and constituencies as part of the decision-making process, whereas those from individualist cultures may be more comfortable selling the decision of the group to the constituencies after it's been decided. A fusion approach allows these preferences to coexist rather than insisting everyone do the same thing. One way to do this is by giving everyone ample information and time so that the collectivist participants or stakeholders can be approached before the decision is finalized.

Recruit early adopters. Some cultures, organizations and individuals thrive on being first, but most prefer to know that someone else has tried it. A fusion approach gets early adopters to get buy-in from both groups — inviting those who want to be the pioneers and using the experience of the pioneers to convince cultures that are more risk-averse.

Design: Create and Test for Diverse Users

In today's image-conscious world, the way an innovation is designed and tested can easily make or break its success. A culturally intelligent approach to innovation requires developing a design and testing process that accounts for cultural differences in form and function. What a user in one culture may find efficient, another may find clunky.

The golden rule of design and testing is to know the user. When the people working on the project reflect the values and needs of the users, a better solution will emerge. And the more a team utilizes its diversity in the design and testing process, the greater the likelihood the

innovation will be useful to a diversity of users. Design also has to be informed by observing users up close.

Fusion Lab: Design

Take time to consider and respond to the following questions when designing and prototyping your innovation, and make the most of your diverse team to come up with a fusion design.

1. **What needs does it meet?** Do you have to create the need (e.g., the iPod or Starbucks), or is there already pent-up demand for this innovation? What cultures will have the hardest time seeing the need? How will the needs influence the way you design it? Taking the time to identify the felt and real needs of your target users can help inform the way you design the innovation.
2. **What prior knowledge is assumed?** Does the consumer know how to use it effectively, and what kind of instruction and support needs to be offered? Be sure to benefit from those who have no insider knowledge to see what implicit assumptions and tacit knowledge may be guiding your design process.
3. **What does the design communicate?** What does the color communicate? How does it make you feel? Might there be hidden meaning to the images you aren't aware of? Have you accounted for language differences? How does the level of functionality influence users from different cultures?
4. **With whom should you test?** Users are excellent at reacting to concrete, visible designs. They bring important "folk knowledge" to the innovation that may have otherwise been overlooked by the design team.

Deliver: Implement Global Solutions

The ideas that change the world are built around the not so sexy implementation plans that translate ideas into real-life solutions. Diversity is unlikely to impede implementation as long as you develop a plan for implementation. And if you've consciously managed the diversity throughout each step of the 5D process, you will be much better positioned to implement effectively.

There are a number of things that stand in the way of diverse teams delivering innovative solutions, including technical knowledge/skills gap, skepticism and resistance to change, time consumed and procrastination.

Fusion Lab: Deliver

A fusion approach to implementation requires attention to the following areas:

1. **Formalize leadership.** Leaders of fusion teams need to consider the bottom-up/top-down paradox of fusion leadership. Formalizing this kind of leadership includes a project lead, senior leadership support and champions.
2. **Agree on timing.** Discuss how to develop timelines based upon expectations that meet the objective and account for how to make the most of the diverse participants involved in the project.
3. **Define your communication and conflict-resolution process.** Create a specific process for how communication will occur and when and the process for how decisions will be made. How often will you meet? What is the purpose of those meetings? What kind of communication protocol is needed? The more diverse your team, the more explicitly you need to spell this out.
4. **Motivate and monitor follow-through.** Culture plays a strong role in how we're motivated. Stop and consider what kind of value completing this project has for the other parties involved. Look at the different cultural-value orientations on your team. What are the benefits for meeting the deadline (or the consequences for not doing so)?
5. **Launch, and do a post-implementation review.** The launch may happen incrementally or all at once. Determine what kind of fanfare, if any, is appropriate for the various markets involved. And be sure to have all hands on deck for the inevitable glitches. Highlight the diverse inputs that led to the innovation. Before you move on to the next project, create a deliberate plan to audit the implementation process and assess it in light of the goal defined at the beginning of the process.

Leading companies need talent who are creative and adept at working across different cultures. Culturally intelligent innovation offers a way to awaken the sleeping giant within diverse teams. A fusion approach that intentionally utilizes diversity leads to the best, innovative solutions.

RECOMMENDED READING LIST

If you liked *Driven by Difference*, you'll also like:

1. ***Flex* by Jane Hyun, Audrey Lee**. *Flex* offers a proactive strategy for managers to navigate and leverage diversity effectively.

2. ***The Inclusion Dividend* by Mark Kaplan, Mason Donovan**. Diversity and inclusion are no longer just the right thing to do. Creating a truly inclusive outcome with employees, customers and other stakeholders requires a focused change effort.

3. ***The Four Lenses of Innovation* by Rowan Gibson.** Gibson presents an innovation methodology for systematically stretching your thinking, discovering inspiring new insights and producing high-quality ideas.

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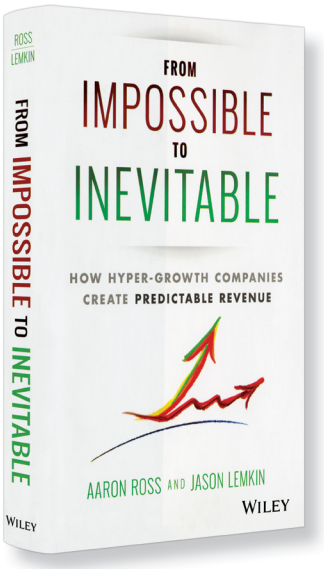
38-13 From Impossible to Inevitable

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From Impossible to Inevitable

How Hyper-Growth Companies Create Predictable Revenue



by Aaron Ross
and Jason Lemkin

THE SUMMARY IN BRIEF

Why are you struggling to grow your business when everyone else seems to be crushing their goals? If you needed to triple revenue within the next three years, would you know exactly how to do it? Doubling the size of your business, tripling it, even growing 10 times larger isn't about magic. It's not about privileges, luck or working harder.

From Impossible to Inevitable provides a template that the world's fastest growing companies follow to achieve and sustain much, much faster growth. This template includes the seven ingredients of hyper-growth: Nail a Niche, Create Predictable Pipeline, Make Sales Scalable, Double Your Deal Size, Do the Time, Embrace Employee Ownership and Define Your Destiny to make a difference, for yourself and your company, no matter what you do or where you work.

Authors Aaron Ross and Jason Lemkin take each ingredient and break it down into specific steps to guide you through implementation. *From Impossible to Inevitable* helps you take impossible goals and turn them into inevitable successes for your business and team. You will achieve success even bigger than you can imagine from where you're sitting today.

IN THIS SUMMARY, YOU WILL LEARN:

- To understand and apply the seven ingredients of hyper-growth.
- How to specialize your sales process and scale your sales team.
- What it really means to "do the time" in today's business environment.
- The difference between functional ownership and delegation.
- How to define your destiny in a new or existing business.

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THE COMPLETE SUMMARY: **FROM IMPOSSIBLE TO INEVITABLE**

by Aaron Ross and Jason Lemkin

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Nail a Niche

You're excited about your business, your ideas, products and services … and you're ready to grow faster. You might be a startup, a consultant or a Fortune 100 brand. And you know that lead generation is the #1 lever that drives revenue growth and can create hyper-growth. You've been trying to grow your leads, and thus sales, but it's been harder than you expected … maybe a lot harder.

Are you *sure you're ready* to grow faster? Because when it feels like you're swimming upstream every day to generate leads or to sign new customers from the ones you do get, you usually have a bigger problem. All that time, energy and money invested in growing new leads and closing sales can be poured into a black hole — if you haven't Nailed a Niche.

When you Nail a Niche, you're not "thinking small," limiting your dream or permanently shrinking your addressable market. Niche here means focused. On a specific target customer with a specific pain. Regardless of how many types of customers you could help or how many of their problems you could solve.

Hyper-growth doesn't come from selling many things to many markets, covering all your bases (really, dividing your energies). Hyper-growth comes from focusing on where you have the best chances of winning customers, making them successful, building a reputation of tangible results and then growing from there.

Focusing on specific industries or types of customers is part but not all of it. It also means focusing your unique strengths (not all your strengths) where they can create the most value (not any value) and solve a specific pain for an ideal target customer in a believable, repeatable way, with predictable methods to a) find and b) interest them.

If you focus on solving a single problem really well and can adapt as the market evolves, the sky's your limit.

How to Nail It

Maybe you already know your best target. Perhaps your head's still exploding with options. Let's narrow it down with a step-by-step approach to prioritize your best bets and how to get more from them.

Step 1: Make a List. List your top five to 10 customers and/or types/categories of projects by size of deal or impressiveness of results. The best predictor of future success, or at least the best place to begin, is with the history of where you've been most successful. What was the pain or problem they wanted to solve? Why did they decide to solve it — what triggered them to decide to buy? What was the solution they wanted? On a scale of 1 to 10, how much do you want more projects like these ones?

Step 2: The Matrix. Once you get a broad list together, rate or rank them across five aspects: Popular Pain, Tangible Results, Believable Solution, Identifiable Targets, Unique Genius. Don't overanalyze things (yet); narrow down to a few best options (two to five) to dig into next.

Step 3: Choose. Now pick a primary opportunity to pursue. If you have more than one great one, you can pick a secondary opportunity to test and compare against the first.

Step 4: Validate. If you're ready to jump in, get started by finding a couple of prospects in that niche(s) to interview, to fill out and update your niche with details — especially the Pains and Results. Find people who either don't know you too well or a customer who's not afraid to give you brutally honest answers.

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Step 5: Campaign to Learn Now and Grow Later. If you feel like you are ready to start targeting that niche, you should be clear enough by this point to start a lead generation program around it. It's not the leads here that are important — yet. It's the learning. Essentially, what you're doing here is four things: define a target list, usually of prospects, partners or marketing outlets; decide on how you want to reach out, that is, cold emailing, calling, referrals, social, mail, blogging and so on — and what you'll say and ask for; what's the minimum required preparation needed before you can start campaigning?; finally, stop procrastinating and just send the first campaign. Act, learn and adjust. The more tests you run, the faster you learn.

Your Pitch

You've identified your best target and perhaps a backup. And you know their pains. So when you meet a prospective customer at a conference or email one, what do you say or write? How do you tune your elevator pitch and messaging?

Get to that one thing people want from you, at which you're the best. Remove the clutter to make it easier for the right customers to see why they need you. The simplest way to do this is to go narrower, that is, to further specialize and simplify. Remember, you can try this as a whole company, for a product, for a project, or for a marketing campaign or even as an individual working to advance your career.

Let's say you're a part-time CFO. Is it easier to write an elevator pitch as "a part-time CFO" or as "a part-time CFO who lives in Los Angeles and works with media companies with $1–$10 million in revenue"? Going narrower can be by type of target customers. Or where you work. What you offer. What you're fixing. The results you create. Anything that makes it simpler for a prospect to tune in and see why they need you.

Create Predictable Pipeline

You can have the best product, investors or sales process, but without predictable ways to fill your revenue or sales pipeline, you're going to struggle. Predictable lead generation is the lever to creating hyper-growth. And it's more than throwing marketing campaigns online or on billboards, cold calling or pumping out free stuff to give away. Many aspiring and first-time founders have the idea that "if we just create an amazing thing [app, video, ebook, blog post …], it'll catch fire online and we'll be inundated with people excited to follow us or buy from us." This works just often enough to create the fairy tale for everyone else. Just like the lottery.

The best way to triple new sales isn't by tripling your salespeople (the traditional method for sales-driven companies) but by growing your qualified leads. There are three types of leads: seeds, nets and spears.

Seeds — Customer Success

Seeds are many-to-many campaigns; they're based on word of mouth and relationships. Some companies, like Dropbox, Box and Slack, have been able to take off by creating products that spread like wildfire through word of mouth. But for most companies, seeds will mostly come through systematizing how you ensure your customers stay happy and get value from your service, and who then generate more referrals and lower attrition rates.

The best way to methodically grow your seeds is with a repeatable program or with systems that ensure your customers are successful. This field is now commonly called Customer Success Management or just Customer Success. It means systematically reducing customer churn, increasing upsells, increasing referrals, and helping capture more and better case studies and testimonials. But this is really important: Customer Success is not about increasing customer satisfaction but creating revenue growth.

Here are six keys to Customer Success:

1. Customer success is your core growth driver.
2. Customer success is 5x more important than sales.
3. Start early; hire early.
4. Visit customers in person.
5. Customer success needs financial responsibility and metrics.
6. Evolve customer success goals and metrics as you grow.

Nets — Inbound Marketing

Nets are one-to-many campaigns to generate leads, with tactics like inbound marketing, in-person and online events, and online advertising. EchoSign, HubSpot and Marketo have all driven $100 million–plus businesses mostly through Nets.

These leads create quantity over quality, because you're literally "casting a wide net." For example, if 50 percent of word-of-mouth leads (Seeds) might turn into customers, perhaps just 1-3 percent or less of marketing-generated leads will convert into customers. So, you usually want a lot more of them. The idea is creating marketing that

customers love or learn from, inspiring them to want more from you, eventually buying your stuff. Every business can benefit from creating content. Beyond creating leads, making your ideas and customer stories public speeds "time to trust." People get to know you faster, better, when they can learn about you, your business and customers besides just face-to-face or over the phone.

Spears — Outbound Prospecting

Spears are one-to-one campaigns, such as targeted outbound prospecting or business development initiatives for getting appointments with anyone who's not coming to you — whether customers or partners.

Outbound prospecting was in the doghouse for years as inbound marketing took off. Now it's hot again because all kinds of companies are seeing how it can supercharge growth in highly predictable ways — especially when going after bigger companies that often aren't as responsive to marketing campaigns.

You don't need to cold call, although you can. Outbound prospecting shouldn't be a burnout job, if it's done right. And it's not about interrupting people who don't need you; rather, it's about reaching out in friendly ways to find the people who do. If you want to go big with outbound prospecting, it works best when you have these four conditions in place: you can sell deals that are large enough to be profitable, usually $10,000–$20,000 in lifetime value (bigger is better); your value proposition is easy for a prospect to understand and say yes or no to; you're different; and you're not trying to replace other people's stuff.

Make Sales Scalable

Growth creates more problems than it solves, but they are better problems. Once you solve the problems for Big Customer #1, then you get 10 more Big Customers, which mean 10x more problems. Then 100 more customers, which is 100x more problems. It gets worse, not better.

But it gets easier in other ways. Much of the operational pain, especially in recurring revenue SaaS companies, seems to go away around $10–15 million in ARR. At that point: Your customer base is highly diverse and not dependent on any whales. You have enough reference accounts. Your sales and client success teams are working as a team, as an imperfect but effective engine, and not dependent on a single rock star or two. You have a brand, maybe a small brand at first but a real one. You can't be killed by BigCo entering the space or the competition. You know the market so well, it's pretty easy to see two years out, not only from a product side but also from a scaling revenue and team side.

So growth won't magically eliminate all your worries, but it will get easier. And you'll keep coming up with new — and hopefully better — problems to solve.

Specialization: Your #1 Sales Multiplier

If you haven't specialized your sales team roles yet, nothing will make a bigger impact in your ability to increase sales productivity and grow. If you don't specialize, you're going to struggle. Doesn't matter if you have amazing customers, product and closers — you won't make the most of any of it without the right structure.

Specialization is standard in Silicon Valley. And growing. But still the exception. So why do most companies expect one salesperson to fill all their own "positions" of prospecting, responding to leads, closing and managing accounts? Usually because that's how it's always been done.

Exactly how you make specialization work for your particular situation is up to you. The principle is about helping your people focus and do fewer things better — because when salespeople multitask (overtask), most end up doing many things poorly.

While every team is different and creates different flavors, start with the template of four categories of roles that fit most (but, of course, not all) companies:

- Inbound lead qualification
- Outbound prospecting
- Closing new business
- Post-sales roles, such as account management, professional services and Customer Success.

Scaling the Sales Team

CSO Insights' studies show average sales teams' annual turnover of around 25 percent (it varies by a few points year to year), with half quitting and half fired. That means out of 100 salespeople, 25 are lost every year. So you need to hire (and train, and ramp and transition pipeline or customer accounts for …) an extra 25 salespeople per year just to tread water. But would you hire 10 HR people and then expect to fire three to five? Managers? Supply chain people? Losing a quarter of your engineering team, total employees or customers would be a board-level catastrophe. But it's accepted, even expected, in sales.

Sales team churn is especially expensive because of the time required, the lost opportunities and customer frustration. They are your face to customers, people!

If you are losing 25 percent of your sales team a year (whether they leave or are fired) — is it the people or is it your system? If almost every new sales hire is taking twice

as long now to ramp, is it them — or your system? See the pattern here?

Who sets quotas and incentives? Who defines territories, roles and responsibilities? Who's ultimately responsible for hiring and training? Who promotes, hires and trains the sales managers on the front lines? It's not the salespeople. Ultimately, it's the responsibility of the VP Sales and CEO to ensure sustainable sales success.

Your ability to scale a sales team depends on making everything a system. When salespeople leave for any reason — missed quotas, dissatisfied, bad apple — it means you have "defects" in your system.

There can be a million underlying causes behind high sales attrition, but the three most common ones are

Lead generation: The company isn't doing enough to support the reps with quality leads.

Specialization: The company isn't specializing at all, the right ways or going far enough with it.

Management: Leadership (mostly the CEO & VP Sales) isn't connected with what's going on "in the trenches," or is still very traditional or conservative.

In addition, go talk to your people, one by one, and identify patterns that lead you to discover the main one or two problems that are causing high attrition.

Double Your Deal Size

Which is the fastest way to get to $5 million in revenue, selling a million orders at $5 each, or selling 100 at $50,000 each, or selling 10 at $500,000 each? You can make millions without needing millions of users.

When you're attempting to grow by major leaps, work on doubling your average sale size as much as you work on finding and closing twice as many deals. Or if you already have the lead generation machine working smoothly, it's how you can quadruple growth — doubling deal sizes while doubling leads.

You can do it through a mix of targeted lead generation, changing pricing, designing higher-end packages, through premium products with enterprise features, carefully developed channel partners or whatever. It doesn't happen overnight, but you can take concrete steps to get there. Start with the question, "What conditions would have to exist to close deals that are 10x larger than we are doing today?"

How can you think bigger? For example,

SaaS products: What kinds of management features would you need to sell packages of 50, 500 or 5,000 seats?

Freemium or cheap products: What do companies need so badly that they're willing to pay for a five-, six- or seven-figure annual subscription deal?

Smartphone apps: Is there a way to sell bulk packages to businesses? Or resell the technology or your unique expertise to other business?

Books, online programs or workshops: Are there partners who can help sell bulk orders? How can these lead to five-figure consulting/services, then six-figure, then seven-figure?

With bigger deals, you will (a) make a lot more money, (b) exert less effort and (c) help customers become more successful. If you're selling to someone who's close to your Ideal Customer Profile, closing a $100,000 deal shouldn't be much more work than closing a $10,000 deal and may not even take longer. So if it takes two to three times the time and effort — but if you get 10x the revenue and your customers get 10x the value, it's worth it!

Going Upmarket

If your product is 100 percent individual-focused and you add just enough features to sell to a team, to tilt just slightly upmarket — you can grow your revenue, at least a segment of your revenue, by 20 to 30 times. Because deal sizes can go way up, and customers will stay with you much longer.

Virtually every self-service, individual-seat Web service churns at a relatively high rate — from maybe 2.5 percent a month at best to 3.5 or 4.0 percent a month or more in many cases. (There are rare exceptions.) Now come up with a slight extension of that same product whereby some team or segment of an entire enterprise can use it together. Let's call it just five seats to start, instead of one. Maybe you add management-level analytics. And then some sort of collaboration. Let's call it the most basic features necessary so that a team or a group will buy, instead of an individual user. What you'll find is epic on the churn side. As the deal gets just a smidge bigger, your churn will drop by 50– 80 percent, toward 1–1.5 percent per month. As you add more seats, the churn will trend toward 0 percent and eventually become negative: Your customers will add more seats than they cancel over time.

To do this, you have to learn how to go after and sell to companies who are hundreds or thousands of employees. And it's a new skill. Because selling an enterprise-wide deal is a lot like getting a bill passed in Congress. Decision-making in large organizations is a long, tortuous process due to legacy technology deployments, internal politics, entrenched home-grown solutions, sunk cost of

integrations, account control by incumbent vendors and the sheer size and scale involved.

Doing that may require hiring salespeople who live across the country or the world, in addition to the inside salespeople who work at headquarters. It's precisely when the product seems to be selling itself that building out this sales team and process is critical: Stopping or stalling at that point could expose the company to the competition and lose the race to be number one in its category.

Do the Time

If you're wondering if you should start your own SaaS company, here are three questions to ask yourself:

First: Are you prepared to give a full 24-month commitment to hit Initial Traction? Not 12 months. Not 18 months. But 24 months? It's going to take you nine to 12 months just to get the product right, and another six to 12 to get significant revenues.

Maybe an Instagram or a WhatsApp or a Pinterest can explode in just 12 months (though again, it took years of development and trial and error before they got to their "overnight" successes). You can't afford to expect miracles like that in business-to-business software, services or whatever business you might be in. Can you afford to commit for 24 months just to get to something, to real initial traction? If not, you should pass.

Second, are you able to commit to 8,760 hours a year? That's 24 hours a day times 365 days. This doesn't mean committing to being in the office 14 hours a day — that's not really necessary (that's for the Y Combinator kids). But can you really, honestly commit to obsessively thinking, worrying and stressing about how to do The Impossible? Every … Single … Moment? You'll be thinking of nothing but work, even when you are playing with the kids or having dinner with your husband. That's what it's going to take. If you don't have the mental bandwidth, you should pass.

Third, will you take the leap? This is, perhaps, most important. If you keep a mindset that you're "just trying it out" but you maintain other options, it never works, at least not for high-growth startups. Great founders Take the Leap. Not because they are crazy risk-takers but because they see the risk and decide to go for it anyway. They know there will be many challenges — with funds, customers, family — but they decide to figure them out along the way. They have doubts. They have fears. They have money troubles. But they see The Future and believe in their own (eventual) success. If you aren't ready to Take the Leap, you aren't ready to do a startup.

Success Isn't a Straight Line

There's never been an easier time to start a business — even with less than $100. Businesses are growing faster than ever. It seems like every week another company's gone from nothing to $100 million in record time or been acquired for $1 billion or some other huge amount.

Yet there's also never been more anxiety, frustration and depression — especially among CEOs and aspiring entrepreneurs. Whether you're new to business or have been at it for decades, everybody struggles with the now overwhelming number of choices in what you can do, build, use and ways to grow … that all keep changing constantly. You can't do all of it and do it all well.

In addition, what used to work now doesn't: You can't rely on the growth of your business in the same way. The number of new businesses, apps and ideas published and updated every day is overwhelming. This is also true of the number of daily email, social messages and alerts. There's no way any one person can stay on top of it all. The overload is making decisions more difficult for people to make — including your customers. And if you're on social media at all and follow many news sources, you're bombarded with stories of other people's successes.

Remember three things when overwhelmed:

- Embrace your struggle, because it's real and not going away. Everyone else has it too — even when it doesn't look like it. Use your struggle as a fire under your butt to change things, rather than resisting it. Turn it to your advantage!
- Don't let "keeping up with the Joneses," whether friends or competitors, distract you from doing the important things you, your team and customers need.
- Cut the "blah blah" crap from your communication to employees and customers. "Simple to understand, easy to act on," honest information that's valuable to the reader (not just the sender) will help cut through the clutter they're dealing with. Be blunt. Be honest. Be helpful.

Embrace Employee Ownership

You're passionate and committed to what you do, which leads you to forget that many others aren't or that they haven't learned yet how to execute as you do. And they won't, unless you embrace Functional Ownership.

How can you help employees go above and beyond their job description — not in hours but in initiative? In feeling

like and acting like owners. If most CEOs and executives wish their employees took more initiative and acted like owners, and then it's not the people that are the problem, it's the system of management that needs to change.

When you hear "owner," do you immediately start thinking about Financial Ownership (equity, commissions, ESOPs)? Financial Ownership doesn't consistently create both the Functional Ownership and the "it's really all on me" moments of 100 percent responsibility that inspire people to go beyond the bullet points of their job description.

Delegation isn't true ownership. Employees need Functional Ownership, to own something, to learn how to act like owners. Someone has Functional Ownership, and the emotional commitment that comes with it, when they, as a single person, clearly and publicly own a slice of how the business works, whether it's the P&L for a billion dollar division or the office refrigerator cleaning routine. He or she is 100 percent responsible for it, including its results, related decisions and improvement.

People support what they help create — the size of what they own doesn't matter as much as the reality of their ownership. Including an inability to hide from that responsibility, which is why shared responsibility tends to create pointed fingers. So, Functional Ownership is a key piece of the motivation puzzle.

Change is unavoidable. So are you going to react to changes in the market or get ahead of them and help create the changes yourself? If your employees wait around for orders rather than taking initiative on their own, growth will always be a struggle, because you're going to be responsible for the whole burden.

There's no better way to do this than to develop more owners and continuously frustrate them with uncomfortable challenges that drive learning. Yes, by definition you and your people should feel frustrations when getting outside your comfort zones. As long as it's new frustration from new problems, not from the same ones that never get solved or evolved.

For Executives: Create Functional Ownership

Answering the question "Who owns marketing?" is easy if you have a VP of Marketing. And usually, they own everything in marketing, with all important decisions being made or affirmed by them. But who runs the blog? That's not the VP Marketing, unless they are a one-man marketing team and run everything themselves. Whoever runs the blog on the team should own it. That means the head of marketing would defer to that person on decisions about the blog, which could include decisions about the visuals, rhythm, format, content and style. And that person would own it and be 100 percent responsible for the metrics related to the blog.

To create functional ownership, start with these three questions:

- What needs an owner? Make a list: What's on your plate that you'd like someone else to own? What other things are in need of focused Ownership?
- Who should the owner be? With a few most important functions, who is the person who will own it? They can volunteer, be designated or be selected by group consensus.
- What's the initial Forcing Function (an inescapable obligation)? The owner, with help as needed (or being challenged by a manager, as needed), should come up with what will be delivered next and by what time. Keep up the Forcing Functions, and they will keep driving everything that needs to get built: results, decisions and learning loops.

If you want your people to start picking these ideas up but someone's just plain stumped, then their first Forcing Function can be to find something to own (by a specific date). "On June 5th, I'm going to announce what I'm owning." This can include making the rounds with the team to find the right project.

Define Your Destiny

There's always someone or something you can blame when you're not getting the recognition, excitement or results that you want: a manager, a job, the market, teammates, the CEO, HR…

But you can't control them. You can control only yourself. And you can't wait around for the perfect opportunity to drop into your lap. Stop waiting for someone else to fix it, and use your frustrations to motivate you to Define Your Destiny rather than letting others define it for you.

There's a difference between (a) giving up in the face of challenges and (b) using them to motivate yourself to be more creative, to push for change, to find a way forward — no matter what. There will never be an ideal time, opportunity or idea — there will always be challenges. Owners and entrepreneurs succeed despite them, not without them. Even in baby steps. A step is a step, no matter how small.

You can use the same lessons above to help you with your personal opportunity. Because that's where you begin, let's call it "nailing a personal niche" in the company, in what you're interested in and can be great

at, and then creating leads and opportunities for yourself, specializing your time, looking for fewer, bigger ways to make an impact, doing the time and so forth. But here's a quick start:

- Make a list of what you want to do or what most interests you — whether it's related to business or not. Then add to the list at least three ideas around revenue that you could or should be interested in, such as "Learn how to sell" or "Learn copywriting." From this list, can you see any ways to learn any at work, to get paid to learn what you want to learn or do anyway?
- Interview people in your company as well as partners, prospects or customers as needed. What problem do you want to solve? If it's not something that your leaders care about, how can you reframe it from a "nice to have" into a "need to have" for them?
- Find a mentor, coach, or champion at your company to ask for advice, who can support you and will be painfully honest with you about the areas where you need to improve (everyone does).
- Create a Forcing Function to come up with something tangible to deliver (a prototype, an analysis, a presentation, a blog post, a talk, an event …). If you aren't sure what that is, first pick a date and tell some people you're doing "something" on it. There's no better way to pull yourself forward in life or business than to publicly commit to doing something specific by a deadline, even before you know how you're going to do it.
- Do the Time, repeating steps 1 through 4 over and over and over and over again …because, chances are, it's going to take a lot longer than you want or expect to turn any idea first into proven results, much less recognition, career and money.

Combining Money and Meaning

It's cool now for people to expect their work to be purposeful, to be meaningful. As it should be. And Meaning Snobs can go on and on about how meaning is more important than money or how impactful their gigs are … and that's great.

The truth is, putting meaning first, second and third on your list of priorities won't make you money. For Avanoo's Daniel Jacobs, building a meaningful business didn't take off until he put money first, realizing that without being able to create predictable revenue or funding, nothing he created — however inspiring or meaningful — would last. Luckily, there are many ways to make money meaningful.

For example, how can you make unique contributions to the business and team? What would make your job more fulfilling? How can you stand out from the crowd?

Once you ask the question, "What is my Unique Genius?" your mind will begin trying to answer it. Here are some questions to help you figure out how to better combine money and meaning.

- What do you want to learn about, if you could learn about anything? List at least 10 things, and then pick the top few.
- Imagine having more money than you could ever spend, so you don't need to work. What would you want to do if you could do anything?
- Ask co-workers or customers the question, "What's the one thing you hired me for or would hire me for?"
- Complete this: "If I could help anyone/any kind of person, I would help…" Or, "If I could have any kind of customer, I would have…"
- If you could start a project that wouldn't fail, that is assured of success, what would it do? Who would it help? What about it would make you proud?
- What frustrates you that you would like to personally help fix in the world? Especially something that you deal with personally or daily.
- What parts of work do you enjoy most? What daily activities do you like to do?
- What do people keep coming to you for help with, to ask your advice on?
- If you're in a bookstore, what section do you go to first? What's your ideal book to read (or write)? What if you stick only to the business section?
- What would it take to make your work so enjoyable that you'd do it for free?

When you're pursuing anything vitally important to you, you can figure it out. If you stick to it, especially through the times that feel like failures. Even if it takes you years longer to get there than you wanted, and in totally unexpected ways.

RECOMMENDED READING LIST

If you liked *From Impossible to Inevitable*, you'll also like:

1. ***The Advantage*** **by Patrick Lencioni.** Lencioni suggests conducting business in a way that maximizes human potential and aligns the organization around a common set of principles.

2. ***The Hard Thing About Hard Things*** **by Ben Horowitz.** Ben Horowitz tells it straight as he shares insights gained from developing, managing, selling, buying, investing in and supervising technology companies.

3. ***Blueprint to a Billion*** **by David G. Thomson.** Thomson focuses on a quantifiable, success-based pattern — independent of economic cycles or industries — that winning companies follow to produce admirable, desirable performance.

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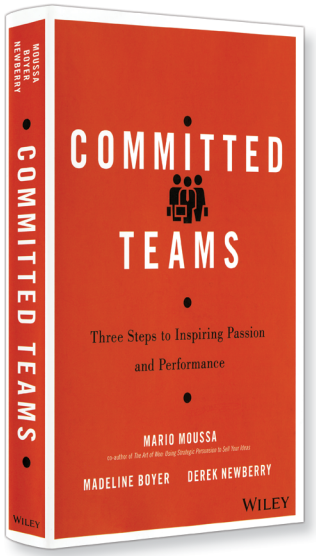
38-16 Committed Teams

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Committed Teams

Three Steps to Inspiring Passion and Performance



by Mario Moussa, Madeline Boyer and Derek Newberry

THE SUMMARY IN BRIEF

Committed Teams: Three Steps to Inspiring Passion and Performance is based on a deceptively simple philosophy: set a direction, try to stay on track and make adjustments when necessary. Easy to do? Hardly — especially when the typical workday is time-crunched, stressful and deadline-driven.

Drawing on research done at the Wharton School of Business, the authors reveal how to deliver results under these tough conditions. *Committed Teams* will help you gain buy-in for shared objectives, assign roles to the right people and establish norms for effective collaboration. Whether your team aims to execute a strategy, produce breakthrough innovations, collaborate across global boundaries or launch a new venture, this how-to guide offers the pragmatic advice you need. This game-changing book provides the tools for aligning every member of your team behind a motivating vision, making team meetings efficient and productive, and closing the gap between stated goals and actual behaviors.

If you want to be competitive in a demanding, fast-paced work environment, you need to rely on a high-performing team. *Committed Teams* is the indispensable resource for creating one.

IN THIS SUMMARY, YOU WILL LEARN:

- To establish goals, roles and norms in your organization.
- To adopt an observer's mindset and solve problems.
- To bridge key gaps between saying and doing.
- To establish and strengthen culture in different types of teams — even virtual teams and startups.

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THE COMPLETE SUMMARY: **COMMITTED TEAMS**

by Mario Moussa, Madeline Boyer and Derek Newberry

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Introduction

Increasingly, being good at teamwork is synonymous with simply being good at work. And for a valid reason: The complexity of today's world — shaped by rapidly accelerating technological, economic and cultural trends — demands that organizations of all kinds seek out the synergistic potential of teams. But too often what teams deliver is a lot of talk and little accountability.

How do you create a team that is committed to high performance when few teams end up being truly greater than the sum of their parts? The answer is a simple framework: the 3×3. It is built on three foundations and supports an interactive three-step process. By helping you get better at leading teams, the 3×3 will help you get better at virtually all aspects of your work.

The first 3 stands for the Three Foundations of highperforming teams, or HPTs: clear goals, roles and norms. If you have read or heard anything about good teamwork, you are probably familiar with some version of these foundations. But even with the best of intentions, teammates quickly stray from commitments.

To address the issue of alignment, there is a three-step process for resolving differences and deepening commitment. The three steps are called Commit, Check and Close. In the 3×3 framework, (1) You first need to get your team to Commit to goals, roles and norms. (2) You need to regularly Check alignment with these commitments. 3) Finally, you need to Close the gap between saying and doing.

Let's now look at the tools and techniques to establish commitments on your team, check on the alignment of behaviors with the commitments and close the saying-doing gap. The process will help your team stay deeply engaged and perform to the maximum of its potential.

PART I: THE 3X3 FRAMEWORK

Commit: To Know the Rules, You Have to Make Them

It's important to be explicit about the rules governing team behavior. It is just too easy to become committed to the wrong ones. So, develop the right rules collaboratively as soon as your team forms.

What rules should you establish? The first step in the process is all about committing to the rules that matter. Research on teams tells us that these fall into three categories, or the Three Foundations: Goals, Roles and Norms. HPTs establish those foundations by having a structured conversation. Research has shown that conversation is simply the best tool for organizing collaboration and making commitments.

The outcome of your conversation is what management scholar Leigh Thompson calls a *team charter*. A team charter can be something formal you write on a piece of paper and post, or it can be as simple as a set of verbal agreements. The key is having a conversation about concrete commitments you can refer to later and hold one another accountable for.

Goals

To be successful, every team needs strong, collective goals that members can rally around. In order for team

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members to put the collective goals first, they have to feel there is a clear answer to the WIIFM question: What's in it for me? Team members are much more likely to embrace collective goals when they are aligned with personal goals and motivations. For just this reason, the goal-setting processes that are a critical aspect of team formation have to begin with a conversation — even a negotiation — about individual goals.

The process of checking and aligning individual goals with team goals thus does as much to support team performance as it benefits individuals. Of course, it is not always possible to close this gap completely, but even the act of trying will often foster engagement, honesty and trust among team members.

Even the most well-aligned goals will encounter barriers. As you set goals with your team, do more than write a set of milestones down on paper. Imagine the likely issues that could derail your success and create rules for managing them.

Roles: How Do the Pieces Fit Together?

In addition to goals, teams need rules determining what each person does within the team. Research on team performance and workplace productivity consistently finds that teams work harder and better when members have clear, interdependent roles that tap into their skills, expertise and sense of meaning.

To start, you should make sure you have the basics: the skill sets and kinds of expertise needed to achieve desired outcomes. Team members should also consider how they want to shape their roles based on how they derive meaning from work.

You should also consider how all of the roles fit together to form a team's structure. In general, team cultures are differentiated along two major spectrums:

- Are they more hierarchical or flat? Hierarchical teams give more authority to a strong leader, whereas authority is more widely distributed among the members in a flatter team.
- Are they more individualistic or more cohesive? This axis characterizes the team's working relationships. Individualistic teams tend to have more transactional exchanges, while cohesive ones interact in more personal ways.

Norms: Making the Behavioral Rules That Matter

If goals are about where your team is going and roles describe what you will do to get there, norms are the rules governing how you interact to fulfill both goals and roles. These rules tend to fall into three major buckets, each of which prompts a question: How do we resolve conflicts? How do we communicate? How do we decide? Managing differences, sharing information and acting on it are the three fundamental processes in which teams engage.

How can you write effective rules for your team? Focus on the top three to five things that you think will be most important for the team dynamic based on what you know about your particular group. To determine what these might be, go back to the potential barriers you identified in your engagement-building process. Creating norms that head off those challenges are likely to be your most important priorities.

Check: What You Don't Know Is Probably Hurting You

For HPTs, reflection is the core activity in the second step of the 3×3: checking on alignment. Teams often underperform because people fall out of sync with one another and their environment. The result is a saying-doing gap: a disconnect between what a team says it is doing and what it is actually doing.

Research shows that the saying-doing gap is the most common explanation for poor teamwork. The saying-doing gap develops for two basic reasons. The first occurs when a team is conflicted about its commitments, while the second is related to a team's commitments being out of step with the external environment, such as other parts of an organization or the marketplace. What the two reasons have in common is misalignment with situational factors, caused by a lack of situational awareness.

How can you reveal saying-doing gaps and keep your team aligned with its internal commitments as well as its external environment? To bridge the gaps, you have to view yourselves as outsiders would. True, this is a tall order. But others have learned how to do it, applying a tried and true method of qualitative research: participant observation.

Learning to Become Your Own Observer

To find and close the deep disconnects embedded in this mundane interaction, you need to perform three tasks:

- Adopt an observer's mindset to view your own behavior the way others would see it.
- Collect data about situational factors that produce rule conflicts.
- Create a psychologically safe space for problem solving.

Adopt an observer's mindset. To be able to identify the underlying misalignments on your team, you have to reduce the biases that distort your judgment and cause you to miss important cues. You can become an "outsider insider" by paying attention to two common conceptual biases that can blind you to the impact of your own behaviors. One of those biases leads to "overvaluing outcomes." As Harvard professor Max Bazerman has shown, when a process results in a favorable outcome, we tend to ignore the mistakes or tensions that could cause problems in other situations. To overcome this bias when reviewing past decisions and actions on your team, even if you achieved desired outcomes, get in the habit of imagining what would have happened if a situation had taken a turn for the worse and how your team would have responded to the resulting problems.

Another common bias goes by the name of "motivated blindness." In the famous words of Upton Sinclair, "It is difficult to get a man to understand something when his salary depends on his not understanding it." To reduce the effects of this bias, actively seek out evidence that disproves your beliefs to ensure you are not letting your own preferences and interests cloud your judgment.

The power of systemic data gathering. Once you have created the observer's mindset, you should systematically gather data that helps anticipate potential situational conflicts that will sap your team's engagement and hurt performance. In your own team environment, you can anticipate conflicts by looking for the sources of similar tensions on three levels: interpersonal, team and environment.

Create the space for problem solving. Before teams can solve problems, they have to create a space for giving and receiving honest feedback. Teammates should feel that they can speak up about issues, admit mistakes and ask for help without being shamed or penalized by the group. Amy Edmondson calls this "psychological safety." Her research demonstrates that teams with this characteristic communicate more openly, share information more freely and ultimately make better decisions. How do you foster psychological safety? Build individual relationships with one-on-ones. Taking the time for one-on-one conversations usually leads to a valuable outcome: a feeling that you are willing to walk the talk when it comes to hearing people out.

Since team discussions often involve negotiation, take account of individual bargaining styles to ensure that, as a group, you communicate in the most effective way. Using one-on-ones to discuss bargaining styles and clarify informal roles will help you develop strategies for having productive discussions and encouraging team members to disagree constructively.

Close: To Bridge the Saying-Doing Gap, Act Like a STAR

Getting specific is the key to closing saying-doing gaps. Field research has shown that HPTs create the conditions for peak performance by acting like STARs.

- Be specific.
- Take small steps.
- Alter the environment.
- Be a realistic optimist.

Be specific. In order to make improvements, teams need to be hyper-specific about the changes they want to make. A powerful tool for helping your team drill down into specific changes is the Start/Stop/Continue exercise. It unfolds in simple steps:

- Divide a flipchart or white board into three vertical sections.
- Ask team members to write on individual Post-it notes the specific action they want to start doing, detrimental behaviors they think the team should stop, or positive practices the team should continue.
- Place each Post-it in its proper place on the board.
- Review the postings to see whether there are common themes, and consider collectively what you want to change or encourage in the group dynamic.

Resolve to take small steps toward improving. To work on small-step changes with your team, start by using "feedforward." Leadership coach Marshall Goldsmith coined this term to highlight the importance of getting team members to look ahead toward specific ways to make positive change. To see how this works, consider a colleague who always shows up late to meetings. Rather than telling him, "You're always late and it prevents us from getting to important items on our agenda," imagine saying something along the lines of, "If you aim to be at meetings 10 minutes early, it will help us make sure we can get started on time and hit every item on our agenda."

Alter the environment. Research shows that pure willpower is unlikely to be effective if the environment encourages old behaviors. Simple reminders, or nudges, often make the difference between success and failure. One of the most effective nudges you can use is a checklist. Checklists help HPTs in cockpits, oil tankers and hospitals perform the right tasks in the right way at the right time.

Another powerful type of reminder is an "accountability buddy." If you are trying to set better deadlines, or be more transparent about your opinions, ask a team member to observe your behavior and remind you when you are falling back into old patterns. Accountability buddies are powerful because they leverage the power of positive social pressure.

Become realistic optimists. Everybody knows about the power of positive thinking, but an HPT goes out of its way to anticipate problems. HPTs from top military units to cyber security groups use so-called Red Teams to reveal all of the risks inherent in a given strategic direction. Red Teams are either groups of insiders or knowledgeable outsiders who test a strategy by trying their best to defeat it. Your own version of a Red Team could be someone in your group who is assigned the role of devil's advocate in your meetings, or it could be an external party you consult. The point is to make sure your thinking stays grounded in reality and accounts for the inevitable barriers that could lead to failure.

PART II: FIVE COMMON TEAM TYPES

Making Virtual Teams Work

As technology continues to advance, virtual teams are becoming increasingly common. In today's mobile world, you can communicate from just about anywhere, even if the conditions are often less than ideal. What you lose in nuance you gain in valuable flexibility, right?

Indeed, for individual team members, flexibility has lots of appeal. If you don't have to drive or fly to meet regularly with your team in the office, you can build your schedule around chores, family obligations and personal time. For organizations, projects can be staffed with the most talented and best-suited employees and contractors, no matter where they are located.

In a virtual setting, you are likely to have a hard time with two teamwork essentials: trust and communication. Without the frequent opportunities for face-to-face contact that co-location affords, you have to tweak the 3×3 Framework to reduce the misalignments that so frequently occur.

Build Trust Early

Trust is one of the keys to success for any team, but for virtual teams trust is the essential glue to bind teammates together across distances and time zones. If people do not trust others to deliver, they waste time on duplicate efforts, timelines are delayed, and creativity and innovation suffer.

Basic human connections are the foundation of trust, which in turn is the foundation of teamwork. It just takes more work to build those connections in the virtual world. The key is to use a mixture of both digital and face-to-face trust-building mechanisms. Let's look at a few ways you can do this with your own team:

- **Build a reciprocity circle.** Easily performed on a digital platform, this simple exercise models the give and take team members should practice on a regular basis. Simply have people make requests of others by email or on a shared group document. The requests can be about anything from connecting with someone in another area of your organization to getting help with a programming problem. Encourage people to respond to as many requests as they can. The reciprocity circle exercise will deepen the bonds of mutual commitment among your teammates.
- **Make socializing an agenda item.** Make time during virtual meetings for teammates to catch up with each other. By formalizing this as an agenda item, you legitimize socializing and make it more likely that people will build trust-based relationships.
- **More frequent, shorter check-ins.** When your virtual team meets only once or twice a month on video, chat or conference calls, the amount of work that needs to be done can build up and create stressful real-time discussions. By touching base more often — either by having more meetings or communicating more frequently through chats — teams do better at staying in sync, emotionally and otherwise.

Use Your Channels Wisely

Good communication is tough for any team, but the distance created by virtual teams makes it harder. Finding the right channels and setting ground rules for virtual communication become even more crucial to staying in sync.

New York Times journalists reach a global audience, yet these high-profile writers were having trouble communicating with colleagues in their own organization. Employees in Manhattan felt disconnected from co-workers stationed in other parts of the world, struggling to keep abreast of fast-moving stories in far-flung regions. Texts were ignored, emails languished in inboxes and phone calls were tough to manage across international time zones. The Gray Lady was struggling with too many communication platforms to keep up with.

The app Slack was a godsend for the *New York Times* journalists. It is like Microsoft's Yammer, AOL's Instant

Messenger (AIM) or the generic Internet Relay Chat (IRC). But Slack differs from those applications in that it archives messages, has a strong search engine and allows for easy file-sharing. It is also automatically synced across devices, and it promotes transparency and visibility in internal communications. After implementing Slack as an email replacement, the *New York Times* started to see the results. While Slack helped virtual teams at the *New York Times* feel closer together, some other channel may work better for your team. The point is that you need to discuss this question.

No Time for Teamwork? Lessons from Startups

What separates startups from other teams is the lack of a well-developed organizational context. This simple fact shapes everything that gives startups open space to make their own decisions even as they dangle on the precipice of bankruptcy.

Startups exist in an intense environment in which wild highs and lows are the norm. Teams are free to dream big and make radical changes. Energy can be poured into a single idea, unfettered by the demands of other projects in a larger company. Startup teams lack the resources of a larger company, too. And the comfort of knowing if a project fails you can return to your old job. Startup teams are a seatbelt-free roller-coaster ride. In this environment, reflection can go by the wayside. You may not have time for long corporate-style retreats to establish your culture, reflect and adapt.

Precisely in these times, the key is to devote as much energy as you can to managing your team culture. In a VUCA (volatility, uncertainty, complexity and ambiguity) environment, the best-articulated vision for your company is likely to be radically altered sooner or later. Only passion and commitment can pull you through the changes. For this reason, the 3x3 Framework is still crucial in a time crunch. But a modified process is needed — one that focuses on what are called "reflection triggers" rather than more elaborate steps. For startup teams, and other teams that need to move fast, focus on two teamwork tasks: creating a culture of resilience and identifying 3x3 checkpoints.

Building a culture of resilience. In forming a startup team, a general rule heard over and over from successful entrepreneurs is to find good co-founders before worrying about the fine details of your offering. When picking the members of your startup team, therefore, prioritize bringing people on board who have proven that they are able to drive doggedly toward fulfilling a vision, even if they have to completely change how they approach it in the process. Take note of those who proactively reach out. Probe them in interviews on how they have responded to setbacks. Watch for red flags, such as blaming others rather than focusing on what they did to adjust. Forget about their past failures. Focus on what they learned from them. Hiring to fill specific roles is secondary. Like your product, chances are team roles will change, dramatically. Any role you hire for may become obsolete. What does not become obsolete is a team member who can adapt and learn a new set of tasks on the job.

Create 3x3 checkpoints. Typical startup teams evolve from groups of friends and work together more consistently than teams in large organizations. Because of this closeness, startup teams tend to fall into the trap of believing that everyone is in sync and that they can focus on executing without spending time thinking about alignment. Rather than thinking of the 3x3 Framework all the time, you should create predetermined triggers that lead to specific actions, such as a meeting or a decision-point. Establish checkpoints for three types of team issues: checking the participation and engagement of individual team members, flagging problems as they arise and making pivots when necessary.

Who Has a Good Idea? Insights on Innovation

Innovative team cultures have a few distinctive habits. You can help your teammates develop those habits by asking the right questions, or "kickstarters." They will enhance the way you solve problems, conduct meetings and collaborate with people outside the team. The result: closing the saying-doing gap that frequently exists in innovation-related work. Each of the following sections includes a "kickstarter" question that you can put on the agenda of your next team meeting about innovation.

Define values. Innovative companies and teams are committed to values that everybody takes seriously. Values are like guardrails that keep ideas from veering off the path leading to core goals. IKEA employees are knowledgeable about what the company stands for. Many stores display an image of a stone wall as a reminder of the region where its Swedish founder, Ingvar Kamprad, was raised. Largely agricultural and poor, Smaland imbued Kamprad with an appreciation for innovative frugality. This value has driven the creation of myriad well-designed products, including a table that can be sold at a profit for five euros. Five euros?

At a profit? Given the challenge of developing a prototype that met these specifications, team members networked with colleagues across the company and reached out to suppliers. The exploration led to an improbable source: door manufacturers. Cut a door in two — presto! You have a table. In retrospect, this makes perfect sense. But it took creative thinking to get there. A team that has committed to a well-defined set of values knows how to spend its creative energy. It also knows how not to spend it.

Multiply perspectives. Values help orient your team and guide exploration of multiple perspectives on a problem. Innovative teams encourage this sort of purposeful yet wide-ranging inquiry. There are several ways to do it. One way is to read — voraciously, widely and intensely. Bill Gates takes reading vacations, laying aside a diverse collection of books for most of the year and quickly working through them during a one- or two-week binge. When you immerse yourself in this way, you make connections that are harder to see when you read more slowly and forget details.

Chez Panisse founder Alice Waters creates an environment that promotes learning. She pays her chefs to visit local farmers markets and even to travel in search of innovative culinary ideas. Chefs can also take four months off, at full pay, to work as teachers in cooking schools. IBM organizes "jams," using the Web to facilitate high energy interactive discussions involving thousands of employees. Topics range from business strategy to programming.

Tinker. Innovators tinker — or, in other words, they experiment. Innovation is messy. While you can use a highly structured activity like a tournament to generate ideas, the core process of creating a new product, a strategy, a novel or a symphony is always iterative. It happens in fits and starts. It involves serendipity. It requires that your team members listen to themselves think out loud, babbling half-sentences and nonsense. The innovation research shows that good ideas are cobbled together in just this way. You reach the same conclusion when you read about how creative people — artists, scientists, strategists, political leaders — actually produce their ideas. They do it little by little, experiencing equal amounts of confusion, disappointment and passion.

Lead or Follow? Guidelines for Leadership Groups

The same leadership teams have shown considerable strengths and shocking limitations. For this reason, top teams never overcome the need to focus on the fundamentals of high-performance collaboration. While there is no guarantee that your top team will always make great decisions and avoid disasters, there are three questions that will help you stay on track. Devote part of a team meeting once a month to reviewing these essential questions.

Are we still having productive discussions? Top teams produce mixed results. One reason is the predictable entropy that afflicts leadership groups. According to one study, less than 10 percent of top teams were prepared to make good decisions, and approximately a fifth of the teams were dominated by CEOs who made unilateral decisions. Even if norms were established in the first place, the findings indicate that most executive teams need to review how they make and communicate decisions.

Another closely related question you should consider is whether there is enough followership on your team. Just as some CEOs display subpar leadership skills, some team members are ineffective followers. Put a discussion of followership on your monthly agenda. A review of your norms might raise some difficult issues, but it will ultimately recharge your performance.

Do we need to realign our priorities? MIT researchers have shown that high-level agreements about goals can mask deeper misalignments that affect top team performance. These misalignments reflect naturally evolving differences over the relative importance of issues such as profit, corporate responsibility and customer satisfaction. When these differences go unaddressed, teams are slower to make decisions and implement them — or, often a worse outcome, implement them in the wrong way. During her tenure as Xerox CEO, Anne Mulcahy made a point of encouraging top team members to publicly discuss conflicting perceptions and interpretations of stated goals. The open exchange promoted engagement. As Mulcahy observed, leaders who "consider a diverse set of opinions… create 'followership' around decisions that might not come naturally."

Have we become too isolated? Just as members of a top team need to make sure they are aligned behind shared priorities, the whole top team should ask whether it is aligned and connected enough with the rest of the organization and the broader environment. In this sense, every member of the team should make organizational relationship-building a priority. Studies reveal why these relationship networks are essential: 90 percent of the information a top team uses to make decisions comes through informal channels rather than formal reports.

Why Are We Here? Engaging Committees

It is notoriously difficult to engage the right committee members in the right way. Here is how to do it.

The first question you should ask about your committee: Does it even need to exist? Getting rid of just one committee can have nearly transformative effects. Exaggeration? A Bain and Company study calculated the number of man-hours devoted to supporting one weekly executive committee meeting. In total, just one committee cost the company 300,000 hours per year. Keep this number in your head next time you think there is no harm in creating just one more committee.

To decide if a committee really is the most effective tool for your needs, ask yourself the following three questions:

- Would the decisions made by this committee materially affect the performance and objectives of the organization?
- Is there an existing standing committee whose purpose could serve this decision?
- Does this decision actually require diverse opinions and input from across the organization, or can it be made unilaterally?

Inspiring Passion

Let's assume you have reviewed the questions and decided that you do, in fact, need to create a committee to solve a problem. Now you face the daunting task of getting your members on the same page as part of a team that can often feel disconnected from "real work."

Get the right people in the room. Since committee members are often forced or assigned to serve on committees, it is critical for leaders to evaluate carefully whom they are choosing to serve. The key considerations for committees are the 5xS factors: size, schedule, skills, social capital and styles. They can be applied to any team formation but are especially crucial in the planning phase of committee work.

Figure out what's important. When it is easy for members to disengage and suffer few consequences, the WIIFM questions become even more important. You can start by asking a simple question: "What do you want to learn by participating in this committee?" Learning goals are powerful motivators. They focus members on developing personal skills and knowledge while contributing to the team.

Committees similarly need a central idea that guides their actions. In helping teams develop one, use the image of the Eiffel Tower. No matter where in Paris you are, you can look up to the tower and reorient yourself to find your way. That is what a central idea needs to do — orient the committee or board such that every decision can be measured against whether it takes them toward or away from the Tower.

Decide on roles. Role clarity is especially important on committees, because accountability can often be lacking and authority is often uncorrelated to seniority. Set clear expectations for participation and agree upon meaningful consequences for when it falls short.

Also, establish informal roles. Leadership scholars Green and Molenkamp define informal roles such as the caretaker, coordinator or antagonist who helps a team accomplish tasks and build relationships in ways that formal roles tend not to cover. Acknowledging and designating informal roles are helpful on committees and on any kind of team. Caretakers make sure that conflicts are handled productively. Coordinators make sure everyone understands what is expected of them. Antagonists challenge a team when it falls into groupthink.

Every team — now and in the future — needs to make commitments in the form of goals, roles and norms. Team members will need to be honest with themselves and each other about their abilities and their competing commitments. Fortunately, teammates will help get projects back on course when they have been properly prepared to identify and address misalignments. Successful teams will be disciplined about developing habits that support their commitments.

In the early 20th-century, William James said that habits are the great flywheel of society. That same flywheel will continue powering the age of digital communication, wide teams and project-based work.

RECOMMENDED READING LIST

If you liked *Committed Teams*, you'll also like:

1. ***Team Genius* by Rich Karlgaard, Michael S. Malone**. Karlgaard and Malone show how to build the dynamic, robust and great teams leaders need in order to compete in today's world.

2. ***A Team of Leaders* by Stewart Liff, Paul Gustavson**. Gustavson and Liff present the Five-Stage Team Development Model, which outlines the progression of creating teams of people who think and act like leaders.

3. ***The Synergist* by Les McKeown**. McKeown reveals a proven method to build highly successful teams while stimulating personal and organizational growth.

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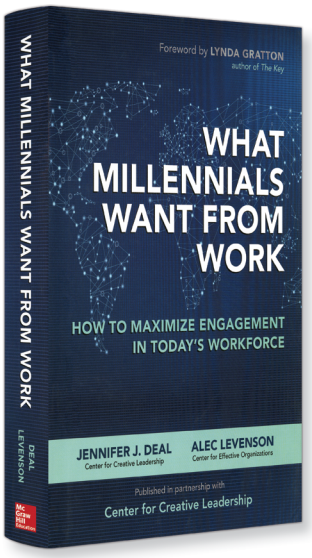
38-17 What Millennials Want From Work

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What Millennials Want from Work

How to Maximize Engagement in Today's Workforce



by Jennifer J. Deal and Alec Levenson

THE SUMMARY IN BRIEF

Millennials have been burdened with a reputation as spoiled, lazy and entitled, but the reality behind the stereotype is far richer and more complex. Who are Millennials, what do they really want, and what can you do about it?

Based on fieldwork and survey data from global research, *What Millennials Want from Work* paints a comprehensive, scientifically accurate picture of what really motivates Millennials around the world. Learn how to engage Millennials by improving workplace flexibility, because Millennials don't separate life and work; providing adequate support and feedback, because Millennials like to learn and grow; coaching, not micromanaging, because Millennials value autonomy; designing competitive salary structures, because Millennials know what's up; and providing opportunities to contribute to society, because Millennials care about doing good.

In this essential book, Jennifer J. Deal and Alec Levenson explain who Millennials really are, and offer practical advice to help those who manage, lead, and work with Millennials, to improve teamwork, increase productivity, strengthen organizational culture and build a robust talent pipeline.

IN THIS SUMMARY, YOU WILL LEARN:

- Common misconceptions and realities about Millennials in the workplace.
- How Millennials can be both entitled and hardworking.
- The economic and social conditions that motivate and challenge Millennials at work.
- Practical tips for attracting, engaging and retaining Millennials.
- Important trends to help organizations plan for the future.

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THE COMPLETE SUMMARY: **WHAT MILLENNIALS WANT FROM WORK**

by Jennifer J. Deal and Alec Levenson

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Introduction

So many generalizations about Millennials promoted by pundits, consultants and even some researchers are based mostly on anecdotes and not on rigorous data. Just as important, even when the conclusions are based on data, they typically focus on only one or two factors, not the complete package of who Millennials are and what they want. For example, Millennials have been described as needy and entitled. Their detractors say that is because life was easy for them when they were growing up, at least in comparison with their parents. On the other hand, many of their families experienced financial hardship as a result of economic and social shifts. So some people posit that these hardships make Millennials skeptical of organizations in general and authority within organizations in particular. They have been derided as disloyal, uncommitted and unwilling to work hard.

Those who work with and lead Millennials need an accurate picture of what the Millennials want from work and how organizations can benefit from that knowledge: a picture that is both nuanced and simple enough to be actionable.

This book introduces and explains the results of a series of projects conducted between 2008 and 2015. The data used are global and include a total of more than 25,000 responses from Millennials and more than 29,000 responses from older employees from 22 countries. The research included both surveys and fieldwork, numerous interviews and focus groups. Only those Millennials currently in the workforce were included, which means those born from 1980 to 1995. In addition, most stereotypes about the Millennial generation at work primarily focus on a specific subset: people in professional, technical, managerial and executive positions who have college degrees (bachelor's or higher). The sample is not representative of all Millennials everywhere. It is, however, a very large sample of Millennials working in a range of organizations in professional or quasi-professional roles. This book speaks to the characteristics, behaviors, proclivities and desires of that group.

Fundamentally, Millennials want to do interesting work with people they enjoy, for which they are well paid, and still have enough time to live their lives as well as work. Everything you need to know about working with and managing Millennials follows from there.

You can provide an environment where Millennials can be both happy and effective without ruining your organization, if you focus on what actually is important to them.

Entitled *and* Hardworking

Most people have heard the complaint that Millennials act entitled. Many of the complaints about Millennials' sense of entitlement are focused in three areas:

- They want a life outside of work.
- They think they can say whatever they like.
- They don't want to do repetitive work.

Millennials Want a Life Outside of Work

A common reason Millennials are called entitled is because they want to have a fulfilling life in addition to work, and they want it now rather than some time in the future. More than half of Millennials say that their work

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often interferes with their personal lives in a way that makes it difficult to fulfill their personal responsibilities.

Part of the reason Millennials are so concerned about having enough time for their lives away from work is that they feel like they're never off the clock. The prevalence of smartphones and other devices means that employees can be contacted about work at any time — and often are. Millennials usually don't mind work interrupting their personal time, but if work is going to continue after hours, they expect to have enough time away from work demands so they don't have to postpone enjoying their lives now.

Millennials Think They Can Say What They Want

There has been a cultural change in the past 30 years in how acceptable it is for people lower in the hierarchy to express opinions directly to people higher up, and that includes younger people expressing their opinions to older people. Society in general is less formal today than it was a generation ago. People are much less likely to use formal titles when addressing each other. Within organizations there is a more open communication environment, fostered by encouraging lower-level employees to speak up, make contributions and point out problems to improve the business, regardless of their age or tenure with the organization.

Millennials reflect this cultural shift, with a strong majority believing employees should be able to disagree with their supervisor, even about something as sensitive as a performance appraisal. Millennials also believe that they should be able to be critical of their supervisor. Employees are more engaged with work when they are encouraged to contribute their ideas. These contributions are more useful when managers help employees learn how, where and when to speak up.

Millennials Don't Like Repetitive Work

While the majority of Millennials didn't say that their job was too routine, 20 to 25 percent of Millennials do believe that their jobs are too routine and don't have enough variety.

But the data show this is not simply a characteristic of Millennials. Nearly as many older staff believe that their job is routine (18 percent) or doesn't have enough variety (15 percent).

If being born Millennials does not cause people to think that their jobs are boring, what is the root cause? Data suggest that level within the organization is the root cause. The higher you are in the organization, the less routine and lacking in variety your work is, regardless of your generation. Since Millennials are younger, they are more likely to be in lower-level jobs in the organization. The fact that Millennials in higher-level jobs are less likely than those in lower-levels jobs to say that their work is repetitive is additional evidence for the point: thinking work is boring is not just a characteristic of Millennials; it is a characteristic of the work itself.

Entitled Doesn't Mean Lazy

Millennials may hold some expectations that cause people to accuse them of being entitled, but that doesn't mean they are lazy. In fact, Millennials as a group work very hard, are quite motivated and really want to contribute to their organizations. A study by Universum found that 39 percent wanted to learn new things on a daily basis, and 45 percent said they would spend time to learn new things if given the opportunity to prioritize.

Millennials work long hours: 56 percent work more than 9 hours a day, and 33 percent work more than 10 hours a day (the same is true for those older than Millennials).

More than half of Millennials said they were motivated to do their job because it would help them fulfill their career plans or because they enjoyed it. In addition, rather than perceiving themselves as being hired just to do a job, Millennials want to contribute to the organization as much as possible, even beyond the specific requirements of the job. They feel they should be speaking up and sharing their ideas, not only because it benefits them but also because it benefits the organization.

Needy *and* Independent

Many supervisors say that Millennials are needy because they want to know how they're doing all the time. They want to be provided with very specific criteria for success. They want a map to tell them precisely how to get from here to there (with here being their current state and there being nirvana, both personally and professionally), and when they don't get it, they are needy and clingy, wanting constant reassurance. At the same time, they are incredibly independent. They want coaching on how to achieve their goals, but they don't want to be told what to do (which is how they often perceive advice). Many of the complaints about Millennials being needy are focused in three areas:

- They want their parents involved.
- They want constant mentoring and assistance.
- They want frequent feedback.

Do Millennials Want Their Parents Involved?

Parental involvement in one form or another is relatively common. Universum's global survey found that a quarter of Millennials surveyed said that they involved their parents in their career decisions, and a 2007 Michigan State University study found that about a third of large companies had witnessed parents being involved in their children's work lives.

The issue is really about the *level* of involvement. From what was found and heard during interviews, Millennials want their parents' help but don't want them closely involved. While there are many stories about parents helping Millennials find their first job, 90 percent of Millennials do not think parents should be involved in their child's job interviews, and 85 percent of Millennials do not think an organization should send parents a copy of their child's offer letter.

It is a good idea for organizations to provide information that anyone (including parents) can use to understand the organization. But it is not necessary — or even desired by most Millennials — for an organization to include parents in the hiring process and other aspects of the employment relationship.

While Millennials don't want their parents to take an active (interfering) role in their work lives, they do want support. Millennials perceive mentors as a support in their careers. They believe that a mentor will help them better negotiate the organization, plan their career, and open doors for them. Ninety-one percent of Millennials say they either have or want a mentor (the remaining 9 percent say they don't like their current mentor or don't want one). Millennials will be more engaged if they feel that they are getting enough mentoring in general, and enough support from their manager in particular.

Millennials Want Frequent Feedback

Millennials want to know how they are doing on a regular basis. This desire is following the tradition of Baby Boomers and Gen Xers, who challenged their bosses and organizations to provide more and better feedback for employees. It is consistent with Millennials' experience because many of them have grown up in a world where they received frequent feedback about how they were doing. While 54 percent of Millennials would like developmental feedback monthly or more frequently (daily or weekly), only 23 percent say they get feedback that frequently.

Managers should work on making sure that employees receive feedback at least every other week about the work they are doing. The door should be left open for employees to ask for feedback about their work if they are wondering how something went. The feedback doesn't need to be extensive; often an acknowledgement of the work is enough.

Needy Does Not Mean Dependent

While Millennials want support, feedback, mentoring and appreciation, that doesn't make them dependent. They actually are being quite strategic. They think about what they need to be successful, and that's what they ask for.

Millennials believe that they have no choice but to be independent actors in their careers. Baby Boomers grew up watching their parents (the World War II generation) in a work world characterized by long organizational tenure, secure pension plans and organizational loyalty (employees staying with one organization for a long time were rewarded with steady, if slow, promotion). Millennials grew up in a different world altogether. They saw their parents (many of whom are Baby Boomers) deal with long hours, cutthroat competition, layoffs, wage stagnation and insecure retirement plans. They saw dependence on an organization as an invitation to be taken advantage of, rather than something that is rewarded. As a consequence, they are independent: They want control over their work, don't trust or defer to authority much and want their work to be flexible.

Do Good *and* Do Well

Millennials believe that their work should make a contribution to the world, not just make them money. Ninety-two percent say that making the world a better place is at least somewhat important to them. Eighty-eight percent of Millennials think that getting involved in community and charity efforts is at least somewhat important.

These percentages show that Millennials want to help; the question is why. A study published by the organization Achieve in 2013 found that Millennials gave a number of reasons they chose to volunteer. When asked, 79 percent of Millennials said it was because they were passionate about the issue, 56 percent said it was because they wanted to meet new people who were interested in the same issue, and 61 percent said it was to broaden their professional skills. So even when doing good, Millennials are thinking about how it fits in with their career strategy and how they as individuals can benefit from the volunteering.

Millennials don't want to help only as individuals; they think organizations should want to help their communities

as well, and 97 percent believe it is important to work for an employer that shares their values. The good news is that the majority of Millennials believe that their organizations are socially responsible. In a 2014 study, Achieve reported that 92 percent felt they were working for "a company that was having a positive effect on the world."

Doing Good Isn't a Higher Priority Than Doing Well

Yes, Millennials think doing good is important. However, it isn't their only — or even highest — priority. Ninety-two percent of Millennials believe their company has a positive effect on the world. On the other hand, only 34 percent say that they stay because of their company's mission. What that tells us is that doing good is important, but by itself it isn't a distinguishing enough factor for Millennials. Forty-three percent say compensation is extremely important, and 38 percent say it is very important.

This is definitely a "both/and" situation — Millennials want work that both enables them to contribute to society in positive ways and rewards them appropriately. One is not a substitute for the other. After all, most Millennials believe that their organizations are contributing, and they can move to other organizations that both make a contribution to the community and pay better. Therefore, emphasizing the organization's contributions to the community while being cheap on compensation isn't an effective strategy for attracting and retaining Millennials.

The primary reason Millennials are so focused on compensation is they have bills to pay. Debt is a significant concern. In 2013, 69 percent of Millennials graduating from university had student loans. For many Millennials in the United States, payments on student loans are their single largest monthly expense, so a primary concern for them is whether their compensation is high enough to live on after they have made their loan payments every month.

High Tech *and* High Touch

Millennials love their tech toys. They want the latest hardware and software. They have grown up with technology, starting at an earlier age than any previous generation. According to a 2010 report by the Pew Research Center, half of Millennials believe that new technology allows people to use their time more efficiently.

In some cases, what Millennials don't realize is that their tech "solution" is actually shifting the workload to others. So the high-tech solution that causes them less work because they already know how to use the system causes more work for those who don't know the system or have to implement it. Managers need to explain the problem to Millennials if their preferred solution simply shifts the uninteresting work to other employees. Organizations and all employees will benefit if solutions can be found that reduce unnecessary drudgery.

Millennials Maintain Friendships Through Cyberspace

Perhaps one of the most hyperbolic stereotypes about the Millennial generation is that they are so connected to the Internet and social networking that they do almost all of their socializing that way. That of course is not true — most see their friends as well as texting, emailing and IMing them, rather than only interacting with them virtually.

But a 2010 study by the Pew Research Center reported that a majority of Millennials in the United States believe that new technology helps people stay closer to their friends and family. With the increase in global mobility, people are increasingly likely to live far away from their friends and family. Facebook, email, instant messaging, Instagram and Skype help them keep up with friends who are far away. Millennials say they are more likely to use phone, email and text messaging for connecting with friends they don't see very often.

Millennials report maintaining some social relationships almost exclusively through cyberspace. Twenty-nine percent say that they have friends they have met through the Web whom they haven't met in person, while 42 percent of Millennials say that they have friends they interact with only in cyberspace. This capacity will be an advantage to them in the long term, as organizations continue to become more dispersed. Organizations can leverage Millennials' ability to manage and maintain relationships through cyberspace by engaging in practices such as assigning them to work on geographically dispersed teams.

Millennials Are High Touch

One of the complaints often heard about Millennials is that they don't understand the importance of nonverbal communication in effectively understanding and communicating with others.

Data suggest that Millennials actually prefer face-to-face communication to other forms. In interviews, Millennials were clearly aware that they can have greater influence and improve the perception of themselves more through face-to-face interaction than through technology-mediated communication. When they think about how to communicate with others, they are balancing importance

and expediency. If face-to-face communication will take substantially more effort than electronic, Millennials are likely to make a calculation about whether the importance of the communication merits the additional effort.

While technology is important, the human aspect of work is even more important. If Millennials don't feel emotionally connected to their workplace either through friends or team members or their boss, they are a flight risk. At work, they want friends, teams they feel friendly with, a boss who cares about them and an organization of which they feel part. Ninety-eight percent of Millennials say that developing close ties with co-workers is important to them. In fact, having friends and close co-workers at work is so important that it is strongly related to how committed a Millennial feels to the organization. Organizations benefit when they provide environments for Millennials that allow them to work with others on teams so they can develop the community at work that they need.

Committed *and* Leaving

Millennials are quite committed to their organizations. More than half say they are emotionally attached to the organization, about two-thirds say they enjoy discussing their organization with people outside it, and about two-thirds don't intend to leave. They clearly like the idea of a long, stable career.

One common complaint about Millennials is that they aren't driven, that they don't want to move to the top and run organizations. Research doesn't support that conclusion. A Pew study done in 2013 showed that 70 percent of Millennial men and 61 percent of Millennial women would like to be a top manager someday.

Committed Does Not Mean Stay No Matter What

Millennials may be committed to their organizations, but about a third say they are looking for other opportunities. Feeling overloaded is common among Millennials: 42 percent believe they can't get everything done on their job, and 49 percent believe that because of the workload, they cannot possibly do all their work well. Millennials are also very likely to say that they are looking to leave their organization if they believe (1) that there is a politically powerful group within their organization that no one ever crosses; (2) that it is easier to remain quiet than to fight the system; or (3) that pay and promotion are primarily based on organizational politics.

A majority of Millennials also think compensation is important and are dissatisfied with theirs. They think their pay and benefits are not fair recompense for the skills and effort they put into their work. Further, they believe they are underpaid in comparison with their peers within their own organization and in comparison with those at other organizations at the same job level.

Millennials will look for a new job that raises some aspect of their life to a higher level. They often look to improve their compensation, work-life balance, promotion and development opportunities or to find a sense of belonging to a community. Organizations that see retaining talent as a strategic advantage need to be aware of this desire to "level up" and provide options for employees that have this need.

What Millennials Want and How to Give It to Them

Millennials are remarkably similar around the world. They like their jobs and their organizations, and they largely want the same things: an interesting, high-paying, stable job and working with people they like, trust and feel appreciated by, in organizations that are socially responsible and value them enough to provide flexibility and opportunities for growth and promotion.

Many organizations have three primary goals for their talent management strategies for Millennials: attraction, engagement and retention. The three dimensions that help you achieve these objectives are

- The people (friends and mentors, team and boss);
- The work (interesting, meaningful and balanced);
- Opportunities (feedback and communication, development and pay).

The People: Friends, Mentors, Team, and Bosses

Friends. Organizations need to structure the workplace environment so Millennials can develop friendships with co-workers and have positive relationships with mentors, team members and their bosses. Create the conditions for friendships to flourish. Sports teams, interest groups and clubs are ways people with similar interests can get to know each other and perhaps become friends. Support community building at work.

Mentors. Set up formal mentoring programs, but encourage people to take on mentees outside of formal

programs. Educate managers on promoting diversity and taking on mentees who are different from themselves.

Team. The team Millennials work with is incredibly important to them. They are the ones who, more than any others, can make or break Millennials' ability to get their jobs done right. Many effective teams are self-led. This does not mean zero supervision from outside the team. But it does mean that the leaders the team members report to need to create the conditions for the team to succeed, step in to help realign it as necessary, and get out of the way so the team can solve problems and resolve conflicts on its own as much as possible. Provide the resources the team needs to succeed, and hold everyone on the team both individually and jointly accountable for results.

Bosses. It is commonly said that people don't leave bad organizations, they leave bad bosses. This is just as true for today's Millennials as it is for Gen Xers and Baby Boomers. Don't just talk — listen, observe, and make sure Millennials know they are appreciated; trust and be trustworthy; set goals and hold Millennials accountable; provide mentoring and support; and be authentic.

The Work: Interesting, Meaningful, and Balanced

Interesting. There is no real substitute for interesting work. If the work is interesting, it doesn't require a lot of convincing or clever framing by management to make it palatable. Make sure Millennials are clear on the business reasons for the tasks they are given that they find boring, and show how what they do contributes to the organization's objectives. Outsourcing is an option to consider when Millennials complain about having too many routine and monotonous work tasks.

Encourage Millennials to provide ideas to improve work processes. Provide opportunities for Millennials to engage with the outside world (customers and stakeholders) through assignments in other locations (including overseas, if possible), task forces that enable them to interact with the community, jobs that expose them to different segments of your customer base and so on.

Meaningful. Broadly speaking, Millennials want to engage in doing work *they* feel is meaningful with organizations *they* believe are good corporate citizens. What precisely that means varies from one Millennial to another, but you can still implement strategies to meet their needs and create win-wins for both them and your organization. For example, connect the work the Millennials are doing to positive social outcomes. Offer company-sponsored volunteering. Do a better job of explaining your organization's contributions relative to others in the same industry.

Balanced. If you pile so much work on Millennials' backs that they feel they have no time to live their lives, they'll do their best to get out from under the weight — just like the rest of your employees. Don't require face time for its own sake. Set up the systems so working off site is productive. Allow for flexible careers, and smooth out spikes in the workload.

Opportunities: Feedback and Communication, Development, and Pay

Organizations that want to attract and retain Millennials need to make sure to provide them with enough feedback, development and compensation for them to feel they are continuing to progress even as they stay with the same organization.

Feedback and communication. Millennials want to know what they need to do to be successful. At the same time, Millennials don't want to be micromanaged (who does?). So remember to approach them with guidance and coaching, not command-and-control dictates. Provide feedback as a normal part of the workflow, not as an annual event. Two-way communication is important. Help Millennials learn how to speak their truth, constructively. Have important career-related conversations with Millennials in person, and help Millennials learn to have conversations others consider to be important in person.

Career development. Provide Millennials with good development opportunities, or be prepared for them to go elsewhere to find them. Help Millennials realize that they'll learn the most on the job. Have a plan for developing them, and make it clear that development is about growing in position as much as it is about moving on to the next promotion. Also, don't ignore the B players.

Pay. The question is not whether Millennials will find information about their pay from nontraditional sources; it's what the sources of that information will be and how accurate they are. The more transparent you can be about your organization's pay practices, the better.

Understand that compensation first and foremost pays the bills and is also a measure of value and self-worth. You can underpay people you don't work very hard, and you can overwork people you pay really well. But you can't underpay *and* overwork employees for very long before they'll decide to go somewhere else.

Seize control of the conversation about pay back from the Internet. Pay transparency is increased by what's available online, but the quality of the information can be very

poor. Also, for Millennials, compensation isn't just how much shows up in their pay packets every two or four weeks. It is also about their development, how appreciated they are made to feel through nonmonetary means, how much they are expected to work, how much flexibility they have, whether they see taking less now as paying back over time, and so on.

Looking to the Future

Current research and the past experiences of other generations suggest what organizations should be thinking about and planning for with regard to Millennials in the future:

Starting a career during a recession depresses total career earnings. A large part of the Millennial generation has come of age during an era encompassing two very different economic environments: the moderate growth of the early 2000s followed by the Great Recession of 2007, the effects of which will take many years to play out. The research on the long-term impact of starting work during an economic downturn indicates that people who enter the labor market during economic hard times make less than those who start during an economic boom for at least a decade, if not longer. In a difficult economy, there are fewer good jobs to choose from. The jobs that people are able to find when they enter the workforce don't pay as well or offer the same breadth of developmental opportunities as the jobs available in a growing economy. Therefore they start at lower pay in a less optimal job, and that starting point can affect the rest of their career.

Millennials will live longer and be less economically secure in retirement. Today in the United States, life expectancy for both men and women has increased, to age 84.3 for men and age 86.6 for women. The question currently being debated is how to pay for retirement, as there are concerns about whether the current programs are sustainable in the long run and at what level.

For most Millennials, there is not going to be a pot of gold at the end of the career rainbow. While global poverty has been reduced over the past four decades, the United States, the United Kingdom and many other industrialized societies have had increases in within-group inequality. This means that among groups of people who have similar education or who work in the same field or occupation, the differences between the winners and (relative) losers grew larger. The wages of college-educated workers also have been affected by the proliferation of the Internet and high-speed communications, which allow knowledge work that used to stay within national borders to be shopped around the world to the lowest bidder.

The high cost of education reduces choices. In the United States, the cost of college continues to increase faster than inflation. As a consequence, Millennials are facing rising education costs and student debt in a labor market where they cannot be assured that choosing a historically lucrative occupation will provide them with the financial outcomes they could have anticipated in the past. This will increase strain on Millennials as they set up their households and move on to their midcareer jobs.

Millennials form families later, which impacts the timing of their career flexibility. In the United States, Millennials are getting married later, buying homes later and having children later. This results in increased flexibility in their early career years — flexibility to take more risks, work more hours, change jobs when they don't like them, take advantage of opportunities overseas, and so on. However, Millennials' increased flexibility early in their careers will be balanced by less flexibility later on. Organizations that want to keep the best and brightest Millennials must be prepared to be flexible in their career demands.

Greater connectivity in their personal lives may make employees more mobile for work. With technology more prevalent and able to help people keep in touch, it is easier to move to other cities, countries or continents and still keep up with friends and family. Millennials are particularly good at staying in touch with loved ones, even if they don't get to see them in person. This skill gives Millennials the flexibility to be highly mobile. The good news for organizations is that this fits well with a world where work is done ever more by people in far-flung locations who work together virtually.

Remember, the more solutions you can find that work for both employees of all generations and for the organization, the better off everyone will be . . . including you!

RECOMMENDED READING LIST

If you liked *What Millennials Want from Work,* you'll also like:

1. ***The 2020 Workplace*** **by Jeanne C. Meister, Karie Willyerd**. Meister and Willyerd present a functional guide to help you and your organization create tomorrow's workplace of choice.

2. ***Leadership 2030*** **by Georg Vielmetter, Yvonne Sell**. Vielmetter and Sell present six converging megatrends that will reshape businesses by the year 2030.

3. ***Making Diversity Work*** **by Sondra Thiederman**. Thiederman provides managers with step-by-step strategies for minimizing conscious and unconscious bias and maximizing the ability to manage diversity effectively.

· Book 54 of 304 ·

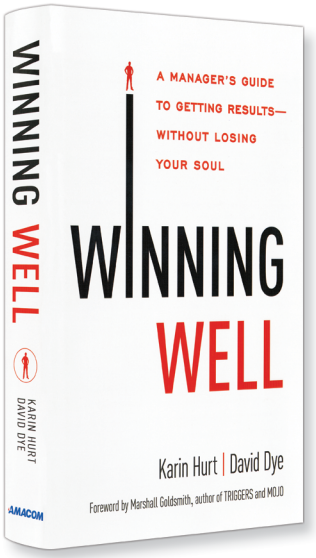
38-18 Winning Well

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Winning Well

A Manager's Guide to Getting Results — Without Losing Your Soul



by Karin Hurt
and David Dye

THE SUMMARY IN BRIEF

It can feel like a rigged game. Executives set aggressive goals, so managers drive their teams to burnout trying to deliver. Or, employees seek connection and support, so managers focus on relationships . . . and fail to make the numbers. The fallout is stress, frustration and disengagement, and not just among team members — two-thirds of managers report being disengaged.

To succeed, managers cannot choose between results and relationships. They need both: They must get people to achieve while creating an environment that makes them truly want to.

Winning Well offers managers a quick, practical action plan. They will learn how to stamp out the corrosive win-at-all-costs mentality; focus on the game, not just the score; reinforce behaviors that produce results; sustain energy and momentum; correct poor performance without drama; build productive relationships; and be the leader people want to work for.

Today's hypercompetitive economy has created tense, overextended workplaces. Keep it productive, rewarding and even fun with this one-stop success kit.

IN THIS SUMMARY, YOU WILL LEARN:

- Why Winning Well doesn't mean perfection.
- Why you should emphasize behaviors, not the metrics scorecard.
- The four principles of managers who win well.
- How to lead meetings and make decisions that inspire your team.
- To help your team solve problems, double productivity and own their results.

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THE COMPLETE SUMMARY: **WINNING WELL**

by Karin Hurt and David Dye

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The World of Winning Well

The hypercompetitive postrecession global economy puts frontline and middle-level managers in a difficult position — expected to win, to "move the needle," to get the highest ratings, rankings and results. Many managers become hell-bent on winning no matter what it takes, and they treat people like objects — in short, they lose their soul.

This exacts a high price from managers as they work longer hours to try to keep up. Those unwilling to make this trade-off either leave for a less competitive environment or try to stave off the performance demands by "being nice" to their team. After years of trying to win while sandwiched between the employees who do the heavy lifting and leaders above them piling on more, they give up and try to get along. Inevitably, after prolonged stress and declining performance, they surrender to apathy, disengage or get fired.

Winning doesn't mean you reach some imaginary state of perfection. Winning means that you and your people succeed at doing what you're there to do. The real competition isn't the department across the building or the organization across town. Your competition is mediocrity.

Winning Well means that you sustain excellent performance over time, because you refuse to succumb to harsh, stress-inducing shortcuts that temporarily scare people into "performing." You need energized, motivated people all working together. Your strategy is only as strong as the ability of your people to execute at the front line, and if they're too scared or tired to think, they won't. You can have all the great plans, six-sigma quality programs and brilliant competitive positioning in the universe, but if the human beings doing the real work lack the competence, confidence and creativity to pull it off, you're finished.

In fact, in today's connected world, people increasingly expect a positive work environment. When you don't provide it, they can easily go across the street to your competitor or go into business for themselves as freelancers or independent contractors. Now everyone else but you benefits from the time and training you invested.

Winning Well doesn't mean you'll be a pushover. It means you'll be a manager known for getting results, whom people respect and whom people want to work with. You can win — and you can win without losing your soul.

How to Win Well in Every Situation

Managers who sustain results over time operate from four principles. Internally, they value confidence and humility. Externally, they build on this strong internal foundation with a combined focus on relationships and results. Let's start with confidence, because yours will inspire others' and make the other three principles easier to enact.

Confidence. Know your strengths, own them and use them. You don't need to manage exactly like anyone else, but you do need to be confident in who you are and what you bring to the table. If you don't believe in yourself, your employees won't either. Stand up for what matters, and speak the truth.

Humility. As an internal management value, humility means that you have an accurate self-image. You know your strengths and you know your challenges. You recognize your internal worth and you also recognize and respect the dignity and worth of every human being. Have an accurate self-image, admit mistakes and invite challengers.

Results. There are three keys to staying focused on results: clarify, plan and do. Your people need to

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understand why your group exists, what results you are accountable to produce, the impact of your work and what success looks like. With the purpose and results clear to everyone, managers who win well work hard to create tight plans that will make these results happen. And without intentional action there are no results.

Relationships. Winning means you achieve results, but those results don't become sustainable until you add the second external focus of relationships. This includes three key activities: connect, invest and collaborate. You treat everyone with respect and dignity, not as a number, object or problem. You build trust with, and between, your people; you listen to their values, needs and insights; and you encourage their success. You recognize and value that each of your employees has unique strengths and perspectives. You draw out the strengths, talents and skills from people while helping them minimize their liabilities. Collaboration is more than simply working together. It's an attitude that communicates you are in it with your people, not apart from them.

Master the Metrics Maze

Your customer doesn't care what you received on your internal scorecard. No employee can concentrate on 27 metrics at a time. Managers who win well pick a few meaningful measurements that encourage the right behaviors and make it tough to manipulate the stats just to get a short-term lift with no real improvement. They understand that the score is not the game.

There are four ways you can use data effectively:

1. **Know what matters.** Your scores don't really matter. They are there to help you and your supervisors make decisions, but the scores … don't … matter. What is truly significant? There is one surefire way to find out. Ask, What does your customer or client care about? The results — what you do for your customers or clients — that's what matters.
2. **Know the key behaviors that produce real results.** Whatever your business, there are always key behaviors that drive your meaningful results. Do you know yours? This is a critical step; you can't win, much less win well, if you don't know what drives your success.
3. **Emphasize key behaviors (not the score).** Consistently emphasize the key behaviors. "This is how we succeed: We do A, B and C." All your communication — in team meetings, in one-on-ones, in email — everything must emphasize these core practices. When you do discuss metrics, put them in terms of the key behaviors. For example, "When we do A, B and C every day, we will be in the top 10 percent of the stack rank. We will get the revenue we need to serve our clients. We will maintain 80-percent-plus repeat visits."
4. **Check the score at appropriate intervals.** How often should you check your metrics? The answer is: as often as necessary to keep you on track and no more than that.

Winning — Achieve Results, Get Things Done and Move to the Top

There are specific techniques to increase your team's focus on what matters most, to recover from distractions and to hold your team accountable.

To keep your people focused on results, start with your own mindset. Managers who win well understand that people will be distracted. You can help reduce distractions and build a foundation for consistent results and healthy relationships by following these four steps.

Step 1: Set clear expectations. Roughly 90 percent of the problems managers have with poor performance result from deficiencies with this first step. No matter how clear your expectations are to you, it's likely they're not as clear to your people. When you finish a discussion or share instructions, don't leave the conversation until you check for understanding. Here are several questions you can use: "Before we go, Joe, will you share what you understand the expectations to be?" " Joe, can you tell me what you heard?" "Let's review what we're doing next."

Step 2: Train and equip people to meet the expectations. After unclear expectations, the next pitfall is to assume that everyone has the knowledge or skills to meet those expectations. Ensure that your team members are set up for success. Be sure to train and equip people to meet expectations.

Step 3: Reinforce expectations. Your mind receives 11 million bits of information every second you are awake. With that much information coming at your people, it can't hurt to say things twice. Your major strategic themes, objectives and key priorities warrant repetition at least once every 28 days.

Step 4: Close the loop with celebration and accountability. You can easily demotivate your team when you fail to celebrate success or practice accountability. Think of celebration and accountability as the final part of the expectation circle, the feedback that closes

the loop and makes it likely your team will stay focused on what matters most. Celebration can be as simple as gathering your people and privately acknowledging that they did it.

Lead Meetings That Get Results and That People Want to Attend

Horrible meetings are a cliché of the business world, and with good reason. Many meetings are a waste of time and don't accomplish anything. The minutes creep along while the meeting leader fritters away everyone's time, people have meaningless conversations that don't solve problems, and everyone is frustrated that they could be doing something more productive with their time. When you don't run meetings well, not only do your results suffer, so does your credibility.

Think about meetings as commitment creators. In other words, the outcome for every decision-making or problem-solving meeting you ever have is to create commitment. You get the right people together to discuss the problem, you make a decision and people commit to do something. The product of a good meeting is a commitment to activity. You build this commitment with three questions:

Commitment 1: Who will do what? Until someone actually does something, nothing has changed from before you made the decision. Until then, it is just a nice idea. There are actually two questions here: What is to be done? Who will do it?

Commitment 2: By when? This one is straightforward. What is the finish line for the tasks people have agreed to complete? When these deadlines are shared and publicly available, everyone is more likely to meet them.

Commitment 3: How will we know? "How will we know?" is the magic question that moves your meeting from good intentions to real-world impact. It closes the loop from intention to action and creates momentum without you having to spend hours every day tracking down action steps.

Here's how it works: When someone completes a task, what does he do next? Does he need to pass the results to another person or group? Should he update the team? Should he make a presentation of his findings? The specific answers depend on the task and project. What matters is that the accountability and next step are baked into the decision. Everyone knows what they are accountable to do, the team knows if it's been completed and no one is left waiting around for information. Combine these commitments into one sentence — Who does what, by when, and how will we know? — and you have the Winning Well Meeting Formula to get clarity, accountability and results in just five minutes at the end of every meeting.

How to Make Business Decisions Your People Get Behind

Winning Well managers are clear on how the decision will be made and who is involved, erring on the side of inclusion whenever possible. The truth is that most people will work with a decision when they are clear about what is required, why the decision was made and if they had input into the decision. It doesn't mean they have to love it. They're adults and don't expect that every single decision will go their way. They do want to know that their information, values and perspective were taken into consideration.

One of the most common types of meetings you hold is the meeting to make a decision. If you want your team to win, you've got to build their decision-making expertise. There are just two critical pieces of information you need to introduce at the start of your discussion: 1. What kind of decision is this? 2. Who owns the decision?

The first step to making decisions that everyone gets behind is to make just one decision at a time and limit discussion to that single decision. The good news here is that there are only two types of business decisions to make. The first type is a decision about goals: Where are we going? The question can take many forms, but it's always about your group's goal, destination or outcome. Other ways to ask this question are, "What is the outcome we need to achieve?" or, "What does success look like?" You can't talk about how you're going to do those things until you've first clearly decided what success looks like. Know where you are going before you discuss how to get there.

The second type of decision is, How will we get there? This is a discussion about methods. Separate discussions about where you are going from how you will get there.

The second decision-making mistake managers commit: lack of clarity around decision ownership. When you are clear about who owns the decision and how it will be made, people will readily contribute and are far more likely to own the outcome. This isn't difficult, because there are only four ways to make a decision:

- A single person makes the decision.
- A group makes the decision through a vote.
- A team makes the decision through consensus.
- Fate decides.

Before discussion begins, state how the decision will be made. You get yourself in trouble if you suggest a vote and then change back to "I'll decide" when you think the vote won't go your way.

How to Hold Your People Accountable Without Losing Your Soul

The definition of accountability is not beating someone up for poor performance, but keeping your mutual commitments to one another. This goes both ways: Managers who win well encourage their employees to hold them accountable for their commitments. A Winning Well accountability mindset brings results and relationships into laser-like focus.

Winning Well managers approach accountability conversations with a clear plan that will build relationships and achieve results. Your overall goals in these conversations are to 1. Draw attention to the performance issues. 2. Have a mutual discussion. 3. Confirm commitment to new behavior. Use the INSPIRE method to achieve these goals with a short, to-the-point, specific conversation about what must change.

I — Initiate. Initiate the conversation in a respectful manner. Feedback is best received when you've been welcomed to provide it. Sometimes, though, the conversation isn't optional. You may need to be more direct. Initiate accountability conversations as close to the moment of concern as possible. Don't wait three days to address something that happened this morning. Take care of it at the first opportunity.

N — Notice. Share your concern or observation. "I've noticed there are paint drips on the floor when you leave a job." "In listening to your calls, I've noticed you don't connect with the customer." "I noticed that you arrived late this morning."

S — Specific Support. Provide specific, supporting evidence you can see. "When the customer told you he was calling to disconnect his line because his spouse had died, you didn't express any empathy. You said you would be happy to disconnect the line." "The meeting was scheduled for 9:00, and you arrived at 9:30."

P — Probe. After you present the situation, the employee needs a chance to talk. Ask a question in a neutral, curious tone to allow her to share any relevant information. Generally, "What happened?" is adequate and allows the person to share information or to own the situation. "What happened on that call?" "What happened that you were late?"

I — Invite. Once he's had a chance to share his thoughts, invite him to solve the problem. Start with a review of the expectations, then ask for his thoughts on how to resolve the issue. Usually, this will be straightforward. If he can't come up with an effective solution, you can provide specific suggestions on how the employee could improve. Sometimes you may discover that the employee needs more training.

R — Review. Ask one or two open-ended questions to check for understanding and one closed-ended question to secure commitment. "What concerns do you have about this approach?" "Is this your commitment going forward?" Ask the employee to review her specific commitment: "Would you please recap what you will do next time?"

E — Enforce. Enforce the behavior and why it's important while reinforcing your confidence that the employee can do this.

Get More Done in Less Time

When you care about winning, it's easy to feel overwhelmed. There's always more that you feel you should do, and there never seems to be time to get to all the tasks that matter. Winning Well managers recognize they can't do it all and have a system to identify what matters most and know what to let go.

First, you must acknowledge that you cannot do everything. This is called the Winning Well approach to time: "infinite need, finite me." At any moment in time there are literally thousands of things you could be doing, but you get to do only one. That's it. One. Before you can focus your time and energy for results, you have to reach an understanding with yourself that you can do only one thing at any given moment.

Once you've made peace with the reality of infinite need, finite me, it's time to get crystal clear about WMM: what matters most. In your work, what are the two or three most important organizational values, and what are the most important outcomes that move your relationships and results forward?

Now you're ready to organize your day around your MIT— the most important thing. Your MIT is the single most important task you can do that day. At the start of each day, look over your projects, tasks and to-dos and select the one item that is the MIT for that day. Hint: It should align with your WMM values and activities.

Do your MIT first. You will be distracted. Real issues will come up, you'll face a change of direction, your boss will need something — life happens. Be clear about your MIT and do it first — before email, before voice mail, before checking in with your boss or your team. Whether it takes 30, 60 or 90 minutes, you'll be done and ready to deal with everything else.

Focus your time and energy with the Rule of One. When you work on your MIT, turn off your phone, your email, your Facebook and Twitter notifications (unless like

in some social media companies, your MIT really is to check Twitter), and focus on that MIT.

Winning Well — Motivate, Inspire and Energize Your Team

You can't motivate your employees. By definition, motivation comes from inside a person. It's not something you can provide externally. If you could, the Gallup Polls wouldn't consistently be showing that 68 to 70 percent of American workers are disengaged (with similar statistics around the world).

That's why most employee-engagement programs don't work. You can, however, cultivate motivation by uncovering it, tapping into it and inspiring lasting change. But you can't just dive into a discussion like that. It begins when you create the space to know your employees for who they truly are.

As a manager, your values and your vision are also important. You shouldn't set them aside. However, if you want people to walk with you, you must first walk with them. Discover what's important to them.

- Why are they a part of the organization?
- What do they value?
- What do they dream of for their future?

Hold deeper developmental discussions, let your employees outgrow their past and give your employees new challenges. When you walk beside them and support them in that purpose, those values and their dreams, while also sharing your own, then, and only then, you will see true motivation. Walk with them and they'll walk with you.

Build a Loyal Team of Problem Solvers

Do you ever wish your people took more responsibility for problems, came up with ideas on their own and solved problems without always involving you? When people don't solve problems, there's a good chance the management culture is part of the problem.

To build a culture that nurtures innovation and problem solving, practice these steps:

1. **Make it safe to try.** When someone brings you an idea that you've tried before, don't send him away with a terse, "We tried that. It didn't work." Try this invitation instead: "Thanks for thinking about this with us. We tried a similar idea last year and we found an issue with …. Would you be willing to think about that issue and see if you come up with any ways to make this idea work? I'd love to hear them."
2. **Start small.** The technology sector is well known for its minimum viable product practice. What is the smallest way you can test an idea and learn how to improve it? Get moving, get feedback and get better.
3. **Reward behavior, not just success.** This is important. When you ask people to solve problems, you are actually asking them to take a risk. Their solution might not work. How do you respond? Are you grateful they tried, or do you get upset at the failed effort? To build a culture that nurtures innovation and problem solving, reward effort.

Inspire Your Team to Double Productivity

Communicating the big picture is a skill that's often lost in management-development programs. After all, big-picture thinking is for execs, right? No. Everyone needs to know how the pieces fit together, where they fit in and why their work makes a difference.

Winning Well does not require you to be a cheerleader in business clothes, full of rah-rah with a fake smile. That's not what inspiration looks like for anyone paying attention. Inspiration comes from connecting people to meaning, purpose and their own ability to succeed.

Try these three steps to improve your ability to connect people to the bigger picture:

Magnify the meaning — Talk to your team about the impact their work has on the greater good: the customer, the world and others they serve. Engage in dialogue and ask them to identify what makes them most proud about the work they do.

Clarify priorities — It's vital that the work you ask people to perform doesn't feel like a random list of unrelated tasks. Bundle the work into meaningful chunks that link back to the bigger picture.

Simplify the message — If you can't explain your team's mission in one sentence, you don't fully understand it. If you're really struggling, ask a few strong team members to give it a shot. Everyone on your team should be able to describe your team's mission in a similar way.

Energize Your Team and Ensure That They Own the Results

Breakthrough results require every heart and brain working together to achieve results. Change requires confidence and inclusion, not selling. When you can take

your audacious vision and make it feel real, practical and achievable, your team will sail along with you.

Establish a clear vision. Be crystal clear about what you want to accomplish. Communicate and reinforce your vision through every medium possible. When you're sure everyone's got it, communicate even more. It's important to explain the reasons behind a change as well as to identify the specific behaviors you need from employees in each role.

Be honest about the benefits. The notion that all that employees care about is WIIFM — what's in it for me? — is BS. Sure, employees want to know what's in it for them. They equally want to know what's in it for you and for their customers.

Start small. Don't advocate for an idea or change that's half-baked or full of flaws. Test it first with a small group, take their feedback seriously and get it right. Even if it looks great on paper, your boss is sold and it worked well in the IT war room, field test the change first. Go slow to go fast.

Establish easy-to-access listening posts. This is perhaps the most important part. Really listen to what your people tell you. Most important, respond to feedback with solutions, not selling.

Leverage reluctant testimony. Share as many testimonials as you can, especially from people who were doubtful at first. Get your most excited employees showing how your new idea, system or process changed their world.

Involve the team in key decisions. No one wants stuff done to them or even for them. *With* them goes a lot further. Ask employees, "What's working well, and how do we leverage it? What enhancements do we need? Where should we head next?" All these questions go a long way. Include employees by involving them in your change efforts.

Sustain Your Team's Energy and Momentum

Human beings need encouragement. It's a fact of life. You get more of what you encourage or celebrate and less of what you criticize or ignore. If you want a team that doesn't need to be encouraged, get a cat. Otherwise, if you're working with people, they need encouragement.

Remember, Winning Well management is a relationship, and the quality of your relationships depends on what you invest in them. As with most of the Winning Well practices, once is never enough.

In order to provide healthy encouragement that fuels performance, focus on three traits. Make sure the encouragement is relevant, specific and meaningful.

Relevant. The first key to make encouragement work for you and your team — to be the real fuel of Winning Well — is to ensure that your encouragement is relevant to the work. Encourage what you want. What are the specific things people do that contribute to healthy relationships and meaningful results? Encourage those things that are relevant to the relationships and results you want to achieve.

Specific. You've taken the time to identify your team's relevant behaviors. Now, when you acknowledge them, be specific about what you encourage. Describe what actually happened and why it was important. Ineffective: "Hey, Bob, great work!" Effective: "Hey, Bob, I really appreciate the extra hours you put in on that project last week. The customer was happy with the results and renewed his account. Thanks again for the extra effort!" When you take the time to get specific, people know you understand their work, and you reinforce positive contributions.

Meaningful. Effective leaders know that people are different. They want encouragement in different areas, and they receive encouragement in different ways. Meaningful encouragement is relevant to the work and to the person. Here are six ways to make recognition more meaningful:

- Customize it. Find out what is meaningful to each member of your team before the time comes to recognize them.
- Personalize it. Some people like time off. Some people like a chocolate bar. Some people like public recognition.
- Make it timely. When someone does something awesome, she knows it. There's no better time to show that you know it, too, than when the endorphins are still flying high.
- Encourage strengths. Acknowledge the work they did in the area that is meaningful to them.
- Align it. Make sure words and actions align with organizational behaviors.
- Make it meaningful for the team. When you acknowledge individuals in front of the team, talk about how their actions contributed to the team and helped everyone to win.

It's Time to Win Well

Confidence and humility are cornerstones of Winning Well. They're also vital in maintaining an effective relationship with your boss. Remember some of the confidence-leveraging behaviors: know, own and use your strengths; stand up for what matters; and speak the truth.

Be brave enough to have and share your opinions, even if they differ from those of your boss.

Of course, every boss is different. Understand and play to their style.

How to Inspire and Motivate Yourself

You cannot hope to take your people someplace you cannot go yourself. This becomes more difficult when you don't have a Winning Well manager yourself.

Fortunately, you can inspire and motivate yourself when you take responsibility for yourself first, empower yourself with a simple question, find confidence even when you don't feel it and learn how to thrive even in a negative workplace.

When things get bad, start with three words: "How can I...?" With those three words you return focus to your own power and ability to act, tap into the energy of your prefrontal cortex, the part of your brain that problem solves and plans, and vastly increase the odds of finding a solution. Take responsibility and ownership for the one thing you can control: yourself.

For example, ask, "How can I get more input and feedback from my team?" "How can I set clearer expectations?" "How can I build better understanding with my boss?" Or maybe even, "How can I find a job that doesn't make me so frustrated?"

Many managers say the hardest part to master is confidence. Impostor syndrome describes that feeling of strong self-doubt that you're a fake, that your success is due more to luck or your ability to fool people than it is due to your work, and it often comes along with the fear of being found out.

The brutal truth is that you can't be the manager you need to be when you're tied up in knots like that. You'll try to overcompensate, or you'll stay silent when you should speak. Either one will kill your credibility and end your influence.

There are tools you can use to overcome self-sabotage:

Honor your past and present. Your experiences in childhood and earlier life can serve you, help you make good decisions, give you an appreciation for people from all walks of life and keep you from being judgmental. But it would be foolhardy not to also acknowledge today's circumstances.

Use your people. It's nearly impossible to trip over your own insecurities when you focus on serving others.

Your Winning Well Legacy

How do you know that you're Winning Well? As you assess your impact, revisit the Winning Well model. First, start with your values and how you feel on the inside — how's your confidence-humility balance?

Are you able to manage your team according to the values you hold most deeply? Do you stand up for what you believe and speak the truth, even when it's hard?

How do you feel on the humility front? Do you have a realistic view of where you need to improve? Do you surround yourself with people who will tell you the truth? Are you listening well? The truth is, you can't win well on the outside if you're not Winning Well on the inside.

On the people front, do you build healthy relationships, investing in people and seeing people grow? At the end of every day, can you look back and find at least one place you invested in another person? Did you hold someone accountable? Are the employees you work with better because of their time with you? That's a simple but powerful test of your leadership, and it's all about the health of your relationships.

The next benchmark is results. At the end of every day, can you look back and find at least one place or that one most important thing that contributes to the results you're responsible for achieving?

How will your winning ways survive you? Long after you finish your reports, spreadsheets, fund-raising, meetings; long after the organization you started or work for has closed, or been sold or you have left it; long after your daily work is forgotten — what will survive you?

It isn't the "stuff"— the products, the sales or the decisions. Many times, it's not even the organization. These things are no guarantee of a legacy. It's the people. People are your legacy. The people you helped to win well, who now lead others — others who, in turn, win well themselves.

Long after everything else fades away, it is your influence, your relationships and how you impact the people around you — these things endure. That's a Winning Well legacy.

RECOMMENDED READING LIST

If you liked *Winning Well*, you'll also like:

1. ***Driven by Difference*** **by David Livermore.** David Livermore identifies management practices that can be used to guide multicultural teams to innovation.

2. ***The Learned Disciplines of Management*** **by Jim Burkett.** Burkett presents a framework of individual disciplines that form a self-reinforcing management system for making the right things happen.

3. ***The Invisible Spotlight*** **by Doug Katz and Craig Wasserman.** The authors tell illuminating stories about management successes and misadventures that offer a fresh perspective on building sound management relationships.

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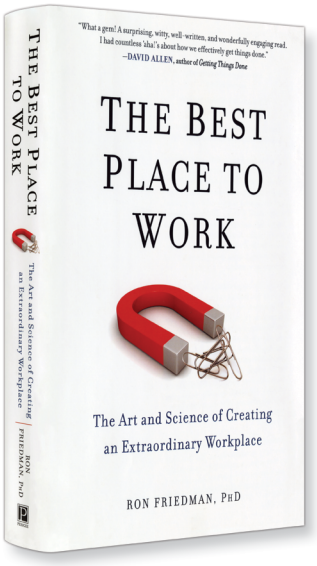
38BS12 The Best Place to Work

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The Best Place to Work

The Art and Science of Creating an Extraordinary Workplace



by Ron Friedman, Ph.D.

THE SUMMARY IN BRIEF

In *The Best Place to Work,* award-winning psychologist Ron Friedman uses the latest research from the fields of motivation, creativity, behavioral economics, neuroscience and management to reveal what really makes us successful at work. Combining powerful stories with cutting-edge findings, Friedman shows leaders at every level how they can use scientifically proven techniques to promote smarter thinking, greater innovation and stronger performance.

Among the many surprising insights, Friedman explains how learning to think like a hostage negotiator can help you defuse a workplace argument, why placing a fishbowl near your desk can enhance your thinking, and how incorporating strategic distractions into your schedule can help you reach smarter decisions.

Brimming with counterintuitive insights and actionable recommendations, *The Best Place to Work* offers employees and executives alike game-changing advice for working smarter and turning any organization — regardless of its size, budgets or ambitions — into an extraordinary workplace.

IN THIS SUMMARY, YOU WILL LEARN:

- Why successful teams make more mistakes than other teams.
- How the design of our workplace impacts our performance.
- Six insights to delay the adaptation that erodes happiness.
- Why the best managers focus on themselves.
- How to provide daily opportunities for autonomy, competence and relatedness.

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THE COMPLETE SUMMARY: **THE BEST PLACE TO WORK**

by Ron Friedman, Ph.D.

The author: Ron Friedman, Ph.D. is an award-winning psychologist and the founder of ignite80, a consulting firm that helps smart leaders build extraordinary workplaces. Friedman has served on the faculty of the University of Rochester, Nazareth College and Hobart and William Smith Colleges. Popular accounts of his research have appeared on NPR and in major newspapers, including the *New York Times, Washington Post, Boston Globe* and *The Guardian.*

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PART I: DESIGNING AN EXTRAORDINARY WORKPLACE EXPERIENCE

Success is Overrated

What do Shakespeare, Dickens, Tolstoy, Picasso, Monet, Bach, Mozart, Wagner, Schubert, Brahms and Dostoyevsky all have in common? They produced far more than their contemporaries.

Importantly, not every one of their creations was a masterpiece. Today, in fact, they are remembered for a mere fraction of their complete body of work. Creative geniuses simply do not generate masterpieces on a regular basis. Yet, the quality that distinguishes them would be impossible without the quantity of attempts.

Creative geniuses don't just attempt more solutions — they also miss quite often. Before the iPhone and iPad revolutionized the world of personal computing, Steve Jobs accrued a remarkably long list of failures that includes the Apple I, the Apple II, the Lisa, the Newton personal digital assistant and NeXT hardware.

The willingness to grow through failure is an approach that's not limited to individuals; a surprising number of leading organizations tend to do the same. Take Google. We all know about its game-changing products, including its search engine, Gmail and Google Maps.

But what about Google X, the homepage customization tool that lasted all of one day? How many of us remember Google Reader, Google Web accelerator or Google Buzz?

Google co-founder Larry Page said, "Even if you fail at your ambitious thing, it's very hard to fail completely. That's the thing that people don't get."

And in a way, that's what makes them so prolific. It's the successful innovator's dirty little secret: They fail more than the rest of us.

Why Successful Teams Make More Mistakes

In the mid-1990s, Amy Edmondson was analyzing the data to what she thought was a fairly straightforward study when she noticed something peculiar.

She was exploring team dynamics within hospitals, as part of her graduate work in organizational behavior at Harvard University. The question at the heart of Edmondson's research was this: Do nurses with better colleague relationships perform fewer errors?

What Edmondson found was that the better the nurses' relationship with their manager and co-workers, the more errors they appeared to make.

Edmondson was dumbfounded at first, but slowly the answer revealed itself. Nurses in tightly knit groups don't actually perform more errors — they simply report more of them. The reason is simple: When the consequences of reporting failure are too severe, employees avoid acknowledging mistakes altogether. The fascinating implication is that fearful teams avoid examining the causes of their blunders, making it all the more likely that their mistakes will be repeated again in the future.

The Right Way to Reward Failure

Software-development company HCL Technologies invites its executives to create a Failure CV. To enter the firm's highly coveted internal leadership program, applicants are required to list some of their biggest career blunders and then explain what they've learned from each experience. To advance their careers, potential leaders must first show that they have the ability to turn failure into progress.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Kristopher Lee**, Contributing Editor

If there's one unifying insight we can draw from the experience of extraordinary achievers, it is this: Sometimes the best way to minimize failure is to embrace it with open arms.

The Power of Place

The last few years have witnessed stunning breakthroughs in knowledge about the way design affects our thinking. Already, organizations like Google, Intel and Cisco are pouring millions of dollars into redesigning buildings, tearing down walls and reconfiguring conference rooms. It's not simply for the sake of giving employees an appealing environment — it's driven by a newfound recognition that there is a connection between space and innovation.

The Caveman's Guide to Building a Better Office

Ask the average CEO how to optimize a workspace, and they might suggest you consult with an interior designer. Ask the same question of an evolutionary psychologist, and he'll direct you to a very different set of experts: our ancient ancestors.

Evolutionary psychologists argue that many of our current design preferences can be traced back to our shared history on the savanna. We're drawn to environments that promoted our survival as hunter-gatherers, and feel uneasy in situations that would have put our forefathers at risk. These preferences, they argue, are largely unconscious. We simply experience safe settings as pleasurable and dangerous ones as repellent, without being able to identify exactly why.

It's not hard for the evolutionary psychologist to see why so many offices fail to engage their employees. Depriving people of sunlight, restricting their views and seating them with their backs exposed is not a recipe for success — it's a recipe for chronic anxiety. So is placing workers in expansive rooms, inundating them with stimulation and failing to provide them with an area for refuge, where they can recover from attention fatigue.

Caves and Campfires

How do you choose among cubicles, private offices and open spaces when all three present significant downsides?

There is a simple answer: You don't.

One thing research has taught us is that no single environment is conducive to every task. By offering a selection of options, companies can support both focus work and collaboration, using the space they have to enhance their employees' efforts.

Why You Should Be Paid to Play

Sometimes, what appears to the outside world like slacking off is actually the path to smarter decisions and more innovative ideas.

Frequently our most brilliant insights come in the gaps between hard work, when we let our guard down and allow disparate ideas to emerge. In those moments when we distract ourselves with a walk to the restroom, the commute home or the in-flight movie on a business trip.

Think back to your last truly great work-related idea. Now ask yourself: Where were you? Chances are that you weren't sitting behind your desk.

In many ways, problem solvers are like artists. Taking a few steps back provides painters with a fresh perspective on their subject, lending them a new angle for approaching their work. Walking away doesn't just put our unconscious to work: It helps us see our problem with a new perspective. We become less emotionally attached and free ourselves from the influence of those in our immediate surroundings.

One way many organizations leverage this insight is by deliberately scheduling play into the workday. Play may seem like the domain of children, and in some ways that's the point. We are naturally creative when we're young, in part because our brains have not quite developed the capacity to prejudge and censor our ideas. Putting ourselves in a childlike mindset opens us up to alternative ways of thinking.

The Creativity Diet

A well-timed diversion can help employees process information they already have in a way that leads to better insights. But when you're looking for outside-the-box solutions, sometimes what you really need is a way of encouraging them to be mentally adventurous.

Our minds naturally search for connections between ideas. And where we direct our attention determines the combinations we find. When we stare at a problem using a single lens, being creative is difficult. We get stuck in old ways of thinking. To uncover new solutions, we need to break our mental frames.

A diet of diverse mental stimulation is a vital component of creative thinking. The challenge in most workplaces is that employees are exposed to the same information day after day, making it difficult to come up with new and

innovative solutions. But a growing number of companies, inspired by well-known success stories at Google, Yahoo! and Facebook, are trying to break that mental rut. They've begun inviting employees to set aside a portion of their time each week for free-form exploration and for pursuing projects of their choosing. The only requirement is that their efforts have the potential for benefiting the company in some way.

What Happy Workplaces Can Learn From a Casino

How exactly do you foster happiness in the workplace? By taking a cue from casinos and embedding psychological triggers into the employee experience that promote a positive mindset.

Why Workplace Happiness is Hard to Find

One of the more distressing facts about human nature is that we are not particularly good at staying happy. Often the process doesn't take very long. Consider what happens when you order a wonderful dish at a new restaurant. The first bite is exquisite. The second is very good. By the third, you're ready to share. The more you eat, the less enjoyment you derive from your meal, until after a certain threshold you couldn't eat another bite.

The good news about our inclination to adapt is that the same psychological process responsible for acclimating us to positive events is also at work when we experience a tragedy.

Our brains are programmed to adapt to our circumstances, and for good reason. Too happy and we'd lack any ambition; too sad and we'd never leave our beds.

Recently psychologists have begun examining ways of slowing the adaptation process as a means of prolonging happy experiences. If we can prevent ourselves from habituating too quickly to positive experiences, the reasoning goes, we can sustain the initial high for longer periods of time.

How do you delay adaptation? Here's a look at what we've learned so far.

Insight #1: Frequency is more important than size. Small, frequent pleasures can keep us happy longer than large, infrequent ones. We may be better off splitting up positive annual events into quarterly ones.

Insight #2: Variety prevents adaptation. Increasing the frequency of positive events isn't the only way of delaying adaptation. So is introducing variation. One way of introducing variety into the workplace is by linking certain happiness boosts to specific seasons.

Insight #3: Unexpected pleasures deliver a bigger thrill. How do you surprise your employees? One idea might be renting out a movie theater and taking everyone out for the premiere of a major release.

Insight #4: Experiences are more rewarding than objects. Why is this the case? For one thing, it's because experiences tend to involve other people, and being in the company of others elevates our happiness. Experiences also expose us to new ideas and surroundings, growing our intellectual curiosity and expanding our horizons.

Insight #5: We don't always know why we're happy. One feature of our environment that we rarely pay attention to is scent. Music can also lift our mood unconsciously. The findings do hint at subtle ways ordinary workplaces can tweak their environments to promote better moods.

Insight #6: A grateful mind is a happy one. While traditional staff meetings certainly have their place, their focus on what's missing does little to promote a sense of gratitude. Instead of asking everyone to talk about what they haven't done, use the meeting as an opportunity for staff members to share what they are most proud of having accomplished since the group last met.

Is there value to promoting happiness in the workplace? Absolutely. But it's only by doing so in ways that complement the requirements of employees' tasks and allow them to be authentic about their experiences that we can expect it to drive success.

How to Turn a Group of Strangers Into a Community

Why would friends be better at working together than acquaintances? A joint study by management professors at the University of Pennsylvania and the University of Minnesota offers a clue. Researchers began by asking students in a large course to identify classmates with whom they have a "close interpersonal relationship." They then used that information to assign students to small groups made up of either close friends or mutual acquaintances.

What the researchers wanted to know was this: Could pre-existing friendships benefit some activities but interfere with others? To find out, they had all the groups complete two different assignments. The first was a decision-making project involving collaborative thinking, and the second was a model-building task involving repetitive manual labor.

The results were definitive: Friends outperformed acquaintances on both tasks. The reason? Friends were more committed at the start of a project, showed better communication while doing the activity and offered teammates positive encouragement every step of the way.

Research suggests that workplace friendships yield more productive employees, and it's not just because friends are easier to work with. It's also because there is more on the line. Feeling a connection with colleagues can motivate employees to work harder for a simple reason. When colleagues are close, a poor effort means more than a dissatisfied customer or an unhappy manager. It means letting down your friends.

The Key to Lasting Workplace Relationships

As a leader, what can you do to continue to promote new employee connections and help sustain old ones?

Shared activities catalyze workplace friendships in ways few interactions can. They foster proximity between employees who rarely meet, boost their levels of familiarity with one another, highlight similarity of interests and leverage informal, nonwork environments to prompt self-disclosure.

By allowing colleagues to direct their attention to a common task, shared activities create opportunities for dialogue without the pressure of forced conversation. When shared activities include a physical component, such as running or dancing, they have the added feature of increasing psychological arousal. Research indicates that when we experience a rush of adrenaline in the company of others, we like them more and even find them more attractive. The more opportunities employees have for sharing in physical activities, the easier it is for them to get along.

PART II: MOTIVATING EXCELLENCE

The Leadership Paradox

Charles Henry's company, Johns Manville, had just been purchased by Berkshire Hathaway. Retirement would have to wait. After meeting with Berkshire CEO Warren Buffett, Henry kept his role at Johns Manville, and not merely until his company had made it through the transition. He gave Berkshire Hathaway another four-and-a-half years.

What was it about Buffett that caused him to change his mind? Much of it has to do with Buffett's unorthodox approach to management, which involves giving his direct reports complete autonomy over their own decision-making. When he does speak with his direct reports, Buffett rarely instructs. Instead, he uses his distance from the day-to-day minutiae to ask clarifying questions that help his managers find their own insights.

The idea of allowing employees such a high degree of independence when it comes to doing their work can seem a little unsettling. To some it might even smack of managerial neglect. Shouldn't Buffett be telling them what to do?

Perhaps. But from Buffett's perspective, that's not the point. Because the feeling of ownership that's created by allowing employees decision-making freedom is itself an investment, one that pays dividends in the form of better motivation, stronger organizational loyalty and sustained engagement.

The Man Who Turned Management into a Science

In 1874, Frederick Winslow Taylor approached his supervisor with an idea. In addition to his responsibilities on the factory floor, he would conduct an experiment to identify the most efficient way for cutting metal. Slowly, Taylor's studies evolved. He became less interested in the operations of the machines and turned his attention to the factory's men.

Taylor carried around a stopwatch and measured compulsively, breaking down individual jobs into their component tasks. He then presented his findings, offering painstaking analyses and recommendations for eliminating waste and enhancing performance.

Thinking, from Taylor's perspective, was the concern of management. Doing was the domain of workers. To ensure compliance, Taylor believed in motivating employees using both the carrot and the stick. Pay in Taylor's factories was not determined by job title or experience, as the labor unions might have wished. Instead it was directly tied to an employee's performance.

Taylor versus Buffett: The Truth About Motivating Performance

From Taylor's perspective, motivation was about one thing: quantity. Employees were either highly motivated or they weren't. And it was up to managers to energize them, by enticing them with seductive bonuses and threatening them with losing their jobs. It's a perspective that continues to be popular in many organizations today. But a growing number of motivational experts argue that this view is not only simplistic — it's actually wrong.

Here's why. Motivation, we now know, varies not just in quantity but also in type. Some employees are motivated by the intrinsic enjoyment they derive from doing their

work, while others are motivated by the lure of extrinsic factors, like the appeal of money or an important title.

Interestingly, when the work itself is rewarding, an emphasis on rewards can have an unexpected effect. It reduces intrinsic motivation. That's because the moment rewards take center stage, we begin to view our work as a means to an end and start enjoying it less. Economists call it the "crowding out" effect. We stop focusing on the enjoyment the work brings us and become fixated on receiving our reward. Consequently, the more emphasis an organization places on salary and bonuses, the less likely its employees are to enjoy the work for its own sake.

How do you get employees intrinsically motivated about their work? One vital component, according to psychologist Edward Deci and Richard Ryan, involves taking a page out of Warren Buffett's managerial playbook and helping people feel autonomous while doing their job. When people are empowered to make their own decisions at work, they naturally feel motivated to excel for one simple reason: Autonomy is a basic psychological need.

Ultimately, the value of autonomy is that it allows people to fully embrace their goals and see the investments they make as their own choice. It's that feeling of personal ownership that inspires employees to be driven by their own interests, curiosity and desires to succeed.

Psychologists offer a number of recommendations for promoting the experience of autonomy, even when real choice appears to be lacking.

Provide a meaningful rationale. Research shows that when people are given a meaningful rationale, they're more likely to invest more effort and to view their contribution as important.

Define the outcome, not the process. Why wouldn't you tell your team what to do? Here's why: Spoon-feeding instructions comes with a cost. Sure, overseeing every detail might speed up productivity on this particular assignment, but that short-term lift is likely to undermine your team's overall experience of autonomy, leading to long-term declines in their motivation.

Use open-ended questions. Open-ended questions — ones beginning with the words "how," "what" or "why" — unconsciously communicate a respectful interest in the way another person thinks. They also allow the respondent to direct where the conversation goes from there.

Acknowledge negative feelings. When people voice a complaint, the first thing they want is to feel heard. Paradoxically, having our feelings accepted defuses some of the negativity by legitimizing our experience.

Minimize the focus on rewards. Feel free to offer your team a modest gift, but wait until after the project is done. The key is to let success on the task serve as its own reward while the work is getting done.

The bottom line: Any time you speak from a position of authority, the more supportive you are of others' autonomy, the more likely you are to inspire their best efforts.

Better than Money

The notion that our happiness is largely driven by the respect we receive from others makes a good deal of sense from an evolutionary perspective. In the past, being a valued member of a tribe meant security, access to attractive mates and influence over important decisions.

Being recognized feels so good because it's the ultimate sign of belonging. And while the data suggest that we adapt to money rather quickly, there is also some compelling evidence that we never quite get used to feeling respected.

What happens when we fail to receive recognition for our work? Our motivation suffers, we lose interest and eventually experience burnout. It's why, year after year, jobs with the highest turnover rates tend to belong to telemarketers, fast-food employees and retail associates. Work that involves continuous sacrifice and garners little appreciation is psychologically exhausting.

One reason that recognition is vital to doing good work is that it feeds our need for competence. When we receive positive feedback, we experience an emotional rush. Competence is inherently motivating, which is why feeling like you're good at your job leads you to invest even more of yourself in your work.

Recognition at work is also important because the positive feedback is instructive. If we're deprived of feedback on our performance — positive or otherwise — we lack the information we need to improve. And when we're missing clear direction on what we need to do to succeed, it's just a matter of time before our enthusiasm wanes. It's a fundamental truth of the human condition: Being ignored is often more psychologically painful than being treated poorly.

Why the Best Managers Focus on Themselves

Although we like to think of ourselves as independent decision makers, the truth is that we've inherited a brain

that's designed to mimic. From the moment we're born, we show a tendency to imitate.

Mimicry is quite noticeable when it occurs in children. And as adults, many of us dupe ourselves into thinking we're immune to its effects. But studies show we're prone to mimicry throughout our lives, in ways we rarely detect.

Given how much time we spend with our colleagues, it's natural that the people we work with also have a powerful impact on our behavior. When we mimic the postures, facial expressions and vocal tones of those around us, we tend to "catch" their emotions. The reason is simple: Our minds spend a lifetime associating certain physical movements with specific patterns of thought.

Mirror Neurons, Social Norms and the Roots of Company Culture

When it comes to setting social norms, some group members are more influential than others. High-status group members are watched more closely and carry more credibility, which is why their behaviors and attitudes often set the tone.

Which behaviors matter most when it comes to shaping company culture? In his landmark book *Organizational Culture and Leadership,* MIT management professor Edgar Schein identifies a number of specific actions by which leaders (often unconsciously) influence the culture of a workplace:

What leaders pay attention to (and what they ignore). The more focus a leader places on particular areas of the business — by personally controlling them, measuring them or regularly commenting on them — the more they become priorities for their teams.

Emotional outbursts. When a leader's mood swings abruptly, employees take notice.

Reactions to incidents and crises. The way in which a leader reacts to unexpected negative developments communicates their core values and contributes to organizational norms about how adverse situations should be handled.

How leaders allocate rewards and status. Over time, organizational culture tends to reinforce actions that leaders consistently reward.

Managers are often told that paying close attention to their employees is the key to doing the job effectively. But what this research suggests is that there are times when managers would be better off focusing a little more closely on their own behaviors.

PART III: ATTRACTING AND RETAINING TOP PERFORMERS

Seeing What Others Don't

Generally speaking, there are two ways of finding extraordinary employees. The first is to get better at choosing between candidates, which is tricky. The other is improving the quality of your applicant pool before starting your evaluation. It's a lot easier to reach smart hiring decisions when the vast majority of your applicants are a good choice.

One way of improving a candidate pool is by turning outstanding employees into recruiters. Research shows that people tend to socialize with those with similar personalities. This means that if you have hard workers with an optimistic mindset, chances are they know a number of people who share those characteristics.

The best scenario from an organizational standpoint is one in which employees recruit others because they want to work with great teammates and believe that their company would genuinely benefit from bringing that particular employee on board.

Getting the right candidates in your applicant pool is only half the battle. Once you do, how do you select among them? Fortunately, there are a number of steps you can take to improve your chances of making the right choice.

The first involves tearing a page out of the orchestra interviewing playbook and using a modified version of the blind audition. There is a workplace equivalent to this approach, and it involves creating an interview that's centered on a work assignment.

What assignment should you ask applicants to complete? The answer depends on the position you're looking to fill. The important thing is to create an assignment that is job relevant, allowing your impressions to form around skills that are pertinent to the role.

Another step to help you minimize your interview blind spots: Include multiple interviewers, and give them each specific criteria upon which to evaluate the candidate. Without a predefined framework for evaluating applicants, it's hard for interviewers to know where to focus.

To create a great workplace, you need to excel at hiring. It's because no matter how well you manage, how often you recognize or how generously you reward, there's simply no substitute for selecting talented people and placing them in the right roles.

Conclusion: Three Keys to Creating an Extraordinary Workplace

Every year or so, the Gallup organization releases a poll on employee engagement that inspires the collective hand-wringing of news anchors and editorial writers around the country.

The results are as predictable as they are bleak. The latest figures indicate that a full 70 percent of American employees feel disengaged at their jobs. Of these, 18 percent are "actively disengaged," meaning that they're not simply failing to meet their potential — they're acting out in ways that measurably damage their company.

Organizational leaders have tried to increase employee engagement, but they've gone about it the wrong way. As Jim Harter, Gallup's chief scientist for workplace management and well-being, put it, "There is a gap between knowing about engagement and doing something about it in most American workplaces."

This is where science can help. Here are the three overarching lessons of *The Best Place to Work:*

Lesson 1. Psychological needs are at the heart of employee engagement. How do you get employees engaged in their work? By daily providing opportunities for autonomy, competence and relatedness.

To promote autonomy, provide a rationale when tasks are presented, offer flexibility on how and when a task is performed and minimize the focus on rewards. Help employees feel competent by creating a workplace that provides them with immediate feedback, meaningful recognition and opportunities for growth.

Within the business world, relatedness has long been the most underappreciated of the three psychological needs. But connecting employees to one another doesn't just help them enjoy being at work; it leads to quantifiable gains in their performance. To build employee connections, it's important to create interactions that harness the natural catalysts of close relationships: proximity, familiarity, similarity and self-disclosure.

Lesson 2. Organizations are more successful when they address the limits of the mind and body.

Our brains have limited mental bandwidth, and when the cognitive resources we have are depleted — whether because we're surrounded by a hectic office environment, inundated with too many requests or working continuously without a break — our mood sours, and our performance slumps.

Instead of ignoring the body's limitations and insisting that employees power through periods of low energy, organizations are far better off designing workspaces that allow employees to conserve their mental resources, and offering them opportunities for restocking their energy supply when they are running low.

The nature of work is changing. What might have once appeared to traditional managers as wasted time can today be an important key to delivering high-level performance.

Lesson 3. Integrating Work and Family Life Improves the Quality of Both

Instead of pretending that work and personal time are separate, organizations are better off when they actively seek to blend the two worlds. When organizations trust employees to manage their time responsibly, making it acceptable for a worker to take an hour during the day to watch his daughter's soccer game, they create loyalty and commitment that ends up saving them money in the long term.

The future of great workplaces lies in helping employees fuse their personal and professional lives in ways that position them to deliver their best work.

Creating an Extraordinary Workplace

We now have striking proof that many aspects of the modern workplace are outdated, counterproductive and even psychologically harmful. Which is why it should surprise no one when Gallup reports that more than 80 percent of employees worldwide are disengaged. They're working within structures that make it nearly impossible to thrive.

When we fulfill employees' needs for autonomy, competence and relatedness, when we allow them to leverage the full breadth of their mental capacity, when we provide them with the flexibility to succeed in both their personal and professional lives, we achieve more than an extraordinary workplace. We create an organization that performs at its very best.

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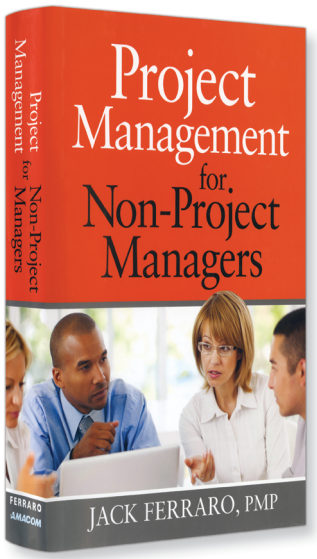
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38CS02B Project Management for Non-Project Managers

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Project Management for Non-Project Managers



by Jack Ferraro, PMP

THE SUMMARY IN BRIEF

As a manager, you may feel that "project teams" brought in to accomplish goals and objectives affecting your department may as well have crash-landed from another planet, speaking a jargon-filled language all their own and referring to complex-looking graphs and charts you don't recognize. Yet, it's your responsibility to ensure that the results of a project initiative have a positive effect, benefiting your department, your customers and, ultimately, your organization. You may not be a certified project manager — or even have been trained in the basics of project management — but without an understanding of how project management works, you may be doing a disservice to your department, your company … and even your career.

Whether you're being asked to work together with a project management team or are eager to put proven project management techniques to work for you, this book will enable you to use the tools that will help you become a productive spearhead of change in your organization.

IN THIS SUMMARY, YOU WILL LEARN:

- How to productively engage with project managers and teams to increase the probability of real business value being created from the project.
- Tips to eliminate the unnecessary work that often slows projects down.
- Ways to manage risk and prevent changing requirements from derailing the completion of important milestones.

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PART I: THE CRITICAL ROLE OF THE FUNCTIONAL MANAGER IN PROJECT SUCCESS

The most common vehicle for implementing change within an organization is the project or a combination of projects known as a program. Projects are becoming more strategic in nature and scope, and an increasing number of traditional white-collar workers are involved with projects in some fashion. These projects often require unprecedented collaboration within an organization's lines of business and across the business enterprise. This dynamic is creating a need for functional managers to work in collaboration, communicate effectively and appreciate the best-practice methods of project teams.

What the Functional Manager Should Know About the Project Organization

Many functional managers reject project management methodologies, processes and terminology because project teams either consistently miss their deliverable dates or over-run their budgets. This leads functional managers to underestimate the value of project management in general and feeds attitudes of "project management is a waste of time," or "project management slows down the process," or "project management is just a bunch of bureaucratic silliness." Such attitudes create a formidable barrier between project teams and their business units.

Who Is the Functional Manager?

In traditional project management literature, a functional manager is anyone with management authority over an organizational unit — such as a department — within a business, company or other organization. Functional managers are not necessarily affiliated with a project team, nor are they directly involved in the day-to-day management of the project. However, they are supposed to ensure that the team's goals and objectives are aligned with the organization's overall strategy and vision. And the functional manager is responsible for providing the project team with the resources needed to complete the project.

The Challenge of Integrating the Project Team into the Organization

The challenge is getting members of the project team to see the big picture and how their work is affecting the organization's overall long-term goals. The solution is establishing a customer-focused project team that creates an integrated provider/customer relationship. And you as the functional manager must accept your role as the spearhead of change and take this step yourself. You cannot rely on your project manager, your Project Management Office (PMO — the standards enforcers) or your project sponsor (the financier and visionary of the project) to integrate this team into the project organization.

The Functional Manager's Role in Creating an Integrated Project Organization

The structuring of the project organization must clearly define the role of the functional manager as an educated consumer. Whether in IT, marketing or accounting,

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Rebecca S. Clement, Publisher; **Andrew Clancy** Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Andy Ghillyer**, Contributing Editor

whether running a collection department or managing the faculty, the functional manager can define what is needed and enhance the project team's understanding of the business need. Therefore, the functional manager needs to be the catalyst for transferring critical knowledge in order to establish a true provider/customer partnership. When they become project management aware, functional managers can better participate in project planning sessions, understand why key planning documents are needed, interpret project reporting artifacts and recognize when project teams are wasting precious time and resources. The sooner this awareness occurs, the sooner you will see dramatic increases in project performance.

Three Types of Organizational Structure

Functional managers must understand the type of organizational structure in which they are operating, its impact on projects and the implications for the project manager, the project team and themselves. Three basic structure scenarios exist:

Functional. The functional organization structure aligns around the major functions of the business. Typically, they can no longer adapt to the changes of their competitors or demands from their customers. Most projects in such organizations underachieve their promise by between 20 and 70 percent, and project and functional managers become cynical. Success of the project is often associated with keeping the project boundaries within the functional manager's control. The more other departments or organizations get involved in the project, the greater the probability of conflict and poor project management.

Projectized. At the other end of the spectrum is a projectized organization, one that is primarily aligned around projects or programs. The planning, execution and control of projects and programs is usually a part of the organization's core business, and revenue is often tied to the successful completion of projects. Project management processes are mature, and financial tracking of project expenditures is ingrained into management information systems.

Matrix. The most common type of organizational structure, and the one in which most of us work, is the matrix organization. The grid-like structure allows a company to address multiple business dimensions using multiple command structures. However, matrix organizations may lack clear authority definition, which can lead to role ambiguity — the greatest obstacle to any project. Some may require significant administrative and overhead resources to support the matrix.

The Importance of Project Planning

When you, as the functional manager, partner in the planning process, the project organization will gain foresight from your collaboration. Foresight is accomplished by being close to the project's work, its outputs and consumption, without disrupting it.

A solid project plan allows both you and the project manager to work in the present with a plan for the future. Without it, you are no longer leading, but reacting to events. When a project is in trouble, teams find themselves continually reacting to the latest crisis. The project plan becomes outdated as tasks and activities become disconnected from the plan. Foresight moves the team from surviving crisis after crisis, which erodes trust and ignites fear, to executing with creativity and confidence.

What Is a Good Plan?

A good project plan should increase the confidence of stakeholders that the objectives set out for the project are achievable within the organization's parameters, particularly the budget, the time allotted and the project scope or functionality. A good plan does the following:

- It lays out an entire scope of the project in a manner that is easily understood and agreed upon by stakeholders and decision makers.
- It tells a simple story of how project work unfolds in a logical sequence and identifies the key decision points and milestones that must be reached before additional work can proceed.
- It presents 30 days of detailed activities and deliverables that show obvious progress or lack thereof.
- It presents uncertainty in a manner that stakeholders can comprehend, so they can then take appropriate action.

Basic Steps to Planning Projects

A project plan is an input to the execution or completion of the work of that project plan. Executing the plan is as simple as doing what you say you will do. However, creating the plan documents can be more complex. Here are eight of the most important steps:

1. Establishing project objectives
2. Developing the project scope
3. Decomposing/deconstructing the project into deliverables
4. Identifying resources
5. Defining activities

6. Estimating resources, costs and durations
7. Scheduling the work
8. Determining the budget

Summary of Project Planning

As someone new to project management and project planning, you may benefit from remembering these points:

- This planning process is iterative; each pass through these steps adds more detail to the plan.
- This process must be done in a true provider/customer partnership; the project team is not likely to be successful unless you are engaged and committed to creating a meaningful project plan.
- The goal is to get an initial plan created and then begin to execute; then do more planning and more executing. Momentum is generated by the accomplishment of incremental activities that the team said they would do.
- Don't be overwhelmed by the detailed project schedules and other PMO templates. Demand simple, meaningful project plans that can validate the competency of the project manager and the teams' ability to execute.

Understanding the Business Side of the Project

Project teams and their members move rapidly from one project to the next and are often under tremendous pressure to produce deliverables and results. Arriving quickly, then disappearing as they move on to the next urgent organizational need, project teams are becoming business and knowledge agnostics. Yet specific business knowledge is essential for project success, and the critical role of providing the relevant business knowledge to the project team belongs to you, the functional manager. This business knowledge becomes the foundation for project requirements, a key component to your project scope.

The Connection Between Business Knowledge and Requirements

Poor requirements are a common cause of project failure and are often rooted in a lack of understanding of the business. Although project managers pride themselves on being generalists, they often fail to acquire and utilize the business matter expertise that is available to help them on projects. As a result, changing requirements and scope creep can lead projects to the grave.

Writing Good Requirements

What exactly is a requirement? It's vital that you, the functional manager, have an in-depth understanding of what project managers mean by "requirement," because the project team will rely on you to communicate requirements for documentation as a part of the project scope.

A requirement is a condition or capability needed by a user to solve a problem or achieve an objective. Often, a system must meet or possess this condition or capability to satisfy a contract, standard, specification or other formally imposed document. Thus, the provider will be relying on you to provide clear, articulate information. The most common mistake is not considering requirements in light of a business process or processes. Understanding business process impacts is critical, not only to the specific process on which you may be focusing but also to related processes.

Scope Creep

One phase that almost everyone in basic project management training classes seems to understand is scope creep. Next to requirements, it seems to be the most-used layman's term in the daily events of project life. Scope creep is directly related to requirements and their mismanagement. It has many root causes besides poor requirements, such as undisciplined customers, use of the wrong system development methodology, and not having clear linkages of requirements to the business process. Further impact can come from changes in the business environment, new regulations, market demands, competition and cost factors.

The Ideal Functional Manager in the Project Organization

Functional managers who are asked to drive strategic change in their organization must be prepared to lead and have qualities that make working on such projects a success.

"Get It"… or Risk Getting Moved Out

Functional managers who are asked to step outside of their normal duties and participate in important projects need to adopt the following principles:

1. Take ownership of the responsibilities of being a good customer.
2. Embrace the provider/customer relationship.
3. Make decisions based on facts, not feelings.
4. Connect the project with organizational strategy.
5. Recognize the importance of structure in projects.

6. Get comfortable working outside your zone.
7. Understand the success factors of organizational change:
    a. Create urgency.
    b. Structure a powerful alliance.
    c. Vision the change.
    d. Communicate the vision.
    e. Remove obstacles.
    f. Create momentum with quick wins.
    g. Don't declare victory too soon.
    h. Embed the change into your culture and systems.
8. Be willing to take risks.

PART II: FOUR CRITICAL PROJECT MANAGEMENT SKILLS FOR FUNCTIONAL MANAGERS

Articulating the Real Customer Need and Business Case for the Project

A fundamental understanding of project management is one step; understanding your role in the provider/customer relationship is another. Now you must acquire the skills to complement those of your provider.

A skill lacking in many projects is the ability to find and articulate the real customer need, a need that is met by a mission. This skill must be applied during the initiation of projects but often is glossed over. If you expect a project team to deliver results and the project to provide the desired benefits, you must play a central role in articulating the need. Users have a sense of the needs but do not realize their implications. Sponsors and executives know the benefits they want but often do not fully understand the details of how to get them. This is where you fit in. You must be able to translate the sponsors' vision into real needs, potential solutions and process changes.

Understanding the real need of your project is a discovery process, one that involves continual dialogue and collaboration, which implies that a relationship must exist between the provider and customers. Discovering the real need requires you and the project manager (the customer/provider partnership) to pursue an open and honest dialogue with all members of the project team. The dialogue should include questions such as

- Why does capacity need to increase or cost need to decrease?
- How much does it need to increase/decrease?
- How is it measured?
- What if this need is not met? What happens? Who is at risk?
- Who ultimately benefits from having these needs met?

The questions must be pursued vigorously and satisfactorily answered if everyone is to comprehend and buy into the mission. Once you have the answers, you can complete the following critical steps:

1. Produce a compelling project mission statement based on real needs.
2. Create a meaningful current state and future state comparison.
3. Base your requirements on the business process.
4. Prepare a realistic business case for your project.

Staying Focused on Project Deliverables

As a functional manager, your goal is to keep the project team and your stakeholders focused on deliverables. This does not mean that you need to become an expert at decomposing/deconstructing deliverable structures, also known as work breakdown structures (WBS). However, deliverable structures are a fundamental element of project planning, one that is often misunderstood and incorrectly used.

The Deliverable Structure: A Portrait of the Work

A deliverable structure can be considered a portrait of the work. Provider/customer partnerships must be effective in creating a portrait — preferably using graphics — that aligns with the real need and vision of the project. This planning document is built with and for the customer and team members. It is essential for defining the scope and then executing and controlling the project.

A simple process to create a deliverable structure is as follows:

1. Identify the final product of the project. This is the top level of the deliverable structure and may also be the project name.
2. Identify the major components of the product, service, or result to be created (product approach) or the sequence of phases of the project (phase approach).

3. Decompose/deconstruct the major deliverables within each component, following the rules of deliverable structures:
   - Each element should be a single, tangible deliverable.
   - Each element should be an aggregation of subordinate elements.
   - Deliverables should be unique and distinct.
4. Review and refine with stakeholders.

Deliverables vs. Activities

The process of identifying lower level deliverables is called decomposition (deconstruction), meaning breaking down the deliverables into smaller, more manageable components. The common mistake is to dive immediately into tasks or activities when decomposing your project. Our brains are trained to think in terms of actions first, not outputs. Understanding these two terms is important:

- Deliverables are any tangible work product (e.g., documentation, analysis, process map, data file, software interface).
- Activities or tasks are actions performed to create deliverables (e.g., create draft specifications, conduct meeting, review plan).

Thinking about activities at this point is fine, but you should think through activities to the point of creating an output or tangible deliverable.

Missing Pieces

If your project manager takes the initiative to develop a straw model of the deliverable structure and present it to you, make sure he has included the following five components that are often missed:

1. Integration. Technology projects commonly have multiple system efforts in scope, and these systems likely have to communicate or integrate with each other. Each system may have its own deliverables for requirements, design, code, etc. But the project also needs deliverables that address any integration points.

2. Business analysis. Business process modeling deliverables are often left out by project managers with a technical orientation. The development of current and future state processes and a gap analysis should be in the structure.

3. Testing. Although testing deliverables are not usually left out, they may be less visible than they should be on the deliverable structure. If they are subdeliverables of a build stage, the effort is likely to be underestimated. If testing is a critical component of the project, elevate it to level one or two in the deliverable structure. A common problem is project managers' borrowing time from testing to make up for slippage that occurs in earlier phases. The more visibility testing has, the harder it is for them to do this.

4. Communications. For change initiatives, communications are critical components. These could be newsletters, websites and email campaigns to drive the behavior in project customers that produce benefits.

5. Project management. Project management deliverables consume time and resources and must be a part of any deliverable structure. This category includes not just planning documents but status reports, regular project updates and project reporting deliverables.

Maintenance of Your Deliverable Structure

Your project manager is responsible for updating the deliverable structure on a regular basis. Here is a good test to determine whether your project scope is stable: Walk around the halls of your project team and ask them what they are working on, with a copy of the deliverable structure in hand or at least in your mind. If team members are engaged in efforts that do not directly relate to a deliverable on the deliverable structure, then you have potential problems. Either the scope has changed and the deliverable structure does not reflect the actual work (a common occurrence), or team members are working on unapproved changes, which is, unfortunately, an even more common occurrence.

Understanding Key Project Dependencies

Once you have mastered defining the work of the project in a deliverable structure — the portrait of the project — you must enhance this by developing the high-level dependencies between these deliverables. Think of it in terms of telling the story of the work — how it plays out, what work must be done before other work can start, and what are the critical relationships between deliverables. Your deliverable structure is an input to this story of the work. The story of the work illustrates critical decision points for primary and secondary stakeholders and shows where customer acceptance — sign-off — occurs. It also provides insight into risks: If this deliverable is not done properly, it will impact the quality of other project management deliverables.

Sequencing project work and the project management output of this process can be complex. Your goal as a functional manager is to keep it simple and tell a story to

your stakeholders that they can easily understand. You do not need training in project management scheduling or on sophisticated project management software. That is for your project manager; he or she should be experienced in the details and nuances of producing an accurate schedule with a critical path and be proficient in using the software tools that produce it.

The common mistake is to let your project manager sequence the details of the work without input from you and the primary and secondary stakeholders. Often, project managers believe this is a purely technical task of working through the dependencies of project work, which only they can figure out. The solution is to create simple, high-level sequence diagrams that depict the major relationships among the significant deliverables (the story), which you defined in your deliverable structure (the portrait).

Another benefit of getting the story of the work in front of primary stakeholders early is the ability to successfully negotiate scope, schedule and cost. Sponsors tend to drastically cut schedules while not wanting to compromise scope or quality. If you involve the customer and sponsors in the deliverable structure creation at the appropriate level, the proper use of a simple flow diagram highlights the risks of compressing timelines.

Being Proactive About Project Risk

Another critical skill is the articulation of risk. Project managers must understand risk management processes, but your role in the partnership is to create an environment where risk can be discussed openly and prudently.

Here is the problem: Project managers are notorious for capturing issues, assumptions and hidden risks around projects and aggregating them into lengthy lists that get little attention and quickly become outdated. Articulating risks with clarity makes them real and manageable. A project manager may be more focused on the technical risks that impact their personal interest, such as meeting a deadline or budget constraint.

Another problem is that many organizations have a culture that frowns on talking about risk. "Risk" is a forbidden four-letter word; it implies that a situation is out of control.

Basics of Risk

Risk is based on uncertainty about the future. What creates risk is a possible event or condition that, if it occurs, will affect at least one project objective, such as scope, schedule, cost or quality. Without a clear definition and understanding of your objectives, risk management becomes more difficult. Risk conditions could include aspects of the project or organization's environment, outdated technology, untrained project workers, turnover or uninterested customers. Risks could be related to the project-specific work, the relationships between deliverables or the relationships between stakeholders.

Every project has known risks, those that can be identified, but projects also have unknown risks, which cannot be managed proactively. Project leaders address known risks by identifying and analyzing them and then creating response plans. Response plans that mitigate risks — reducing their probability and/or impact — are a part of your scope and budget. The unknown risks, those that cannot be identified or proactively responded to, are not part of your baseline scope or budget, but you may allocate a contingency fund or plan to managing them.

An issue is not the same as a risk; rather, an issue is the result of a project risk that has actually occurred. Remember, project risk is always in the future. Risk management should be embedded in all project planning processes and all common processes in all projects. These common processes are:

- Initiation
- Planning
- Executing
- Monitoring and controlling
- Closing

Risk Management Process

The risk management process is intuitive and can be summarized in five steps:

1. Decide how you will handle risks on your project in general. You should determine how to approach and plan for project risk, identify the level of risks and types of risks to be managed and decide what level of management visibility is required. Keep in mind that management visibility should be consistent with the risk's level of importance.

2. Identify actual risks. Your key inputs into risk identification are project artifacts with which you are familiar:

- Mission statements
- Deliverable structure and acceptance criteria
- Flow diagram
- Requirements
- Stakeholder analysis

3. Quantify the risks. Risk events always have two elements:

I. The probability of the event occurring in the future.
II. Its potential impact on your project objectives.

If your objectives are vague, the impacts or risk events will be vaguer and will generate no interest or concern from your stakeholders. Risks have sources or causes, which may include changes in requirements or scope, design errors, poorly defined roles and responsibilities, poor estimates, lack of skills and staff turnover. Based on your project's objectives, you must determine how likely these risks are and the specific impacts they would cause.

4. Prioritize the quantified risks, and discuss responses with stakeholders and team members. Responses can fall into the following four categories: Accept or ignore the risk. Avoid the risk. Transfer the risk. Mitigate the risk.

5. Continue to monitor your risks. This includes continual identification of new risks that appear and others that go away as project work progresses.

An excellent place to find risks is in your assumptions list. Assumptions are project conditions that are assumed to be true in your project, and documenting them will help validate the accuracy of your project plan and determine when changes need to be made. Assumptions can be dangerous if they are not continually validated as being true. A typical software project may have an assumption that user security profiles are accurate based on business manager sign-off. A project manager leaves this as an assumption, but you should translate the assumption into a risk event, such as, if user role security profiles are incorrect, the resulting changes to user profile security after user acceptance testing will create the need for additional test cycles, increasing testing costs by 5 percent.

With a specific risk event, a discussion can occur about the probability of the risk event, risk sources, and decisions can be made about acceptance, mitigation and subsequent planning activities. Too often, risks get documented as generic issues or assumptions or, even worse, pushed under the table. By properly identifying the risk event or condition and its probability and potential impact, the sources can be rooted out and mitigation plans built into the project plan.

The Power of Principles

When facing the temptation of the latest project management fads — automated PMOs, Agile PM certifications, Lean Project Management — it's useful to revisit some basic principles:

- **Relationships are extremely important.** Trust-based relationships make it possible to survive the chaos that change in organizations brings to people's lives.
- **Good planning is essential to project management.** A good plan has the right amount of detail for the specific situation, it arrives in the right time to align stakeholders and is easy to comprehend.
- **No matter how good you are at building relationships and planning projects, you must still be able to execute.** Executing the project plan begins with communicating it to your stakeholders. Those initial encounters with your key stakeholders are truly critical because the first impressions of your plan are lasting.
- **Strategic plans are embroiled in conflict — conflicts between the status quo and agents of change, the risk averse and the risk takers, the pacifiers and inciters.** This conflict must be awakened for the organization to address and resolve the tension that has long been dormant. Without that tension, the organization is not likely to move forward. Managing this conflict is a part of the landscape. How you manage it will determine whether the conflict becomes positive energy to support lasting, fundamental change in the organization or whether it becomes negative energy, worsening the organization's inability to change.

Projects cannot be successfully executed by a project team alone. As a functional manager, you must step out of your normal duties and participate in important projects. You must take ownership of the responsibilities of being a good customer, embrace the provider/customer relationship, integrate the project team into the business and keep it aligned with the organizational strategy. You must facilitate good decision-making based on facts and recognize and participate in the structure and planning necessary to execute projects. Finally, you must be willing to take risks and work outside your comfort zone. Ultimately, you need to "get it," or risk being moved aside.

RECOMMENDED READING LIST

If you liked *Project Management for Non-Project Managers*, you'll also like:

1. ***A Manager's Guide to Project Management*** **by Michael Bender**. Written for senior executives, this title offers strategies to add value to the process of project management.

2. ***Emotional Intelligence for Project Managers*** **by Anthony Mersino**. Learn the essential tools of EQ to master the most difficult part of project management: handling people.

3. ***Finding Allies, Building Alliances*** **by Michael Leavitt and Rich McKeown**. Discover how to build a network to accomplish any goal

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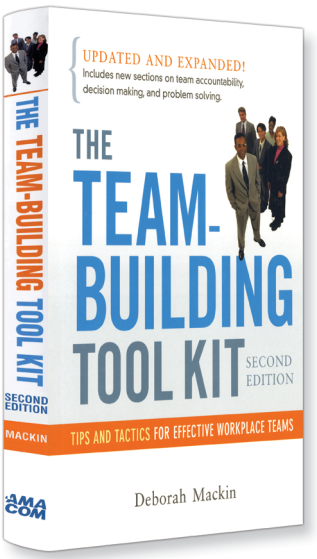
38CS04A Team-Building Tool Kit

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The Team-Building Tool Kit

Tips and Tactics for Effective Workplace Teams



by Deborah Mackin

THE SUMMARY IN BRIEF

The Team-Building Tool Kit is the most trusted resource on team building. Packed with fast and ready-to-use tools and techniques, *The Team-Building Tool Kit* gives you all the information and strategies you need to get the most from your teams.

It includes critical information on team accountability, decision making, and problem solving. *The Team-Building Tool Kit* provides easy-to-understand guidance on how to have effective team meetings, assess team performance, resolve team conflicts, train for high performance, and much more.

Few organizations derive the full benefits that successful teams can provide, simply because their teams are not nurtured and managed correctly. Whether you read the entire summary or use it as a quick reference, *The Team-Building Tool Kit* is a crucial resource for anyone working with a team.

IN THIS SUMMARY, YOU WILL LEARN:

- Tips to improve accountability for results and team-member behavior.
- A better method for effective team meetings.
- How to resolve team conflicts before they cause permanent damage.
- Techniques to design a plan for implementation.

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THE COMPLETE SUMMARY: **THE TEAM-BUILDING TOOL KIT**

by Deborah Mackin

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Getting Started

Team building begins with a clear decision by leadership to encourage, and even to require, employees to operate in teams. Leadership must recognize that teaming is a cultural change that will include

1. Developing awareness of teams both as a tool and a culture shift.
2. Acquiring knowledge and understanding about how teams function.
3. Learning skills to perform new teaming behaviors.
4. Internalizing attitudes and beliefs so that teaming becomes a way of life.

The role of leadership is critical through each of these steps. Lack of leadership support remains the number one cause of team failure.

Types of Teams

As an organization begins its team-building efforts, one of the first concerns it must resolve is what type of team to create. The green light for team building is typically a top-management decision. Some organizations begin with high-level policy-making teams charged with identifying broad concerns and setting goals, whereas others begin with small departmental teams. Whether the impetus comes from a company-wide policy review or from a departmental task force, teams should be formed only when an achievable common goal can be identified. The various types of teams are somewhat like the flowers in a garden: All serve a particular purpose and have their own characteristics and set of benefits:

Multifunctional Teams

- Identify major areas of organizational concern/opportunity; articulate organizational needs.
- Develop philosophy, strategy, policies and direction.
- Include members from various levels of the organization and across functional areas.
- Are sometimes called design teams or quality councils.

Task Force or Cross-Functional Teams

- Include between eight and 12 members; membership based on common purpose.
- Bring together individuals from multiple work areas at a similar level.
- Necessitate regular meetings over either a short or an extended period of time.
- Implement a strategic plan for addressing problems/concerns/opportunities; others may complete the implementation of the plan.
- Assume investigative, corrective, interactive function.
- Are sometimes called steering teams, process improvement teams, product launch teams or Kaizen teams.

Improvement Teams (Functional or Value Stream)

- Include members of one department or one value stream.
- Focus on problem solving; identifying solutions.
- Restrict scope of activity to within departmental or value stream boundaries.
- Hold regular meetings over a short period of time.
- Have a short life span.

Self-Directed Work Teams (Functional or Value Stream)

- Comprise an intact team of employees who work together on an ongoing, day-to-day basis without direct supervision and who are responsible for a "whole" work process or segment.

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Rebecca S. Clement, Publisher; **Andrew Clancy**, Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Andy Ghillyer**, Contributing Editor

- Assume "ownership" of product or service and are empowered to share various supervisory and leadership functions.
- Function semi-autonomously; are responsible for controlling the physical and functional boundaries of their work and for delivering a specified quantity and quality of a product or service within a specified time and at a defined cost.
- Are all cross-trained in a variety of work skills.
- Share and rotate leadership responsibilities; team members have equal input decisions.
- May prepare own budgets and coordinate work with other departments.

The Basics of Team Functioning

The first step in forming a team is to define the team's goal on the basis of the purpose or problem to be examined. The founding person or body drafts the team's preliminary charter, including the mission, team goals, expected outcomes, time requirements and authority level. In addition, the founding person or body is responsible for defining, communicating and negotiating the "what" (direction), "why" and "when" to the team. The team is then responsible for determining the "how" (the approach).

Determining Level of Authority and Responsibility. When a team is created, the coach or team sponsor must clearly define its level of responsibility and authority, setting the limits within which the team may act autonomously. Although it may be cumbersome, the most effective way to detail authority is to create a RACI chart:

- **"R" Responsible.** The "doer" of the task, responsible for completing the task or making the decision. Multiple people/teams may have responsibility for completing a task or making a decision.
- **"A" Accountable.** The person or team held accountable for ensuring that the task/decision is completed on time and meets expectations. This person does not have to do the task. However, in a team-based environment, the accountability should focus on the "doer" whenever possible.
- **"C" Consulted.** The person/team who will be consulted with by the responsible ("R") person/team, before performing a task or making a decision.
- **"I" Informed.** The person/team who will be informed that a task or decision has been completed or made.

Even in traditional management structures, decision-making authority is often not clear. In the excitement of getting started, teams often give themselves much more authority than they truly have or should have based on their development. When the presumed authority is clarified later on, the team often experiences considerable disappointment. It is wise to place clear limits on the team at the beginning and grow the level of authority as the team demonstrates maturity and focus.

Key Components in High-Performance Teams

High-performance teams display the following characteristics:

- Team goals are considered to be as important as individual goals; members are able to recognize when a personal agenda is interfering with the team's direction.
- The team is able to focus on both task completion and process maintenance.
- The team understands the goals and is committed to achieving them; everyone is willing to shift responsibilities to meet demands.
- The team climate is comfortable and informal; members feel empowered and understand that individual competitiveness is inappropriate.
- Respect, open-mindedness and collaboration are high; members seek win/win solutions and build on each other's ideas.
- The team continually works on improving itself by examining its charter, protocols, procedures and practices, and experimenting with change.
- Team responsibilities become integrated with job responsibilities.

Closing Out a Team

When a team has completed its purpose, it is important to provide closure for the members. This is often a time to reflect on progress and to celebrate the team's accomplishments. However, teams tend to construe closure with failure. Many are concerned that closure will bring about the end to comfortable relationships with team members, and they fear that their accomplishments will get lost. Consider this sample process for making the closure effective:

1. Empower the team by asking its members how they would like to bring closure to the project or merger with anther team.
2. Schedule a meeting to present the team's findings and recommendations; invite anyone affected by the team's recommendations.
3. Decide on a review procedure and a completion date for assessing the team's recommendations.
4. Recognize and reward the team's accomplishments in some formal manner.
5. Identify any other areas of the organization that could benefit from the team's ideas or skills.

6. Encourage the team's members to develop "lessons learned," both as individuals and as a team, that they are willing to share with other teams.
7. Discuss any transition issues for the team, such as team files/records and transfer of information to a follow-up team.

Let's Meet: Team Meetings

The team meeting is the team's "playing field," where the processes of initiating, planning, executing, following through and controlling all take place. However, a meeting whose only purpose is information sharing will never be effective for a team. The team's meeting must focus on important team activities such as planning, problem solving and decision making, with as little time spent on information sharing as possible. With email, voice mail and memos, all the information the team needs can be shared outside the meeting. Then, at the meeting team members can bring their questions, concerns and actions required based on the information shared earlier. There's no more coming to meetings without knowing what's going to happen, because team members have completed their pre-reads and expect to participate and work hard together.

Typical Meeting Problems

Although meetings are vital for the team's health, they can also be a source of considerable wasted time. Here are some of the problems often encountered in poorly run meetings:

- Meeting roles are poorly performed by team members, resulting in other members taking over. This is especially true of the facilitator's role.
- The team jumps into discussing agenda topics before planning the work: agreeing on the goal of the discussion and structuring the approach the team will use.
- Members' silence is treated as if it means agreement, when often it doesn't.
- The team relies on the coach or sponsor to generate ideas.
- No outcomes are identified for agenda items, and the meeting goal is not clear.
- No agenda exists, the agenda is not distributed in advance or the agenda is too "lightweight" in terms of topics.
- The facilitator is not prepared or monopolizes the discussion.

Facilitating Team Meetings

The role of the facilitator is critical to the success of a meeting. A skilled facilitator has the ability to ask just the right question to open discussion and keep the team moving. It is critical for the balance of power that the role of facilitator be rotated among team members. Here are some general pointers to keep in mind when you facilitate team meetings:

- Remember that every agenda must have a desired outcome identified, and these outcomes must focus on planning, problem solving and decision making.
- Remember that the tentative agenda requires the consensus of the team before proceeding. Change the agenda only when the entire team agrees, not when only one person suggests a revision.
- In tense situations or when solutions are difficult to reach, remember the value of small-team discussion, humor, quick games for energy, affirmation and silence.
- End the meeting with a sense of gathering together and a summary.

Team Behavior

Effective teamwork is not just about getting a set of tasks done. It also requires the ability to manage the process of working together: listening to each other, communicating openly, surfacing feelings, exploring different approaches and reaching decisions. These behaviors are often not taught in our early educational experiences, and many people have achieved success as managers and supervisors without needing these behaviors. It's only when we need to work together — as a team — that these behaviors are crucial.

Behavior Changes

Teamwork becomes particularly difficult when members recognize that they will each have to change some parts of their behavior. Making excuses, procrastinating, blaming and feigning ignorance are just a few of the stall tactics members will use. Here are important behavior changes for employees, supervisors and managers:

Critical Behavior Changes for Employees

- Learning to speak up in groups.
- Taking responsibility for one's own thoughts/actions.
- Learning to state an opinion and offer a proposal.
- Receiving and expressing positive and negative feelings.
- Saying no.
- Responding to criticism.
- Making requests of authorities.
- Negotiating for something desired.

Critical Behavior Changes for Supervisors

- Being willing to share power and responsibility.
- Proposing ideas for discussion.
- Asking questions instead of making statements.
- Listening to others.
- Remaining open-minded.

Critical Behavior Changes for Managers

- Having the courage to resist recommendations that are not beneficial.
- Accepting decentralized decision making.
- Believing that everyone has good ideas.
- Being willing to implement team suggestions whenever possible.
- Recognizing team accomplishments.
- Seeing teams as a long-term effort.
- Thinking "yes" before saying "no."

Team Accountability and Decision Making

Some teams think that as soon as they're called a team, they have the right to make all the decisions without any involvement of others, including their coach or sponsor. That is not the case. The transfer of authority and accountability is a gradual process that occurs as the team develops and matures. Similarly, decision making begins with small decisions, such as when to have meetings and how to rotate team responsibilities, before the team tackles larger and riskier decisions.

Accountability: An "I" Experience

Even though we think of teaming as a "we" experience, the act of assuming accountability is actually an "I" experience. As a result, we try to identify all the opportunities for individuals to be specifically assigned tasks to build their accountability to the team's results. Here are a few examples:

- The requirement of rotating team meeting roles throughout the entire team.
- The scribe recording action items with specific names of team members who assume responsibility for getting tasks done with definite deadline dates.
- The maintenance of an open action items list with names and deadlines assigned. Teams have found it helpful to cross out missed deadlines but not remove them from the list, to illustrate how many weeks something has not been completed. This action drives accountability in the team member assigned to the task.
- The assignment of "buddy" roles, in which each team member has a buddy who is responsible for performing the meeting role, collecting materials and updating the member when he or she is absent.
- The assignment of subject matter experts (SMEs) within the team who have specialized capabilities in certain skill areas.
- The requirement in the conflict resolution protocol that team members go "one-on-one" first when a conflict occurs, before going to a coach.
- The individual assessment by team members of how the team is doing and reporting of the results to the team.

Team Decision Making

Team decision making and accountability go hand in hand in the teaming process. This stems from a fundamental belief that "we" are smarter together than any of us alone. Although most teams use the consensus process for making their decisions, a team truly has a range of decision-making options it can use. For example, the team can decide by consensus to authorize a team member to make an autocratic decision, such as what item to buy when talking to a vendor. The team can authorize minority rule by having a few members make the decision in a subgroup. In an impasse, the team can decide by consensus to use majority rule (voting) to help break the stalemate. However, although all of these options are available to the team, the members must decide by consensus to exercise any of them.

Best Team Decision-Making Behaviors

There are six behaviors that the best teams use when making decisions:

1. **Ask many questions and avoid positioning.** Team members must ask positive, provocative questions rather than take sides or defend a position.
2. **Develop multiple alternatives.** Team members need to develop at least three options for the team to explore. That way if the option chosen doesn't work, the team can go back to earlier options to get started again.
3. **Test all assumptive statements.** Team members need to become adept at distinguishing between things people say that are actually true facts and things they say as if they were facts but are actually assumptions. Those assumptions should be tested by having a team member say, "How do we know that? Where are the facts?"
4. **Identify well-defined criteria.** Prior to making any decision, the team must develop the criteria it will use to determine whether a choice is a good one. A

decision matrix is an effective tool for doing this. This tool allows the team to score each decision option according to predetermined criteria.

5. **Encourage challenge and debate.** Early in the team process, it helps to identify one or two members to play the role of "challenger" so that healthy debate exists for all the options.
6. **Use a fair process.** When people don't feel a process is fair and the decision has already been made, they begin to "vote with their feet" and miss team meetings. Research shows that when members feel the decision process is fair — even if their preferred choice is not selected — they will support it.

Team Problem-Solving Process and Tools

Successful teams work three components of teaming simultaneously:

1. **Task.** Getting tasks done and producing results through goals, work plans and timelines.
2. **Process.** Managing processes such as meetings, information sharing, problem solving and decision making.
3. **People.** Blending the skills and knowledge of members to create something that is better than any individual could create alone.

Effective problem solving tests all three of these capabilities on the team. When the team is clear about the problem to be solved, has process skills to implement an effective approach and draws on the talents of members, the probability of effective problem solving increases dramatically. However, most team members dread the idea of trying to solve problems as a whole team. They anticipate that a few people will dominate and argue, that the problem will never be clearly defined and that the solution chosen will be the one that's easiest to implement. Yet one of the true benefits of teaming is the synergy created when talented minds create an idea or approach that no one person would have suggested alone.

A Simple Problem-Solving Approach

Most teams need to have a common problem-solving approach that they can use over and over to the point that it becomes automatic for them:

1. **Find the problem to work on.**
   - Brainstorm a list of problems to work on, select one by agreed prioritization criteria and draft a clear statement about that problem.
   - Identify the impact of the problem in terms of failure costs: How much is this problem costing us in terms of delays, rework and upset customers?
   - Draft a statement of the SMART (specific, measurable, achievable, realistic, time-bound) goal to be achieved when the problem is fixed.
2. **Analyze the problem.**
   - Identify the assumptions being made about the problem. A useful tool for this is Chris Argyris' Ladder of Inference that begins with a small piece of data, to which the team adds meaning, expands that meaning to an assumption, forms a conclusion and develops a belief. Based on that belief, the team takes action that often perpetuates the original problem. Requiring the team to lists its assumptions about the problem is a very enlightening experience.
   - Identify the data needed to test whether the assumptions are true.
   - Identify any other data needed to understand the problem more fully.
   - After the data are collected, synthesize the data into a clear understanding of the root causes of the problem. Tools such as Fishbone diagrams and/or interrelationship diagramming are useful at this point.
3. **Develop and select a best solution.**
   - Identify the criteria to be used for selecting a solution, and weight the criteria and what an acceptable score would be. For example, if the team uses five criteria and a five-point scoring scale, the top score would be 25. The team should identify how low a top idea can score as well.
   - Generate at least three solution ideas.
   - Give voice to both pro and con arguments for each idea to avoid the groupthink effect.
   - Score each idea against the team's criteria to surface the top idea.
   - Reach consensus to go forward with the top idea.
4. **Execute the solution to solve the problem.**
   - Define a specific goal for problem resolution, including a deadline.
   - Create a work breakdown that spells out the milestones, or "buckets of work," that must be accomplished to solve the problem. Identify an owner/champion for each bucket and specific time frames for completion.
   - Capture all deadlines on future team agendas to discuss progress and difficulties.
   - Complete a RACI chart showing responsibility and accountability for solution implementation.

- Use a tool such as a Gantt chart to track all tasks associated with the solution plan.
- Assign subteams to complete specific buckets of work if needed.
- Develop a method to monitor and measure whether the solution is working.
- Establish a corrective action plan if the solution idea is not effective.

Team Scoreboards and Performance Assessments

The quality-control maxim "what gets measured gets done" is equally valid for a team-based organization. The team will need to design two processes: one to track its performance and one to determine how it is functioning as a team.

Team Measurement Systems

As soon as possible, the coach or sponsor will want to help the team determine what results to measure on an ongoing basis. The team might measure the amount of work produced; the number of error-free days, customer complaints or delinquent action items; and improvements in cycle times, downtime and safety audits. Usually the team identifies four or five measures that it will track and discuss. This process of measuring results helps to build a sense of ownership and responsibility among team members.

To prevent a team from becoming too insular, it is helpful to include some measures that require the team to work closely with other teams or to be sensitive to the organization as a whole. However, it's important that the measures represent items that the team can control or influence through its own results. The goal is to get the team to own its measures, rather than management. That means the team must determine what it will measure, how it will measure, and how it will analyze results and discuss when things are going right or need improvement.

Special Tips on Team Assessments. Assessing a team's performance is not designed to put the team on the spot and show weaknesses. It is designed to help the team grow and develop, learning from its strengths and weaknesses. Along the way, certain points have proven to be important:

- The assessment system must reinforce and support the beliefs, attitudes and behavior required in a team-based organization.
- The team assessment process must begin early in the team's development and not be aligned initially with compensation or tangible rewards. Members should not be looking for a reward for standard performance required of all team members.
- It is best to assess total team performance before having members conduct peer reviews.
- Avoid linking other personnel decisions such as promotions, demotions and compensation to the feedback process, especially if negative feedback is likely.
- Individual peer reviews are best conducted when a team has reached an advanced stage of team building.
- When team members openly discuss problems they are having with other team members, they may exaggerate and generalize about the problems to gain team support. Members must actively work to avoid the bandwagon effect and maintain a level of open-mindedness.
- Plan to implement the individual team member review system along with the compensation system as the last areas in the team sequence.

The Teaming Road Map

How do you put all the pieces together and transform a workplace into a high-performance, team-based culture? To be successful, there are a number of pieces that have to be strategically placed to bring about the change. Unfortunately, some organizations use teams just to involve people (get their opinion and insights) but not engage them in the decision-making process. Others, in vastly reduced numbers, empower employees to run their piece of the organization's real estate — to own it like a home or small business. The teaming road map is designed to help the latter type of organizations initiate, plan, execute and control the teaming process.

Too often organizations launch pilot teams as their first steps, even though they are often clueless about what to do and how the teams will interact with the existing operational structure. The teaming road map provides the transitional structure to lead the organization from where it is to where it needs to go. The road map uses an inclusive, dynamic approach that must be customized along the way to the organization's unique requirements: There is no cookie-cutter approach to teaming. However, there are specific strategies that have proven to be successful when supported and encouraged by management.

Creating a Design Team

Managing the organizational upheaval that comes with converting to a team-based organization requires the formation of a design team — a multifunctional represen-

tation of the organization charged with recommending the new organizational structure to leadership. The job of the design team is to

- Design a natural value stream, or virtual work team structure, for the organization that supports productivity, safety and quality goals.
- Determine the launch sequence for all pilot and regular teams, including self-directed, cross-functional, multifunctional and even cross-cultural teams.
- Implement the team structure in a planned, effective fashion.
- Initiate other change support teams, including the communication team and the in-house training team.
- Develop and implement systems to monitor and evaluate the progress of the teams.
- Champion the continual improvement of the team structure for the long-term benefit of the organization.

Launching Work Teams

If the organization intends to launch multiple workforce teams within a short period of time, the design team provides the ideal mechanism to organize and orchestrate the rollout. The design team must consider the readiness of the areas where teams will be launched, the rollout schedule for new team coaches, the organization's critical areas in terms of workload and schedule and the feasibility of getting the teams trained. The design team creates the master rollout schedule, notifies the coaches and teams and oversees the process, troubleshooting as any problems arise.

Virtual Teams

Not only does the design team need to address the local transition but also the effect on virtual teams in the organization. Virtual teams are defined as teaming networks, or virtual communities, that exist outside geographical boundaries yet are committed to common goals and approaches, similar to co-located teams. To succeed, virtual teams must follow these guidelines:

- Team members must regard communication as part of the work of the team, not as support for work or adjacent to work, but designed as an intentional action with firm rules.
- Logging on is a signal of the team member's arrival in the electronic workplace. Skills in working with electronic tools and virtual operations are required of all team members. Team members must agree on standard technology common to all.
- Team members must believe that virtual members want the same results as they do even though they all work independently. Face-to-face time in the beginning of the team's formation is critical to forming this belief.
- Team members must proactively seek out the information needed rather than wait for it to come from others.
- Coaches must understand that leadership in a virtual team requires the ability to keep the team focused on its overall mission and goals, manage a complex network of dependencies, create and sustain virtual communication and relationships, and present technologies in ways that team members will utilize and embrace.
- Team members must visualize themselves in a teaming community, establishing regular times for team interactions, including informal chitchat, socializing and celebration.
- Team members must learn to test assumptions as a regular part of communicating and give and receive feedback, especially with team members who are communicating poorly. Team members must be reminded that the written word can be viewed as much more harsh than the spoken word.
- Although the team's meeting room is a virtual setting via the Internet, e-room, website or electronic bulletin board, team members must understand that all the roles and meeting protocol requirements are the same as for co-located teams.

Individual Team Road Map

Typically, most teams find themselves between various phases of team development. The teaming road map provides a structure for the teams to use that identifies the competencies needed at each phase of teaming and a mechanism for assessing whether they are being demonstrated. As teams accomplish each phase of the road map, they can elect various rewards and/or recognition to motivate their advancement. Simultaneously, as the coach increases the level of the team's accountability, the coach is also assessed on his or her skill and development.

RECOMMENDED READING LIST

If you liked *The Team-Building Tool Kit*, you'll also like:

1. ***Team Genius* by Rich Karlgaard and Michael S. Malone**. The authors focus on the critical role of informal teams within the core of successful companies.

2. ***A Team of Leaders* by Stewart Liff and Paul Gustavson**. With emphasis on the design of a team, this summary offers a new way to energize groups of employees and improve performance.

3. ***The Synergist* by Les McKeown**. Most teams operate with members playing one of three roles. McKeown introduces The Synergist, the essential fourth role that makes any team a success.

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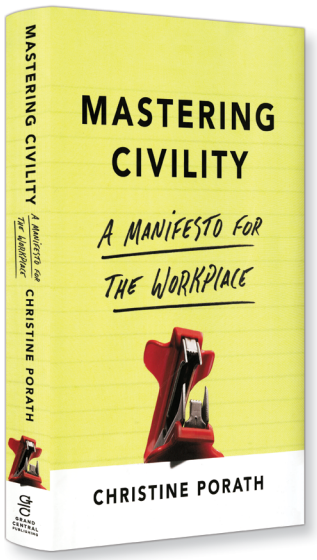
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Management

Mastering Civility

A Manifesto for the Workplace



by Christine Porath

THE SUMMARY IN BRIEF

Incivility is silently chipping away at people, organizations and our economy. Slights, insensitivities and rude behaviors can cut deeply and hijack focus. Even if people want to perform well, they can't. Ultimately incivility cuts the bottom line.

In *Mastering Civility,* Christine Porath, the leading authority on workplace incivility, shows why it pays to be civil and how people can enhance their influence and effectiveness with civility. Combining scientific research with fascinating evidence from popular culture and fields such as neuroscience, medicine and psychology, Porath makes clear what's really at stake regarding civility, helps individuals evaluate and improve their own behavior and provides valuable strategies for how leaders can find and keep employees who help to create civility in organizations.

Mastering Civility provides managers and employers with a much-needed wake-up call, while also reminding them of what they can do right now to improve the quality of their workplaces.

IN THIS SUMMARY, YOU WILL LEARN:

- The physical, psychological and monetary costs of incivility for individuals and organizations.
- Why you can be civil *and* get ahead.
- To evaluate your own civility and concrete strategies to improve.
- A four-step plan for organizations to improve civility.
- How to respond if you are the target of incivility.

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THE COMPLETE SUMMARY: **MASTERING CIVILITY**

by Christine Porath

The author: A professor at Georgetown University, Christine Porath researches not only the effects of bad behavior but also how organizations can create a more positive environment where people can thrive, and how individuals and organizations benefit in terms of well-being and performance. Her work has been featured worldwide in over 1500 television, radio and print outlets, including *Time, The Wall Street Journal, The Washington Post,* NBC, CBS, CNN and the BBC.

Mastering Civility: A Manifesto for the Workplace by Christine Porath. Copyright © 2016 by Christine Porath. Summarized by permission of the publisher, Grand Central Publishing, a division of Hachette Book Group. 240 pages, $25, ISBN: 978-1-45556-898-7. To purchase this book, go to www.amazon.com or www.bn.com.

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Introduction

One question defines our professional success more than any other. Just one: *Who do you want to be?*

Whether you know it or not, you're answering this question every day through your actions. How you treat people means everything — whether they will trust you, build relationships with you, follow you, support you and work hard for you, or not.

In the past 20 years, the incivility problem has gotten much worse. All of us desperately need to change this reality, for the sake of people *and* organizations.

Many leaders know that incivility is costly, but they don't always recognize just how much civility pays or how to make it happen. Research confirms that your kindness, consideration and respect can have a potent effect, creating a positive dynamic of civility that others will respond to and build on.

Ask yourself who you want to be several times a day as you react to all the challenges, victories, surprises and tensions you encounter. How do you want to affect people? What impact do you want to have? Take the advice and science presented here to answer these questions, and make your team, organization and society a bit better.

PART I: THE STAKES: THE HIGH COSTS OF INCIVILITY AND THE POTENTIAL GAINS OF CIVILITY

Clueless

In the Civility in America 2016 survey, almost all respondents — 95 percent — believed we have a civility problem in America; 74 percent believed it was worse now than it had been a few years ago; and 70 percent believed incivility has reached crisis proportions. By all accounts, incivility has only gotten worse.

Rude behaviors range widely — from ignoring people to not listening to intentionally undermining others. Other common examples include walking out of a conversation due to lack of interest or answering calls in the middle of meetings. Some leaders behave uncivilly by publicly mocking and belittling people; reminding subordinates of their "roles" and lesser titles in the organization; teasing direct reports in ways that sting; or taking credit for wins, but pointing the finger at others when difficulties arise.

In any of these instances, what matters is not whether people actually were disrespected or treated insensitively but whether they felt disrespected. Incivility is in the eyes of the recipient. It varies not just by individual but also by culture, generation, gender, industry and organization. What you consider uncivil may not be the same thing your boss considers uncivil. And guess what. What you think matters *most!*

Interpreting the Trends

Why is incivility getting worse? One factor is globalization — colleagues from one culture sometimes unknowingly behave or speak in ways that colleagues from other cultures find rude. Another factor is generation. Research conducted by Jean Twenge, professor at San Diego State University, reveals that students are about 30 percent more narcissistic than the average students were 25 years ago. We can also tie our epidemic of rudeness to a general fraying of workplace relationships.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **A. Imus**, Contributing Editor

In a survey, respondents were asked why they behave uncivilly. More than half claimed it was because they are overloaded, and more than 40 percent said they had "no time to be nice." A quarter said they were rude because their leaders were disrespectful.

A crucial point is that *incivility usually arises not from malice but from ignorance.* Most bad behavior reflects a lack of self-awareness. We don't want to hurt others, but we do.

Sidelined

Modern science has a lot to tell us about the health impacts rudeness can have. Robert Sapolsky, author of *Why Zebras Don't Get Ulcers,* explains that when people experience intermittent stressors like incivility for too long or too often, they also experience significant health problems. Incivility can deplete your immune system, causing cardiovascular disease, cancer, diabetes and ulcers. Studies have found that "psychosocial" factors, such as work-related stress, are the most important variables in determining the length of a life.

All of this costs organizations a ton of money, to put it mildly. The American Psychological Association estimates that workplace stress costs the U.S. economy $500 billion a year. A poll of 800 managers and employees across 17 industries shows that among workers who have been on the receiving end of incivility, 48 percent intentionally decreased their work effort, 80 percent lost work time worrying about the incident, and 78 percent said their commitment to the organization declined.

As monumental as losses due to incivility are to companies, incivility exacts an even deeper toll because of the subtle ways in which it affects people's thinking skills. Experiments show that incivility robs you of your cognitive resources, hijacks your performance and creativity, and sidelines you from your work. Even if you want to perform at your best, you can't, because you're bothered and preoccupied by the rudeness.

In a study of 4,500 doctors and nurses, 71 percent tied disruptive behavior (defined as "abusive personal conduct," including condescending, insulting or rude behavior) to medical errors they knew of, and 27 percent tied bad behavior to the deaths of their patients.

Once incivility occurs, it's easy for negative thoughts to seep into people's heads and to stay there, translating into negative behavior. Experiments show that once people are exposed to rudeness, they are three times less likely to help others, and their willingness to share drops by more than half. It makes sense: When someone behaves poorly or offensively, bad feelings spread and behaviors escalate, sometimes even becoming aggressive.

Civility Buys Everything

It's tempting to think that if you're not rude, then you're behaving in a civil fashion. In fact, you're only behaving in a neutral way; you haven't harmed anyone. Civility in the fullest sense requires something more: positive gestures of respect, dignity, courtesy or kindness that lift people up.

In the workplace, civil behaviors can be extraordinarily small. A colleague can smile and say hello to you in the hallway; an associate can ask an assistant to *please* do a task and thank her after she completes it. Leaders can behave civilly by engaging others in conversation rather than ordering them around, or by taking time to applaud subordinates when they do a good job.

Movin' On Up

Civil people usually have more opportunities for collaboration handed to them. Think about it: If you needed help from a colleague, would you call upon someone who was nice or someone who was more capable but a bit uncivil? Most people claim they would select the more capable one, arguing that ability is what counts. Yet, their actions don't match up.

In a study of more than 10,000 work relationships, people chose colleagues for collaboration by asking the question "Do I enjoy working with her/ him?" rather than the question "Does this person know what he/she is doing?" If you treat people well, they're more excited to work with you. Over time, your reputation spreads, and still more people want to choose you over a possibly more talented but less civilized peer.

What ultimately helps people move up faster, of course, are the results they produce. And civility helps here, too. Research confirms that small behaviors, such as thanking people, listening attentively, humbly asking questions, acknowledging others, sharing credit or smiling, can give you a performance boost, while their converse — seemingly insignificant acts of incivility — can cost you.

Civility Cultivates Team and Organizational Wins

Research shows that civility enhances the performance of teams and organizations as well. A study of cross-functional product teams revealed that when leaders treated members of their team well and fairly, the team members were more productive individually and as a team. They also were more likely to go above and beyond their job

requirements. It all starts at the top. When leaders are civil, it increases performance and creativity; allows for early mistake detection and the initiative to take actions; and reduces emotional exhaustion.

The Incivility Bug

Many people think of rudeness as a self-contained experience, limited to one person or interaction. In truth, incivility is a virus that spreads, making the lives of everyone exposed to it more difficult.

We each have a much bigger effect on one another's emotions than we might think — for better and for worse. In their book *Connected,* Nicholas Christakis and James Fowler show how happiness spreads not only among pairs of people but also between a person and his friends, his friends' friends and their friends. Civility and incivility spread the same way. A seemingly small act of kindness or rudeness ripples across communities, affecting people in our network with whom we may or may not interact directly.

On a non-conscious level, people become aware of the concept of rudeness when they're around it in any form, even when they aren't the target of it directly. A node in the brain is activated, and this activation rapidly spreads across the neural network to nearby nodes. In practical terms, a rude email you read might activate nodes in your brain associated with memories of other encounters in which you experienced or witnessed rudeness. In your mind, the activated concepts — in this case, rudeness and incivility — become more accessible; they come to mind and can shape your judgments and decision making.

If incivility can spread rapidly, its effects lingering long after the initial instance of rudeness, then civility can, too. It's up to us to gird ourselves against rudeness, to fight back hard when it's expressed, and to do everything we can to spread kindness and joy to those around us. Each one of us, through even the smallest of actions, has the capacity to create an atmosphere that's warm, affirming and energizing. We can do it today — right now.

PART II: CIVILITY CHECKUP: HOW YOU ARE DOING AND HOW YOU CAN IMPROVE

Are You Civil?

Now it's time to get real. *Are you civil?*

Do you ever neglect to say "please" and "thank you"; use email when face-to-face communication is needed; email or text during meetings; keep people waiting needlessly; talk down to others; pass the blame when you've contributed to a mistake; spread rumors; belittle others nonverbally (e.g., roll your eyes, smirk); retreat into your e-gadgets; take advantage of others; don't listen; ignore invitations; write uncivil or rude emails; or interrupt others?

Don't get down on yourself if you do many of these. Some of us have an advantage: We are genetically predisposed to be nice due to hormone levels. But in the end, we're all human. The point is to improve your behaviors.

To gain the self-awareness you need, you must solicit others' help. Ask others to serve as an honest mirror for you, using the following seven simple strategies.

1. Ask for focused feedback on your best and worst behaviors. Collect feedback from about 10 to 15 people — including co-workers, friends and family — about your best behavior and areas for improvement.

2. Work with a coach. A great coach can detect subtleties in your behavior of which you might not be aware, and can identify underlying assumptions, experiences and personal qualities that make you prone to uncivil behavior.

3. Conduct a team tune-up: Use colleagues or friends as coaches. Making progress on civility doesn't have to be a solitary endeavor; you can and should do it alongside other members of your team. While you're working to improve your own behavior, encourage your team members to do the same.

4. Get 360 feedback. Identify one behavior you'd like to change. This could have come from the civility test or from others' feedback, including performance reviews. Then solicit feedback from your teammates, direct reports, and managers — "360 feedback" — about how you might change.

5. Teach yourself how to read emotions. Observe others closely as you go about your day, especially people who seem to be great at civility. Use emotional intelligence quizzes and tools to test how well you're able to read others and their emotions. Look for role models.

6. Make time for reflection. Keep a journal to provide insight into when, where and why you are your best self and when, where and why you are uncivil. Identify people or situations that cause you to lose your temper.

7. Take care of yourself. The most common reason people give for behaving poorly is the feeling of being overloaded or stressed. So take better care of yourself, starting with the basics: good nutrition, sleep and stress management.

The Fundamentals

To become more civil or help your organization build a more civil culture, you need to focus first on getting the basics right. Let's start with the low-hanging fruit, the small behaviors we frequently overlook that allow us to connect by our being attentive. For now, just think about doing *three* things differently.

First civility fundamental: Smiling. The act itself of smiling lifts your mood, boosts your immune system, decreases stress, lowers blood pressure and reduces your risk of heart attack. And smiling rubs off on others. How do you get yourself to smile more? Try an "inside-out" approach. Think about what makes you happy — maybe it's your kids or a favorite hobby or a joke someone told you — and then think about that when you want to smile.

Second civility fundamental: Building relationships with subordinates. The Center for Creative Leadership (CCL) found that the most important success factor for those holding the top three jobs in a large organization was "relationships with subordinates." According to a study by Towers Watson, the greatest driver of engagement was whether workers felt their managers were genuinely interested in their well-being. To relate well with a subordinate, you first have to acknowledge him or her. Practice the 10/5 Way: If you're within 10 feet, make eye contact. If you're within five feet, say hello. Take more time to know the people working for you.

Third civility fundamental: Listening. Listening well is essential for creating, maintaining and deepening relationships; it signals caring, commitment and connection. Listening can also yield vital information and insights. Yet, listening is hard work, requiring both energy and concentration. How can you listen better? Be there completely. Make a list beforehand of questions or topics you want to cover to prevent brain freeze. Get into the moment with the person facing you. Dump distractions; try to clear your mind of all of them. Put your phone away and put your blinders on. Focus all your attention. Join in on the conversation in the fullest sense.

Judge Not

It's well known that diversity adds value to organizations, allowing groups to perform better, make smarter decisions and be more innovative. Diverse organizations that welcome everyone possess greater insights into the marketplace. Diversity is also a valuable recruiting tool that helps organizations land top talent.

Yet diversity's true value depends on teammates' culture and attitudes. People need to feel respected in order to contribute. And that's where civility comes in. We must treat everyone well, including individuals who are different from ourselves or think differently.

Data shows that true inclusion is quite difficult for most people. Even if we consciously want to, we have a hard time welcoming others in. In fact, we show unconscious bias, often through subtle attitudes or actions.

The first step in fighting unconscious bias is to make an effort to bring silent assumptions out into the open. Ask yourself, "What biases do I carry?" "Whom does that affect?" "What are the consequences?" Awareness is the crucial first step.

As social neuroscientists Jay van Bavel and Will Cunningham have shown, an effective strategy for limiting unconscious bias is to take a moment to focus on similarities and common identities. Think about your connections with people. List what you have in common with someone, however different he or she seems to be. Emphasize your shared identity as parents, as residents of a city, as fans of a sports team, as members of a religious community, etc. It's human nature to feel positively toward members of our own group, so the key is to find a shared identity or group.

Try providing structure or routines in areas like hiring, performance evaluations, and promotion decisions that prevent unconscious biases from creeping in. Make it a point to slow down, weigh all the evidence and remove subjectivity from the process. Finally, combat your biases by including others' opinions. For important work decisions, use committees. Research shows that teams with divergent opinions tend to make better, less-biased decisions.

Give More

Once you have the fundamentals of civility in place, take your game to the next level. To master civility at work, we need to give many things, not just smiles. Here are five forms of giving that are especially important for building an atmosphere of kindness and respect.

1. Share resources. To increase your civility, share the tools, knowledge, social contacts and time at your disposal. In a study of more than 400 employees of an international consulting firm, the highest performers shared more than twice as many resources with co-workers than their average or lowest performing colleagues did. Sharing not only elicited a feel-good response but also enhanced

productivity. Of course, you have to be smart about how much and what exactly you give.

2. Share recognition. Look for ways to give credit to everyone who helped you earn any kind of recognition, even if you deserve the lion's share. As scholar and author Warren Bennis has noted, good leaders shine under the spotlight, but great leaders help others shine.

3. Share gratitude. Saying thank you sets you apart. Do you know that most people thank their co-workers once a year at most? Feeling genuinely appreciated lifts people up. It energizes. It's also a powerful tool for encouraging the right behaviors.

4. Share feedback. Help your reports feel valued by giving them regular knowledge and updates on how the business is doing. Create a compelling scoreboard that highlights top priorities or important goals and, more specifically, the current situation, the target result and the deadline. Don't forget to give feedback on personal performance as well.

5. Share purpose. Most people want to do meaningful work, but too many believe their efforts don't make a difference. That's too bad: Having a sense of meaning at work encourages personal growth, work engagement and well-being. Instilling others' work with a sense of meaning also carries benefits, increasing a sense of thriving and performance for that person while also cultivating stronger, deeper relationships.

Practice E-civility

Although email has helped businesses in countless ways, it has also unleashed a torrent of incivility in workplaces. Angry emails, emails meant to embarrass, inappropriately informal emails, excessively long emails — the ways a sender can show disrespect are endless, equaled only by the number of ways receivers can show disrespect: by failing to respond on time or at all, by needlessly selecting "reply all" or by forwarding emails to make someone look bad. In addition to everything we do to foster civility, we need to get our email etiquette in check so we aren't polite offline and monsters online.

Master the ask. Before you send an email asking for something, make sure it's something you really need and something that's appropriate to request from the receiver. Be brief and direct when making a request. Include who, what, when. If the person needs to act on your message, make that clear in the subject line. Thank the recipient — genuinely.

Know when not to send. Sensitive issues, conflict situations and performance reviews all call for an actual, physical presence. A good rule of thumb: If you're wondering whether or not you should send that email, stop. Don't send it. Pick up the phone or meet face to face.

Set a tone of respect. Leaders establish norms about respectful email conduct through their own habits and routines. For instance, if leaders typically send out emails in the evenings and during the weekends, employees will likely feel compelled to read and respond to them. If you write emails at all hours, consider placing them in draft folders until working hours, or use a delayed delivery service.

PART III: LIFT YOUR ORGANIZATION CYCLE TO CIVILITY

How can organizations systematically alter their cultures to make them more civil? The four-step plan called Cycle to Civility covers the entire employee life cycle: recruiting, coaching (orientation and training), scoring (evaluation and rewards) and practicing (improvement, termination and exit).

Recruit

As researchers Dylan Minor and Michael Housman found, one toxic employee can wipe out the productivity gains produced by two or more superstars. A superstar (defined as the top 1 percent of workers in terms of productivity) adds about $5,000 to an organization's annual profit, while a toxic worker costs about $12,000 annually. That's why it's especially important to weed out toxic people before they join your organization.

Throughout the interview process, stay on the lookout for signs of civility. Forgo hypothetical questions, such as "How would you handle…?" or "What would you do if…?" and instead ask the candidate specifically how he or she managed particular situations in the past. Make your organization's values explicit, and inquire how his or her past behavior matches up.

Have team members go out to lunch or dinner with candidates or take them out to an event, such as a ball game. You want to give candidates a firsthand opportunity to observe your team and organizational values, to help them consider whether they're willing to sign up.

It's essential to do your homework on job candidates. Ask references for specific behavioral examples of characteristics that get at the heart of civility, such as "What's it like working with Joe?" or "What could Joe improve on?"

Regardless of what the job is, or how "good" or "bad" a candidate may seem to you, treat him or her respectfully. At Google, internal research shows that candidates' interactions with interviewers are more important to them than the type of work for which they're being considered, the benefits or their interactions with recruiters. Make sure anyone interviewing candidates is civil in their own right.

Coach

Great coaches help people understand what to do to perform well, breaking it down into a few manageable steps. They also don't allow players to get too comfortable or forget the basics. Our organizations must do the same when it comes to civility. The way organizations can properly coach civility is to set expectations, sculpt civility, create norms and provide coaching.

Set expectations. Most companies' mission statements contain some language about how employees should treat customers, but very few mention anything about how employees should treat one another. A single, simple sentence can set the tone for civility. Southwest Airlines' mission statement contains the following: "Above all, employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every customer."

Sculpt civility. Reinforce civility at every turn. Make it second nature — so familiar that people don't even think about it; they just do it. Emphasize civility's importance during employee orientations. Repeat it like a mantra. Make it a talking point at every meeting. Challenge employees to master civility fundamentals.

Create norms. Don't simply impose civility. Engage employees in an ongoing conversation, defining precisely what civility means. You will garner more support and empower employees to hold one another accountable for civil behavior by involving them in the process.

Provide coaching. Beyond formal training, coach employees on specific civility fundamentals to get your employees in tip-top form. Help them to listen fully, give and receive feedback (positive and corrective), work across differences and deal with difficult people. You might also coach them on negotiation, stress management, crucial conversations and mindfulness. A coach who reviews fundamental concepts and expectations must also be ready to hold his or her employees accountable, pointing out bad behavior for first-time offenders.

Score

What if you had a way to rate an email a colleague sent you or a status update a friend posted on social media, solely based on how respectful it sounded? That would be a game changer, wouldn't it? One concept would be simple: Use an online tool to provide instant feedback about the civility of a person's communications — similar to Facebook's emoji or thumbs-up feature; the person could learn how they are perceived and moderate their behavior accordingly.

What's your current system of performance metrics like? Does it help foster the civil behaviors you're trying to encourage? If not, here are a few key things you can do to start.

Go beyond results. Focus more generally on the *how* of the work when evaluating performance and not just the actual results. Think about the type of work that gets done and the way kindness and respect might come into play. Use that to arrive at a formulation of appropriate evaluation metrics. Then combine these metrics with more conventional metrics that measure performance.

Thank people for helping. The time employees spend engaged in "collaborative" work — attending meetings, making phone calls, answering emails — has increased in recent decades by about 50 percent, now constituting 80 percent or more of employees' time. Yet most performance management systems aren't capturing how employees interact with one another — the very basics of effective collaboration. A simple thank-you would go a long way toward helping all-star collaborators stay engaged.

Measure down and across, not just up. When it comes to incivility, people tend to kiss up and kick down; you thus need to understand what subordinates and peers and bosses think of an employee. The 360 feedback many organizations currently utilize can work great, but only if sufficient trust exists. If employees don't feel confident about the anonymity of their input and how it's being used, their 360 feedback will misinform you.

Practice

What do you do if your evaluation or scoring system uncovers employees who are behaving uncivilly? You have two options: Work with them or show them the door.

The vast majority of employees who behave rudely can improve their behavior. As one CEO put it, they can be

"recycled." Let's see how you might best work with an employee who has behaved uncivilly.

Establish a feedback loop. To help change people's behavior, follow a specific feedback loop described by coaching guru Marshall Goldsmith. This loop comprises four steps: evidence, relevance, consequence and action.

Evidence should have been revealed during the evaluation stage; for instance, a manager receives feedback that he doesn't listen to employees or he tends to demean employees in front of others.

To establish the *relevance* of this feedback, ask yourself how the manager compares with his peers. Is his performance suffering because of his subpar, uncivil behavior? If so, the feedback becomes relevant.

You should attach *consequences* to the uncivil behavior so as to motivate change. As Goldsmith has remarked, "People will do something — including changing their behavior — only if it can be demonstrated that doing so is in their own best interests as defined by their own values."

If you're satisfied that the employee wants to improve, it's time to proceed to the *action* phase. First, develop a plan with the employee. What do you want him to achieve? What will make him more effective? What do you expect him to change? How will he achieve these plans? Strive for clearly defined, tangible, trackable goals. From here, start the hard work of practicing. Working alone or with the assistance of a coach or mentor, the employee should identify the trigger(s) of his bad behavior.

After an employee has identified the triggers and understands the consequences, Goldsmith has them apologize — ideally face-to-face — to everyone affected by their uncivil behavior and ask them for help in getting better. Following up is especially important. An employee who checks in with colleagues every month for 12 to 18 months reminds the colleagues that he or she is trying and values their opinion.

By working on all four of these steps, your organization won't just free itself of the scourge of incivility; it will reap the full benefits of a pervasive culture of kindness and respect.

PART IV: LIFT YOURSELF: HANDLING INCIVILITY IF YOU'RE THE TARGET

Your Antidote to Incivility

Your antidote to incivility comes down to one core message: Focus on yourself and your future. When people mistreat you at work, you have to take control. The way to do that is to bet on yourself, not on your ability to change the offender or the organization in which you work.

Regardless of how sensitive you are or how quickly you recover, you need to manage your response to incivility, both in the moment and shortly afterward. During this brief window of time, events can quickly spiral out of control, affecting both you and your career. Behave wisely. Remind yourself of what is at stake. Follow the cardinal rule: Don't get sucked in. Give yourself some space to decide what to do. And, above all, avoid the temptation to get even. Doing so will likely require you to stoop to the other person's level, which in turn might prove damaging to your reputation.

Above and beyond how you deal with the perpetrator, another factor can buffer civility's toxic effects: a sense of *thriving.* People who focus more on thriving following an incident of incivility report that their performance suffered 34 percent less. Reinforce your sense of thriving by focusing on personal growth and learning: Identify areas for growth and actively pursue development in those areas; look for opportunities to innovate; turn to a mentor; take good care of yourself by managing your energy; find meaning or a sense of purpose; seek positive relationships inside and outside work; and focus on thriving outside work.

You have more control than you think. Your attitude, mindset and willfulness can make all the difference. Don't let someone make you a smaller version of yourself. Take a deep breath. Gather yourself. Refuel. Stand tall. Play big.

In the end, it's relationships that truly matter, and civility is the foundation of relationships. So what are you doing today to connect with others?

In each moment, we get to choose who we want to be. Who do *you* want to be?

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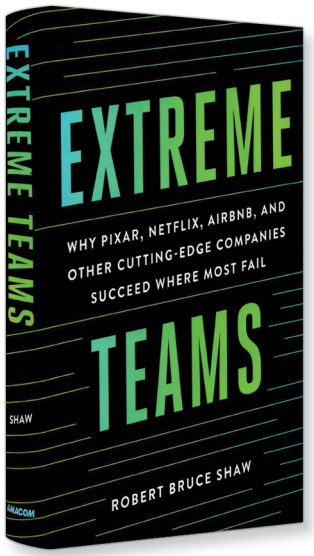
39-14 Extreme Teams

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Extreme Teams

Why Pixar, Netflix, Airbnb, and Other Cutting-Edge Companies Succeed Where Most Fail



by Robert Bruce Shaw

THE SUMMARY IN BRIEF

Great achievements are almost always the work of great teams. But most leaders rely on decades-old ideas and practices about teams developed by companies that have lost their edge. Times change and so must our teams. Those who cling to outdated views of teamwork and team-building will be left behind. So, what do you need to do to create a team that can successfully face the challenges of today's world?

To answer that question, Robert Bruce Shaw examines the work practices of innovative, high-growth companies such as Whole Foods, Pixar, and Netflix. These firms became ground-breaking leaders in their industries, in part, by boldly rewriting the rules of teamwork. *Extreme Teams* provides a detailed analysis of how the leaders at these companies think and operate — and, in particular, describes their approaches for creating high energy teams that deliver extraordinary results.

Filled with success stories from some of the most exciting firms operating today, *Extreme Teams* will push you to think about teams in new ways. It is filled with pragmatic suggestions that you can use to move your team to the next level of engagement and performance. It is for those who want to go beyond traditional approaches to teamwork and build truly great groups.

IN THIS SUMMARY, YOU WILL LEARN:

- How to build a new team or turn around an unproductive team.
- Establish clear, concise and obtainable team values.
- Create an innovative and cooperative company culture.
- Redefine and embrace conflict in order to produce results.

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THE COMPLETE SUMMARY: **EXTREME TEAMS**

by Robert Bruce Shaw

The author: Robert Bruce Shaw is a management consultant focusing on the effectiveness of leaders and their teams. He earned his doctorate in organizational behavior from Yale University and is the author of numerous management books and articles including *Trust in the Balance* and *Leadership Blindspots*.

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Revolutionizing the Way We Work

Whole Foods is a purpose-driven company that takes very good care of its people. Three guiding principles underlie the team environment at Whole Foods. First, the company believes that people are by nature social beings who feel most comfortable when part of a small group. From this perspective, building a company around teams is building a company based on human nature. Everyone in the company belongs to a team. Teams, when designed and staffed properly, also maximize what people can contribute to the success of a business. A second management principle shapes how teams operate at Whole Foods. The company believes teams function best when they embrace a set of companywide practices. Teams at Whole Foods have a great deal of autonomy to make decisions that benefit customers, team members and the company. A third guiding principle at Whole Foods is a belief in the benefits of being open and transparent as a company. The goal is to create a "no secrets" environment where information about its strategies and operations is available to all employees. The firm believes that creating a high-trust culture requires sharing information that is concealed in most firms — and working with people to ensure that they understand the implications.

Potential Problems in Designing Teams

Most companies view teams and teamwork as good things. As a result, the use of teams is on the rise across all companies, with collaborative activities increasing by more than 50 percent over the past two decades. Teams, without question, provide a competitive advantage when they operate well.

The problem is that designing and managing teams is a complicated undertaking requiring a level of creativity and commitment that many firms, and their leaders, lack. The most basic, and common, mistake is to use a team when a team is not needed — that is, the work is better done by individuals not working as a team. The return on the investment of having a team needs to be greater than the benefit of not having a team at all.

A second mistake is failing to provide the support a team needs to be successful (such as group-level rewards). Companies often embrace teams, or at least the concept of teams, without providing attention to what is needed for them to be successful.

A final misconception about teams, or at least high-performing teams, is that they are easygoing places to work. Some companies, including Whole Foods, contribute to this belief by emphasizing the benefits of a friendly work environment. But what is often missing in the accounts of employee-friendly companies is the intensity of working in an environment where talented people, obsessed with their world, hold themselves and others accountable for producing results at a high level. Teams, when well designed, increase the pressure that their members feel to deliver for the group — to deliver for their peers.

Pixar believes that producing great films requires something beyond having highly talented and committed people. The firm believes, given the innovative and complex nature of its films, that success is unlikely if a team doesn't "gel." A common assumption is that people will naturally bond when they become members of a team. Pixar takes care to staff its teams with people who have complementary skills and personalities — people who can work in the intense and often ambiguous environment that comes with producing one of its films. In fact, having people who are too similar may make it easier for them to work together, but it will most likely undermine



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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Masiel Tejada**, Graphic Designer; **Meaghan Kelly**, Contributing Editor

the team's creativity. The goal is to find a group of people who can bring their unique talents and experiences to a project and then come together as a team to produce something beyond what they could do as individuals.

Communal and Exchange Relationships

Pixar is unique in being softer than most companies ("The people at Pixar are my best friends") and also harder ("We will fire best friends when needed to make a great film"). One way that academics look at the "hard/soft" dynamic is to distinguish between communal and exchange relationships.

Communal relationships are those based on supporting others without expecting anything in return. Exchange relationships, in contrast, are based on what others provide you and, in turn, what you provide them. These two types of relationships are viewed by most as mutually exclusive. This is the case because each operates with a different set of rules and expectations.

To say that cutting-edge firms and teams operate based primarily on the dynamics of exchange relationships is to miss the depth of communal bonds within these firms and, in particular, the importance that they place on relationships. These firms are hybrids — possessing both communal and exchange qualities. They blur in their own unique ways the distinction between exchange and communal relationships in a manner that combines the positive qualities of each.

Results and Relationships

The goal for Netflix, and other cutting-edge firms, is to create a culture obsessed with results without creating a culture that is too harsh. What is the point at which a firm or team pushes too far on results and, in doing so, undermines the very outcome it desires?

Let's start by defining results. Broadly stated, *results* means that a team delivers what is expected of it by those who benefit from its products and services. This is often seen as a team meeting the expectations of its customers or clients. These goals can involve financial targets (such as monthly sales), as well as growth targets (such as the percentage of customers using a firm's products). Viewing results only in terms of financial outcomes, however, is too limited. In some cases, teams work toward goals beyond, or even in conflict with, revenue and profit. Results, then, are much more than simply achieving financial targets — cutting-edge teams achieve results that move their firms closer to their stated reasons for being. The goal, according to the Whole Foods CEO, is to take the right action for the right reasons — which are actions that advance the higher purpose of the firm.

Social Capital

Robert Putnam, a sociologist and the author of *Bowling Alone,* uses the term *social capital* to describe how relationships among members operate in a variety of settings, including nonprofit, public and private organizations. Social capital, in the simplest terms, is the "glue" that connects people together and, in so doing, helps groups, organizations, and society function more effectively. Social capital consists of three types of relationships: bonding, building and believing.

Bonding with Fellow Team Members: The connection among members within the same group. This includes the ability of team members to gel and produce something greater than the team members could produce working alone. It involves feeling connected to a group of people who share a common goal.

Building Partnerships with Other Teams: The connection among people who work in different groups. Team members need to work productively with other teams. This involves more than simply being aware of those in other groups — It requires a more personal awareness and investment in the relationship.

Believing in One's Company and its Leaders: This is the connection that people have to the organization that employs them. It is based on the belief that their organization is doing the right things and is worthy of their commitment. This results in an emotional investment in the firm and its reasons for being.

Results and relationships, then, are the two essential outcomes that firms and their teams need to achieve. However, both results and relationships have potential downsides. An excessive emphasis on results can embolden people to cross ethical and legal boundaries. Relationships, like results, can also be pushed too far. In particular, strong interpersonal bonds among teammates can lead to increasingly negative outcomes for a team. The bonds can become so strong that they result in viewing others as outsiders who are not to be trusted.

The goal, of course, is to create virtuous team cycles in which results and relationships operate in a manner to produce ever higher levels of team performance.

Foster a Shared Obsession

A paradox of cutting-edge firms is that they make more money because money is not what they care most about. In this regard, they don't act like the stereotype

of a firm focused only on quarterly earnings. They are not even fixated on growth. They make money because it allows them to do the work they love. Profit, in these firms, is necessary and important — but insufficient as a reason for being.

Obsession may not be healthy, but it describes a core attribute of great companies and teams. Obsession comes in three frequently interconnected forms:

- An obsession with the work itself and the resulting product. This is the most important form. In many cutting-edge firms and teams, people view work as central to their identities — not something they do but something they are. People and teams in these firms act with a relentless focus on getting it right.
- An emotional investment in building a great company. Cutting-edge teams want people to be equally obsessed with the culture of their firms. They want those who are consumed not only with their work; they want people who are consumed with creating relationships that are the foundation of a great company.
- The desire to have an impact on society — in most cases, this involves improving the world through one's products, services, and way of operating.

Obsessive teams can be so task focused, so lacking in empathy, that they damage relationships within the teams as well as with those in other teams. But far worse is a group where people are simply doing their jobs — even if they do them well. Obsession is the foundation for making great things happen.

Value Fit Over Capabilities

The stronger and more unique the culture of a firm or team, the more important fit becomes. Cutting-edge firms are passionate about their beliefs and have particular ways of operating. They would rather hire people who are "A's" in regard to cultural fit and "B's" in regard to their talent.

A leader's job, in large part, is hiring and motivating the right people for a particular task. The ability to assess the capabilities of individuals and then determine how they will work together to produce a desired outcome is more of an art than a science.

The simplest definition of *culture* is "the way things are done around here." Each firm has particular patterns of thinking and behavior, which develop over time as a firm overcomes challenges in its efforts to survive and grow.

There are several risks when resumes become more important than cultural fit:

- Those who don't fully buy into a firm's mission and way of operating are, in most cases, less likely to give their all to make their company or team successful.
- Those who don't fit a firm's culture become toxic to that culture.
- People who don't fit a firm's culture are more likely to hire others who also don't fit the culture.
- Those at odds with a firm's culture will not be able to get things done within that culture because they don't understand how the culture works, or they understand it but devalue it.

Cultural fit is a key to influencing others and getting them to work with you in a collaborative manner. It is particularly important when staffing initial positions within a company or team. The tone set by early members of a group impacts subsequent hires and, as a result, has a disproportionate influence on the group's emerging culture. Therefore, great care is needed in selecting a group's first hires to ensure that these individuals fully embody what leaders want to see in their groups.

There are potential downsides to being too focused on hiring those who are a cultural fit. A team that values cultural fit over experience or capabilities may fail to hire or promote necessary talent. Most firms, cutting-edge groups included, look for a threshold level of capability before cultural fit is considered in the hiring or promotional process. The goal is to deliberately hire those who will challenge the status quo within the firm and, as a result, make the firm stronger. An emphasis on culture also requires removing those who, once hired, turn out to be a bad fit.

Developing Values

Most large firms have a set of values that define their ideal cultures. These values, however, often fall short on several fronts:

- Developing a set of values that are so general that they have no real impact on people or their behavior within a firm. There needs to be some authentic edge to the values that are essential to realizing the firm's purpose and values.
- A long list of values that cover everything that could possibly be important to a company or group. The result is a set of values that people either don't remember or don't use to guide their behavior (as there are simply too many to follow).
- A group's values are often defined at such a high level that people don't know what they look like in action.

Values should be defined in terms of expected behavior — both in positive and negative terms.

- A failure to link them to a firm's objectives and work practices.
- Articulating values and then working in a manner that violates them. That is, the company espouses one set of cultural beliefs but acts on a different set of beliefs.

Self-Awareness and Fit

The key is to find those who can partner with others to produce what is needed and, more generally, help build a sense of community within the company or team. Self-awareness is essential if people are to work well together. Cutting-edge teams, then, look for fit on three attributes in making their hiring decisions:

Belief in the Firm's Higher Purpose: Is the person "all in" in his or her support of the firm's core purpose? Does he or she have the necessary passion, if not obsession regarding the firm's reason for being?

Ability to Deliver Results: Does this person have the drive, temperament and skill needed to deliver necessary results at the highest level?

Ability to Build Relationships: Does the person have the drive and temperament needed to develop close, working relationships with his or her team members and with those in other teams?

Each firm or team needs to determine how to screen applicants for each of these three attributes, which will vary depending on the firm and how it defines success in each area.

Focus More, then Less

Every firm and team has limits in regard to staff, time, and resources — and thus needs to focus on the areas that have the highest return on investment in relation to its growth strategy. The other factor that makes prioritization difficult is the risk inherent in doing so. Focusing only on a few priorities means that those few priorities had better be the right priorities. Focus also requires that those selected priorities be executed at a high level. Otherwise, failure to do so will be evident to all.

Understanding Context

Getting everyone to align around a set of priorities begins with context setting. *Context,* a term that Netflix coined in regards to its culture, explains the "why" of a firm's specific priorities. The goal is to ensure that everyone understands the environment in which a company operates as well as the strategies it will use to be successful in that environment. At minimum, people within a company need to understand the following:

- Why do we exist as a company — what is our reason for being?
- How do we make money? What drives our results?
- Who are our most important customers?
- What products or services do our customers value the most?
- Who are our competitors — existing and emerging? What threats do they pose?
- How do we measure our success as a company?
- What is our plan to win in the marketplace?
- What capabilities do we need to be successful?
- What values are most important to us?
- What behaviors are expected of us as members of the company?

Creating Context

Creating the right context supports how Netflix wants to operate in what it calls a highly aligned but loosely coupled organization. Netflix describes this as follows:

Highly Aligned means …

- Strategy and goals are clear, specific, and broadly understood.
- Team interactions are focused on strategy and goals rather than tactics.
- Large investment in management time required to be transparent, articulate and perceptive.

Loosely Coupled means …

- Minimal cross-functional meetings except to get aligned on goals and strategy.
- Trust between groups on tactics without previewing or approving each one — so groups can move fast.
- Leaders reaching out proactively for ad-hoc coordination and perspective as appropriate — occasional post-mortems on tactics necessary to increase alignment.

Developing Priorities

There are several guidelines for developing a clear set of aligned priorities:

Have a very simple and easily explained set of goals (which are often updated annually but can be longer or shorter in duration depending on the situation).

Spell out the desired outcome in clear and, if possible, measurable terms. These are the "success metrics" that delineate how progress will be measured for each priority over time.

Establish accountability. Decide if the group in total is responsible for each priority or, instead, if there is a point person or subgroup that takes the lead.

Review a group's progress over time in each area. Have weekly, monthly or quarterly reviews in which progress is assessed using specific, numeric targets or a more general system of assessment.

Cutting-edge firms and teams relentlessly focus on executing a small set of key priorities. In so doing, they avoid being distracted — pulled into peripheral activities that take time, energy, and resources away from what is truly needed to achieve something extraordinary.

Innovations and Experimentations

The challenge is to keep one's company or team resolutely focused on its key imperatives while also testing new and innovative ideas that will drive the firm's future growth. One way to encourage experimentation is to bring outsiders into a company or team. Pixar will deliberately hire outsiders in order to bring new perspectives and ideas on how to make the firm and its films better. One way to encourage innovation within a larger enterprise is to use teams to experiment with different models and approaches as they go about their work.

Cutting-edge firms also productively defocus by encouraging people and teams to innovate outside of their core businesses. This allows for people to get out of their own areas of responsibility and learn from those doing very different work. This supports the development of people as well as the potential areas of innovation across groups.

Push Harder, Push Softer

Most firms operate with either a hard or soft edge. Those with a hard edge emphasize the need for clear performance targets, disciplined practices and absolute accountability for results. These groups are typically more formal and process driven. Think General Electric. Firms with a soft edge emphasize the importance of strong bonds among people working in a highly creative, sometimes chaotic environment. They are more informal and talent driven. Think Google. No firm is entirely hard or soft, but most favor one over the other based on the demands of their business, their individual histories, and even idiosyncrasies of their leaders. The challenge is to create a work environment that embraces what is often a messy contradiction — a work environment that is at once both hard and soft. Cutting-edge firms, and their teams, do just that.

What is Culture?

Culture includes the core beliefs and assumptions that people have about their work, their company, and their competitive environment. These deeper-level elements of culture function at both a cognitive and an emotional level.

Cognitive beliefs center on what people think, particularly in regard to the factors that will result in success or failure within a team or company.

Emotional beliefs focus on "how we do things around here" or "what we think around here." But more important is "what we feel around here."

One reason why culture provides a competitive advantage is that it can't be easily replicated. The fact that culture is difficult to build and sustain is what makes it valuable.

The Look and Feel of Cutting-Edge Cultures

Cutting-edge firms embrace, in various ways, each of the listed cultural attributes:

All in: Deeply committed to the firm's purpose, values and successes; act with a high level of energy and ambition to make a difference.

Autonomous: Have the autonomy and authority needed to make decisions about how to achieve the group's goals; flat organizational structure.

Transparent: Know what is expected in regard to performance and behavior; company and leaders share information in an open and authentic manner.

Accountable: Take full responsibility for the way they work and their performance; team-level rewards for superior performance and consequences for poor performance.

Playful: Find pleasure in the work itself; enjoy interacting with colleagues.

Communal: Share a sense of community and willingness to help others; high levels of trust.

The lesson from these firms and teams is the need to question one's own culture, along with the relentless commitment to getting it right.

Take Comfort in Discomfort

In cutting-edge groups, a good meeting is one in which a healthy fight results in a healthy outcome. In more conventional firms, a good meeting is one in which people get along and everyone agrees on the best path forward. Conflict is viewed as a sign that the team is not working well. This is not to say that outcomes don't matter in more traditional firms, but the ability of people to work as a cohesive team and the willingness of people to be team players can take priority over everything else — including results.

Managing Conflict

Managing conflict within a team, however, is more complicated than removing those who can't operate in an open and intense environment. Team members are often on the receiving end of two messages regarding what is expected of them. These messages are conveyed in a variety of ways, sometimes subtle, from a team leader, peers or even the organization in which they work. They are as follows:

1. You must put forward your honest point of view on the decisions we face as a group and offer clear recommendations that help move us forward. If you fail to do so, you are not adding value as a team member and are increasing the likelihood that we will fail to achieve our goals.
2. You must operate in a highly collaborative manner and support your peers. If you fail to do so, you are not being a team player and are undermining our ability to work together as a group to achieve our goals.

Creating a Conflict-Friendly Culture

The first task in creating a conflict-friendly culture is redefining what it means to be comfortable. In many groups, comfort implies a lack of conflict or tension among team members. In cutting-edge teams, this definition is turned on its head — rejected in favor of surfacing or even creating tension among team members. These teams don't want their members to be too comfortable because that means that they have settled for the status quo. It means that they are not pushing themselves to achieve a higher level of performance and innovation. Comfort, then, is redefined as accepting the need to be uncomfortable. Cutting-edge firms are committed to deliberately creating conflict to produce better outcomes.

A second task is setting bold, even audacious, goals. These goals are not designed to produce conflict, but conflict is almost always the result. The pressure to meet high standards in itself results in conflict as team members work to find the best solutions to the tests that inevitably arise in the pursuit of their goals.

The third task is to focus the team's efforts on the areas that will make the greatest difference. In other words, not all conflict is equal. Many teams engage in a good fight, but they do so over the matters not worth fighting about. One of the most important tasks of a team leader is to focus his or her team on the "vital few" issues and not let the group be distracted by less important issues.

Productive conflict in teams requires the following:

1. An understanding that the discomfort that comes with conflict is necessary and productive. The enemy of high performance is not conflict — It's complacency.
2. Accountability for pursuing audacious goals that generate a healthy level of tension within a team.
3. An ability to focus the team's conflict on the "vital few" areas that will make the most difference in the achievements of its goals.
4. The group having the temperament and skill needed to have a productive fight.

Teams at the Extremes

Entrepreneurs are adept at managing newness — pushing the boundaries of what exists today. Cutting-edge leaders and their teams push both results and relationships further than traditional firms. But there are risks and sometimes a price to pay for doing so. Results, pushed too far, can produce a variety of unintended consequences such as a harsh company culture or unethical business practices. Relationships, pushed too far, can create a soft environment that lacks the drive and toughness needed to achieve success. The challenge is to drive results and relationships to the breaking point while managing the very downside of doing so.

There are two common challenges facing leaders who want to build extreme teams. The first is creating a team where no team currently exists. Leaders who are responsible for a new team will benefit from considering the following practices of cutting-edge firms:

Right purpose: The need to define a compelling purpose for one's team and taking that purpose to a higher level of intensity and dedication.

Right people: Hiring people who have the attributes needed for a group to be successful.

Right priorities: A leader needs to clarify the vital few priorities and success metrics.

Right practices: Leaders need to determine the desired culture of their teams by identifying the few essential beliefs and behaviors that will define what is expected of group members.

The second challenge is turning around a stagnant or failing team. This need becomes particularly salient when a new leader, often with no history with the group, is tasked with its revitalization. This need can also surface when a long-tenured leader feels that he or she is investing an inordinate amount of time and energy to get a team to perform at a high level. There are two key questions to answer at this point in the turnaround process:

- Does the team deliver results consistent with what is expected by its organization, leaders, and customers?
- Does the team foster productive working relationships among its members as well as with those in other groups?

The measure of a team's performance varies by team but often includes both outcome measures (i.e., sales and revenue) and process measures (i.e., milestone achievements and budget performance). The key is to look at metrics that are closely linked to the firm's purpose. These metrics should be augmented by more informal input from a team's customers as well as its members. The other factor to consider is the quality of the relationships among the members of the team.

The next task is to identify the causes of the team's poor performance, particularly in relation to the performance gaps uncovered in the above assessment. Leaders seeking to understand their underperforming teams need to look for the deeper issues that influence other, often more noticeable, behaviors or outcomes.

The key for those leading a turnaround is to recognize the value of contradictions in understanding what is going on within a team — paying particular attention to aspects of the team that are surprising or puzzling. The goal is to surface the group's contradictions, understand why they exist and analyze their impact on the group's results.

A final area to assess is the practices of the team and how they impact its culture. This is one of the most challenging aspects of a team's turnaround because existing cultures are notoriously difficult to change. The leader of a team turnaround effort needs to be bold in changing the mindset and behavior of his or her group.

Starting a new team and turning around a stagnant team are challenges that most leaders will face at some point during their careers. Both situations underscore the importance to a leader of getting his or her team right in order to produce results. Organizations and their leaders value what teams can achieve and are quick to talk about the benefits of collaboration. But, many fail to provide the support that teams need to be successful. The problem, in most cases, is not a lack of knowledge but an unwillingness to give up control. Companies that want the benefits of extreme teams need to give them autonomy to do what they believe is needed given the challenges they face.

Why Teams?

Teams are seductive because they offer a clear advantage when designed and managed well — an advantage that is difficult for others to copy. But extraordinary teams are less common than we would think because they come with a steep price — notably the need for organizations and their leaders to give up control. We thus find people at all levels in a company who collectively support the idea of teams — but lack the commitment and creativity to make them work.

Almost all great achievements, in business and society, are the result of small groups of people working together to achieve ambitious goals. Teams, not individuals, make the difference. There is a deep human need to bond with others, often in a risky endeavor, in the pursuit of a larger or even heroic purpose. Extreme teams provide that opportunity.

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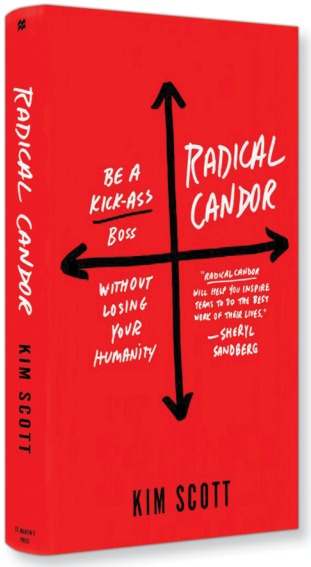
39-16 Radical Candor

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Radical Candor

Be a Kick-Ass Boss Without Losing Your Humanity



by Kim Scott

THE SUMMARY IN BRIEF

From the time we learn to speak, we're told that if you don't have anything nice to say, then don't say anything at all. While this advice may work for everyday life, it is, as Kim Scott has seen, a disaster when adopted by managers.

Scott earned her stripes as a highly successful manager at Google and then decamped to Apple, where she developed a class on optimal management. She has earned growing fame in recent years with her vital new approach to effective management, the "Radical Candor" method.

Radical Candor is the sweet spot between managers who are obnoxiously aggressive on one side and ruinously empathetic on the other. It's about providing guidance that involves a mix of praise as well as criticism — delivered to produce better results and help employees achieve.

Great bosses have strong relationships with their employees. *Radical Candor* offers a guide for those bewildered or exhausted by management, written for bosses and anyone who has a boss.

IN THIS SUMMARY, YOU WILL LEARN:

- How to build radically candid relationships with your team members.
- How to get, give and encourage guidance.
- Techniques for avoiding boredom and burnout on your team.
- Things you can do to get stuff done together — faster.
- Understand why radically candid relationships with your employees will allow you to get the results you want.

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PART I: A NEW MANAGEMENT PHILOSOPHY

Build Radically Candid Relationships

Bringing Your Whole Self to Work

We undervalue the emotional labor of being the boss. But this emotional labor is not just part of the job, it's the key to being a good boss. Many people feel they aren't as good at management as they are at the "real" part of the job. Often, they fear they are *failing* the people who report to them. Ultimately, though, bosses are responsible for results. They achieve these results not by doing all the work themselves but by guiding the people on their teams.

Relationships, Not Power, Drive You Forward. There is a virtuous cycle between your responsibilities and your relationships. You strengthen your relationships by learning the best ways to get, give and encourage guidance; by putting the right people in the right roles on your team; and by achieving results collectively that you couldn't dream of individually. Of course, there can be a vicious cycle between your responsibilities and your relationships, too. When you fail to give people the guidance they need to succeed in their work, put people into roles they don't want or aren't well suited for, or push people to achieve results they feel are unrealistic, you erode trust. Your ability to build trusting, human connections with the people who report directly to you will determine the quality of everything that follows.

Radical Candor. There are two dimensions that, when paired, will help you move in a positive direction. The first dimension is "Care Personally." The second dimension is "Challenge Directly." "Radical Candor" is what happens when you put "Care Personally" and "Challenge Directly" together. When Radical Candor is encouraged and supported by the boss, communication flows, resentments that have festered come to the surface and get resolved, and people begin to love not just their work but *whom* they work with and *where* they work. When people love their job, the whole team is more successful. The resulting happiness is the success beyond success.

Care Personally. Part of the reason why people fail to care personally is the injunction to "keep it professional." That phrase denies something essential. We are all human beings with human feelings, and even at work, we need to be seen as such. In addition to the obsessive devotion to "professionalism," there's another, less virtuous reason why people fail to care personally. When they become bosses, some people consciously or unconsciously begin to feel they're better or smarter than the people who work for them. There are few things more damaging to human relationships than a sense of superiority. Of course, if you are a boss, there is some hierarchy involved. Just remember that being a boss is a *job,* not a value judgment. Caring personally is the antidote to both robotic professionalism and managerial arrogance.

Challenging Directly. Challenging others and encouraging them to challenge you helps build trusting relationships because it shows 1) you care enough to point out both the things that aren't going well and those that are and that 2) you are willing to admit when you're wrong and that you are committed to fixing mistakes that you or others have made. In the end, caring personally about people even as you challenge them will build the best relationships of your career.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Masiel Tejada**, Graphic Designer; **Molly Moser**, Contributing Editor

Get, Give and Encourage Guidance

Creating a Culture of Open Communication

"Operationalizing" Good Guidance. There are two dimensions of good guidance: care personally and challenge directly. It's useful to be clear about what happens when you fail in one dimension (ruinous empathy), the other (obnoxious aggression) or both (manipulative insincerity).

Obnoxious Aggression. When you criticize someone without taking even 2 seconds to show you care, your guidance feels obnoxiously aggressive to the recipient. When bosses belittle employees, embarrass them publicly or freeze them out, their behavior falls into this area. This Obnoxious Aggression sometimes gets great results short-term but leaves a trail of dead bodies in its wake in the long run. When this is the toxic culture of guidance, criticism is a weapon rather than a tool for improvement; it makes the giver feel powerful and the receiver feel awful.

Manipulative Insincerity. Manipulatively insincere guidance happens when you don't care enough about a person to challenge directly. People give praise and criticism that is manipulatively insincere when they are too focused on being liked, think they can gain some sort of political advantage by being liked, think they can gain some sort of political advantage by being fake, or they are just too tired to care or argue any more. Guidance that is manipulatively insincere rarely reflects what the speaker actually thinks; rather, it's an attempt to push the other person's emotional buttons in return for some personal gain. When you are overly worried about how people will perceive you, you're less willing to say what needs to be said.

Ruinous Empathy. Most people want to avoid creating tension or discomfort at work. Bosses rarely intend to ruin an employee's chance of success or to handicap the entire team by letting poor performance slide. And yet, that is often the net result of Ruinous Empathy. Similarly, praise that's ruinously empathetic is not effective because its primary goal is to make the person feel better rather than to point out really great work and push for more of it. Ruinous Empathy can also prevent a boss from asking for criticism. Needless to say, this strategy does not build trust on either side.

Moving Toward Radical Candor. When developing a culture of Radical Candor, start by asking for criticism, not by giving it. It's the best way to show that you are aware that you are often wrong and that you want to hear about it when you are; you want to be challenged. You'll learn a lot — few people scrutinize you as closely as do those who report to you. The more firsthand experience you have with how it feels to receive criticism, the better idea you'll have of how your own guidance lands for others. Asking for criticism is a great way to build trust and strengthen your relationships.

- Bosses get Radically Candid guidance from their teams not merely by being open to criticism but by *actively soliciting it*.
- Balance praise and criticism: Worry more about praise and less about criticism — but above all be sincere.
- Understand the perilous border between Obnoxious Aggression and Radical Candor.

Understand What Motivates Each Person on Your Team

Helping People Take a Step in the Direction of Their Dreams

Rethinking Ambition. To keep a team cohesive, you need both rock stars and superstars. Rock stars are solid as a rock. They don't want the next job if it will take them away from their craft. Superstars, on the other hand, need to be challenged and given new opportunities to grow constantly. For many bosses, distinguishing between the two means rethinking ambition. Centering questions around growth trajectory can help you discover what motivates each person much better than a set of questions about "potential" or "talent" could. These questions will help remind you that trajectories change, and you shouldn't put permanent labels on people. They will help you build stable teams that achieve astounding results.

Growth Management. Shifting from a traditional talent management mindset to one of growth management will help you make sure everyone on your team is moving in the direction of their dreams and ensure that your team collectively improves over time. The most important thing you can do for your team collectively is understand what growth trajectory each person wants to be on at a given time and whether that matches the needs and opportunities of the team.

Understanding What Matters and Why. To be successful at growth management, you need to find out what motivates each person on your team. You also need to learn what each person's long-term ambitions are and understand how their current circumstances fit into their motivations and life goals. "Steep growth" is generally characterized by rapid change: learning new skills or deepening existing ones quickly. "Gradual growth" is characterized by stability.

The Problem with Passion. Insisting that people have passion for their job can place unnecessary pressure on both boss and employees. Your job is not to provide purpose but instead to get to know each of your direct reports well enough to understand how each one derives meaning from their work, to recognize the significance of what you hear and to create working conditions that allow everybody to find meaning in their own way.

Excellent Performance. Keep your top performers at the top of your mind. Be a partner, not an absentee manager or a micromanager. You must take the time to help the people doing the best work to overcome obstacles and make their good work even better. Managers often devote more time to those who are struggling than to those who are succeeding. Moving from great to stunningly great is more inspiring for everyone than moving from bad to mediocre.

Excellent Performance/Gradual Growth Trajectory. We all have periods in our lives when our professional growth speeds up or slows down. For too many bosses, recognition means promotion. But in most cases, this is a big mistake. Promotion often puts these people in roles they are not as well suited for or don't want. The key is to recognize their contributions in other ways. Part of building a cohesive team is to create a culture that recognizes and rewards the rock stars.

Excellent Performance/Steep Growth Trajectory. The best way to keep superstars happy is to challenge them and make sure they are constantly learning. It's vital not to squash these people, so allowing transfers is important. Management and growth should not be conflated. When management is the only path to higher compensation, the quality of management suffers and the lives of the people who work for these reluctant managers become miserable.

Managing the Middle. Sadly, a lot of people never find work they are truly excellent at because they stay in the wrong jobs for so long that any change would require a step or two backward. Assuming that people who are not thriving are therefore mediocre and can't do any better is both unjust and unkind. Allowing them to continue down that path might be the worst case of Ruinous Empathy that managers regularly display and is a great source of wasted possibility. Everybody can excel somewhere. And to build a great team that achieves exceptional results, everybody needs to be doing great work.

Poor Performance/Negative Growth Trajectory. When somebody is performing poorly and, having received clear communication about the nature of the problem, is showing no signs of improvement, you must fire that person. How do you know when it's time to fire somebody? Here are three questions to consider: Have you given Radically Candid guidance? How is this person's poor performance affecting the rest of the team? Have you sought a second opinion, spoken to someone whom you trust and with whom you can talk the problem through? The way you fire people really matters, and to do this hard job well, it's important not to distance yourself from the person you're about to fire.

Low Performance/Steep Growth Trajectory. One of the most perplexing management dilemmas is when a person who ought to be taking on more and more and getting better every day is instead screwing up or just doing a lousy job. There are four reasons this can happen:

- Wrong role
- New role; too much too fast
- Personal problems
- Poor fit

No Permanent Markers. It's tempting to see certain people as fit only for a certain role or having a certain set of skills/weaknesses that will never change. The truth is, people really do change. It is important for the team member and the boss to be clear about what is driving the degree of trajectory at each juncture so that both the team member and the company can benefit. Make sure that you are seeing each person on your team with fresh eyes every day.

Drive Results Collaboratively

Telling People What to Do Doesn't Work

The Art of Getting Stuff Done Without Telling People What to Do. It is possible to achieve spectacular results without a purely autocratic style. The process, which the author calls the "Get Stuff Done" (GSD) wheel, is relatively straightforward. But the key, often ignored by people who think of themselves as "get stuff done" people, is to avoid the impulse to dive right in. Instead, you have to first lay the groundwork for collaboration. When run effectively, the GSD wheel will enable your team to achieve more collectively than anyone could ever dream of achieving individually.

Listen. You have to find a way to listen that fits your personal style and then create a culture in which everyone listens to each other so that all the burden of listening doesn't fall on you. Figure out how to listen to give the quiet team members a voice without weirding out their louder colleagues. It's hard enough to get yourself to listen to your team members and let them know you are listening; getting them to listen to one another is even

harder. If you can build a culture in which people listen to one another, they will start fixing things that you as the boss never even knew were broken.

Clarify. Once you've created a culture of listening, the next step is to push yourself and your direct reports to understand and convey thoughts and ideas more clearly. As the boss, you are the editor, not the author. Take the time to help your direct reports explain what they mean so that they can do something about fixing the problem or pursuing the opportunity rather than just complaining about it. It's not just important to understand new *ideas* clearly, it's equally important, and often more difficult, to understand the *people* to whom your team will have to explain the ideas clearly.

Debate. Debate takes time and requires emotional energy. But lack of debate saps a team of more time and emotional energy in the long run. Here are some ideas that can help you keep debate going without grinding everyone down too much:

- Keep the conversation focused on ideas not egos
- Create an obligation to dissent
- Pause for emotion/exhaustion
- Use humor and have fun
- Be clear about when the debate will end
- Don't grab a decision just because the debate has gotten painful

Decide. Kick-ass bosses often do not decide themselves but rather create a clear decision-making process that empowers the people closest to the facts to make as many decisions as possible. Not only does that result in better decisions, it results in better morale. The decider should get facts, not recommendations. Facts come inflected with each person's particular perspective or point of view, but they are less likely to become a line in the sand than a recommendation is. When you are the decider, it's really important to go to the source of the facts. The more often you can do that, the more empowered your whole organization feels.

Persuade. Now that a decision has been reached, it's time to get more people on board. This isn't easy, and it's vital to get it right. Expecting others to execute a decision without being persuaded that it's the right thing to do is a recipe for terrible results. Explaining the decision is not enough. You must establish that the decider, whether that's you or somebody else on your team, has credibility if you expect others to execute the decision.

- **Emotion:** You might have a strong emotional connection to a decision, but if you fail to take into account your listener's emotions, too, you won't be persuasive.
- **Credibility:** Part of credibility is knowing your subject and demonstrating a track record of sound decisions. But it also requires a third component — humility, which is sometimes in short supply.
- **Logic:** Sometimes, the logic may seem self-evident to you, so you fail to share it with others. Show your work. Don't just describe an idea, share how you got to it.

Execute. Part of a boss's job is to take a lot of the "collaboration tax" on themselves so that his or her team can spend more time executing. In order to balance these responsibilities with the work you need to do personally in your area of expertise: Don't waste your team's time, keep the "dirt under your fingernails" by staying connected to the actual work that is being done and block time to execute.

Learn. It's obvious that good bosses learn from mistakes and successes alike and keep improving. And yet, denial is actually the more common reaction to imperfect execution than learning. There are two enormous pressures that tempt a boss to quit learning: pressure to be consistent and burnout.

PART II: TOOLS AND TECHNIQUES

Relationships

An Approach to Establishing Trust with Your Direct Reports

Here, the author talks about staying centered, staying on an equal footing with the people who report to you and the art (and dangers) of socializing at work.

Stay Centered. Managers who create a stable foundation for themselves are invariably more effective at building teams on which people can do the best work of their lives. The essence of leadership is not getting overwhelmed by circumstances.

Free at Work. Think about how to give your team a sense of autonomy and agency so that they, too, can be centered and bring their best selves to work. The first rule of building the kind of relationship with people that will make them feel free at work is to relinquish unilateral authority. Relationships are more effective and more satisfying.

Master the Art of Socializing at Work. You already spend a lot of hours every day with your colleagues and direct reports. Use *that* time to build relationships. For the

most part, it's better to use the time after work to keep yourself centered than to socialize with work colleagues. When you do organize a social event at work, bear these warnings in mind: Even nonmandatory events can feel mandatory, and booze can land you in dangerous territory.

Respect Boundaries. Building radically candid relationships requires you to walk a fine line between respecting other people's boundaries and encouraging them to bring their whole selves to work. You'll need to negotiate boundaries differently with each person you work with. Do this by building trust, sharing values, demonstrating openness, navigating physical space, recognizing your own emotions and mastering your reactions to others' emotions. Building relationships with your direct reports takes time and real energy.

Guidance

Ideas for Getting/Giving/Encouraging Praise and Criticism

Guidance is the "atomic building block" of management, but it is profoundly uncomfortable for most people. In order to build a culture of Radically Candid guidance *you need to get, give and encourage both praise and criticism.*

Soliciting Impromptu Guidance. What are the things you can do to get criticism from your team? It's not so easy, because when you are the boss people really do not want to criticize you or tell you what they really think. That's why, when you become the boss, it's important to work so hard to earn your team's trust. If you can listen to the criticism and react well to it, both trust and respect will follow. Here are some tips/techniques to get the conversation flowing: You are the exception to the "criticize in private" rule of thumb; have a go-to question; embrace the discomfort; listen with the intent to understand, not to respond; reward criticism to get more of it; and gauge the guidance you get.

Giving Impromptu Guidance. If you don't have the courage to give Radically Candid guidance, the people who report to you won't believe you really want to get it from them. And if you don't lead by example, the people on your team are unlikely to guide each other. When delivering Radically Candid praise and criticism, remember the following:

- Be humble
- Be helpful
- Give feedback immediately
- Deliver it in person (if possible)
- Praise in public, criticize in private
- Don't personalize (caring personally is good, but personalizing is bad)

Gauge Your Impromptu Guidance, Get a Baseline, Track Your Improvements. Visual cues that make you aware of when you're moving toward Radical Candor or away from it are invaluable. One of the most effective ways to become more Radically Candid is to explain the framework to your team and then ask them to gauge your guidance each week. The most important thing is figuring out how others experience your guidance.

Being Radically Candid with *Your* Boss. If you are not in a position of authority, I do recommend that you try being Radically Candid, but proceed with caution. Start by asking for guidance before you give it. Next, ask permission to give guidance. The ability to be Radically Candid with your boss is crucial to your success. A strong leader has the humility to listen, the confidence to challenge and the wisdom to know when to quit arguing and get on board.

Gender and Guidance. Gender differences make guidance harder to give for both men and women, but in very different ways. Both bias and "gender politics" can foil efforts to be Radically Candid with someone of a different gender. The pervasive atmosphere of anxiety surrounding gender issues has everybody walking on eggshells and avoiding important truths. Criticism is a gift, and you need to give it in equal measure to your male and female direct reports. When bias plays out over a whole organization, the impact on female leadership is profound.

Formal Performance Reviews. If your company doesn't do formal performance reviews, it's especially important to double down on impromptu guidance. However, if your company does do performance reviews, don't dismiss them out of hand. If handled correctly, they offer an important opportunity to improve your guidance.

Prevent Backstabbing. One of the most important ways to create an environment in which Radical Candor trumps political b.s. is to never let one person on your team talk to you about another behind his or her back. Instead, insist that they talk directly to each other, without you.

Peer Guidance. A good way to get people talking to each other is to explain the Radical Candor framework to your team. Encourage them to gauge their peer guidance. Having a shared vocabulary will help your culture move toward Radical Candor.

Speaking Truth to Power. One of the most important things any manager of managers can do to foster a culture of guidance is to have so-called "skip level meetings." In these meetings, which need to happen only once

a year to be effective, you will meet with the people who work for your direct reports, without your direct reports in the room, and ask what they could do or stop doing to be better bosses. The best way to lower the barriers that hierarchy puts between us is to admit that it exists and think of ways to make sure everyone feels they are on an equal footing at a human level despite the structure. To make sure everyone feels free to "speak truth to power."

Team

Techniques for Avoiding Boredom and Burnout

Ideally, you want everyone on your team to achieve exceptional results. But you don't want 100 percent of them to be gunning for the next job - or to be content with their current role. Instead, you want a balance, so that you have both people who push for change and those who offer stability. And to understand what motivates the different people you work with, you need to have Radically Candid relationships with each.

Career Conversations. To understand a person's growth trajectory, it's important to have career conversations in which you get to know each of your direct reports better, learn what their aspirations are and plan how to help them achieve those dreams. These conversations are your single biggest opportunity to move up on the care personally axis of the Radical Candor framework. In fact, they are the first thing you should do when rolling out Radical Candor on your team.

Growth Management. Once a year, you need to put together a growth-management plan for each person on your team. Take a look across your whole team and make sure that you understand how each individual's aspirations and growth trajectory are lining up with the collective needs of the team.

Hiring: Your Mentality and Your Process. Your hiring process is important; it's a vital part of building a great team. What follows are the basic elements of a hiring process that is as rigorous as possible without being overly onerous:

- Job description: define team "fit" as rigorously as you define "skills" to minimize bias.
- Blind skills assessments can also minimize bias.
- Use the same interview committee for multiple candidates to allow for meaningful comparisons.
- Casual interviews reveal more about team fit than formal ones.
- Make interviews productive by jotting down your thoughts right away.
- In-person debrief/decision: if you're not *dying* to hire the person, don't make an offer.

Firing. It's hard to fire people, but it's hard to quit, too. Sometimes, it's your job as the boss to be Radically Candid when something's just not working. Firing people is not easy, either emotionally or legally. But if you do three things, you can make it far, far easier on the person you are firing as well as on yourself and your team.

- Don't wait too long.
- Don't make the decision unilaterally: Once you've identified performance issues, take the time to get advice from your boss, to calibrate with your peers (if appropriate) and to get help from human resources.
- Give a damn: You have a relationship with the person you're about to fire. When you have to fire people, do it with humility.

Promotions. Few things can create a sense of injustice on a team like having a boss who promotes based on favoritism or a manager who promotes people much faster than the manager sitting in the next office. You can confer with your peers, or if you're a boss of bosses, you can require all your reports to calibrate their promotion plans with one another before any promotions get approved. Announcing promotions breeds unhealthy competition for the wrong things: documentation of status rather than development of skill. Focus on the work the people are doing, not the status they've achieved in the company for doing it. Praise the things you want more of: high-quality work, mind-boggling innovation, amazing efficiency, selfless teamwork and so on.

Avoid Absentee Management and Micromanagement. One of the best ways to keep the people on your team engaged is by partnering actively with them.

Results

Things You Can Do to Get Stuff Done Together — Faster

One of your most important responsibilities to keep everything moving smoothly is to decide who needs to communicate with whom and how frequently. This means meetings.

One-on-One Conversations. One-on-ones are your must-do meetings, your single best opportunity to listen, really listen, to the people on your team to make sure

you understand their perspectives on what's working and what's not working. The purpose of a one-on-one meeting is to listen and clarify - to understand what direction each person working for you wants to head in and what is blocking them.

Staff Meetings. An effective staff meeting has three goals: It reviews how things have gone the previous week, allows people to share important updates and forces the team to clarify the most important decisions and debates for the coming week. Your job is to establish a consistent agenda, insist that people stick to it and corral people who go on for too long or go off on tangents.

Think Time. In addition to all these regularly planned meetings, people are going to want to talk to you about this or that; urgent matters will arise that you must deal with. When are you supposed to find time to clarify your own thinking or help the people who work for you clarify theirs? You need to schedule in some think time, and hold that think time sacred.

"Big Debate" Meetings. "Big debate" meetings are reserved for debate, but not decisions, on major issues facing the team. The sole product of the debate should be a careful summary of the facts and issues that emerged, a clearer definition of the choices going forward, and a recommendation to keep debating or move on to a decision. They serve three purposes:

- They lower tension
- They allow you to slow down key decisions when appropriate
- They foster a larger culture of debate

"Big Decision" Meetings. "Big decision" meetings typically, but not always, follow a big debate meeting. They serve two important roles. The first is obvious: to make an important decision. The second, though, is subtler. It can be hard to figure out when to stop debating and start deciding. It's important that the decisions are final, otherwise they'll always be appealed and will really be debates, not decisions.

All-Hands Meetings. If you have a team of 10 or fewer people, you probably don't need to schedule a separate meeting to make sure everyone is persuaded that the right decisions have been made. However, as your team gets bigger, you need to start thinking about how to bring everyone along. If your team is 100 or more people, a regular, all-hands meeting can really help to get broad buy-in on the decisions being made — and also to learn about dissent.

Execution Time. If you're not careful, meeting proliferation can indeed bring to a grinding halt your ability to execute both as an individual and as a team. Being ruthless about making sure your team has time to execute is one of the most important things you can do as a boss. One effective solution is to block off time in your calendar to be alone and execute.

Walk Around. Listening to the people who report directly to you is relatively straightforward even if it requires time and discipline. But if you are a manager of managers, listening deep in your organization is much harder. Schedule an hour a week of walking-around time. Notice the things you don't notice when you're buried in work at your desk or racing, head down, from one meeting to the next. Find small problems and treat them like "the universe through a grain of sand."

Be Conscious of Culture. A team's culture has an enormous impact on its results, and a leader's personality has a huge impact on a team's culture. Who you are as a human being impacts your team's culture enormously. The most amazing thing about a culture is that once it's strong, it's self-replicating. Even though you've taken a number of conscious actions to impact it, you'll know you've succeeded when it truly is no longer about you.

Getting Started

Radically Candid management takes serious time, but it also leaves you time to pursue your own area of expertise and to deal with the unpredictable. Mostly, it requires you to be conscious and bring your full humanity to work with you.

Remember, *once you build Radically Candid relationships with the people who report to you, you will eliminate a terrible source of misery in the world: the bad boss.* You will achieve results you never imagined possible. You will create an environment in which you and the people who report to you can love work and working together. Perhaps most surprisingly, you'll find that the way you work ripples out into the rest of your life and enriches all your relationships.

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39-22 The Future-Proof Workplace

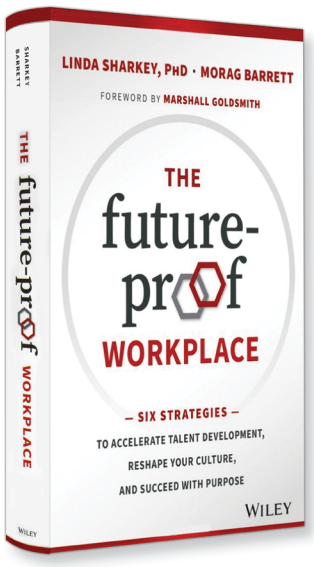
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Management

The Future-Proof Workplace

Six Strategies to Accelerate Talent Development, Reshape Your Culture, and Succeed with Purpose



by Linda Sharkey, PhD and Morag Barrett

THE SUMMARY IN BRIEF

Nobody can really be sure what tomorrow will bring — what game-changing technology, history-shaping demographic shifts or unanticipated market forces will emerge or how they'll impact the way we work and lead. But, what we do know for certain is that the future will be different from what we've known; it's already taking shape right before our eyes, and if we don't prepare for it now, we can surrender any hope of our organizations surviving or thriving tomorrow.

In *The Future-Proof Workplace,* you'll discover how emerging technologies and advances in neuroscience research are toppling 20th-century organizational paradigms and transforming the way we work. And you'll find out how yesterday's biases are being replaced by tomorrow's values, culture and relationships.

In addition, you will learn to look deep into the heart of your company to determine if it's ready and willing to adapt to the purpose-driven business paradigm of the future. You'll gain powerful insights into the new organizational models that are coming into being at the most successful, forward-thinking companies worldwide. And you'll learn to identify and seize the bold, new opportunities that 21st-century organizational structures will offer.

IN THIS SUMMARY, YOU WILL LEARN:

- How to assess and reshape your company for tomorrow's challenges, today.
- The six factors of change that must be addressed to remain competitive.
- How to adjust your leadership style for the 21st century.
- How to embrace technology rather than shying away from it.

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THE COMPLETE SUMMARY: **THE FUTURE-PROOF WORKPLACE**

by Linda Sharkey, PhD and Morag Barrett

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Surviving and Thriving in Turbulence

The future of work is not tomorrow. The future of work is today! You, your career, and your company should be future-proof.

There are three waves of change that test the limits of human convention and create havoc — and opportunity — in the workplace: digital technology, demographics and globalization. These waves of change are having a profound impact on how society, politics, business relationships and innovation are shaping the 21st century.

Six Factors of Change

Six factors are transforming the workplace from the 20th to the 21st century: leadership, culture, organizing principles, relationships, diversity and inclusion, and technology.

These factors require considerable reshaping of fundamentals in any enterprise, including how you develop people, how you organize work to deliver value to your customers and what human relations practices you put into place to advance your workforce. We may be in the midst of a digital revolution, but it's the people revolution that will determine whether we ride the waves of change or drown.

1. Leadership: In the end, company success boils down to leaders, what they value and how they behave. The 21st century demands a shift in leadership to be one of engagement, collaboration and adaptability. These are also the hallmarks of organizations that can innovate. Without a shift in our leadership mindset and our leadership behavior, none of the following factors will be future-proof.

2. Culture: In the 21st century, most organizations understand that culture and values have everything to do with profitability. If leaders want a culture that truly empowers people, they must behave consistently with those values. A healthy culture, and living the values in daily behaviors, is essential for growth, adaptability and innovation.

3. Organizing Principles: Today, a compelling and impactful purpose, around which teams can get excited, is key. Members of the younger generation assess a company based upon their views of the real purpose of the enterprise and how well it is living up to that purpose.

4. Relationships: Today, a greater understanding of the role of relationships, not only at work but in business in general, is coming to light. This is the secret glue that keeps people engaged and emotionally connected to the work while they are there.

5. Diversity and Inclusion: In order to create a truly inclusive environment with a level playing field for all, we need to understand the role of unconscious bias and the role the brain plays in our ability to connect with people who are different from us.

6. Technology: The 21st-century breakthrough in technology was largely missed: the ability to communicate, collaborate and enjoy our work. The 21st-century breakthrough in IT is about discovering patterns that were previously invisible. Because of these trends, the organizational basics need reinvention, retooling and, in some cases, rejection, never to see the light of day again.

Looking ahead, how we manage and develop people will have to be dramatically rethought. With the rapid pace of change, people will need to learn improvisation to build on each other's ideas. We are being challenged, as humans, to rethink and redefine our role in this world and especially at work.

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Leadership: Leading the Future

Command and control leaders truly believe they have all the answers. This style has been honed over the centuries through feudal systems, royal dominance, and bureaucratic organizations. It may well be unconscious behavior on the part of many leaders, which is why it is so hard to change. Historically, this dysfunctional management style did not ultimately thwart human creativity. It just made it harder to bring innovation to the workplace.

You don't have to read many business headlines to see greed in action. It is this culture of greed that puts average, honest workers under stress to deliver results at all costs. In order to get compliance, leaders resort to command and control, and followers comply.

Today, with social media, word gets out quickly about where to work and who to work for. Command and control and greed often go hand in hand and aren't sustainable in a future-proof world of today and tomorrow. Today's workforce is not asking to be engaged, it expects to be engaged.

21st-Century Leadership

Leadership of the future is really the same kind of leadership that's always been effective. The 21st-century leader understands that business is also about values, purpose and solving problems.

Leadership is a privilege. Great leaders lead wherever they are and whatever their career level. As a leader, you have a great responsibility, not to yourself but to those you lead.

Leaders need to be clear on their personal values first before adopting and modeling company values. Values must be internalized. Solid personal values give you the platform and the confidence to translate those convictions into authentic company values. Authentic values create a vibrant company culture.

Defining Values

Value is no longer defined by how much money a company makes, but rather it is moving toward how much good it contributes to society.

Five critical dimensions set great leaders apart from everyone else: they are purpose driven even in times of great ambiguity, they act with heart and love toward those they lead, they are team builders but not in the traditional sense, they are highly perceptive, and they are crystal clear about their values.

The greatest leaders have three things in common: passion, the ability to attach whatever their task is to that higher purpose and they find time to develop people. When you practice these three behaviors, not only will you help others and show you care, you will feel great about yourself. This is the power, privilege and purpose of leadership.

Culture: The Key for Innovation and Speed

Cultural innovation should be a top priority for your company. Culture is critically important to any organization, especially one that needs fresh ideas and speed to succeed — which is every industry and every organization today.

Speed and creativity, with more readily available data, are the bywords of this century's organizations. Leading companies today are realizing they can't unleash the creativity of their employees with slow, bureaucratic cultures.

Fast-Forward Culture

Job markets are changing rapidly, with fewer factory workers and more knowledge workers. More entry-level employees have different expectations, are technologically savvy and want to work on meaningful projects. Companies like Google, Facebook and PwC are the new normal. These companies know they can't be fast and flexible with cultures rooted in industrial thinking.

The two areas that worry CEOs the most, according to recent PwC studies, are talent and technological disruption. Culture is a critical part of both of these concerns. Companies must be fast, but they also have to be flexible learning organizations in which innovation can happen quickly — in every part of the organization, not just in the places where the research is done. And execution must be flawless.

Cultures that are toxic by their very nature are not innovative. If you're not purposely investing in a healthy culture, your business is already declining, whether you realize it or not.

Culture is rooted in values. It's the unspoken set of assumptions, values and beliefs that dictate, often subtly, how people relate to each other in organizations. It defines how people in the organization think about their work and contribute to the overall organization.

Bringing Culture to Light

Culture is the DNA of a company that happens whether you want it or not. Culture shapes how employees act, not only with each other but also with the customer. It informs how decisions are ultimately made about

everything from who you hire and reward to how you shape strategy and execute it.

Culture is king for the 21st century. Successful companies are breaking all the rules we believed in the past about how companies need to be run. This means fewer rules, more trust and more freedom for employees to unleash their intelligence and gifts, no matter what roles they play in the organization.

Know your current culture. Understand it not as you would like it to be but as it really is. Define what the culture and values of the organization must be. Then, use those values to guide all your business decisions.

So, how does a company, or division, crystalize its values and create a future-proof culture? Start by assessing your own personal values and answering the question: What is the culture our company needs to execute a successful strategy? Then, look at the behaviors you see every day — in your staff and yourself. Identify the disconnect and begin to articulate the values you aspire to in order to have the success you envision. Leaders create the culture they love. The future-proof culture is one that everyone can love.

Purpose: Navigating Turbulent Waters

Mission and Vision

In the 21st century, work can shift in nanoseconds, and complicated missions can become obsolete overnight. The days of occasional whitewater for a company have given way to perpetual rapids with hidden rocks all along the way.

Instead of building a ship to sail with the changing tides, companies often build massive management machinery that can't move, gets swamped by change and rusts.

Why is Amazon so successful? One main difference is that it has a compelling purpose that drives all other strategies, tactics and activities: Deliver what the customers want to buy, when and where they want it.

Markets change. Technology disrupts. Culture evolves. People learn. Relationships grow. Purpose remains.

Old-fashioned planning and mission statements do nothing to propel a company forward in today's markets. Dump them and replace them with a simple purpose statement. A clear purpose statement unleashes the intellect of employees to meet the needs of team members and customers.

The Power of Purpose

Purpose begins with the promise to customers — not giving the customers everything they want but rather living up to the promise they make to customers. Having a customer-centric view ensures you are delivering on what you say you will deliver.

The best purpose statements are timeless and adjust with changing technology and changing circumstances. However, an effective purpose also has another very important role: to create an authentic emotional hook for the betterment of society.

Purpose aligns people's behaviors around something that makes a difference to others. A command-and-control leadership style, coupled with a focus on greed, causes questionable practices that actually hurt people. Add a mission statement that is solely market-driven, and you have the perfect storm for corruption.

Today, there are more than 2 billion people under 20 years of age in the world. Why is this important? These 2 billion people have a different drummer that motivates them. We have raised children to give back and to be less compelled by making vast amounts of money at others' expense. If companies are to attract these young people, they must also have an awe-inspiring purpose.

In the 20th century, people came into work, but their emotional purpose was outside the workplace — usually back at home. In the 21st century, it's the emotional purpose that causes people to *come* to work.

Purpose is powerful. It appeals to our inner need as humans to contribute to the greater good. What is your real purpose on Earth? It can be hard to live your purpose 100 percent of the time — we are human after all — but good leaders strive to do so. And great leaders regularly reflect on how well they are aligned with, and living, their purpose and make changes accordingly. Purpose is a leadership journey, not a destination.

Relationships: Our Connected Future

Business is built on relationships, whether with employees, customers or other key stakeholders. You cannot be successful in business, or in life, unless you are also successful in cultivating the personal and professional relationships on which these depend.

We are in a transitional phase in terms of how relationships are valued in the workplace. The future of work will center on the fluid workforce, which consists of teams and

individuals who can come together rapidly, build trust, enable information sharing and collaborate to deliver a successful result.

Relationship with Work

We've moved from a local perspective to a global perspective. Our relationship with the workday, and work itself, has expanded from 9 to 5 to 24/7. The lines between work time and personal time are blurred. The evolving expectation is that work and life are a braided system that is blended, overlapping and seamless.

The key to future-proofing both your own social time and the work that needs to be done is providing the resources that allow for both work and play. The millennial generation is drawn to opportunities in which they can work when inspiration strikes them — as long as expectations are met and results are delivered.

The traditional career ladder is no more. With the flattening of organizations, the career ladder is more of a career lattice — where success isn't only about vertical movement. Success is about the horizontal opportunities that provide new experiences and expand skills. We now work in a series of interconnected and interdependent networks, even if they are difficult to chart. To future-proof your career, you need to be connected at multiple levels, to multiple people, and actively cultivate those connections.

Relationship with Employer

The rules of the employer–employee contract, whether implicit or explicit, are being rewritten for the 21st century. There has been a shift from the paternalistic employer to the self-sufficient employee and from employee for life to the more flexible workforce.

Welcome to the social contract. Relationships matter, and the quality of our working relationships matters even more in the modern world. The future of work is less of a chore or a place we have to go to. Instead, work becomes something we choose to do because we want to.

In today's hyperconnected world, it's becoming increasingly difficult to differentiate between friends and colleagues. Building relationships and connections quickly, and paying attention to how we bond so that everyone is included, is paramount. Who you know and what you know is much more important than the formal role you play.

It's the quality of the connection that matters, not the quantity. In the future, success will be achieved through the subtle but high-value combination of mastery and connectivity. The defining factors will be what you know, who you know and how well you can work with others. You must intentionally connect or risk becoming disconnected.

In the future — and more importantly, today — we need to be even more diligent in balancing the needs of the relationships we have with work and the relationships we have with others. Most of all, we must recognize that we have no excuse for not enjoying the kind of working relationships we aspire to.

Diversity and Inclusion: Future Inclusion

Prejudice, bias and exclusionary behavior have always played a role in human society. Young people today have been raised to believe they can achieve their dreams regardless of their race, gender, religion, sexual orientation or age. But as a people, we have not been able to get out of our own way in providing paths for a more inclusive society.

Stereotyping is personal because we apply our own experience and intent to the situation at hand. Advancement for women and minorities — and for that matter, anyone who does not fit our Western view of leaders — has been a slow trickle. Why? Because even well-intentioned programs don't fully address unconscious bias.

Make a tally sheet and, in most cases, those who are perceived to lack executive presence are minorities, women, LGBTQ people, introverts, and foreign nationals. The leaders making these decisions are not necessarily bad people. They just don't realize that the subliminal messages and context they are drawing from to make decisions about others are exclusionary. We have set patterns, images and context for what we believe people should be like, and often, these are so subtle we don't even realize it.

The changing demographics of the new workforce make inclusive hiring an imperative. The opportunity to be included at the top levels of organizations is still slim. If you can't include others who are different, your business will not survive.

Brain Science, Bias and Diversity

We all have unconscious bias that causes us to embrace some and discriminate against others. And this distinction happens unconsciously and instantly. This is the root cause of why programs and processes to increase diversity in the workplace have not worked and will not work — until we come to grips with our own unconscious bias.

If your brain has been conditioned to believe that males hold executive roles or that women can't do certain types of work, you will react and make a decision before

you're even aware of it. You will react before you realize that you had a negative or positive response. The brain stores memories and emotions. It captures every story you have ever been told and categorizes it. Unconscious brain function makes up approximately 80% of the brain's activity. It is not that we inherently dislike other people, but we have been programmed with subliminal and not-so-subliminal messages.

Parents unwittingly pass on their bias and stereotypes to their children, causing an unconscious reaction in their children that can either help them or hinder them as they move into society. This is one explanation for a current phenomenon among women shown in recent research. Many women don't aspire to the most senior roles, despite the fact that more women have advanced degrees than ever before. They were conditioned to believe they could not attain these jobs.

The good news is that the brain can rewire with repetition. All your neurons, circuitry and synapses can respond differently if you can rewire your thinking.

The action we must all take is to dump the focus on diversity and all the programs devoted to shaming and blaming others for lack of diversity. Instead, let's focus on inclusion as the positive, and more accurate, alternative. Creating a culture that fully embraces and includes all participants is essential for a future-proof organization.

Technology: Resistance Is Futile

Technology is ever present, ever advancing and ever pernicious. We are firmly in the embrace of the fourth industrial revolution, a digital revolution that impacts every aspect of our lives — at work, at play, and at home. Technology will continue to both disrupt industries and create new opportunities. You can be a casualty of the disruption or reap the benefits of applied innovation.

Technology: The Disrupter and Enabler

Technology isn't just providing existing services in new ways, it's connecting what were once disparate processes to provide an even more seamless and pleasant customer experience. It's not only disrupting what is created and delivered to consumers, it's also disrupting what is captured and understood about consumers and nonconsumers.

Digitization of information is pervasive. Big data can be described as vast, growing stores of information that can be analyzed by computers to reveal trends, patterns and associations. Analyzing this information is a burgeoning industry in itself. This abundance of valuable information is driving the emergence of new businesses.

Artificial intelligence is already here, driving our cars, providing real-time translation services, reducing language barriers and providing new delivery mechanisms through drones and virtual assistant services like Google Home, Alexa, Cortana and Siri.

Whether AI and robotics will eventually replace jobs is an ongoing debate. It would seem that AI and robotics can only create long-term value if the new processes, systems and apps *augment* the economic system as it currently operates. The time-saving and cost-savings that automation provides is a short-term benefit if the long-term impact of less employment (and hence, less money to spend) is not considered.

The careers and companies that stay focused on the human benefits of technology will live long and prosper.

Technology will redefine the expectations of workers and performance management. Like it or not, people work in small chunks of time, not huge blocks. Technology is driving byte-sized attention spans. Digital transformation impacts what we know and how we analyze data. This allows for increased flexibility, not standardization. To thrive in the midst of rapid technological change, we've got to make work simpler, not continue to add complexity.

Future Workforce

The workforce of the future is one that's iterative and agile. This agile mindset, skill set and organizational structure with flash teams is not just the future, it's the mainstream of today.

Everything is connected and transparent. There are no boundaries. Initial expertise and first-to-market gets you a seat at the table. But keeping pace and growing keeps you there.

As leaders, we have to admit that the problems we face are too big to tackle without collaboration. The winners will have the best human interface.

The future of work will be informed by insights from neuroscience, game design, new expectations of work and life (not work or life) and what it means to be a happy, productive member of society.

With the never-ending flood of data and increased connection, the new risk is cognitive overload, and the next shift will be to intelligent technology, which will sort through information and recommend informed decisions.

Every company, including yours, is now a technology company. To future-proof your company, you must first future-proof your mindset. We have all the shiny objects at our disposal. Instead of restricting access, encourage

a culture of playing with all the toys to connect and do great work.

Resistance is futile…because whether you realize it or not, you've already been assimilated. Stop worrying about technology and start enjoying the benefits.

Learning: Curious Learners

When it comes to navigating the creation of a future-proof workplace, the skill of unlearning and relearning becomes even more paramount. The irony is that the industry of *learning* is perhaps the least prepared to meet the onslaught of the future-proof workplace. It's not just what we are learning that needs to change. We also need to transform the time it takes to acquire knowledge.

If our best and brightest are spending 12 years in secondary school and then feel pressure to spend eight more years in higher education, our ability to respond quickly to change is vastly reduced. The next iteration of graduate education will include not just timeline flexibility (the traditional degree course condensed into a shorter time frame) but also content flexibility to allow learners to pick a more a la carte approach to the content of their degrees.

The future of learning needs to be tipped on its head, a focus on how knowledge is going to be used, the context in which learning will be applied, that will determine the priority of what needs to be learned.

Scarcity drives value. Today, it's not information that's scarce, it's people who know how to use it at work. Learning agility and a healthy curiosity are going to be key skills for future success. The need is there for all of us to become increasingly flexible and to have an understanding across disciplines. There has to be a major change in how we capture, assess and value learning.

Modernizing Talent Management

If lifelong learning and midcareer relearning is the new normal, then the question becomes, "Who owns the learning contract?" A one-size-fits-all or a one-size-only-fits-a-few approach is no longer appropriate. Everyone must be up to the task.

Not only is the time until moving to a new role shortening, but so is the patience level of millennials who are being asked to wait for advancement opportunities. We need a different way to think about readiness for the next big role or promotion.

In the future-proof workplace, investing in your employees will be the differentiator that makes you an employer of choice. Investing in yourself, proactively learning and seeking new experiences will differentiate you from other potential candidates.

Build a Learning Culture

The best way to build a learning culture is to hire the right people. Use behavioral interviewing, and look for clues in job candidates' previous experience. Learning has to move from being an event to being a process. Everyone needs to be a coach and mentor.

Knowledge management matters not only because of the ticking demographic time bomb but also because of the new flexible, tour-of-duty mindset of the millennials. People will be coming and going from your organization, and it would be naïve to think you can retain someone forever. Instead, build the processes that help everyone to share knowledge while they are part of your team.

Throw out the HR rule book. These rules certainly don't reflect an educated workforce or the needs of the future-proof workplace. Many rules actually limit learning, initiative and creative thinking.

In the 21st-century workplace, performance management experiences a workplace makeover. The individual focus of performance management and rewards is at odds with the team-based approach that is required going forward. Short-term goals and milestones ensure meaningful feedback and progress in bursts while aligning to the overarching purpose and culture.

Treat your employees for who they are — adults. Provide them with challenging goals and the resources to achieve them. Then, set them free to deliver the results.

Workspace: The Future-Proof Workspace

Office space is a major capital investment for most organizations, and it's an important one at that. Design your workspaces well, and you'll have a 21st-century environment where people *want* to be and in which they can thrive.

The office of the future has to be designed around the active worker, encouraging people to get up and move around. Cubicle or office walls may not exist in the future-proof workplace. If the goal is to drive collaboration and teamwork, then let's start pulling down the barriers that get in the way. In redesigning the office, many organizations are paying close attention to how employees move about the space, deliberately designing opportunities for chance encounters to occur in which new ideas can be formed.

Anytime, Anywhere

However, one of the most compelling transformations of the workplace is not just for those who use it in person, it's also designed to help remote employees feel connected to the mothership. Remote workers need to be provided with all the necessary technology, training and access to work from anywhere, connecting seamlessly to office systems back at the traditional brick-and-mortar headquarters.

Just because we can work anywhere and anytime doesn't mean we should. A law was recently passed in France that gives employees the "right to disconnect" from email, smart-phones, and other electronic devices once their working day has ended.

Designing the new workplace has to account for employee health and wellness, not just productivity. Providing opportunities for employees to reduce stress and be more aware of their health choices can only benefit them and, ultimately, the organization — a healthier bottom line for all!

The final piece in the workplace puzzle is the increased focus on social and environmental impact. When it comes to community involvement, many organizations are throwing open their doors and encouraging employees to get out and connect with their communities.

There are steps you can take that will transform your office environment into one that more closely supports the needs of your future businesses and your employees. Start by involving your employees and asking what kind of environment would support collaboration, innovation and team building. Ultimately, the future-proof workplace is one that allows all employees to be present (in person or virtually), to work together and successfully deliver results.

Future-Proof Workplace: Waves of Change

Change often feels threatening, and when our livelihoods are threatened, we can often react with a fight-or-flight response. Helping people navigate the waves of change is our role as leaders in the 21st century.

The first step is to take a hard look at your leadership results — both in leading yourself and leading others. Leaders must have a clear set of guiding values and purpose in the 21st century. The future will be built by leaders who build up others and have a heart to serve others.

Having an outside-in, customer view is essential. This perspective keeps a culture fresh, flexible and innovative. If you want to grow, you have to understand what your culture really is, not what you wish it to be.

Your company needs a clear purpose. When you define your purpose, as a company or an individual, you create a barometer to judge your decisions.

Relationships matter. You cannot be successful in business, or in life, unless you are successful in cultivating winning relationships. Inclusion is an attitude, a worldview, not a number. And we all fall short to some degree. Anything that hinders healthy collaboration hurts us all.

Ironically, the digital revolution is placing the human side of business at the forefront. Technology is the primary impetus for a major shift in how work gets done and careers evolve. Successful leaders are those who balance not just the *what* of technology but also the *how*, the *who* and the *where*.

Instead of thinking a vibrant company culture can be built with a new color of paint and fancy desk chairs, understand that a workspace is the reflection of culture.

Work Matters

It's time to retire the whole work/life balance debate. They are forever connected. Work can become someplace where we want to be, not where we have to be — a place that helps us to thrive, contribute to the organization's purpose and leave a legacy that benefits all.

Future-proofing your company and career might be challenging at times, but it's possible. The biggest challenge is to recognize that the future of work is today. The sooner you begin, the further ahead you'll be.

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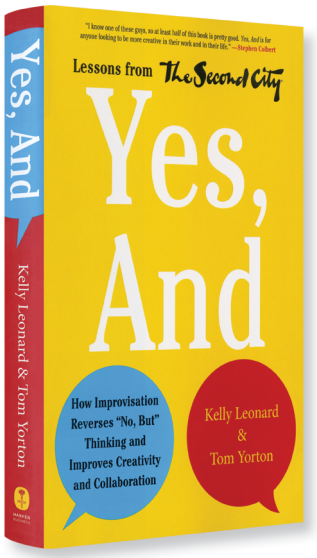
39BS04 Yes, And

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Yes, And

How Improvisation Reverses "No, But" Thinking and Improves Creativity and Collaboration



by Kelly Leonard and Tom Yorton

THE SUMMARY IN BRIEF

The Second City has launched the careers of celebrated comic performers such as Tina Fey and Stephen Colbert and produced award-winning content. But it's the actual improvisational process developed and honed over the years by The Second City that has become its legacy. Players master an ability to co-create in ensembles, using philosophies that celebrate a "Yes, And" approach. They embrace authenticity and failure, and espouse the idea of "following the follower," which allows any member of the team to assume a leadership role.

Here, for the first time, Second City executives Kelly Leonard and Tom Yorton describe how you can use the same skills that thrill audiences around the world to improve your emotional intelligence, increase creativity and learn to pivot out of tight and uncomfortable situations. In this engaging, often humorous and highly practical book, you will learn how to become a more compelling leader and a more collaborative follower by employing the seven elements of improv.

IN THIS SUMMARY, YOU WILL LEARN:

- The Seven Elements of Improvisation and how they have inspired some of the most creative performers in history.
- How Yes, And can be used in coaching, brainstorming and conflict resolution.
- Six distinctive ways The Second City uses failure.

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THE COMPLETE SUMMARY: **YES, AND**

by Kelly Leonard and Tom Yorton

The authors: Kelly Leonard is the executive vice president of The Second City. He has worked at The Second City since 1988, overseeing productions with such notable performers as Stephen Colbert, Tina Fey and Amy Poehler.

Tom Yorton has used improvisation and comedy to help business professionals since 2002, when he joined Second City Works as CEO. Previously, he worked in advertising and marketing at Ogilvy, Grey Sears and 3Com.

Yes, And: How Improvisation Reverses "No, But" Thinking and Improves Creativity and Collaboration by Kelly Leonard and Tom Yorton. Copyright © 2015 by The Second City, Inc. Summarized by permission of the publisher, HarperCollins. 228 pages, $27.99, ISBN-13: 978-0-06-224854-1. To purchase this book, go to www.amazon.com, or www.bn.com.

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The Business of Funny

When The Second City first opened its doors on a snowy December night in 1959, few attendees would have suspected that they were present at the birth of an institution that would serve as the leading source of cutting-edge comic artistry for the next half century. Along the way, however, a new breed of performer also began seeking out The Second City: managers, marketers, teachers, lawyers, advertising executives and business-school graduates.

More and more people are recognizing what the people at The Second City have known for a long time: Professional success often rests on the same pillars that form the foundation of great comedy improv: Creativity, Communication and Collaboration.

Seven Elements of Improv

While there's nothing wrong with the quantitative, strategic and analytical skills traditionally taught at B-schools, those alone do not guarantee success in business, where things tend to be messier and more fluid and where success often rests on the ability to form winning coalitions that will back a good idea. Here, the soft skills, such as willingness to listen, forge trusting relationships, take and support responsible risks, adapt to change and stay positive in the face of adversity, are seen as those essential to allowing people and businesses to respond with agility and nimbleness to the fast-moving information, opportunities and challenges of today's workplace. These skills are no longer merely nice to have — they are paramount. And they can be learned, using the same seven elements of improvisation that have inspired some of the most brilliant creative performers of our time:

1. **Yes, And.** These two words form the bedrock of all improvisation. In application, these two words are ground zero to creativity and innovation.
2. **Ensemble.** The ensemble is the pre-eminent focus of everything in The Second City's business, and it pops up everywhere, and it is a vital ingredient in almost any organization's growth and competitiveness.
3. **Co-Creation.** The sum of co-creation is greater than its parts. And in our increasingly connected world, co-creation is fast becoming a fact of life.
4. **Authenticity.** Unfortunately, truth is too often ignored or soft-pedaled in business out of fear of political incorrectness or for the sake of expediency.
5. **Failure.** Failure is more than an abstract tenet for The Second City. It is something they commit to every time we walk onstage. It's vital to give failure a role in your process.
6. **Follow the Follower.** Leadership is more about understanding status than about maintaining status. The ability to knowingly shift status inside the group dynamic is an art — and it doesn't come easily.
7. **Listening.** Deep listening is essential to improvisation. It is also critical in many parts of business, from selling situations, to employee evaluations, to brainstorming sessions and more.

These seven elements are at the heart of The Second City's success and have contributed in no small part to the success stories of its famous alumni. They have also made their way into companies and organizations as diverse as Nissan, Motorola, Google, Nike and McDonald's.

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Rebecca S. Clement, Publisher; **Andrew Clancy**, Executive Editor; **Ashleigh Imus**, Senior Editor; **Masiel Tejada**, Graphic Designer; **Andy Ghillyer**, Contributing Editor

To put it most simply, comedy provides us a safe place to speak and hear the truth. Unfortunately, at our most important moments, especially in the boardroom where the fate of a company may hang in the balance, freedom to speak the truth and, just as vitally, hear the truth, rarely exists.

Yes, And: How to Make Something Out of Nothing

Yes, And is the secret sauce, the source code, the key that unlocks every door worth opening. In the context of improvisation for the stage, where there is no script to guide the direction of a scene, Yes, And goes like this: One actor offers an idea onstage, and other actors affirm and build onto that idea with something of their own.

It's a relatively easy concept to understand but much harder to commit to in actual practice. That's because it requires you to trust others to support and build upon your contribution, and it requires you to do the same for them, whether you actually like the idea or not. In the business world, support is almost always highly conditional: I'll support you as long as I understand immediately where this idea is going, or I'll support you as long as success is guaranteed, or I'll support you as long as there's something in it for me. "No" or "Yes, but" are popular in the work world because they allow one party to maintain control of an idea or conversation, but if control guaranteed success in business, every business would be wildly successful.

To build a Yes, And culture, you have to model Yes, And behavior. You have to be supportive and committed to building on people's individual contributions.

In Interpersonal and Team Communications

The best networkers are those who affirm and build on the ideas of others, not those who initiate and monopolize the conversation. The best way to connect and engage new colleagues, especially in a team project situation, is to listen deeply and build on their ideas, something that comes naturally when you're committed to a Yes, And approach to communication.

In Coaching and Feedback Sessions

If you're a boss, one of the most important responsibilities you have is to coach your people and provide feedback that will help them grow in their work. Yes, And offers three ways in which you can put everyday work communications in a more positive light. First, it helps you to acknowledge when someone does something good and gives you a chance to encourage that person to reach further. Second, adopting a Yes, And mindset can be invaluable in motivating teams to reach for new heights when developing ideas and initiatives. Finally, Yes, And helps boss-subordinate communications by leveling the playing field of the conversation. By committing to listening and building on ideas, you tend to focus more on the merits of the idea, not the rank of the person who generated it.

In Brainstorming and Ideation Sessions

Probably the most obvious place you can apply Yes, And is in brainstorming or ideation sessions, where you and some teammates are trying to come up with a new product idea, marketing slogan or creative theme. It helps teams generate more unlikely or unusual ideas than they would in a traditional brainstorming approach. The reason is simple: When people are building and supporting each other's ideas quickly, they tend to filter and judge less, and when you take off filters at the early stage of a brainstorm session, you allow ideas to go to new places, and you discover new connections that conventional wisdom doesn't account for.

In Problem Solving and Conflict Resolution

Winston Churchill once said, "Never let a good crisis go to waste." He clearly knew how to Yes, And. When faced with unexpected problems to solve, we're often tempted to lock up and focus on the blame, repercussions and grief we're going to feel from the higher-ups instead of focusing on solving the problem at hand. Even a bad idea is just a bridge to a better idea. Yes, And allows everyone to contemplate potentially useful but incomplete ideas before they get shut down. Creating a positive climate in the face of pressure and crises gives groups the confidence that they can solve whatever problem emerges.

In Overcoming Objections

In business, people spend a lot of time, money and energy persuading each other to do stuff. In any high-stakes decision, people are bound to have objections. You want to do everything possible to avoid creating an adversarial atmosphere. Keeping a Yes, And perspective in these situations can help you validate the legitimate concerns of the other party and keep the door open for common ground.

Work cultures that embrace Yes, And are more inventive, quicker to solve problems and more likely to have engaged employees than organizations where ideas are judged, criticized and rejected too quickly. With Yes, And, you don't have to act on every idea, but you do have to give every idea a chance to be acted on.

What we're really saying in the end is that no cannot be your default response if you want to create a work environment that is fast, innovative, supportive and high functioning over time.

How to Build an Ensemble

The word team, which may be defined as a number of persons forming one of the sides in a game or contest, implies competition, which inherently suggests some external foe that the group is working against. Ensemble, which may be defined as all the parts of a thing taken together, so that each part is considered only in relation to the whole, carries no such baggage; it is a thing unto itself, an entity that is only its true self when its members are performing as one. The ensemble is a vital ingredient in almost any organization's growth and competitiveness. Unfortunately, shockingly little attention is paid to building, maintaining and developing ensembles. The consequences of that oversight are all around us, from the conference room full of smart people more interested in showing off their brain power than actually solving a problem, to the leader who takes credit for success and dodges accountability for failure, to the individual who whitewashes all his or her problems.

There are ways to reconcile the needs of individuals with those of the broader team. Whether onstage or in business, stars can emerge out of high-functioning ensembles when all members address its main enemies — the need to be right, the need to steal focus and the need to appear in control even when the evidence is otherwise:

Be in the Moment

When you are in dialogue with your co-workers, stay present in the discussion at hand, and don't dwell on previous mistakes or even previous successes. There is a time for reflection and there is a time for planning, both of which are distinct and separate from the time for creation and innovation.

Give and Take

For any scene to work, you need a balance of Givers and Takers. Sometimes people just don't like to share the spotlight, so they interrupt or otherwise block the Giver's attempts to take focus. Sometimes, people are just natural Takers. At The Second City, John Belushi, Bill Murray and Chris Farley come to mind immediately. The minute any one of those performers stepped on the stage, they took the focus, whether they wanted to or not. In an office setting, the same can occur for an individual who naturally dominates a conversation without even meaning to. But problems can also arise when Givers don't step up — when they don't jump in and take the focus when called upon to do so.

Surrender the Need to Be Right

The need to be right, among individuals, institutions and organizations, is one of the biggest barriers to an ensemble approach to creativity and innovation. If you can create an ensemble where everyone agrees to surrender the need to be right, you will increase productivity by leaps and bounds. Simply by agreeing to remove the word no from your vocabulary and replacing the response with "Yes, And," you will create an environment where innovation can flourish; you will also make everyone happier.

The Co-Creation Story, or Audiences Want In on the Act

Dialogues push stories further than monologues. The sum of co-creation is greater than its parts. And in our increasingly connected world, co-creation is fast becoming a fact of life. Unfortunately, it is not usually taught or applied in the very corners where it is needed most.

There are three keys to co-creating successfully within your own business and ensemble:

1. **Find the Idea, Not Your Idea.** While individuals can come up with great ideas, ensembles that are willing to co-create are ultimately better and more consistent at finding the idea. This concept can be a hard sell, because when an ensemble is engaged in co-creation, ideas no longer belong to the individual who came up with them. Rather, they belong to the group. So, if you want to co-create to get to the idea, you first have to encourage people to cede control over their ideas for the greater good of the group.
2. **Cede Control.** Getting people to cede control often becomes exponentially more difficult the higher you rise up the food chain. Chances are, the top creative thinkers in your organization are not inclined to share. This is unfortunate since creatives willing to cede control over ideas gain a more robust fount of insights than individuals who prefer to go it alone.
3. **Eradicate Fear.** Fear may be a useful emotion for keeping us safe, ensuring that we floss or making sure we turn in our taxes, but it's detrimental to the act of group creativity. Whether it's fear of failure, fear of looking foolish or fear of the unknown, fear does not inspire elegant creative thinking; it inspires knee-jerk, path-of-least-resistance ideas. When used

> as a motivational tool, fear may push someone to run harder, but it's never going to push anyone to run smarter. No organization or business will ever gain creative advantage when governed by fear.

Nothing could be worse for co-creation than a scaredy-cat culture. It's almost impossible to live and create in a moment when you're wracked by fear. After many years of auditioning prospective young improvisers, the authors have identified a list of behaviors that 90 percent of applicants demonstrate as they attempt to externalize their fear:

Asking Questions

One of the very early rules you learn in studying improv is to avoid asking questions of your scene partner. When improvising a scene, you're supposed to be in dialogue, creating together. When you ask questions, however, you put the onus on your partner, and your partner alone, to provide the content and laughs for the material you are supposed to be creating together. People improvising in fear ask questions because they are too afraid — too inside their own heads — to put themselves on the line and take responsibility for making the kinds of declarative offerings that serve to build the content of a scene. There is a place and time for asking questions. You need to know details in order to contribute to the greater conversation, but once those details have been shared, it's time for the team to get creative and brainstorm. At that point, questions are a creativity killer.

Aggression

There is no question that dealing with aggressive personalities is very difficult. If you're a boss, the answer is simple: Dictate the code of behavior that you expect from all your team members — a code that mandates sharing the stage and co-creating with respect. Then give those personalities practice to improve. They will need to unlearn what's become second nature to them.

Yelling

The collateral damage of management-by-volume is significant and long lasting. Any sense of collaboration is thrown out of the window; a culture of "me" permeates the business rather than a culture of "we," and morale is terrible. It's almost impossible to co-create and build for the future in this kind of environment. People who yell are acting out of fear and insecurity. The only way to change their behavior is to help them feel safe and secure. Improv tools such as Yes, And and Give and Take are conducive to this effort.

Waffling

Waffling is merely a delaying tactic, something you do when you are too afraid to leap into the unknown. Unfortunately, waffling is an all-too-common refuge for people put in the position to make decisions but who lack the confidence to act. In business, not making a decision is almost worse than making the wrong decision. The secret to building confidence is practice.

Timing Matters

When it comes to co-creation, whether in improv or in business, timing matters. For The Second City, even seconds between an audience member's suggestion and the response of an improviser can prove fatal to the success of what follows. And in business today, consumers expect a rapid response when they post a comment about a business or brand on social media. That's been hard for a lot of businesses to get used to. Of course, every business has to manage its own response time to customer inquiries, complaints and suggestions. Yet while there is absolute value in a considered response that may take hours or even days, there is a different kind of value in an instantaneous reply. It may be a bit more challenging than taking your time, but the energy and fast, creative thinking a quick response requires can compel you to perform even better.

When you receive real-time customer feedback of the kind a live audience provides, there is not time to separate the generation of content from the analysis of content. As you improvise a scene onstage, you feel the effect of your work upon your audience immediately. Their reaction then affects the choices you make in real time. Because improvisation demands that you stay in the moment, you do it without worrying about the value or validity of your work, which frees you to be more spontaneous, creative and authentic.

Change Is Hard: Comedy and Improvisation Make It Easier

The business or organization that takes itself too seriously and doesn't know how to question its own beliefs is at a strong disadvantage. Rather than pretend that problems and failures don't exist, strong leaders and organizations acknowledge what's not working. They encourage team members to demonstrate their respect for the organization by questioning the status quo, challenging assumptions and traditions that may not be working, and calling out the truth, even when truth is hard to hear.

The line between respect and reverence isn't always easy to see, and we are continually faced with finding the

balance between the two. But individuals and companies who can inject a healthy amount of irreverence into their corporate culture will not only improve their organization's morale, they will also be setting a foundation for being more competitive.

The One-Two Punch of Comedy and Improv

Change is hard whether you work in education, politics, a startup or a Fortune 500 company. When the status quo is no longer working, organizations and leaders need a way to change the conversation and get people to reconsider assumptions that are leading them astray. Comedy makes it possible to grab people's attention and get them to face the uncomfortable reality of the situation without being threatening or disparaging. Comedy makes it possible to talk gently but forcefully about what's broken, while clearly making the case for change.

But popping the tension bubble around an organization's failings and challenges isn't enough. It doesn't help anyone to just do a comedy drive-by and make fun of people's serious problems. To be truly effective, we have to build the capacity to solve those problems. Comedy and improv deliver a powerful one-two punch that makes change easier. Comedy makes it possible to identify and talk honestly about problems, and improv builds the key skills people need to deal with the problems that come with any enterprise-wide change agenda.

Respect, Reverence and Authenticity

When companies and individuals lack a sense of humor, the root most often lies in the mistaken belief that one must remain reverent to institutions and ideas. The Second City thinks differently and offers to replace the word *revere* with *respect*.

Respect allows for dialogue between individuals who may think and feel differently, thus creating a path for potential understanding and change. Reverence makes idolatry of individuals and institutions. It speaks to us rather than with us. Reverence is the enemy of change.

The most important dividend from the respect/revere dynamic is authenticity. Authenticity has always been prized. Business leaders want to be regarded as authentic. Politicians do. Brands want it, too. These days, however, there seems to be more talk about authenticity than in previous decades, perhaps because the Web, for all its failings, forces greater transparency and openness. In a world where everyone with a Web connection has a megaphone and isn't afraid to use it, company flaws and bad corporate citizenship inevitably come to light. Organizations can no longer hide from the audiences and customers they serve, and that new reality is forcing transparency, candor and, in some cases, irreverence that would never have been seen before.

Using Failure

Too often we are told that failure is not an option. But the opposite is true. It's vital to give failure a role in your process. The biggest threat to creativity is fear, especially the fear of failure. By deflating the negative power of failure, you erode fear and allow creativity to flourish. Moreover, how organizations talk about failure can be key to how well they do. Companies that reflexively whitewash or punish failures create environments where nobody wants to take a chance or speak openly. Failure should be a given.

The Second City is regarded as a perfect model of fearlessness. They are proud of their heritage of failing in six distinctive ways:

1. **They Fail in Public.** It's not that people lack ideas, commitment or capability; it's that they are controlled and held back by the fear of public judgment, specifically the judgment that their ideas aren't good enough. The folks at The Second City don't like to fail any more than anyone else. They've just learned to put failure in proper perspective and come to terms with the fact that where there's a chance of public failure, there's also a chance of public acclaim.
2. **They Fail Together.** The commitment to ensembles helps to create a comprehensive support framework. When support, trust and respect are a given in your place of business, you have set the table for invention. Come to the aid of a co-worker who may be flailing in a meeting; take 10 minutes each day to visit the offices of individuals in other departments; when you mess up, say you're sorry. It's not all big, sweeping actions. Sometimes it's the accumulation of small acts of support that provide a true sense of community inside a business. And this is exactly the environment you need to foster if you want to encourage your ensemble members to push into difficult territory.
3. **They Fail Fast.** Improvisers are usually extremely quick-witted and nimble, able to think on their feet and adapt seamlessly to changing environments or circumstances. Their ability to listen and react intelligently and comically is what separates great improvisers from people on the street. Their need for speed also ensures that when the inevitable failures happen, they move quickly on to the next new idea

without stressing over what was wrong with the previous one. They know that there will be a time later on to deliberate over what didn't work. At that moment, however, they can't let failure derail them because they've still got a show to finish.

4. **They Fail Free of Judgment.** No one can feel free to fail — or, conversely, feel free to take risks — if they think they are being judged, either by their colleagues or their supervisors. Failure can be successfully harnessed only when it's allowed to exist inside a judgment-free zone.
5. **They Fail with Confidence.** The Second City ensemble members are able to rebound fast from any mess-up because they bring unshakable confidence that their approach, talent and experience will carry them through and enable them to be successful in the end. They are more than happy to fail because they've seen that failures can lead to success.
6. **They Fail Incrementally.** The improv axiom "bring a brick, not a cathedral" suggests that the best improvisers don't feel compelled to bring wholly formed, finished ideas into an improvised scene. Rather, they know that the ensemble, working together, will ultimately create the full scene, so an individual's responsibility is only to bring the next idea or piece of information that can advance the scene. Because of this, no one actor carries the burden of creation, and because improvised scenes are built one brick at a time, as it were, no single idea is critical, and the scene can grow into something great even if individual contributions along the way aren't spot on or interesting. It's a counterintuitive thing that most employees don't grasp: Their ideas are critical not because they're brilliant, wholly formed pearls of wisdom. They're critical because they encourage the flow of ideas from others.

Follow the Follower

Improv comedy, meet Peter Drucker.

One great way to understand what can be accomplished when we abide by Drucker's laws of great leadership — trusting the ensemble, working in synchrony, taking the I out of team — is through an exercise developed by Viola Spolin, mother of improv theater, called Follow the Follower.

It works like this: A group of individuals sit in a circle facing each other. On a facilitator's cue, each individual starts making sounds and movements. However, at the same time, each person is also to mimic the sounds and movements of others. No one leads, and no one follows — everyone in the group is constantly shifting their attention to see what the other group members are doing. If one person decides to shake his head, the whole group will shake their heads. However, when done right, an outsider would not be able to identify the original head-shaker. It's as though the group is in a total mind-meld, able to anticipate the slightest change in direction with all the precision and instantaneity of a school of fish. The leading and the following are constantly in flux.

Get Out of the Way

Very few businesses have a manual for being the Boss. At least, we never got one. But we did have the benefit of receiving some pretty good advice from those who came before us.

At Second City, the boss doesn't sit in on rehearsals. The producers who oversee the live productions check in on the shows when the director indicates that it's a good time to do so. The case and the director are allowed to work unencumbered by outside eyes or the real-time judgments of anyone not directly involved with the actual work — in this case, creating original comedic revues. That's how the creative process should be allowed to work in other organizations, too. When a team is assigned to build new business plans or brainstorm a new advertising campaign, leaders and managers should set parameters and then go away. The parameters are important, however. Most businesses don't have the luxury of unlimited development times. Create timelines and schedules that everyone feels can be met; make sure the group has all the resources they need to get the task done; do find time to check in during the process to make sure that the team knows that they have outside support *when they need it,* not as an everyday intrusion.

Leadership 2.0

A leader's role is recognizing the shift from a hierarchical leadership model to a flat one; knowing when to lead, when to follow and when to just get out of the way; and trusting your teams and talking to your audience — all while setting the context for both internal and external communication. Leadership today is all about letting go of the old stereotypes. If you have to demand respect, you never had it in the first place, and you aren't going to get it through ultimatums.

Leadership today is a far cry from the cigar-chomping, throne-sitting, order-barking man in charge who dominated the cartoons of our childhood. The best contemporary leaders are skilled at operating in an ever-shifting dynamic that allows them to shift as well, letting the most knowledgeable staff members take center stage when

necessary, and assuming more direct control of the environment when it's called for.

Follow the Follower teaches us that there is a better way to lead. Managers don't need to control every aspect of their workforce in order to achieve the greatest results. In fact, the opposite is true. When managers can access and apply the best ideas and initiatives of the individuals they oversee, they gain a strategic advantage.

Listening Is a Muscle

We have a listening problem — in our world, in our country, at our places of business, in our homes. Why? Because we don't practice. Because we aren't taught. Sure, we're told to listen — by our parents, by our teachers — but despite the fact that listening is the primary means by which we learn, we've never been given the tools to develop our listening skills.

In our professional development classes, we make a real effort to show what business and improv have in common: We both have audiences to reach and win over, we both have to create and work on teams, and we both feel the pressure to perform or be replaced by more talented and differently gifted performers. We also point out the important differences between our worlds. We find strength in ensembles over individuals, we're comfortable — or at least competent — in the absence of a script or plan *and* we listen.

Deep, practiced listening is really a form of meditation. It is a skill that enables you to turn off the judgment part of your brain and allows you to interact with individuals and groups in a seamless way. It is not too much to say that great listening is the difference between flopping in front of 300 people and creating art.

Offstage in the business world, or anywhere people communicate, you don't always feel the consequences of poor listening immediately. When you're drifting off during a boss's rant or listening with one ear to your spouse recounting the challenges of the day, you may miss some opportunities to connect, but you're also likely to get away with it, because you can often hide exactly how checked-out you are. Nod a few times, murmur a few um-hums, and a lot of people will mistake these superficial expressions of listening as the real deal. But just because people can get away being bad listeners doesn't mean that there is no cost.

The Practice of Listening

Sales calls, creative meetings where different visions are being expressed and one-on-one employee reviews are essential moments of communication; how well you listen at these crucial times can determine the success or failure of your entire business. If you are not practicing total listening, you are not bringing your A-game to the endeavor, which, practically speaking, doesn't make any sense if you want to succeed.

You could make the case that listening skills are more important than ever, given the macro changes happening in the world. As business becomes more global and generational shifts occur in earnest in the workplace, it's more important than ever to improve the quality of communications, not just the volume of it. And in order to improve the quality of communications, people need to improve their listening skills; you can't have one without the other. Listening is like a muscle — it needs to be worked in order to see improvement.

Conclusion

Ultimately, improvisation is about making discoveries. You walk onto the stage or into a room with absolutely nothing, and, by the time you leave, you will have created something. The quality of that something depends on a variety of factors, almost all of which come down to how well you and your team can apply your brains and your heart to the task at hand.

That being said, there is no one definitive path, no one way, no line from point A to point B that will make you excel at your work, or be more creative and collaborative or a better communicator. This revolution we are experiencing has no room for absolutes. The world is shifting, accelerating and demanding more of us. Keeping up can be a challenge, whether you're trying to ride the waves of change and innovation or make the waves yourself. Regardless, there's no need to be afraid — improvisation is the perfect toolkit for navigating the unknown.

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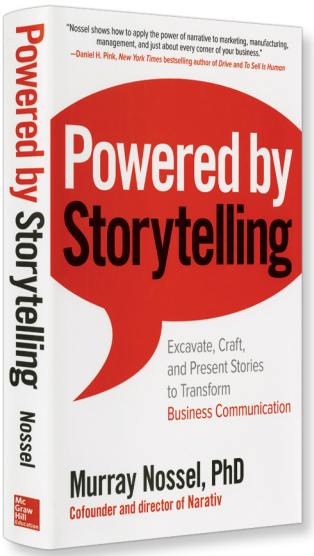
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Powered by Storytelling

Excavate, Craft and Present Stories to Transform Business Communication



by Murray Nossel, Ph.D.

THE SUMMARY IN BRIEF

What's your story? It's a question human beings have been asking each other since we first gathered around a campfire. Millennia later, this human need for storytelling hasn't changed. We communicate most effectively through our personal stories — and our professional success depends on it.

Powered by Storytelling shows you how to tap into the timeless power of storytelling to transform your business. Executive coach, motivational speaker and psychologist Murray Nossel, Ph.D., distills decades of experience into a simple method that will enable you to find the right story for a particular audience and purpose; connect with business associates on a more personal, relatable level; share your corporate vision and goals — and get others on board; integrate storytelling into all your communications for ongoing success; and more.

Everyone needs to communicate well to succeed in business. And everyone has a story to tell. A comprehensive guide to Nossel's proven three-step communications method, *Powered by Storytelling* shows you how to tell your story, connect with your audience and achieve results.

IN THIS SUMMARY, YOU WILL LEARN:

- Principles and techniques of the Narativ method.
- To identify and release obstacles to listening.
- To tell stories in a way that excites and engages your audience.
- Presentation tips that help you truly connect with your audience.

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THE COMPLETE SUMMARY: **POWERED BY STORYTELLING**

by Murray Nossel, Ph.D.

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Introduction

Tibetan Buddhist monks excel at concentration. They tell a traditional tale about focus called "The Lion's Gaze": When you throw a ball to a dog, it chases the ball. But when you throw a ball to a lion, it keeps its gaze on you.

When we tell a story, our Lion's Gaze is on one thing: connecting with our audience. If you were at a sales meeting, your gaze would be to connect with the other sales reps about the sale that changed your life. A leader's gaze is to connect with his or her management team through a story about why the business exists.

Connection is where the transformation of business communication happens. In other words, the effectiveness of your communication is commensurate with the depth of your connection. And nothing makes that connection better than the story you tell.

In the Narativ method, stories are created in three phases:

- **Excavating**: Generating your story ideas.
- **Crafting**: Shaping your story elements into a classic story structure.
- **Presenting**: Performing your story for an audience.

Stories don't live in a vacuum, however, and while you're learning about storytelling, you'll also be introduced to a larger framework of communication analysis into which stories are set.

To tell stories successfully, we need to understand a little about why stories connect and a lot about how to build that connection through listening and storytelling.

Let's begin by looking at the basic principles of the Narativ method:

Principle 1. Humans are hardwired for story. Story is the brain's way of helping us make sense out of our lives, of creating coherence out of randomness and chaos. Most of our experience, our knowledge and our thinking is organized as story.

There is a network of brain cells that are involved with storytelling. When they fire, they wire together more tightly and efficiently. Telling stories is a way of strengthening those connections in the brain. The point is, storytelling is a skill that can be developed, a muscle that can be strengthened.

Principle 2. Everyone has a story. Whether you think your story is not important or urgent enough, or whether you think that other people in your company are the storytellers, something has happened in your life that would make a great story. We simply have to know how to excavate for these events.

Principle 3. Everyone can learn to tell his or her story better. Your storytelling abilities will only improve with time and practice, but if you excavate and craft your story according to the What happened? method, your storytelling can make a quantum leap forward.

Principle 4. Everyone's story will evolve. From the Narativ perspective, a good story evolves naturally, reflecting the reciprocal, mutually influential relationship of listening and telling. A good story is the spark of communication exchange.

Principle 5. Storytelling is every person's access to creativity. The most basic definition of creativity is "the bringing together of already existing elements in a novel or surprising way." Storytelling is the most democratic form of creativity because every human

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being has access to it. Your story is your birthright. In learning how to tell your story artfully by paying close attention to specific details, you are always creating something fresh and new.

Principle 6. There is a reciprocal relationship between listening and telling. We cannot tell a story if we don't feel that there is someone listening to us and paying attention. By the same token, we can't really listen to a story when the storyteller is not aware of his or her audience and is instead caught up in his or her own speech bubble. In this most basic sense, there is a reciprocal relationship between listening and telling. This principle lies at the very core of the Narativ method.

The sections that follow outline the steps of the Narativ method. Together, they form the process of excavating, crafting and presenting your story.

Why Story? Why Now?

Why are you choosing to tell a *story* out of the many different ways human beings communicate? And why now? Why is this the moment to tell your story?

There is no right answer to these questions. They are meant to initiate an inquiry into your communication process. You might be telling a story to portray the best way to make a sales call, or to humanize a manager to a team that has faced crisis, or to depict pivotal moments that led to the formation of your enterprise so that new hires know who you are and why you exist as a company.

In answering these questions, you'll discover two consistent components: a rationale for storytelling and a call to action. The more precisely and deeply you are able to answer them, the greater the focus of your storytelling effort will be.

There are common themes and purposes that emerge from asking the questions Why story? Why now? Here are some of them:

- Demonstrate leadership
- Explain a raison d'être and purpose
- Increase collaboration or teamwork
- Generate empathy
- Inspire change
- Resolve conflict
- Humanize or dimensionalize an issue or audience
- Share learning or training
- Celebrate and build culture.

Take a moment to reflect on a work project or initiative, some relational issues within a team or a newly identified target audience. Why would you use story to support that work? And what about this moment in time requires the story to be told? Explore the center and edges of those questions. You will gain greater insight the deeper you probe.

From this starting point, excavation evolves into a process of exploration and discovery. Stories require some digging. They are not ready-made. In fact, viewing them that way diminishes their return. A good example is formulaic training material or a clichéd inspirational phrase. They lack the direction and urgency of Why story? Why now? and the vitality of a good story. Work needs to be done to get to the heart of the matter. There've been no surprises yet. We haven't pushed through any boundaries. This is precisely why we must suspend judgment for a period of time: so that we don't cut short the creative process of excavation and miss out on stories that lie just below the surface.

The obstacles that stand in the way turn out to be part of the creative process itself.

Identify Obstacles to Listening

In Narativ training, listening creates speaking and speaking creates listening. Transformed communication is when you pay heed to the reciprocal relationship between listening and telling.

Speaking and listening influence each other throughout any conversation or presentation. Any shift in one creates a shift in the other. As we seek to connect with our audience — and to maintain that connection — being sensitive to this natural dynamic is essential.

What impedes this flow are, in Narativ parlance, "obstacles to listening." This method prioritizes listening. For successful communication to take place in the time and space allocated for it, we should identify and release any obstacles to listening so that they don't affect the telling.

Let's explore how first we identify obstacles to listening and then how we release those obstacles.

Categories of Obstacles to Listening

As a guideline to approach the listening environment in your organization, consider the following five categories.

External obstacles. Hearing is one component of listening. As the sound and tone of the words enter the body, they cause a wide range of effects. The quality of the sound of a voice can cause feelings in the body. Some voices are musical and soothing, whereas others are harsh

and unsettling. Other hearing obstacles include noises and other sounds, such as traffic, barking dogs, jackhammers, music or whirring air conditioners.

How does what you are seeing affect your ability to listen? If the storyteller looks sad, does that increase the level of attention you bring to his or her speaking? Does it decrease it? What judgments arise from seeing? How does the smell in the room affect your ability to listen?

Physical obstacles. These most often have to do with the body's physical needs: hunger, needing to go to the bathroom, tiredness, physical discomfort or pain, sexual arousal, clothing that's too tight or uncomfortable, rashes, feeling sick or even having a bad hair day!

Internal obstacles. Internal obstacles include thoughts, memories, emotions and feelings. You can have a variety of feelings in an hour, even within a minute, especially if you are upset or sad, or feel extreme happiness or joy. These can be obstacles to listening. Some of these obstacles are invisible to others and often to ourselves.

Psychological obstacles. Judgments of others and ourselves make it difficult to listen and be creative. "I am not good enough." "He is better than I am." "She doesn't know how to tell a story." Opinions or strong beliefs of agreement or disagreement can interfere if the listener likes or dislikes what the storyteller is saying. Opinions about religion, politics or other topics may be obstacles to listening.

Relational obstacles. The relationships we have with people often shape the way we listen to them. At work, there is a hierarchy, and that's a natural and important structure. Bringing awareness to how the hierarchy affects our listening is crucial so that we don't let it influence open listening. This is not to dismiss or undermine necessary power structures but simply to be aware of how our ideas about them affect what we hear. Otherwise, we may not contribute all that we can, or conversely, we may not allow our leaders or subordinates to contribute their best.

When you practice identifying obstacles to listening, you will notice that many of your obstacles have to do with past experiences and memories. One of the reasons we do not suppress the obstacles but just make note of them and let them be is that some of them can be material for our stories. Therefore, identifying obstacles to listening not only paves the way to releasing obstacles but also can potentially lead to identifying an experience or memory that could become a story. So pay attention to your obstacles because your next great story might be hiding in plain sight.

Release Obstacles to Listening

In Monday morning meetings at Narativ, releasing obstacles to listening is at the top of the agenda.

"I'm leaving for California this afternoon, and I have still a number of items to prepare for my presentation, in addition to booking a car. I'm a little scattered. Plus, it's hot out, and I'm aware of what moving through that heat will be like." Katy pauses. "That's it. That's what's in my listening."

The rest of the Narativ team acknowledges her comments with a "thank you." Then the next person speaks.

Releasing the obstacles lets your colleagues know that if you seem distracted or annoyed, for example, it's because of your own preoccupations that have nothing to do with them. This is important if you're in a leadership role because people are watching your responses and often taking them personally. With this practice, you enhance focus on the meeting at hand, enabling a purer strain of attention than one fettered by miscellaneous concerns and issues.

Releasing the obstacles to listening may be used as a general communication protocol before any meeting or conversation, because it provides a quick way to open up communication and create connection, which in turn heightens attention to the matters at hand. However, it is important to understand the roots of this practice. It derives from a component of Narativ methodology called preparing a "dedicated time and space" for listening and storytelling.

Guidelines for Creating a Dedicated Time and Space

What follows are guidelines for how to define a dedicated time and space for listening and storytelling, whether they happen in person or online.

1. Why a meeting? Why now? Just as you must consider why you're choosing to tell a specific story to another person or group of people, you must be able to answer why you're calling a meeting (as opposed to using other means of communication) and why at this particular time.

2. Create a dedicated time and space. Your priority now is to create a space for listening. Remember that listening begins with you. So think of the environment you need in order to listen yourself, and then think of who the listeners in the meeting will be. Make sure that the space will remain private throughout the length of the meeting. Is the room big enough to accommodate everyone? What is the noise level? Has the room been booked for an adequate amount of time? Is there enough light?

3. Manage the time. Let people know that this meeting is going to be timed, and designate a dedicated timekeeper whose role is to make sure that everyone gets the same amount of time to speak, or alternatively, you can dedicate the time proportionally based on the emphasis of the meeting. If storytellers know that their story will reliably end after a certain number of minutes, they will be able to choose which elements of the story are the most important for them to communicate.

4. Identify and release obstacles to listening, and set an intention. When you start the meeting, go around the room and ask people to say what their obstacles to listening are in the moment. Then release the obstacles to listening. For example, if there's a construction crew outside with a jackhammer, close all windows or find another room to work from. Identifying and releasing the obstacles is not meant as suppression or rejection; it's about acknowledging and putting things aside so that everyone can get the most out of the meeting experience.

Finally, set an intention. Setting an intention calls you into a certain way of being, which is not the habitual way you may have of approaching a meeting. For instance, an intention may be one word or one sentence such as "Focus" or "My intention is to listen constructively to what is said in this meeting." By stating this intention, you are indicating to everyone in the group what kind of listener you're going to be for each one of them.

5. Designate dedicated listeners. The role of the designated listener is to listen openly, without judgment. She is also listening for the specificity of what's being said, according to the What happened? method. By designating someone as the dedicated listener, you know that there is someone whose listening you can count on to actively support and shape what you and others are going to say.

6. Instruct participants to tell what happened. Always ask What happened? no matter what the content of your communications. It will transform the way your meetings sound, and affect their outcomes because it will force you to identify and take out what is unnecessary — that is, your opinions, assumptions, interpretations and feelings about a situation. It's an editing tool for you to make your point more quickly and in a more straightforward way.

7. Record and share. Make sure what is said is recorded, whether through precise note-taking or through an electronic device. Designate someone to take notes and to share those notes with everyone.

Remember Your Heritage

Most people have fond memories of their grandparents. The Grandparent Exercise is a storytelling practice that simultaneously breaks the ice and allows people to get to know one another in a substantive manner. It is a powerful way of locating the personal story within a larger historical context in an intimate and emotional way.

There are two roles that are essential to conducting this exercise: the facilitator, who explains and leads the exercise, and the timekeeper, whose role is not only to keep time but also to support the facilitator in creating the listening space for the grandparent stories to emerge.

In this exercise, the group gives and receives the *gift of listening* to each person, and even when there are obstacles to listening, each group member will bring his or her listening back to the person who is speaking.

Participants have three minutes to present themselves as their grandparent. They speak in the first person "I" point of view, tell their name, and somewhere in the course of the story, tell when they were born and whether they are currently alive or have died.

The exercise is not about performance or delivery. It's about the listening, which is the safe container for your story and which will also shape the story that you tell. Once participants start speaking, the listening will take them in directions they cannot predict. Participants have three minutes each to tell their story.

After each story, the facilitator asks the group, "How was your listening? Were there any obstacles?" People may respond, "I was thinking about my story," or "I was thinking about how little I know about my grandparents." The facilitator acknowledges these obstacles by responding with, "You are now aware you have an obstacle because you have spoken it. You have acknowledged that it is there. Now let it go, hit the refresh button as you would on a computer, and bring yourself back to be fully present for the next story." The facilitator then moves on to the next person.

With teams, this exercise provides a means of connecting people to a sense of where they come from and simultaneously sharing that bit of background with their teammates. Liberated from the pressure to talk intimately about themselves, which is horribly uncomfortable for some, participants are nonetheless able to share a deeply personal relationship. For a group, the exercise creates a sense of unity in that having grandparents — whether or not one has ever known them — is a universal

phenomenon. It naturally stimulates our sense of empathy and understanding.

In the context of the Narativ method, the Grandparent Exercise demonstrates that there is a reciprocal relationship between listening and telling; that listening is a gift; that everyone has a story; that everyone is equipped to tell a story; that basic storytelling principles can be applied by anyone; that a story can be constructed with fragments of memory and information; and that however much you protest you can't tell a story, you'll find it's a natural ability of your brain!

Tell What Happened

Telling a story according to the What happened? method means relating the actual events that occurred as they were seen, heard, smelled, tasted and touched. With this storytelling method, judgments, comments, opinions and critiques are excluded, and we instead rely entirely on our powers of factual description to take our listeners on a sensory expedition through the story's landscape. An easy rule of thumb for this method would be to say what actually happened, not what you thought or felt about what happened.

A creative analogy that assists in learning and perfecting the What happened? method is called the What happened? camera. According to the What happened? camera, the following are not facts. The camera cannot see these mental creations.

- **Feelings:** Emotions, reactions and vague beliefs.
- **Interpretations:** Explanations based largely on our own version of things.
- **Judgments:** The tendency to objectify, qualify or characterize someone based on our own proclivity for certain ways of thinking or viewing others.
- **Opinions:** Views or judgments not necessarily based on fact or knowledge; general beliefs.
- **Rationalizations:** Attempts to justify (an action or attitude) with logical reasoning.
- **Commentary:** The expression of opinions or offering of explanations about an event or situation.
- **Internal thoughts:** These include comments that begin "Well, I thought to myself" or "I said to myself." These are preambles to saying what happened. When you use the What happened? camera, you don't need these preambles.

When our feelings and interpretations about events are driving the show, they prevent our listeners from experiencing what happened for themselves. How can you be there when someone else is coloring the facts with his or her interpretation? When only the five sensory details are present, our audience can listen cleanly and openly. It gives space for their intelligence to assess the story's many elements.

Delivering a Wow Moment

A multinational medical insurance company was hit financially because of the negative reviews its customer service department was receiving online and in the media. Sparing no expense, the company brought in expert after expert in an attempt to fix the ongoing problem. Call center employees were given a set of principles that were deemed brand attributes to live by:

- Listen and learn from customers so that the customers' needs are at the heart of every decision.
- Deliver wow moments that matter.
- Always do the right thing.
- Listen to our customers.
- Be courageous and decisive.

Although the branding team patted themselves on the back for coming up with these attributes and principles, employees had no idea how to implement what amounted to a series of abstract concepts.

For the company to become more consumer-centric, the entire organization needed to undergo a radical cultural change in which everyone became a storyteller. "We all need to be storytellers" became the corporate mandate. Narativ representatives went to the call centers and talked to the managers and reps who speak to customers every day. The goal was to elicit their stories and share them widely to help teams be more customer-centric.

Among hundreds of managers in call centers all over the world, one story in particular stuck out. Charlie, a manager, had received an escalated call, which meant that the customer had not been satisfied by any of the customer service responses she'd received so far. This is Charlie's What happened? story:

"It was a Monday night about 5:30, and I was just getting ready to leave work. I got a call from a woman named Mona. She wanted a list of therapists for her husband, Henry.

'What kind of therapist does he need? What condition does he need to be treated for?'

Mona responded, 'My husband is crazy, and he needs help. He's been diagnosed with sleep apnea, but he refuses to get the machine.'

As I was talking to her, I could hear him in the background, 'If you're talking to the insurance company, hang up. It's $1,200 for a machine I'm never gonna use.'

I asked, 'Why is he so resistant to getting a CPAP machine?'

She said she needed to go into a different room to talk. 'His father died of cancer while on a respirator. This machine looks like a respirator to him, and he's not gonna get it.'

I said, 'I have sleep apnea too, and I have used a CPAP machine for many years. And I'm still here.'

Mona said, 'You know, I really want you to talk to my husband. I want you to tell him what you're telling me.' She put him on the phone.

Henry told me that the Packers were playing the Bears and that I was taking him away from the game. First thing I said in response was, 'I'm a Bears fan.'

Henry said, 'Well, that's not a good start. I'm a Packers fan.'

I took a breath, and I told him that Reggie White, who was an all-pro defensive player Hall of Famer, died from sleep apnea five years after retiring from professional football.

Now Henry took a breath and said, 'I can't ignore this.'

Oh, and by the way, his CPAP machine was covered 100 percent, so it wouldn't cost him anything. He said he would get the machine on one condition. 'You have to say, Go, Pack, go!'

I said, 'You know what? If this will help you, absolutely: Go, Pack, go!'"

For businesses, a What happened? story promotes the mission and goals of a company in such a way that they are graspable and memorable and powerful. When Charlie shared his story with fellow call center employees, he embodied those values and goals, and everyone immediately understood what it meant to "deliver wow moments" and "listen to customers." They saw that they could actively create a more customer-oriented culture.

By saying what happened and detailing the facts of your experience, you can bring yourself and others into a clearer picture of events without clouding their listening with the language of emotions. This brings our communication forward, allowing emotions their place but not allowing them to tangle up what we want to say. Notice the distinction here: we allow the emotions to come up; we identify them; but then we release them and don't allow them to direct us.

Find Your Ending

The success of a story depends largely on its structure. Through the What happened? method, you plot out the details. At that point, your story is simply a succession of What happened? moments. To become a satisfying story, those moments will have to be shaped into three parts: beginning, emotional turning point and ending.

Every story has an arc. Ending a story can be likened to landing a plane. Like the pilot who must know how to descend, precisely where to land and come to a full standstill, the storyteller must guide the audience toward the conclusion and bring the story to a significant end. In between is the flight itself, and though no one likes turbulence, a bumpy ride does make for a better story. Just so, your story will be more captivating when you've identified your emotional turning point.

Where to begin. If the very first sentence (or two) of your story captures our attention, then we, your listeners, will follow you wherever your story takes us. Take the lead, know where you're going and we'll go with you. In fact, we'll want to go with you. A strong beginning is always a What happened? beginning.

With your first line you can choose to drop us right in the middle of the action. Being dropped into the middle of a story sparks our curiosity because we are not given a context. We do not know quite what is going on, and the mystery of it makes us want to know what happens next. Example: "My wife turned around and picked up the phone. 'It's for you. She says she's a headhunter.'"

The emotional turning point. In traditional dramatic structure, a conflict or obstacle arises that the main character somehow has to overcome or resolve. It's what everyone's silently anticipating when you begin a story, and it will be the surefire way to make your message or meaning stick.

Conflict connotes your struggle to achieve your goal. It can just as easily be funny, touching, moving or violent. Remember, we want to see transformation in your story. Something changes; you as the lead character transform, even if it is a subtle change. Conflict is inherently dramatic.

When structuring your story, moments of conflict are turning points — the places where the story changes direction.

Ending. As you are excavating and crafting your story, the ending may not be immediately clear. That's okay. Although sometimes you are dead sure of where you want to end, in most cases the ending emerges from the story-creation process. The important thing to keep in

mind is that you are seeking an experience in which the emotions of your conflict are released. That will give you an ending that delivers, that lands and that recapitulates the rationale for your story in one short moment.

Connect With Your Audience

From the moment you ask the questions Why story? Why now?, you have begun thinking about your relationship with an audience. Every subsequent step in Narativ's method is oriented toward optimizing your creation of a connection with your audience.

Having excavated your story and crafted a beginning, emotional turning point and end, you are ready to present. The best way to learn how to present is to do it. Offer people your story. Then ask them if they are willing to listen. If the answer is yes, then you are bound into a listening and storytelling contract. What follows are guidelines and principles for presentation.

Connect to your body. A story lives in your body. Your body remembers your story, and therefore your body is an instrument of telling. As part of your preparation for telling, it's important to search your body for tension that may interfere.

Connect to the space. In presentation, you are always working with *proprioception*, which is defined as the instinctive perception of the position and movements of the body. To begin, think about the space in which you might tell your story. Allow yourself to begin to inhabit that space mentally. Often when we present, we tend to cling to the podium like a barnacle. There is a certain mythology about presentation and standing in the front of the room with little movement — as if that's the only way to hold everyone's attention! Break free of that restriction. The room is yours to use, and how you use it plays a role in how you connect with your audience. Every choice you make is about commanding attention.

Identify and release obstacles to listening. Reapply the technique of identifying and releasing obstacles as you prepare for presentation. These include obstacles you might encounter in the room itself: Is it too hot or cold? Too bright or dark? You have to take in all potential obstacles and release them so that you are not caught off guard by your reactions to them when you begin to tell your story. You also want to minimize listening obstacles for your audience.

Presentation is being present with your body and story onstage. *Connection* is what we're aiming for. Consider these presentation rules of thumb:

1. **Before you begin speaking**, connect to your body, establish your feet firmly on the ground, breathe naturally and remember the story in your body.
2. **Maintain eye contact with your audience**. Throughout the presentation, establish individual eye contact with five or six people.
3. **Slow down**. If you talk too fast, you'll lose your listeners. This applies to most people: slow down the tempo even if it feels unnatural. This is where practice and preparation are crucial.
4. **Pay attention to volume**. If possible, present without a microphone. But make sure that the people in the back row can hear you.
5. **End with confidence and poise**. Allow your story to conclude with a final standstill. Stay poised and keep eye contact with the audience as you allow the effect of the story to wash over them.

Now share your story. Connect with your body. Connect with your story. Connect with your listeners.

Keep listening to the stories that are told to you as a result of telling yours. Let those stories permeate the fabric of your being and that of your business. Enjoy the ripple effect that you will experience as a result of sharing your stories with others and listening to theirs. Allow yourself and your communication to be transformed.

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40-03 Do Big Things

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Do Big Things

The Simple Steps Teams Can Take to Mobilize Hearts and Minds, and Make an Epic Impact



by Craig W. Ross, Angela V. Paccione and Victoria L. Roberts

THE SUMMARY IN BRIEF

Based on 25 years of empirical data across as many industries from companies of all sizes, *Do Big Things* decodes a once mystifying formula — a pattern of thinking and behaving that teams have utilized in all arenas to overcome extraordinary challenges and deliver big outcomes with team members who have their whole heart in it. With this summary, your team can replicate the powerful and sustainable framework that enables team members to inherently practice the traits you know are essential to delivering transformative outcomes.

The seven steps in the Do Big Things (DBT) Framework put a tangible road map at your fingertips, so your team can use every interaction to model the thinking and actions needed to succeed in today's pressurized workplace. In clear, logical discussions, the authors explain each part of the framework with experienced insight and illuminating examples from the real world so you can seamlessly implement it with your team.

IN THIS SUMMARY, YOU WILL LEARN:

- To model the self-awareness, emotional courage and integrity necessary to bring your best to every interaction.
- To demonstrate the empathy and transparency necessary to activate and bring out the best in others.
- To function with an enterprise mindset, so, as one team, you can connect across the business with other teams to deliver shared objectives.

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THE COMPLETE SUMMARY: **DO BIG THINGS**

by Craig W. Ross, Angela V. Paccione and Victoria L. Roberts

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Teams That Do Big Things

Is your team equipped to deliver big things? A word of caution: Many who have gone before you into uncharted territory have mistakenly thought that the key to their team's successes (survival!) was a matter of equipping themselves with a new structure, software, process or rearranging where people sit or dine. Most of those teams have not been heard from again. Their work was at best marginal and, therefore, forgotten.

That's because it is not merely how your team is structured or the equipment and resources in your hands that you'll need for success today. It's something more — much more.

Teams are increasingly desperate for knowing *how* as humans they'll achieve the *what*. We're functioning in what the U.S. military coined a VUCA (volatile, uncertain, complex and ambiguous) world. The disconnect is obvious: Employers are pulling employees together, calling them a team, giving them a directive and expecting them to deliver results quickly.

But such teams can't. The way teams came together before won't work in today's intense, fast-changing world. When organizations fail to grasp the wisdom that the method for teaming successfully has changed, their approach can look like the antiquated change model depicted below:

- Announce the new initiative the company needs to meet lightning-quick changes in the market.
- Form teams and assign people to roles.
- Tell people what to do and give them half of the resources needed to do it.
- Identify who is to blame for missed deliverables, milestones and budgets.

This common approach never gives teams a chance to do something significant. In moments of fatigue, as people are shuffled from project to project while enduring new demands, it's easy to think the bosses have gone mad. They can see what needs to get done yet can't find a way to get the team to operationalize the new vision.

Is Your Team's Whole Heart in It?

It's clear that there's a new requirement to succeed as a team today. The solution is refined and raw, sophisticated and practical, genius and basic, elegant and simple: It's heart. The ability for teammates to be at their human best and become bigger than anything they face — this is what many teams are starved for.

Teams significantly increase their odds of achieving big things when their whole heart is in it. Defined, this is the point at which the members of the team fully commit to bringing their full self to the team and its efforts to ensure successful outcomes — unconditionally. Now, with the personal integrity of each team member in action, the purpose of the team transcends personal position, ambition and recognition.

This whole heart is what collapses the idealistic into the realistic. Teams that possess it passionately own their plan to deliver on the big thing in front of them. These are the teams where people speak straight and remain optimistic when the data say they shouldn't — because they know what they are capable of and what's possible.

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The Do Big Things Framework

The Do Big Things (DBT) Framework is the method teams practice (whether they know it or not) to transform how they think and act together so they can deliver transformative outcomes. The DBT Framework provides the language teams use to transform and quickly elevate their power and effectiveness. It's how everyone on the team aligns to a powerful and singular focus necessary to achieve the big objective in front of them — and deliver the greatest impact to the business while seizing the opportunity to be better human beings along the way.

The DBT Framework doesn't require any of us to change who we are. Instead, it activates and amplifies the brilliance we already possess. The work of doing big things does not require *doing* more; it is a method for *being* more.

This wisdom is one of the primary reasons why the DBT Framework is so powerful: Its mechanics are always turned on, and always available to us. Here are the seven steps of the DBT Framework:

1. **Commit** to the human imperative. Identify and align as team members to the human thinking and actions essential for delivering the business imperative. Often born from a sense of caring for one another, this is the transformative manner in the way team members perceive each other that sets the stage for values to be put into action.
2. **Embody** success (and leverage failure). Team members personify the spirit of the success they seek while they pursue their lofty objectives. When excellence is who we are (rather than what we will be someday), even the hardships we encounter make us better and stronger as a team.
3. **Choose** to make three decisions: contribute, activate and connect across the business. Each team member decides to bring their best to every situation and bring out the best in those with whom they interact. Then, together, they choose to partner across the business to deliver shared objectives.
4. **Exercise** your barrier-breaking authority. The team determines what stands between them and success — both real and perceived. Then, by controlling what they can control, team members act upon their inherent authority to choose their response in daily situations.
5. **Focus** on what matters. The team uses the *3 Mind Factors* to concentrate on and deliver what causes big things to be achieved: the relationships and teamwork necessary to succeed.
6. **Energize** around a shared reality. Team members should address issues with a similar frame of mind, enable people to better tell the truth and function with authenticity. This step facilitates the needed skills of adaptability and accountability required to do big things.
7. **Mobilize** hearts and minds forward. Empower the team to own their role in delivering a stronger future. Use questions that mobilize hearts and minds forward, so everyone internalizes and delivers the team's business imperative.

The DBT Framework is how each team member can be accountable to that responsibility. By using the DBT Framework, we move beyond talk about what behaviors are important — and get busy with the how.

Teams That Flatline

In order for the DBT Framework to enable your team to truly make an epic impact on the business, it's critical that beliefs about how to best develop teams are checked.

What does your team believe is the best way to develop the thinking and actions necessary to do big things? For certain, the end of teamwork (as we know it) is at hand. Actually, it's been over for quite some time. How we teamed together before isn't effective in the turbulent times of today.

Teams rarely flatline and fail because they lack technical skills. Far more often, the catastrophe that occurs can be traced to outdated beliefs about what's required to develop the team's ability to effectively work together.

To develop the team, you must develop the *whole* team. Culture change occurs as the members of the team, armed with greater shared awareness and consciousness, move through daily interactions, repeating and reinforcing their new skills. Natural accountability to elevated norms takes places as individuals sense that everyone else is changing.

This often results in accelerated improvement, as every interaction drives stronger behaviors. This is another reason why the DBT Framework is so effective: It provides a holistic method for accomplishing systemic change in the team.

In order to succeed, speed and efficiency must be combined with team members' collective skill of adaptability. The planning required to do big things is more critical

than ever, and it must include steps to equip those executing the plan with the ability to adapt to conditions that are unpredictable when the plan is conceived. And what's necessary for teams to be able to adapt? Organizations are rightly focusing on empowerment, the buzz word of this era. However, empowerment is only a part of what's necessary for teams to adapt.

When team members develop greater emotional and cognitive plasticity together (and every step in the DBT Framework supports in accomplishing this), they build the capability to adapt in a way that sticks. Increasingly, the team then stays focused on the overall plan or objective while also being able to adjust or modify their thinking and actions in that plan when they make discoveries.

Growth is caused by teams that grow stronger. When team members are intrinsically motivated and know they will be better and stronger as individuals and as a team when they reach the finish line, inspiration occurs more frequently. This causes them to grow, which means the organization will do the same.

Step 1:

Commit to the Human Imperative

The practice of effective teaming begins with identifying, aligning and equipping team members with the ability to model the thinking and actions essential to success for that unique team. That's why committing to the human imperative is the first step in the DBT Framework.

Defined, the human imperative is this: Team members identify and align to the specific thinking and the inherent behaviors necessary to deliver their business imperative. This is the act of bringing the best of humanity into the work you do. In other words, has your team answered this question: Who do we need to be as people — together — to succeed as a team?

Committing to the human imperative means the team incorporates into their business plan how they will be accountable for putting those behaviors into practice. No one can predict human behaviors until the team determines which human behaviors are a priority. Until your team's human imperative has been defined and committed to, you can predict that the thinking and behaviors of your team will be unpredictable. And this behavior can and should be expected.

No team can do big things by being passive with the human qualities we all know are essential for success. You can dramatically speed up the development of the trust your team needs by going first: Be the one who cares even more.

It's important to note that caring for a teammate doesn't mean you have to be friends with them. Caring means you still believe each teammate has worth as a person, and therefore, it's valuable to protect and amplify their value.

In this way, the human imperative is a moral imperative. As teammates care about one another more, the resulting behaviors transform the team.

How to Determine the Team's Human Imperative

When your team commits to a unique human imperative that they identify, the team is reinforcing a reason to believe they will succeed. Here's how effective teams do this, and so can you.

After you turn off the computer, facilitate a discussion with the team using questions from three specific categories. These questions work because they tap into something that matters to us all:

1. **Thinking** of the human imperative: How do we want to operate as a team that can do big things? What behaviors as a team do we want to represent us to the rest of the organization?
2. **Feeling** and experiencing the human imperative: What has been your experience on teams that function with tremendous confidence even though the job in front of you is huge?
3. **Doing** and delivering the human imperative: What specifically does the teamwork necessary to do our big thing look like in action?

Committing to the human imperative and doing big things better frees people to optimize their strengths. Team members are elevated beyond personal motives, and the entire team gains a nearly unstoppable power, in no small part because their top talent stays on the team.

Step 2:

Embody Success (and Leverage Failure)

Teams that possess confidence that they can achieve big things feel that way because they utilize a process to team effectively. That's what the DBT Framework is: a step-by-step approach to thinking and actions designed to enable the team to do big things in all circumstances.

Teams that do big things don't wait for success to act like a success. They act like a success first because they have or quickly create a reliable teaming process to give them the confidence they need.

To learn how likely your team is to embody success, it's useful to ask the team this question: What are our primary motivations for succeeding that are top of mind for us? When a team is predominantly exposed to extrinsic motivators, team members are conditioned to develop an external locus of control. If this is the case for your team, act quickly.

How to Leverage Failure

Big objectives are big for a reason: They're complex, almost always entail significant amounts of change and test a team's strength in ways that are often underestimated at the beginning. Things rarely go as planned. Therefore, the best time to measure a team's ability to embody success is to observe its response in failure. When you embody success, even in times of trouble, you look like everything is going according to plan.

The teams that do big things don't blink, retreat or assume a defensive posture when a mistake is made. They possess an accountability reflex: an ability to quickly adapt to unplanned situations, respond effectively and leverage the failure.

The magic of this reflex isn't created when failure occurs. What makes the difference and determines the type of response your team demonstrates is what the team did early on, long before any failure was experienced. Specifically, development steps are accomplished that create the conditions for team members to be transparent, demonstrate ownership of their responsibilities, stay focused on solutions and mobilize themselves and others forward.

Intrinsically motivated teams won't be seen succumbing to fits of rage, defeatism, blame or other self-defense tactics. Instead, their emotions center on trust, particularly of the most important sort: trust of self and each other.

Step 3:

Choose to Contribute, Activate and Connect Across the Business

Every profession has seen teams flatline and slide away forgotten. Equally true, the past is full of remarkable teams, in all arenas, that didn't have exceptional talent or leadership yet still found a way to succeed in big ways.

What's the common denominator? What is it those teams do, regardless of talent and leadership levels, that enables them to do big things? Nearly every team that's achieved something extraordinary had team members that made three specific decisions. And in doing so, they amplified the leadership and talent they had, which put them in a far better position to succeed.

The 3 Do Big Things (DBT) Decisions enable team members to cut through the noise and do what's right and best for the team. Once teams are enabled to make the 3 DBT Decisions, a large volume of those decisions are made more effectively, quickly and in ways that improve a person's ability to do what they want to do: Demonstrate the greatness they have within them.

The Contributor Decision

Choosing to bring your best to the situation you're in is making the choice to give yourself. It's selflessness in action, knowing you're a part of something bigger than you. For many, this decision is the act of determining that you won't compromise your values — that you will be true to yourself and live authentically. This is when you resolve to be who you know you are, where you put your whole heart into the matter at hand.

The Activator Decision

Choosing to bring out the best in others means you're making the choice to activate their greater potential. It's a decision that begins with an understanding that others have stored or unrealized greatness. This sort of belief is in high demand in workplaces today, as it is a powerful mechanism to ensure the team becomes far greater than the sum of the people on the team.

The Connector Decision

The choice to partner across the business is the collective decision by the team to form a broader team that delivers a shared goal. It's a decision that communicates to others certain beliefs: We are confident in who we are as a team. We won't play a zero-sum game. We are stronger together. This decision requires an enterprise mindset in which the team can see its role in the larger organization.

Your Most Important Role

What's the most important role you play at work? Is it an individual contributor? A manager? Executive? The finance go-to? A project management guy?

The most critical role you play is teammate. When a majority of team members embrace this mindset, the research shows that the team sets the conditions for

optimizing its collective talents. Team members impact the business far more, and they elevate their personal contributions (and, ironically, usually elevate their careers, too).

To be certain, then, the 3 DBT Decisions are not roles. They're decisions. Delivering on your functional role is the responsibility of your job. Yet, it is the duty of each teammate, regardless of role, to use their power to bring their best, bring out the best in others and ensure the team is connected to the whole.

Step 4:

Exercise Your Barrier-Breaking Authority

Step 4 in the DBT Framework — exercise your barrier-breaking authority — is powerful because it quickly translates into action what so many teams know in their guts. When a team is disciplined in identifying what stands between them and success and concentrates solely on what it can control rather than what it can't, success comes faster. And it's a far more fulfilling process for all involved.

The Barriers to Success

Your team will break through barriers much faster when it can see and understand them. Therefore, teams that do big things ask important questions, such as the following: Are we focused on what the business most needs us to influence? Can we identify what's between us and success? Are all team members equipped to take effective action?

Here are three steps for teams to take to begin breaking through the barriers they face:

1. Name the barrier. Discuss whether a barrier is real, perceived or symptomatic. By naming it, the team better understands a shared reality and is enabled to focus on what matters.
2. Address real barriers by identifying the thinking and actions themed across all of the barriers.
3. Focus on what you can control and rewrite the team's narrative. Identify the necessary thinking and actions to do big things. Partner with others in the organization who can support your team in influencing processes and decision-making.

Regardless of the type of barrier, in order to succeed in these three steps, the members of the team must then exercise their barrier-breaking authority.

Authority: Take It or Leave It

As teams work toward their business objective, conditions and circumstances appear that present themselves as barriers: obstacles that restrain or obstruct the team from progress. This is when teams that do big things model this truth: Each person on the team possesses and exercises their barrier-breaking authority.

This isn't, of course, the authority to make strategy, planning, budgetary or other decisions. That's largely determined by roles people have on the team. This barrier-breaking authority is formed in the wisdom that we are all autonomous beings and therefore can make the human decision to do our best, regardless of our circumstances.

By exercising your barrier-breaking authority, your team is free to do what you've wanted to do all along: deliver great work. The next step then, is to focus on what matters most.

Step 5:

Focus on What Matters

How do we focus on what matters? Oddly enough, the answer is the same as the answer to the question, "How do we focus on those things that distract, hopelessly stress and disconnect us?" That sounds strange, but it's true. The solution, therefore, is not for us to change our brains; it is to train our brains to do what we want them to do instead of what our brains want to do.

Mind Factor #1: The Mind Can Only Focus on One Thought at a Time

You can do different things at once, such as walk, chew gum and have a discussion with another person. But facts are facts: As you move through the day, your mind can only focus on one thought at a time.

We may be able to physically do multiple things at once, but we only hold one concentrated thought at a time. And when we continually switch from one focus to another, it saps the attention needed for full and concentrated engagement.

Mind Factor #2: The Mind Cannot Avoid a *Don't*

Our brains are wired to scan our surroundings for risks. Constantly and often unconsciously, we are searching for threats to our well-being. This wiring, however, comes with an ironic twist: When we identify that which can cause us harm, we focus on it.

The brain can't resist thinking about the "don't" messages it receives. The very thing we don't want to think, say, feel or do occurs with a frequency triggered by how distracted and stressed we are.

Ultimately, teams that do big things are far more productive because they stay focused on what they want instead of what they don't want.

Mind Factor #3: The Mind Goes Toward Its Focus

Since we can only focus on one thought at a time, when the brain receives new information, it checks it against the current beliefs in our frame of reality. "Does this information fit in my truth?" the brain asks. If not, it has a tendency to quickly dismiss the new information.

When teammates meet another team member who holds different beliefs, perspectives and experiences, a tragedy occurs: The difference of ideas (which the company desperately needs to succeed) slides to judgments about each other. And suddenly, really good people with big hearts begin to care less about one another. Trust, collaboration, communication — the behaviors we all know are essential to succeed — disappear.

But these teams can get their whole heart back in it. Teams committed to the human imperative can do so quickly as long as they're equipped with a method to better master their focus. With the 3 Mind Factors, team members are better enabled to deliver the imperatives rather than letting their brains deliver something far more dreadful: a team that flatlines.

Step 6:

Energize Around a Shared Reality

No matter whether for profit or not, education or government — teams that consistently do big things have an undeniable ability to frame a shared reality and then approach events, issues or problems in a common and energizing way. In other words, it's less about what these teams do. It's how they do it that makes the difference.

Your brain has established neural pathways, mechanisms by which information travels, that with repetition become deep grooves of thinking. The result is an autopilot effect: You don't have to think much about what you're doing.

As a result, the behaviors of team members become predictable due to the formation and reinforcement of neural pathways in the brain; repeated focus results in replicated thinking that drives the same behaviors.

When members of a team default to outdated or destructed neural pathways, the focus — and therefore thinking and actions — drives unhealthy conflict due to always following the same lines of concentration. And to be certain: A team that can't process and exchange information together can't work together.

Teams that are high achieving have constructed distinct and powerful norms when it comes to how they process information together. Specifically, they establish similar neural pathways together that are productive and effective at navigating and aligning the team forward far more collaboratively. Collectively, the intelligence of the team, along with its ability to work together, measurably increases.

This is when a phenomenon occurs. As team members focus forward together, it translates into the experience of expanding and bigger energy. As a result, rather than developing a narrative or way of thinking that diminishes the team's effectiveness, a team can purposefully stimulate and energize itself in seconds. Now, individually and collectively, people are elevating the best of who they are in a new, shared reality.

The Power of a Shared Reality

In teams that do big things, at some point in the team's maturation, something clicks. They move from pitting realities against one another and leave behind old frames of the way things used to be. And they form, see and function from a reality they created together. Most often, this occurs when there's a frequent focus on a shared objective or motive.

Teams that do big things can make an epic impact. They know that changing and elevating behaviors is not an intellectual exercise. It's the business of the heart. Teams that bring only intellectual energy to their efforts will increasingly struggle in today's data-rich world. It doesn't matter so much what any of us see; it matters more how we experience what we see together. The more meaning we have in our work, the more energy we have for our work. The more meaning we have when we're together, the more meaningful the impact we make together.

Step 7:

Mobilize Hearts and Minds Forward

Teams with their whole heart in it ultimately succeed because they take great care to manage their focus and the direction of their energy. Therefore, they are compelled to take action and mobilize themselves

forward. This means that, individually, teammates use their self-awareness to summon the emotional courage necessary to actuate their potential. The team then comes together and puts in motion a forward-focused energy that has the power necessary to achieve the significant objective in front of them.

A team's ability to succeed today is directly correlated to a team's ability to cocreate an image of where they're going and how to get there.

Teams that are serious about achieving their objectives execute brilliantly on the seventh step of the DBT Framework. The fact is there are a lot of ways to mobilize hearts and minds, including telling inspiring stories, appealing to a shared world view and leveraging what motivates others.

There is only one technique, however, that enables you to leverage any of the methods listed and make certain that an intrinsic response is activated within teammates. It's a fact: The human mind cannot resist a well-timed or well-phrased inquiry. The moment any of us hear or think of a question, our focus is concentrated on the thought that was triggered by the question. And whatever direction your focus goes, so does your energy.

It's not enough for just the leader to ask questions. If teams are going to do big things, then every team member must be equipped to ask the types of questions that mobilize hearts and minds forward.

Teams that masterfully execute are those whose members find more meaning in their work. Their hearts and minds have been mobilized. This is accomplished by asking higher classes of questions that activate a greater consciousness.

Is Your Team Ready to Do Big Things?

You can effectively predict how well prepared your team is to do big things by measuring the level of technical and aligned capabilities the team possesses in proportion to how much the team's whole heart is in the matter at hand. The device to do this is the Team Heart Quotient (THQ), which measures the essential elements that contribute to teams that Do Big Things as compared with teams that have only heart or only high capability — or teams that lack either one.

At this moment, your team is one of four types of teams:

1. **DBT Teams**: Capable of sustained, robust and regularly improving results. Teams are aligned with strong technical skills, *and* they have the ability to put into practice essential whole-heart behaviors, including emotional courage, empathy and a one-team approach.
2. **High-Performing Teams**: Capable of short bursts of high performance. The team has top talent that is aligned, *yet* team members too infrequently have their hearts and minds mobilized. Consequently, the team is at a high risk of being overwhelmed by negative human behaviors in the working environment.
3. **Heart Attack Teams**: Capable of small spurts in results. Such teams possess a lack of skill or aligned talent, *yet* they demonstrate huge amounts of heroic courage, passion and commitment.
4. **Despondent Teams**: Capable of only mediocre outcomes, at best. This team lacks skill, or the talent they do have is not aligned, *and* they are generally disheartened. Team members often conceal reality by focusing only on what they will do someday with little attention to how they will effectively improve.

The THQ assessment equips teams to measure the current state for your team and builds the awareness necessary for your team to take constructive steps forward.

Once your team has assessed where it stands with regard to THQ, it's important to take the next step of improving. And to be sure, no matter where your team is on the THQ assessment, you can improve — and do so quickly.

The most effective way to change behaviors of any team is not by training the team about targeted values, but by equipping teams to use their values to deliver on the human imperative. The difference between these two approaches is subtle; teams that regularly do big things understand that difference.

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Summary: *Committed Teams* by Derek Newberry, Madeline Boyer and Mario Moussa. Based on research at the Wharton School of Business, the authors provide tools for aligning members of your team behind a motivating vision, making team meetings efficient and productive and closing the gap between stated goals and actual behaviors.

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40-10 The Age of Agile

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Management

The Age of Agile

How Smart Companies Are Transforming the Way Work Gets Done



by Stephen Denning

THE SUMMARY IN BRIEF

An unstoppable business revolution is under way — and it is Agile. Companies that embrace Agile management learn to connect everyone and everything . . . all the time. They can deliver instant, intimate, frictionless value on a large scale.

Agile began emerging many decades ago but truly took off in the software-development industry. Sparking dramatic improvements in quality, innovation and speed to market, the Agile movement is now spreading quickly throughout all kinds of companies. It enables a team, a unit or an enterprise to nimbly adapt and upgrade products and services to meet rapidly changing technology and customer needs. And the process is applicable anywhere — companies don't need to be born Agile.

Filled with examples from every sector, *The Age of Agile* helps readers master the three laws of Agile management, embrace the new mindset, overcome constraints, make the entire organization Agile — and more.

With this breakthrough approach, even global giants can learn to act entrepreneurially. Their future depends on it.

IN THIS SUMMARY, YOU WILL LEARN:

- The three core characteristics of the Agile mindset and management.
- Key behaviors for achieving Agile management at scale.
- The trap of shareholder value and why it's incompatible with the Agile mindset.
- Why Agile strategy focuses on the future rather than past performance.

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THE COMPLETE SUMMARY: **THE AGE OF AGILE**

by Stephen Denning

The author: Stephen Denning is the author of six business books on leadership, innovation, leadership storytelling and Agile management. From 1969 to 2000, he held many management positions at all levels at the World Bank. Since 2000, he has worked as a consultant and speaker for scores of Fortune 500 companies and government agencies. He leads the SD Learning Consortium, in which firms are sharing insights on the ongoing transition in making their organizations Agile.

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PART I: AGILE MANAGEMENT

More Value From Less Work

Thousands of organizations have made a fundamental discovery: Business success in the 21st century increasingly depends on becoming as nimble as the rapidly shifting and unpredictable context in which they find themselves. As a result, Agile management is now spreading to every kind of organization and every aspect of work.

Agile management is about working smarter rather than harder. It's not about doing *more work* in less time; it's about generating *more value* from *less* work.

But what exactly is Agile? What does it mean for an organization to embrace the Agile mindset?

When you hear the word "agile" or "nimble," you might think about a squirrel or a ballet dancer or a champion soccer player. You probably wouldn't think of a large organization — big, unwieldy, clunky, slow, out to make money from you and fundamentally unfriendly. You generally don't think of organizations as being nimble because generally they're not. And yet Agile organizations are not only possible. They do exist.

Organizations that have embraced Agile have three core characteristics:

1. **The Law of the Small Team**
2. **The Law of the Customer**
3. **The Law of the Network**

Agile means embracing fundamentally different assumptions. For traditional managers, the process usually isn't comfortable. It isn't easy. At the outset, it feels wrong. It's like learning a foreign language with a different grammar. It is only over time and through actual experience and practice that Agile becomes second nature and automatic. This is not about "implementing Agile tools and processes." Ultimately, Agile is about understanding and interacting with the world with a different mindset.

The Law of the Small Team

Picture this. It's 1997 and you've just had a great idea: a slim hand-held device that's small enough to slip into your pocket and that can perform multiple functions at the touch of a fingertip. It will serve as a portable telephone, an address book, a map, a navigation system, an airline boarding pass, a music or movie player, a television set, a camera, a flashlight, a dictation machine, a stopwatch, an alarm clock, a translation machine, a remote control, a repository of the world's newspapers and magazines, a library of thousands of books and more.

But how to bring it to reality? Well, it's 1997 and so you apply the best management practices of the day. First, you spend a couple of years winning support for the idea's feasibility and persuading the strategy committee of a major corporation to design, build and market this amazing new device.

After finally getting this approval, you pull together a huge team of designers and engineers and spend another couple of years developing detailed specifications for the device with a timeline to deliver and integrate its various components. You then recruit hundreds of thousands of engineers and developers to build the device. You

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also hire tens of thousands of managers to supervise and control them to ensure that they deliver according to the plan and on schedule.

The result? Many years and billions of dollars later, you find that your device is still far from being ready for the marketplace. The technical problems are unending and seemingly exponential. Coordination between units is a massive headache. There is acrimonious finger-pointing about who is responsible for the technical problems and the delays.

Sadly, management decides that your project must be canceled. That's because a real-life competitor — Apple — had by 2007 developed a similar product, having brought it "from scratch to market" in just 18 months at a fraction of the cost of traditional management practices.

How was that possible? Apple designed and built a relatively simple physical device — the iPhone — that was developed in an iterative fashion in short cycles and steadily upgraded. Instead of *scaling up* the organization to resolve a complex problem, Apple *scaled down* the problem into tiny bite-size pieces that small independent teams could deliver in an iterative fashion with direct feedback from customers.

The Law of the Small Team is simple. It's a presumption that in a VUCA world, big and difficult problems should — to the extent possible — be disaggregated into small batches and performed by small cross-functional autonomous teams working iteratively in short cycles in a state of flow, with fast feedback from customers and end-users.

What exactly are the practices that make up the Law of the Small Team? Although there is no "one size fits all" and no universal "best practice," management practices have a striking family resemblance. The main characteristics are

- Work in small batches
- Small cross-functional teams
- Limited work in process
- Autonomous teams
- Getting to "done"
- Work without interruption
- Daily standups
- Radical transparency
- Customer feedback each cycle
- Retrospective reviews.

The Law of the Customer

In 1539, a Polish doctor, economist, mathematician and part-time astronomer named Nicolaus Copernicus published a paper he had been working on for some years. The paper explained a strange idea: The earth revolves around the sun. His idea flew in the face of common sense. Everybody knew from direct evidence of their own eyes that the sun revolves around the earth. Copernicus was saying, "Forget common sense. Forget what your eyes are telling you. Forget what everyone believes. Common sense is wrong. The earth revolves around the sun."

The publication of Copernicus's theory began not just a rethinking of astronomy but an inexorable process of inquiry into the entire organization of society, including the rights and privileges of the individuals who happened to be in charge of the Roman Catholic Church and of the monarchies that asserted power by divine right.

A Copernican Revolution in Management

Under the Law of the Customer, the practice of management is currently undergoing an equivalent transformation in the way organizations understand, and interact with, the world. The earliest and simplest articulation of the law came from Peter Drucker in 1954: "There is only one valid definition of business purpose: to create a customer... What the business thinks it produces is not of first importance — especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers 'value,' is decisive — it determines what a business is, what it produces and whether it will prosper."

Drucker's proposition was a radical departure from the common sense of the day. Everyone knew that a business was in business to make money. Support for the view of money-making as the sole purpose of a business steadily gathered momentum in the latter part of the 20th century, despite Drucker's insight.

Meanwhile, changes in the marketplace since 1954 were steadily reinforcing the validity of Drucker's insight and the embryonic Law of the Customer. Deregulation, globalization, the emergence of knowledge work and new technology all made inroads. Competition increased. The pace of change accelerated. Knowledge workers became central to generating the innovation needed to create and retain customers. To top it off, the Internet transformed everything.

An epochal change in the commercial center of gravity thus occurred: Power in the marketplace shifted from seller to buyer. For firms to be successful, customers had

to be not only satisfied, they had to be *delighted*. New technological capabilities meant that it became possible to deliver instant, intimate, frictionless value at scale. Once that became possible, as shown by firms such as Apple, Amazon and Google, it also became *necessary*.

Instead of giant corporations standing as the solid center of the marketplace making money out of passive consumers who float by and are manipulated, the living customer with mercurial thoughts and feelings is now the center of the commercial universe. The customer is the sun, and organizations orbit around it. It's a Copernican revolution in management.

Now, the customer truly *is* number one. If internal systems, processes, goals, values or culture are getting in the way of making that a reality, they must be changed.

We see certain characteristics in firms that have achieved post-Copernican performance:

- There is a shared goal of delighting the customer.
- Top management takes responsibility for ensuring enthusiasm for delighting the customer throughout the organization.
- The firm aspires to be the best at what it does.
- Everyone in the organization has a clear line to the customer.
- The firm ensures it has accurate and thorough knowledge of the customer.
- Staff members are empowered to make decisions.
- The firm's structure changes with the marketplace.
- Relationships are interactive, vertically, horizontally, internally and externally.
- Back-office functions are aligned to serve the customer.
- Value for customers must be monetizable for the organization.

The full gains from post-Copernican management come when the whole organization is operating under the Law of the Small Team and the Law of the Customer. How is this possible? It is to this set of issues that we turn.

The Law of the Network

The network model of organization is key to making the whole organization Agile. A network is a group or system of interconnected people or things. An organizational network is a set of teams that interact with and collaborate with other teams with the same connectivity, interaction and passion as they do within their own small team.

An organizational network is founded on the Law of the Small Team. But it requires more. Each team needs to look beyond its own goals and concerns and see its work as part of the larger mission of the collectivity.

To the conventional management thinker, large, efficient networks are an oxymoron. They are not managerially possible. Big organizations require authority-based hierarchy. It's not even worth thinking about anything different.

Yet over the last 15 years, we have seen examples of large and efficient organizations operating as networks in the world of Agile. These examples include Riot Games, Spotify, the Network Management unit in Ericsson and the Developer Division at Microsoft, all of which have more than 1,000 people collaborating on large, complex tasks in networks of Agile teams, rather than in pyramidal hierarchies.

What Makes Networks Work

While we still have much to learn about the functioning of large networks, we can make some strong hypotheses as to what it takes to make them work:

The network has a compelling goal. In the case of Agile management, the goal flows from the Law of the Customer: the naturally inspiring goal of adding value to customers. Once that obsession is shared throughout the organization, it matters less *who* is delivering the value. What's important is the *fact* of delivery.

The network comprises small groups. "Successful movements," says John Hagel, the director of Deloitte's Center for the Edge, "are all organized around small, local action groups, who work together to achieve impact in very different contexts. These action groups are united by a loosely coupled network that enables them to seek help from others and to observe and learn from the diverse actions of each group what actions can achieve the greatest impact."

The groups have an action orientation. These groups are about putting ideas into practice, not about abstract knowledge or even ideas for the sake of ideas themselves. These groups are about changing the world in a direction that the participants think is better in an important way.

The network is the sum of the small groups. The network doesn't *contain* the small groups; rather, it *is* the sum of the small groups. The small groups are not groups *within* the organization; conceptually, they *are* the organization.

The network's legal framework stays in the background. The legal aspects of an organization still exist.

But in a network, the substantive decisions are taken by the competence-based network. If that is not the case and the organization becomes a hierarchy of authority rather than a hierarchy of competence, then the network ceases to be a network: It has regressed back to a bureaucracy.

Implementing Agile at Scale: Microsoft

Agile values are alive and well in the Developer Division of Microsoft. The division consists of about 4,000 people, working in hundreds of teams, each team having 10 to 12 people and working in three-week sprints. It ships a range of products and services, including Visual Studio, Visual Studio Team Services, Team Foundation Server and TypeScript. The division is not only implementing Agile practices for itself, it is also promoting them for others at Microsoft.

But the Agile transformation journey has been anything but a straight path from A to B. Introducing the practices of sprint planning, backlogs, daily standups and retrospectives was only part of the challenge. More important — and difficult — was the shift in mindset for all involved.

Here are some of the keys that group program manager Aaron Bjork believes are needed to make Agile happen at scale.

Get the right balance of alignment and autonomy. The goal at Microsoft is to have alignment at the top and autonomy at the bottom. The leadership team is responsible for the rules of the road. This includes clarifying the roles, the teams, the cadence, the vocabulary and the limits on the number of quality problems a team can have. The team has autonomy in terms of how they go about doing the work in both planning and implementation. Within the overall framework, each team can take a different approach.

Master the role of the Agile manager. What happens when a team fails to deliver what is expected in a sprint? A manager doesn't monitor a team's burndown chart of things to do. It's vital that people understand why they are doing the practices and then taking responsibility for the value that is meant to come with them. If the daily standups aren't working, then be a grownup. Make a change! That's where autonomy comes in.

Ensure continuous integration. In principle, all the teams are "working in the same branch." What that means is that each of the teams is branching their changes in a program called Git. But the teams don't work in a silo by themselves for three weeks and then hope it all comes together. They come together all day, every day. If a team breaks the build, it fixes the build immediately.

Recognize the team is the product. In software, the product life cycle is shortening. "In traditional accounting," says Bjork, "the business asset is the product. But more and more, in practice, the asset is a team that is capable of delivering products. The team has a longer lifetime of generating value than the product itself. That's a big shift in focus."

From Operational to Strategic Agility

While most organizations implementing Agile management are still preoccupied with upgrading existing products and services through cost reductions, time savings or quality enhancements for existing customers (i.e., operational Agility), they need to realize that the major financial gains from Agile management will flow from the practice of Strategic Agility — that is, generating innovations that create entirely new markets by turning noncustomers into customers. Strategic Agility is the next frontier of Agile management.

Strategic Agility occurs in two main ways: either as a by-product of operational Agility or as an explicit initiative to generate market-creating innovation.

By-product of operational agility. At Spotify, Discover Weekly was a feature intended to solve a known problem with an existing product: the difficulty that existing users were having in locating music that they would truly love, in Spotify's vast library of millions of songs. Discover Weekly not only solved that problem for existing users, but the innovation was so successful that it brought in tens of millions of new users and became, in effect, a brand in itself. In some countries, Discover Weekly playlists are better known than Spotify itself.

Market-creating value proposition. Market-creating value propositions involve a shift in thinking from the known to the unknown — from existing products to new products — and from existing users to nonusers of the firm's products. This, in turn, means redefining how needs are being met and, in the process, discovering value for both customers and noncustomers from elements that lie outside current thinking, both within the firm and within the industry.

It also means a change from thinking of the outputs of the organization to considering outcomes for the customer or end-user. "Instead of thinking of your company as providing a particular type of product or

service — electric power, health records management or automobile components," writes PricewaterhouseCoopers consultant Norbert Schwieters, "think of it as a producer of outcomes. The customer needs to get somewhere, so you're not a car company; you're a facilitator of that outcome. The house is cold, so you help make it warm, possibly without supplying the necessary fuel . . . Customers, in turn, are making fewer purchases to accumulate physical things and more purchases to achieve outcomes, convenience and value."

Changing the Organizational Culture

For most organizations, the shift to Agile management and Strategic Agility means a change in organizational culture — perhaps the most difficult thing that any organization can attempt.

In 1998, when Curt Carlson became president and CEO of SRI, it was practically bankrupt. It had been established in 1946 as a research institute headquartered in Menlo Park, California. The trustees of Stanford University formed SRI as the Stanford Research Institute, a center of R&D and innovation, initially to help support economic development in California and then the world. It is now an independent company.

Over the next 16 years with Carlson as CEO, SRI and its organizational culture were transformed. SRI tripled in size, became profitable and created many world-changing innovations. One of its best-known successes was Siri, the personal assistant on the iPhone.

How did SRI become a serial innovator? Carlson summed up what made the difference in changing the vision, organizational design and spirit at SRI.

"First, you need a few really good partners who have the skills, values and credibility required," he says. "People who know what to do and who have the perspectives and skills that you are missing. You must have at least one partner; you just aren't smart enough by yourself."

"Second," he says, "change happens in logical steps. There must first be agreement on the need to change. When you initially go into an enterprise suffering from challenges, people say, 'What's the need for change?' Until you have established the need, they are not ready to move. When people see the need, they then ask, 'What's the vision?'"

"Third, once you have a shared vision, people start asking, 'Okay, I get the need and the vision — what's the plan?' It's need, vision and plan, in that order."

"Fourth, a focus on early adopters. Even if people generally agree with you, most are naturally cautious. You need to find the 5 to 10 percent who will be your early champions to help you establish the principles and prove them out."

Then, "fifth, the language you use is critical," Carlson says. "I never used demoralizing and misleading words like 'culture change,' or 'work harder' or 'fail fast' in my discussions with SRI staff. Rather, I talked about making a bigger impact, working smarter and learning faster. I talked about the specific things we needed to do to be successful. To be heard and understood, you can only have two or three big actionable themes that are repeated every time. Otherwise people don't hear or understand you."

PART II: MANAGEMENT TRAPS

The Trap of Shareholder Value

The real world of business is the world in which factories are built, software is developed and real products and services are designed, produced and sold that make a real difference in customers' lives. Real dollars of earned profit show up on the bottom line.

The real world of business differs from the stock market. In the stock market, investors assess the resources and activities of a company today. Based on that assessment, investors form expectations as to how the company is likely to perform in future as well as how much value the firm will return to its shareholders.

The best managers are seen as those who meet expectations. It takes a dedicated chief executive to do the hard, long-term work of undertaking innovation in an increasingly competitive marketplace populated with unpredictable customers. It's much simpler, easier, personally safer and more lucrative to boost the stock price by cutting costs to enhance the apparent short-term performance in the firm's quarterly earnings, or to use financial engineering to extract value for shareholders.

In fact, a CEO of a public company has little choice but to pay careful attention to the stock market, because if the firm's share price falls markedly, accounting rules require that it be classified as a good-will impairment. Auditors may then require the company to record a loss of capital. Even more worrying, activist hedge funds may launch campaigns to oust the management and put in place executives who are more "shareholder friendly."

Thus, most executives perceive themselves to be under continuous pressure to maintain a high stock price.

The Error of Shareholder Thinking

By March 2016, *The Economist* could proudly declare that shareholder value thinking is now "the biggest idea in business." That may be so, but it is also "the error at the heart of corporate leadership," according to two distinguished Harvard Business School professors — Joseph L. Bower and Lynn S. Paine. Maximizing shareholder value, they write, is "flawed in its assumptions, confused as a matter of law and damaging in practice." Over decades, shareholder value theory has not only failed on its own narrow terms of making money for shareholders, but it began destroying the productive capacity and dynamism of the entire economy.

Today, symptoms of economic malfunction are everywhere. A large pharmaceutical company systematically keeps buying other companies, cancels their drug research and uses the resources to buy still more pharmaceutical companies — until the pyramid scheme abruptly collapses. A major news organization turns a blind eye to sexual harassment to protect short-term profits. A global auto manufacturer uses a software device to enable its diesel-driven cars to circumvent environmental regulations.

Financial resources are being diverted from needed investments in innovation. A brilliant study by economists from the Stern School of Business and Harvard Business School compares the investment patterns of public companies and privately held firms. They found that, keeping company size and industry constant, private U.S. companies invest nearly twice as much as those listed on the stock market: 7 percent of total assets versus just 4 percent.

Contrary to what the academic economists had predicted in putting forward the theory of shareholder value, compensating executives with stock had made them less entrepreneurial for the firm, not more. As a result, the economic recovery from the Great Recession of 2008 was undermined and the ability of firms to innovate was restricted.

The pressing question for Agile leaders at all levels of the organization is to figure out how to protect Agile management from the noxious consequences of shareholder value thinking. One obvious option? Just say no! Some CEOs have already spoken out. Alibaba CEO Jack Ma has declared that "customers are number one; employees are number two, and shareholders are number three." Paul Polman, CEO of Unilever, has denounced "the cult of shareholder value."

Sadly, though, most public corporations have yet to respond to the call. One reason is that they have succumbed to the siren call of the most appalling mechanism of finance engineering of them all: share buybacks.

The Trap of Share Buybacks

In 2014, economics professor Bill Lazonick presented the business world with astonishing news: Many major public corporations are engaged in buying back their own shares to an extent that constitutes stock-price manipulation on a macroeconomic scale.

Once firms began in the 1980s to focus on maximizing shareholder value, the actual capacity of these firms to generate real value for the organization and its shareholders began to decline as cost-cutting, dispirited staff and limited capacity to innovate took their toll. Thus, the C-suite faced a dilemma. They had promised increasing shareholder value, and yet their actions were systematically destroying the capacity to create that value. What to do?

They hit upon a wondrous shortcut: Why bother to *create* new value for shareholders? Why not simply *extract* value that the organization had already accumulated and transfer it directly to the shareholders (including themselves) by way of buying back their own shares? By reducing the number of shares, firms could, through simple mathematics, boost their earnings per share. The result was usually a bump in the stock price — and short-term shareholder value.

The pressing challenge for Agile leaders is how to deal with continuing pressures to shift resources from investment into share buybacks. The answer lies in recognizing that going along with these pressures is a choice, not a necessity. Amazon, Unilever and Berkshire Hathaway have made clear to investors that they won't be playing the shareholder value game. Instead of being punished for ignoring the short term, these firms have been rewarded with strong investor support.

The Cost-Oriented Economics Trap

"The numbers give us no choice," the CFO declares. "It's obvious that if labor costs in another country are very much lower, it will be cheaper to outsource the work there, even if the workers there are somewhat less productive."

Agile managers in public corporations are often confronted with such declarations. But where do the CFO's

numbers come from? And what are their underlying assumptions? To prevail in such settings, Agile managers need a certain amount of understanding of financial accounting and its tools, the assumptions underlying the numbers and their relationship to Agile management.

Here, as in other areas, what's key is the management mindset. A mindset that is set on extracting value from a corporation for the shareholders will come to different conclusions from the numbers, compared to a mindset focused on creating monetizable value to customers.

Take the decisions of U.S. public corporations on issues of offshoring over the last several decades. In analyzing proposals, firms must go beyond rudimentary cost calculations focused on the cost of labor and, instead, consider the total cost and risk of extended international supply chains over time.

"Many companies that offshored manufacturing didn't do the math," said Harry Moser, an MIT-trained engineer and founder of the Reshoring Initiative. "Often what firms find is that whereas the offshoring price is perhaps 30 percent less than the U.S. price, all these other costs add up to more than 30 percent. If they are willing to recognize all of them, then they can see that it may be profitable to bring the work back."

Why did so many smart managers make the same mistake? It's not a lack of mathematical capability. Their decision making was driven by the rush to generate short-term profits — or at least appear to be generating them — so as to raise the stock price.

The Trap of Backward-Looking Strategy

Traditional strategic planning efforts entail massive data gathering and analyses, as every conceivable facet of the competitive landscape is explored. But because there is no data on the future, the data gathering is inevitably about the past, from which extrapolations of the future are made. The comfort that is gained from detailed analysis is thus inherently backward-looking.

The widespread adoption of information-based strategy in business, built on data from the past, helps explain the frequent outcome of strategic planning exercises to do "more of the same." It also helps explain why firms consistently missed disruptive innovation. It could hardly be otherwise when firms pursued information-based strategy built on data from the past.

In Agile management, the idea that competitive advantage can be located has given way to the realization that competitive advantage has to be continuously created. Strategy is not a place — it's an activity. In Agile management, strategy recognizes that the future cannot be discovered solely by studying mountains of data based on the past or by probing what competitors might be doing. There is a recognition that in a world of rapid technological change, the future structure of the industry will almost certainly be different from the current one.

The central task of strategy in Agile management is to answer the following questions: How will customers meet their needs in the future? What are the larger needs that actual or potential customers have, only part of which are addressed by current products and services? What approach can our organization take to help meet those needs in a profitable fashion? What benefits will flow from this as compared to costs? Can we do this better than any competitor? How can risk be managed?

A proper approach to strategy in Agile management means emancipating strategy from the sole province of top management and implementing a truly inclusive process in accordance with the Law of the Network. Ideas can come from anywhere, and the insights of the entire organization — and beyond — are mobilized in an effort to imagine and influence the future. Rethinking business strategy for the 21st century means remaking the notion of management itself.

In the emerging age of Agile, the dynamic focuses on human beings creating delight for other human beings. When an organization — or a society — is populated by people with this mindset, it can be at one with itself, at one with those for whom the work is being done, at one with those who are doing the work and at one with the wider society in which it operates.

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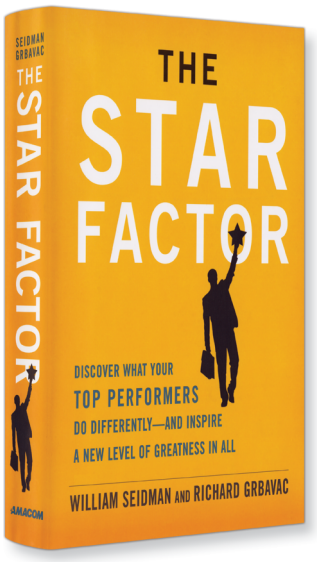
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Management

The Star Factor

Discover What Your Top Performers Do Differently — And Inspire a New Level of Greatness in All



by William Seidman and Richard Grbavac

THE SUMMARY IN BRIEF

In every company, a select few produce more, sell more and deliver better results. These stellar performers consistently outshine their peers — and achieve more than most would believe possible. If only these people could be cloned! *The Star Factor* delivers the next best thing: a unique system for unlocking their wisdom, transforming that knowledge into actionable steps and helping other employees internalize these new attitudes and behaviors, bringing much-needed change to the whole organization.

The Star Factor and its proven Affirmative Leadership methodology helps executives, managers and trainers tease out the attitudes, behaviors and actions that form the core of their stars' performance. You'll discover how to turn their own words into a learning program that can be personalized for each employee, how to create global programs that feel like local change initiatives, and how to make the learning stick to create a leadership-rich environment.

IN THIS SUMMARY, YOU WILL LEARN:

- How to identify your star performers, using three simple questions.
- Techniques to train coaches to guide learners to convert that knowledge into applied, practical learning.
- Ways to reinforce learning with group discussions and other techniques.
- How to turn isolated employees from anywhere on the organizational chart into influential leaders.

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Follow Your Stars to a Bright Future

What would it mean to you and your organization if everyone became as good as your star performers? Everyone would be aligned in working toward something important, a compelling collective purpose. Everyone would believe that their teammates had the commitment and skills to achieve it. Organizations filled with this kind of energy are great places for their people and for the bottom line.

Affirmative Leadership is a scientific, proven methodology for creating leadership programs that are based on each company's own unique strengths and needs. Companies who follow the step-by-step process will develop extraordinary organic leadership throughout their organizations.

The Science Behind Affirmative Leadership

Affirmative Leadership succeeds where other programs fail because it is based on the synergy between new developments in neuroscience, technology and the new science of positive deviance (the study of people who dramatically outperform their peers).

In traditional approaches to leadership, executives and senior managers set the bar for performance. The science of positive deviance suggests a very different and more effective approach. It says that in any group of people, some consistently and systematically outperform others. These are the stars.

Stars' attitudes, thinking and behaviors are different. These people drive the success of your company out of all proportion to their numbers. They're not only great at their jobs; they have a profound, compelling sense of purpose that is always aligned with a desire to improve the world for other people. And they get things done. They are your stars: the source of the knowledge, wisdom and passion the Affirmative Leadership program uses to transform your organization.

The Affirmative Leadership Methodology

Affirmative Leadership is developed and implemented in four phases that have been used in hundreds of companies with tens of thousands of people in all parts of the world with great success:

Phase 1 — Discover: First, a company efficiently and reliably identifies its stars and invites them to participate in a three-day workshop where their purpose and qualities are articulated.

Phase 2 — Prepare: The project team prepares the star wisdom for transfer to others by creating a learning program consistent with the neuroscience of learning.

Phase 3 — Launch: Coaches meet with their learning group of potential Affirmative Leaders and begin teaching them in a six-hour workshop.

Phase 4 — Guided practice: For four to six months after the workshop, learners complete weekly practice exercises that require practical application of Affirmative Leadership.

When an organization develops Affirmative Leadership in many roles and locations, the organization itself changes, becoming that idealized place to work which we call a "culture of greatness." When all critical roles in an organization are filled with Affirmative Leaders, people's shared purpose and trust in each other's mastery combine to create a superior culture and extraordinary

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performance. Organizations that are bursting with leaders achieve performance levels beyond what people currently can conceive of as possible.

Reach for Your Stars

Picture the people in your company who consistently shine at what they do and inspire others. They go by many names: top performers, starts, rainmakers, bright spots or thoroughbreds. Nothing gets between these people and achieving their mission, whatever the circumstances or situation. They are your stars and the source of the knowledge, wisdom and passion the Affirmative Leadership program uses to transform your organization.

Social Scientists and Stars

Social scientists now know that there are positive deviants — what we call "stars" — in every group, company and industry. They are the people who consistently and systematically outperform others. They have figured out how to succeed, even in situations or environments others find daunting, and outperform others facing the same issues.

Research shows that these people not only behave differently but actually think differently about their jobs than others do. They have a different mental model, a perspective that makes them more passionate about their work and better at it, too.

Many people believe stars are just innately more talented or skilled. Yet stars' thoughts and behaviors, whatever their fields, tend to fall into certain very consistent patterns that can be identified and taught to others.

Organizational Change

When organizations need to change but believe they don't have the expertise to do it successfully, they have three choices. They can hire experts, bring in consultants or use their own stars. A company's own stars are immediately available, inexpensive, culturally aligned and incredibly knowledgeable. They are admired by everyone and know how to get things done. They are already your go-to people when change is needed. This is because stars are admired, reflect the best of the culture and enjoy a reputation for reliability.

Every company has some stars, and these people are always critical to improving performance. Even when a performance improvement initiative is to create something completely new, there may not be anyone who has experience with all aspects of it, but there are always stars in closely related areas.

Your stars are already Affirmative Leaders and, as such, disproportionately drive the success of your company. They hold most of its tribal wisdom and are consistently the most successful and more respected people in it. You can use their sense of purpose — and the esteem in which they are held — to inspire others to learn from them and create a leadership-rich culture.

Discover and Describe: The Detective

It is possible to get the stars to articulate what drives them, and then to explain their knowledge and wisdom so others can learn from them. The process, which we call Wisdom Discovery, requires some detective skills to dig beneath the surface and get to the unconscious competence.

The Wisdom Discovery process searches for the following four things from the stars:

1. A clear statement of their true purpose in their role (the higher Purpose).
2. A big-picture view of the steps or phases necessary to achieve their purpose (the Path to Mastery).
3. A deeper definition through principles of what greatness looks like in each of the steps (details of Mastery).
4. The activities that build the habits necessary to achieve greatness in the role (Learning Tasks).

These elements, organized and worded according to the latest neuroscience of learning, become the foundation for coaching others to become great in their role.

Compelling Purpose

The first part of the process is to have the group clearly articulate its purpose by creating a concise purpose statement. Tips for writing a great purpose statement include

- Use power words.
- Keep the finished statement to about 250 characters.
- Use the words the participants use.
- Tell the real story.

After the teams have finished their statements, they present them to the whole group. Eventually, the facilitator will collect the key ideas and re-sort them into a concise and powerful statement. This Purpose statement is the foundation for all that follows.

Path to Mastery — The Big Steps

The Path to Mastery is made up of phases, or Big Steps, that present a clear, sequential overall approach to building

attitudes, skills and capabilities. These Big Steps allow those being coached to focus their attention on manageable chunks without being overwhelmed.

This list of Big Steps provides a clear, high-level view of the milestones on the way to achieving the larger goals. Keys to effective Big Steps include

- Include six Big Steps at most.
- Use first person statement such as "I am…"
- Focus on the state of what we want to be at the end of the step.

Principles are the stars' articulation of what is supposed to change and why. Before others can follow the Big Steps, they need to understand these Principles, using the language of the culture. Once people understand the Principles, they can clearly see their path to greatness, understand why they are on it and fully embrace the Big Steps.

Transform for Brilliance

Company transformations also require the ability to see and realize potential. In Affirmative Leadership programs, several different people must have the vision and skill to transform the raw data from the Wisdom Discovery session into learning programs that produce great leaders.

This happens in stages. First, the facilitator and project manager convert the raw learning experiences from the Wisdom Discovery session into engaging learning tasks. Next the project manager works with management to prepare the measurement systems and tools that will track success. Finally, the facilitator transforms managers into great coaches by showing them how to teach others to embrace the star wisdom as their own.

Converting Raw Experiences into Effective Learning Tasks

Neuroscience has shown that the most effective way to learn and retain what you've learned is a result of short, frequent bursts of mental and physical repetitions of a key attitude, concept or behavior. Six to eight repetitions of the same idea, over a short period of time, create new neural circuits and new habits.

To create an effective Learning Task, the facilitator must 1) create Learning Tasks that will help develop the attitudes and behaviors described in the Principles, and 2) design six to eight mental and physical activities that teach or reinforce the desired attitude, concept or behavior for each Learning Task.

Training Coaches

People learn faster and expert content sticks better when they work together in a structured Learning Group led by a trained coach. The coach's job is to guide the group to interact with the starts' content and each other in ways that are consistent with the newest neuroscience of learning. Coaches drive alignment with the Purpose, application of the Principle, adaptation of the Learning Tasks, discussions about the application of the learning experiences and intense reflection about the learning.

Before anyone can develop into a great content coach, they must first understand and embrace the higher purpose of coaching others to greatness. The Leading Group Learning session gets the coaches to begin to embrace Fair Process as a basic value and a way of dealing with all people in their lives. When combined with the knowledge of how people think and learn, the results are predictable and positive.

Motivate the Rest to Be Like the Best

We know now that one of the best ways to motivate people to accept change is to present that change in ways that increase listeners' dignity and honor. This mindset, focused on respect for the listeners rather than top-down authority, is known as Fair Process. Fair Process gathers input and makes decision-making visible. The leadership team would make sure everyone knew their suggestions would be compared with those of other groups and considered seriously. Fair process stresses participation and lots of communication.

Motivation 3.0

The first component of Motivation 3.0 is a sense of Purpose — the social good which gives work meaning. Purpose is what makes some people love to get up in the morning and meet the challenges of the day, converting a job into a vocation. The second component of Motivation 3.0 is Mastery. Many people resist striving for a greater Purpose because they don't believe they are good enough and can't see a path to achieving Mastery. People will work hard to achieve Mastery only when they have a compelling Purpose and believe they can achieve it. The third component of Motivation 3.0 is Autonomy. People like to have control over their work and their environment; they resent interference from others. Being in control is a powerful motivator.

In sum, providing people with a great vision of a higher Purpose and showing them the path to become Masterful are key ingredients to creating an autonomous and responsible workforce.

The Neuroscience of Learning

The value of Fair Process and the new sciences of motivation significantly increase when combined with the latest neuroscience research on learning. It shows that positive imagery and written or verbal affirmations cause the release of the neurochemicals that increase openness to new ideas and learning speed.

Related studies have shown that putting positive images and affirmations in writing transfers neural resources from the portions of the brain associated with fear and resistance to the portions of the brain associated with a sense of control and empowerment.

The concepts and language of the stars' Purpose, Path to Master and Principles are the foundation for Motivation 3.0 and for using the neuroscience of leaning — all three become the basis for the positive images and affirmations and the intense motivation for all learners to become as good as the stars.

In the Launch Workshop, the facilitator and coaches will guide the Learning Groups to Read/Discuss/Praise/Anchor and thereby reflect on all the elements of the stars' wisdom. This amounts to

- **Read:** Focus on respected expert content that is positive and affirmative in nature.
- **Discuss:** Discuss that content with a group of peers in an open, accepting environment.
- **Praise:** Visualize themselves in those positive terms.
- **Anchor:** Write down their visions of greatness to make the vision real for them.

The use of Read/Discuss/Praise/Anchor may seem to be a simple group discussion of an objective statement, but it's actually a sophisticated methodology for developing intense motivation for performance improvements. By the end of the Launch Workshop, the learners have a very strong conceptual framework for their Purpose and know how they are going to achieve their Purpose and what Mastery means.

Principles: Defining Greatness in the First Big Step

Imagine how motivated you would be if you had the opportunity to spend quality time with the top people in your field. This is the sensation that learners have as they work on the Principles. Principles are the accumulated wisdom of the stars, the things that the stars know that others need to know to be great in their roles.

By focusing on the Principles, the Affirmative Leadership Launch Workshop drives greater depth of understanding, commitment and motivation. Also, Learning Groups establish stronger interpersonal bonds during the discussion of the Principles, because they're discussing what the stars meant and how the principle applies to real situations.

By the end of the Principles review, most of the learners experience a startling physiological change. They look more pensive, as though they have already developed significantly greater self-awareness, changing from passive participants to highly motivated learners.

Own Your Own Learning

Self-directed learning is directly related to leadership. Because self-directed learners are more proactive and effective at defining and executing their own leadership development programs than passive learners, they are better at becoming great leaders and at dealing with the constantly changing, increasingly complex world. Self-directed learners become great leaders more quickly than passive learners, and great leaders are always self-directed learners.

Passive learning is particularly poor for leadership development, yet, most leadership training programs use a passive learning process. Among the most important aspects of being a leader are being proactive, energetic and taking responsibility for your own and the organization's growth. Passive learning designs and media teach leaders to be passive, just the opposite of the attitudes and behaviors shown by great leaders!

Becoming Self-directed Learners and Leaders

In order to become self-directed, potential leaders must experience what psychologists call an "unfreeze" that challenges them to re-examine their learning habits, opening them to the possibility of thinking and acting differently. Applying Fair Process to the learning process is a particularly powerful way to unfreeze people from passive learning and motivate the development of the new habits of self-directed learning.

The neuroscience of learning and mass customization is used to transition these now unfrozen learners to be full self-directed learners. The bigger picture perspective on all of this science is that self-directed learners and great leaders are thoughtful, frequently reflecting on what they are doing and why they are doing it.

Humans are at their best when they are deeply motivated to achieve something greater than themselves. When people have this motivation, they work incredibly hard to become great at what they do. Great leaders are motivated this way and inspire others to have similar feelings. The Launch Workshop is a powerful step toward something of great value for any organization: a culture where everyone is a self-directed learner and a great Affirmation Leader.

Learning to Lead

When people take control of their own learning and consciously practice emulating the stars, their goals, reactions and behaviors change. The leader that is inside each person emerges.

Working on Each Big Step

The group repeats the Do-Discuss-Anchor for each set of tasks in each Big Step. Each task builds on the previous task within a Big Step, reinforcing the earlier learning while becoming progressively more demanding and sophisticated as the sequence builds more leadership attitudes and skills.

Each incremental Learning Task and Big Step expands and reinforces the earlier learning, driving deeper internalization. The coaches play an important role in managing this developmental sequence. At the end of each big step, the coaches review their group's recorded learning and determine if the learner is ready to advance to the next step.

Keeping the Momentum Going

Neural conflict between established old habits and developing new ones becomes an outright barrier to progress after about six to eight weeks of the program. New habits are not yet established, and old ones are still there.

The Midpoint Checkpoint meeting is designed to address the neural barrier and has three objectives:

1. Boost commitment by the learners and the coaches to the program.
2. Quickly identify and adjust to any issues that emerge from the session.
3. Introduce the next level of self-directed learning, called "meta-learnings."

The first part of the Midpoint Checkpoint is a discussion of the Learning Group's progress to date. The Midpoint Checkpoint closes with a discussion about the meta-learnings and how they can make the difference between great and mediocre leadership.

Distribute Globally, Act Locally

Scaling has two elements: easy, inexpensive delivery to large numbers of people and significant impact. Most organizations are so intimidated by the costs of large-scale programs that they focus attention primarily on the cost aspects of a program and less on achieving the desired impact.

Persuasive technology makes using Web meetings considerably easier and more effective. By using persuasive technology as part of the Web meeting, learners absorb the content more quickly and internalize it more completely with less effort and expertise from the facilitator. The combination of Web and persuasive technology increases the effectiveness of the learning while decreasing the cost.

Basic Scaling Infrastructure

When companies use direct managers as the coaches, the process tends to be the most cost effective. In Affirmative Leadership, these managers are taught to become coaches with skills that include co-facilitating the Launch Workshops and monitoring progress.

An entire Affirmative Leadership program can be done over the Web, reducing travel costs. The coaches and learners still get personal interaction with other learners, especially if there are video feeds.

The persuasive technology plays an important role in ensuring the impact and lowering the cost of training the trainers and ultimately in developing great Affirmative Leaders. They quickly learn to be great Affirmative Leader trainers and become models for their students.

Extraordinary Scaling

Once the coaches are fully motivated and trained to lead their Learning Groups, the costs of scaling decrease sharply without any decrease in its impact. As soon as the infrastructure is in place, all an organization really needs to do is conduct the Discovery Workshops and put the results into the coaching system. From that point on, the system takes over, and anything can be completely and quickly implemented.

Any new initiative or program can go from Discovery to globally scaled in less than two weeks, with minimal expense. The Affirmative Leadership infrastructure enables organizations to achieve the long-desired goal of scaling; extremely effective, fast and inexpensive Affirmative Leadership for anyone, anywhere, even if there are thousands of potential leaders.

Experience a Real-World Executive Program

This section is a detailed real world example of how Comptech developed leaders and changed its culture. We chose Comptech because its experience is typical of what many companies experience when facing significant market changes that demand better leadership. The Comptech example shows how executives can and will be active participants in their own development if a program's content and the process are consistent with the participants' self-images as executives.

When tablet computing drastically cut into Comptech's dominance of the server, desktop and laptop computer market, its executives needed to do something fast. Comptech needed a leadership development program that would quickly grow a large group of new leaders who could lead the transformation to tablets.

Wisdom Discovery Workshop

The content of a leadership development program had to come from internal sources and reflect Comptech's unique situation to be acceptable to the participants. After the group agreed on their Purpose statement, it dove into creating their path to mastery (the Big Steps), the major capabilities a transformational leader needs to develop.

As the stars reviewed the Big Steps, a consensus emerged that they would be equally useful to any Comptech executive anywhere and should be used to develop every executive and potential executive in Comptech. The stars' enthusiasm for the best practices and willingness to be coaches were indicative of their strong engagement with and commitment to Affirmative Leadership.

Launch Workshop

During the Launch Workshop phase of the process, the participants were paired up to discuss greatness in leadership at Comptech, using the Purpose statement that had been drafted. With the coach's leadership, the entire Learning Group discussed greatness. The candidates appeared to be thrilled by the opportunity to discuss their ideas about greatness in CompTech leadership with peers and record their perspectives. They said this was the first time they'd been asked to explicitly think about the meaning of greatness in their roles, and they appreciated the insights they got from each other.

The Learning Group realized that being able to tell a compelling story would improve their abilities to articulate their Purpose. The group was asked to identify two people outside of Comptech who are great at telling a compelling story and why. They liked the idea of using something outside of their business as an example but also thought they needed something related directly to Comptech — so they modified the assignment. By this time, coaches and group participants were completely engaged. The Comptech candidates were self-directed learners and were becoming Affirmative Leaders.

Unleash the Suppressed Energy of Frontline Managers

Organizations are increasingly aware of the importance of the Frontline Manager (FLM) as the glue that connects the work of an organization to its strategy. FLM leadership programs, developed and implemented using the Affirmative Leadership model, convert highly transactional managers into great transformational leaders without sacrificing operational excellence.

Wisdom Discovery

Wisdom Discovery for FLM Affirmative Leadership programs has some particular challenges. First, it is often more difficult to identify FLM stars than senior managers or executives. There is greater resistance to giving those who are identified the time to participate, and FLMs tend to be less articulate about their roles than people higher on the organizational chain, thus requiring additional probing by the facilitator.

On the other hand, once a group of star FLMs breaks through to talking openly about how they really think and what they actually do to make difficult situations consistently successful, there is a release of energy that is quite astounding to them and to others, including their bosses.

An FLM who was good at his craft but not at leading a team or working with other departments couldn't model team leadership or interdepartmental cooperation and integration. At both DigiAd and LocalPower, the FLMs were very nervous about participating in a workshop in which they'd have to talk a lot. Few of the LocalPower FLMs were used to speaking in public. There was considerable concern about the possible demands of the Wisdom Discovery Workshop.

While the STLs at DigiAd had all come from sales and were more verbal, they also indicated that three days of intellectual discussion was a sharp departure from their norm. But when the facilitator asked, "Why do you love your work?" the floodgates opened and all resistance fell

away. Talking about why they loved their work was both tangible and exciting.

Launch Workshop and Guided Practicum

While there was some concern about the willingness of the FLMs to openly discuss crucial management issues, the Launch Workshops generally went smoothly, even though they involved people from several remote locations. Overall, the launch and follow-through for Big Steps 1,2 and 3 went as expected.

Perhaps the most important indicator of the effectiveness of the program was that most of the learning groups in both companies asked to continue meeting indefinitely. The groups had formed such a strong and useful bond, and valued the process so much, that they wanted to continue it, even though the Affirmative Leadership programs were officially over.

These examples of Affirmative Leadership programs for FLMs illustrate the importance of the FLM's role and the opportunity organizations have to add capabilities.

Drive Cultural Change With Individual Contributor Grassroots Leadership

Individual contributors (ICs) embody an organization's culture. ICs are generally not thought of as leaders because they do not sit high on the organizational chart. However, their in-depth experience with the real work of an organization gives them the insight and opportunity to identify and lead significant innovations.

DigiAd

DigiAd was a seller of yellow-page advertising space that was transitioning to offering integrated print and digital advertising solutions. The DigiAd executive team recognized that their sales and service people needed to adopt completely new attitudes and behaviors as well.

Identifying the stars for DigiAd's programs was relatively straightforward. The stars were highly respected sales and customer service representatives who had demonstrated a passion for the customer centricity program and at least some success either selling to or servicing the more complex digital solutions.

As the DigiAd exemplars worked on defining their Purpose statement, there were excellent discussions about the importance of passionate commitment to customer centricity, in-depth knowledge of the digital offerings and the skills of closing sales or resolving customers' issues.

There is a point in all IC programs when learners convert from being tactical, transitional ICs to becoming Affirmative Leaders. For most of the DigiAd salespeople, this transformational moment came during the fourth Big Step, "Relationship Building."

Results

The measurable results support the impact of IC Affirmative Leadership on the productivity and culture of the organization. The DigiAd Sales Representative certification program reported that 98 percent of the sales reps displayed the desired customer-centric attitudes and behaviors. This translated into a doubling of the sales of digital products. By the end of the Affirmative Leadership program, the DigiAd executives knew that 100 percent of their salespeople had the same attitudes and behaviors as their top performers.

Living in a Culture of Greatness

Leadership is ultimately about producing results, and these are just some of the many examples of how Affirmative Leadership changed organizations. Respect and Fair Process pervade everything in the program. Similarly, Purpose, Mastery and reflective learning are overtly and covertly everywhere. All three are explicitly used in the Wisdom Discovery, Leading Group Learning coach training, and Launch Workshops. In hundreds of small ways, Affirmative Leadership subtly creates a culture of greatness.

Affirmative Leadership programs immerse participants in a new way of learning and leading that gradually, seamlessly and very naturally becomes a new way of being. We say the Affirmative Leadership approach efficiently, and with surprisingly little effort from participants, creates a culture in which every person aspires to and achieves greatness. Everyone becomes as good as the very best.

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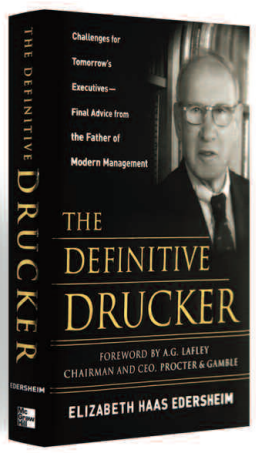
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SOUNDVIEW Executive Book Summaries®



by Elizabeth Haas Edersheim

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Challenges for Tomorrow's Executives — Final Advice From the Father of Modern Management

THE DEFINITIVE DRUCKER

THE SUMMARY IN BRIEF

Peter Drucker, widely regarded as the father of modern management, gave Elizabeth Haas Edersheim unprecedented access for the 16 months prior to his death. At Drucker's request, Edersheim spoke with him about the development of modern business throughout his life and how it continues to grow and change at an ever-increasing rate.

Peter Drucker is credited with inventing the discipline of management. He wrote 39 books that have been translated into dozens of languages. Drucker is also known for single-handedly counseling the chairmen of GM and Ford, advising the president of the World Bank and the CEO of GE and reportedly telling Margaret Thatcher to privatize the entire British mining industry.

The Definitive Drucker captures his visionary management concepts; applies them to the key business risks and opportunities of the coming decades; and imparts Drucker's views on current business practices, economic changes and trends — many of which he first predicted decades ago.

Delivering keen analysis and revealing insights into business, *The Definitive Drucker* is a celebration of this extraordinary man and his life work, as well as a unique opportunity to learn Drucker's final lessons on how to strategize, compete and triumph for the long term.

IN THIS SUMMARY, YOU WILL LEARN:

- How to succeed in a Lego world, where the business organizations are pieced together, pulled apart and reassembled.
- How to determine whether your customers' perception of value aligns with your own.
- How to innovate like GE, as well as when to abandon fundamental assumptions before they derail the company.
- How to structure a successful collaboration.
- How to invest in people and knowledge for your organization.
- How the CEO sets the tone for a company.

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Doing Business in the Lego World

The staid world of business has been turned upside down by a silent revolution. Change came gradually and predictably to businesses in the period following World War II through the early 1990s. But then the revolution struck, taking place on five fronts:

1. Information flew. Since the expansion of the Internet, information travels instantaneously. In the globally integrated economy, management must make decisions at all hours of the day and night.

2. The geographic reach of companies and customers exploded. Companies and their customers now have an astounding geographical reach. Even small firms can scour the world for resources.

3. The most basic demographic assumptions were upended. To managers, the biggest effect of demographic changes is that new populations with new demands drive societies, markets and workplaces.

4. Customers stepped up and took control of companies. Customers are engaged with companies in ways that would have astounded Henry Ford or Thomas Watson.

5. Walls defining the inside and outside of a company fell. These days, a company draws on capabilities outside of its own walls in ways that would have been unheard of just a few years ago.

Drucker observed that we are now in another critical moment: the transition from the industrial to the knowledge economy. We should expect radical changes in society as well as business.

The Lego World

The management world is flat only if you take an industrial perspective. If you just want the lowest cost, the capabilities exist virtually every place in the world to get the lowest cost. But if cost is not your only concern and you recognize that the industrial world has given way to an information- and knowledge-driven world, you will see that the world is not flat and that Indiana and India are not interchangeable. Indeed, the ability to put together and connect the pieces in different ways and with the customer all the time defines an enterprise's performance.

In the 21st century, businesses exist in a Lego world. Companies are built from Legos: People Legos, Product Legos, Idea Legos, Real Estate Legos and so on. Everything is visible to everyone all the time. These pieces are constantly being put together, pulled apart and reassembled. In an organization, we can connect individuals' strengths, minimizing their weaknesses. And across organizational boundaries, we can connect strengths of each corporation and provide the customer with far greater value than can any single enterprise.

Dell is a classic example of a Lego manufacturer. It has configured its offering so that customers can custom build computers to meet their individual needs. Michael Dell claims that the firm's important capabilities are the management and integration of information and the ability to quickly build a computer to a customer's specifications. Dell's Product Legos include anything from processor and memory capacity to screen size. However, Dell's recent performance underscores the need to constantly reconfigure in the Lego world. Michael Dell has stepped back and is shifting the Legos and the consumer connections, as the requirements have changed.

In the retailing arena, Amazon exemplifies the Lego

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Doing Business in the Lego World

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approach; it connects with other vendors that have expertise in making everything from textbooks to toys.

A New Solution Space

The most significant trends affecting business transcend all companies and all industries. Business as we know it is disappearing. Companies aren't selling products; they're selling experience. Relationships have gone far beyond the roles of buyer and seller. According to Drucker, there are no longer competitors, just better solutions and more choices that can be put together in more ways. Companies focused on competitors are focused on the past, not a future full of technological and demographic opportunities.

The evolution of cell phones into instruments capable of doing much more than handling voice communication — capturing and transmitting still and moving digitalized images, connecting with the Internet, even functioning as a TV — not only means serving a wide range of consumer needs, but also guarantees that customers will upgrade to a new device frequently because they want the latest version with new and enhanced capabilities.

Implications for Managers

One of Drucker's talents was his ability not just to see trends but also to shed light on their implications so that managers could act on them. According to Drucker, there are three consequences of the silent revolution:

1. Financial markets now value knowledge more highly than they value hard assets, underlining the emergence of the knowledge economy. Drucker noted the developments that drove this shift to soft assets — intellectual property, patents and connections. Old companies, such as Boeing, were being revalued as their physical assets took a backseat to their knowledge, relationships and ability to connect. Innovative companies such as Google, Yahoo! and craigslist were launched in cyberspace with very little in the way of physical assets, providing services that had never existed before.

2. The U.S. economic engine is facing the gravest threat of the past 100 years: the need for corporations to be strategic collaborators rather than unilateral superstars. America's institutions are designed for the individualism of an industrial economy, not a Lego world. However, the game has changed. Americans will have to play as equals, something that's not easy when you've spent a good part of the century as the undisputed No. 1.

3. Strategy has become a crucial ongoing activity for management, not simply an annual planning exercise. Strategy has to move and be refined at a speed comparable to what used to be called tactics; it has to be in real time. You don't have six months, or even three months, to create a master plan.

As Drucker maintained for more than 70 years, businesses are the critical engine of a thriving and sustainable society that values individuals and rewards achievement, with management effectiveness the determining factor in keeping the engine running. Business isn't just business. It's the economic engine of democracy. ■

The Customer: Joined at the Hip

On paper it seems like the most obvious notion: The customer is in the driver's seat. And yet few organizations, busy with all they are doing inside their own walls, are truly focused on the outside world of the customer. If you are in business, beware. The silent revolution of technology and demography has given each customer his or her own handy remote control.

Everything has changed about your customers and your relationships. You've never had as many people around the globe to reach. Customers aren't just in the driver's seat these days; they're gassing up the vehicle, doing some of the service and controlling a fair amount of the traffic on the road.

Connecting With Your Customer

When Drucker talked about the customer, he had four classic themes that he came back to repeatedly. He asked every one of his clients:

1. Who is your c*ustomer*?
2. What does your customer consider *value*?

After long discussions answering those two questions, he would then ask:

3. What are your *results* with customers?
4. Does your customer *strategy* work well with your business strategy?

Rethinking the answers with Drucker changed how the clients thought about the businesses they were in. Southern Pipe, a regional plumbing company, redefined its customer; instead of serving contractors alone, its branches began serving local communities and homeowners as well.

Customer Versus Competitor?

In this networked world, your customer often turns out to be a competitor as well. In some cases, your product may be packaged with others and sold as an integrated unit. Those sales may increase your revenue

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The Customer: Joined at the Hip

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but decrease your brand identity, because the final product may not carry your brand.

It is becoming increasingly difficult to tell friend from foe. In the online business world, the line between competition and cooperation is especially blurred and constantly changing. In our new world, where relationships have proliferated, the customer you are ultimately serving can change from transaction to transaction. The question needs to be asked again and again.

Does Your Customers' Perception of Value Align With Your Own?

In this data-rich world, firsthand emotional intelligence still matters. That is why, on any given day, you may find Procter & Gamble president and CEO A.G. Lafley in the kitchen of a Venezuelan housewife or walking around in the most dangerous parts of Sao Paulo and Rio de Janeiro, Brazil, to see firsthand how consumers are buying and using P&G products. The analysis can be delegated, but not the customer contact.

How do connectivity and relationship influence value? Beyond the significance of the product itself, the value perceived by a customer increasingly depends on his or her relationship with the company and control of the end result. That has remained true even as face-to-face interactions have given way to cyberspace transactions.

Sumerset Houseboats boosted online sales dramatically by more directly engaging the customer in the process of building a boat. In the 1970s, Sumerset was a neighborhood company, and locals would come in daily to see their boats taking shape. When Sumerset's online business took off, it wanted online customers to have the same opportunity as locals. Today, Sumerset customers go online to customize the plans for their boats and to view photos of their boats being built. This is a way to empower customers and create a sense of community. ■

Innovation and Abandonment

Nobody was better at defining and helping companies capture opportunities than Drucker. He often said, "Tomorrow is an opportunity." For Drucker, if you don't understand innovation, you don't understand business theory. Starbucks exemplifies what he considered to be true innovation. Beginning with a single store in 1971, Starbucks grew to more than 12,000 locations in 37 countries in 2006. Starbucks didn't just offer a better cup of coffee than the average restaurant; it delivered instant community — a shared experience. Much of Starbucks' innovation has to do with marketing, not product, and it is fundamental, not incremental.

Creating Your Tomorrow

Drucker wrote about innovation for decades — long before anyone heard of Starbucks, or even the Internet. It fascinated him. By the Vietnam War years, he was predicting that technology would change everything about the way we do business. Drucker felt that finding a balance was crucial to business survival. "You can't throw everything out, or you'll have anarchy," he said. "You can't hold on to everything, or you'll die."

Drucker understood from personal experience the difficulty of innovating for the future while hanging on to the past. In 1935, he left London to make his first trip to the United States. He'd decided then and there to leave Europe. "America," he wrote, "was starkly different from Europe. In America, people were looking to tomorrow. In Europe, they were trying to re-create yesterday."

When discussing innovation with businesses, Drucker had four basic questions:

1. What fundamental assumptions do you have to abandon to create room for innovation?
2. Do you systematically seek opportunities?
3. Do you use a disciplined process for converting ideas into practical solutions?
4. Does your innovation strategy work well with your business strategy?

In many organizations, innovation is stymied by excessive loyalty to the old products and to the old ways of doing things. Drucker put it this way: Most companies hang on to the business they have and are hugely reluctant to loosen their grip. This prevents them from innovating and determining their own destiny. Kodak built a legendary film business, but it finally had to abandon this mainstay in order to invest talent and resources in the digital imaging business.

How Innovation Enables GE's Longevity and Valuation

GE is innovative to the core, has outperformed the overall market and has adopted a Druckerian approach to innovation. The company was founded on technological brilliance and has developed into a huge global technology conglomerate. From 1995 to 2005, GE grew 7.9 percent per year, at almost three times the profit margins of 10.2 percent of the average net profit markets.

GE has innovation in its DNA. It evolved from the legacy of its founder, Thomas Edison — not only a brilliant inventor but also a customer-driven innovator. He sounded

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Innovation and Abandonment

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a lot like Drucker: "I never perfected an invention that I did not think about in terms of service it might give others."

As GE found out early on, no company is immune to changes in the environment. GE was almost bankrupt a year after its founding, during the panic of 1893 when central power stations could no longer afford to purchase new materials. To survive this crisis, the company completely changed its strategy, shifting to an innovative focus on solving customer problems. However, Edison was not as good a manager as he was an inventor. He was asked to leave by J.P. Morgan, who replaced him with professional managers.

Despite the near disaster, GE remained focused on its products and created a culture that encouraged innovation. Drucker worked with every GE CEO from Gerald Swope through Jack Welch, helping them create an innovative culture that challenged the status quo. ■

For additional information about GE's innovation, go to: http://my.summary.com

Collaboration and Orchestration

Peter Drucker's vision of collaboration remains immensely relevant today. He believed that to give your customers what they need, you must follow two rules: play to your strengths and collaborate with other players — sometimes those you consider competitors.

Three Drucker Questions

When discussing collaboration and orchestration with businesses, Drucker was known to ask three groups of fundamental questions:

1. What are the goals of your collaboration? What are the shortcomings of the traditional business model? What are the needs that it leaves unfilled? And what is the prize a collaborative business model could deliver?

2. How should the collaboration be structured? What will be your front room? What does your company do best? And what organizations or individuals are best at the other activities necessary to fill your customers' needs?

3. How do you orchestrate and operate a successful collaboration? What is the best way to set up your enterprise to be agile and cost-effective and to work with your backroom partners as one well-orchestrated whole? Can you manage down the risk that the partnership will backfire or be derailed by competitive issues?

Drucker on Collaborations

To succeed in the Lego world, you must collaborate. You must tap into resources outside your organization — no business can isolate itself. Drucker identified the following characteristics of successful collaborative organizations:

1. A reputation as a place to work that attracts the best and the brightest.
2. A flexible, easily adaptable infrastructure and a highly variable cost structure.
3. Pragmatic political and logistical solutions that convert potential adversaries into allies.
4. Influence that flows from setting industry standards that shape the expectations of end users.
5. Identification with their local communities through holistic branding.

As you consider these three groups of questions for your company, imagine you are just now leaving college and setting up your company from scratch. That's Drucker's way of looking at the viability of a corporation — if you weren't in this business, would you enter it today? And if so, what would it look like?

Structuring a Collaboration

The first step in structuring collaboration is to identify your company's front room, which Drucker defined as your strength, or the activity that is most important for you to do — that which stirs your passion and shows off your excellence. Everything else is your back room. One of Drucker's famous quotes is "The only thing you have to do is marketing and innovation."

In the traditional model, a business would add to its front room an array of ancillary activities needed to meet its customers' needs. The quality of those activities might not have been first-rate, or the activities might have been relatively high-cost, but the company had to have them in place to meet customer needs. The level of communication and coordination needed to team up with another organization made any approach impossible for most companies.

In the new world, however, you can eliminate many of these ancillary activities and do a better job of meeting customer needs via collaboration. Collaboration is not just an option but an imperative in the new world. It is critical that you do only what you do best, that you eliminate or minimize your back room by teaming up with another organization. With the greater transparency typical of the new world, the customer sees everything and knows your flaws and strengths. And you can con-

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Collaboration and Orchestration

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nect to and use someone else's front room, thereby better meeting customer needs and streamlining your operation in the process.

Technology Collaboration

In the world of high technology, the classic example of collaboration is Linux, an open-source operating system. It has revolutionized the way software is made and has emerged as a powerful model of successful decentralized collaboration. Linus Torvalds wrote the beginning, or kernel, of the operating system in 1991 and made it available to everyone, inviting others to improve on it. His front room is the original kernel and the decision authority built into the software to accept changes. The back room is executing all the changes.

As the collaboration has expanded, more of the review process has been delegated and automated, but the fundamental idea remains the same. Top tech competitors such as IBM and Hewlett-Packard work together with distributors such as Red Hat on setting development priorities, offering their programmers' time on projects and protecting Linux from potential intellectual property claims. The tech companies, in turn, make money not from selling the operating system, but from selling services and software around the system. Thus everyone (with the exception of other operating system creators such as Microsoft) benefits from this cooperative ecosystem of global technology talent. ■

People and Knowledge

Drucker stressed that businesses, including nonprofits, always had to put people first — employees and customers, as well as shareholders and stakeholders. According to Paul O'Neill, the former Treasury secretary, retired CEO and chairman of Alcoa and a former Drucker student, a test of an organization's potential for greatness is whether every person in that organization can say yes to three questions every day without any reservation or hedging or stopping to think:

1. Are you treated every day with dignity and respect by everyone you encounter?

2. Are you given the things you need — education and training and encouragement and support — so that you make a contribution?

3. Do people notice that you did it?

Investing in People and Knowledge

People are the business. They are your front room, your connection to others and to the customer. They are your knowledge and your access to changing opportunities and resources. Drucker said, "What differentiates organizations is whether they can make common people perform uncommon things — and that depends primarily on whether people are being placed where their strengths can perform."

Given this dynamic, it is critical to constantly ask five Drucker questions:

1. Who are the right people in your organization?
2. Are you providing your people with the means to achieve their maximum effectiveness and contribute to the organization's success?
3. Do your structure and processes institutionalize respect for people and investment in human capital?
4. Are knowledge and access to knowledge built into your way of doing business?
5. What is your strategy for investing in people and knowledge?

Building Knowledge Into Business

In Drucker's writings, he did not separate knowledge from people. He wrote about the knowledge worker, about applying knowledge to what the knowledge worker does and about the real impact of information. Every enterprise must build knowledge into its value proposition, harnessing knowledge in every aspect of the way it does business.

In order to do this, you must ask if knowledge and access to knowledge are built into your way of doing business. For example:

1. Is knowledge built into your customer connection? Building knowledge into the product or service a company takes to market increasingly creates real value for customers. For example, an "intelligent" oil drill that bends its way to extract more oil from the pockets of underground oil formations commands more than twice the price of a standard drill.

2. Is knowledge built into your innovation process? Simply to remain competitive, the organization must continually scan related fields for changes that could affect its competitive landscape.

3. Is knowledge built into your collaborations? Collaborations are often the product of shared objectives and knowledge. In this age of the Internet, collaboration is more important than ever. The Internet is the perfect medium for sharing information and creating online communities, both of which enhance knowledge.

4. Is knowledge built into your people and knowl-

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People and Knowledge

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edge management? Perhaps the most direct use of knowledge within an organization is to build its own capabilities. From Drucker's perspective, this ability to apply knowledge to knowledge will be the critical factor in productivity moving forward. The challenge is in sorting through and prioritizing the knowledge.

In the new world of the knowledge worker, attracting and retaining high-talent people is at least as important as anything else a company does. "The first sign of decline of a company is loss of appeal to qualified, able and ambitious people," Drucker says. What attracts them is work that is truly interesting and the chance to make a contribution that is truly significant.

But as highly skilled and independent professionals, knowledge workers are highly mobile. Despite their migratory nature, the knowledge organization invests in them and seeks to retain them by fostering an excellent working environment — a culture that respects and values them as knowledge professionals and that sets them up to win.

Google's 10 Golden Rules for Knowledge Workers

In early 2005, Drucker commented on Google and how powerful online communities were and would be, and how managing these more autonomous workers to be productive and innovative is a challenge. Eric Schmidt, CEO at Google, commented that the team at Google has more in common with professional basketball players than with traditional workers. In his view, there are 10 golden rules to operating the business:

1. Hire by committee. Everyone's opinion counts.

2. Cater to their every need. As Drucker says, the goal is to "strip away everything that gets in their way."

3. Pack them in. Almost every project at Google is a team project.

4. Make coordination easy. In addition to physical proximity, all Googlers e-mail a snippet once a week to their work group describing what they have done in the last week.

5. Eat your own dog food. Google workers use the company tools intensely.

6. Encourage creativity. Google engineers can spend up to 20 percent of their time on a project of their choice.

7. Strive to reach consensus. "We adhere to the view that 'the many are smarter than the few' and solicit a broad base of views before reaching any decision."

8. Don't be evil. "Much has been written about Google's slogan, but we really try to live by it, particularly in the ranks of management."

9. Data drives decisions. At Google, almost every decision is based on quantitative analysis.

10. Communicate effectively. Every Friday, Google has an all-hands assembly, allowing management to stay in touch with what knowledge workers are thinking and vice versa. ■

How People Make the Difference at Edward Jones

The investment firm Edward Jones was one of Drucker's last clients, and he consulted with it as late as April 2005, at the age of 95. The relationship started in 1980. Over the years, Drucker met regularly with Edward Jones management groups to discuss questions raised by the team. He sometimes jokingly referred to himself as an "insultant" who had the pleasure of "scolding clients and getting paid for it" rather than a consultant, based on his habit of challenging prevailing assumptions.

Edward Jones has quietly built one of the largest, fastest-growing retail brokerage networks in the world, with more than 9,000 offices. Central to the company's success is finding the right people for the organization. Jones "looks for people with passion, confidence, independence and a belief in doing what's expected. We like to hire people who understand and can embrace our 'unfashionable' approach to investing." In many ways, Edward Jones epitomizes the knowledge organization that liberates its people to pursue its mission.

For information on the four types of knowledge strategy, go to: http://my.summary.com

Decision Making: The Chassis That Holds the Whole Together

According to Drucker, "A decision is a judgment. It is a choice between alternatives. It is rarely a choice between right and wrong. It is often a choice between two courses of action, neither of which is provably more nearly right than the other."

For that reason, it takes smart decisions and execution to traverse the new landscape, even with a strategy or map. That means the right colleagues, right collaborators and strong customer connections — everything that helps spur innovative thinking. Drucker called this the

(continued on page 8)

Decision Making: The Chassis That Holds the Whole Together

(continued from page 7)

chassis — the organization's ability to make well-informed decisions about what needs to be done and its resolve to get it done. He was passionate about management effectiveness — setting priorities, managing time and making effective decisions. His internationally best-selling book *The Effective Executive* is very much about getting the right things done. The days of the gray-suited micromanager hovering over his employees' desks are over.

Decision Making: The Right Risks

Certainly, risk taking has always been in the nature of business. Companies that took greater risks made it harder or riskier for their competitors to keep up with them. Today's greater uncertainty along with a smaller room for error mean that decision makers confront even more risk. Managers need to move forward while taking the *right* risk, not necessarily the *least* risk. This involves making decisions at the right level of the organization and having a disciplined, fact-based process for evaluating alternatives, making decisions and acting upon those decisions. ■

The 21st Century CEO

In the last years of his life, Drucker focused like a laser on what had increasingly fascinated him — the role of the CEO. As corporations grew more unwieldy, worldwide competition sharpened and customers and shareholders became more litigious, Drucker rightly saw CEOs as more important than ever. They had to provide leadership — strategic leadership, moral leadership, human leadership — and balance. Today's rate and magnitude of change leave little room for leadership error.

Drucker believed that the CEO role was the next area of management research. Good or bad, the CEO sets the tone for an organization, its mission and culture and its actions and results during his or her tenure. As a consultant and adviser, Drucker worked with hundreds of CEOs and observed a remarkable diversity of leadership personalities in action, from Jack Welch at GE to Frances Hesselbein, head of the Girl Scouts of America.

When exploring the role of CEO, Drucker defined three characteristics unique to that leadership position:

1. A broad field of vision and the ability to ask and answer what needs to be done.

2. His or her thumbprint on the organization's character and personality.

3. The influence he or she has on people — individually and collectively.

The CEO Brand

Every CEO, whether at a small family company or a multinational, leaves an imprint.

For example, at Campbell Soup Co. there was the Dr. John Dorrance era — when condensed soup was invented and introduced to the mass market — and condensed soup remains the identity of the company today. The James McGowan era saw Campbell expand into key ingredients. The William B. Murphy era was defined by the company expanding internationally, and the Doug Conant era is known for revitalizing the business.

As the CEO nurtures and forms an organization's personality, inevitably his or her own personality, or brand, rubs off on the place. Drucker saw this thumbprint as being of the utmost importance to the next generation's leading organizations. He wrote, "In the next society, the biggest challenge for the large company — especially for the multinational — may be its social legitimacy: its values, its mission and its vision."

Each of Us as CEO

What can the self-managing knowledge worker learn from these three characteristics — vision, organizational personality and influence — as CEO of his or her own career? Maintaining a broad field of vision requires having a sense of where you are going and what you are building. Organizational personality or brand is about knowing yourself and what gives you passion. Finally, the knowledge worker is influenced by and influences others. We are influenced by the CEO — the premier role model who lives the purpose, values and principles of the organization.

Successful careers are not planned, they are managed. Each of us is a CEO. The way we manage our careers — switch from company to company, or become consultants or contractors, or start our own businesses — will be the next revolution.

Peter Drucker has left our physical world but kept his promise to "be there" — his influence is embedded in our management past, our management present and our management future. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *The Definitive Drucker*, you'll also like:

1. ***The Starfish and the Spider* by Ori Brafman and Rod Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
2. ***What Got You Here Won't Get You There* by Marshall Goldsmith with Mark Reiter.** The corporate world is filled with executives, but only a handful of them will ever reach the pinnacle.
3. ***Good to Great* by Jim Collins.** Collins provides a guide to business improvement that ranks company culture as the leading factor in success.

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SOUNDVIEW Featured Book Review

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Navigating the Oceans

How to Render Business Rivals Irrelevant by Creating New Market Space

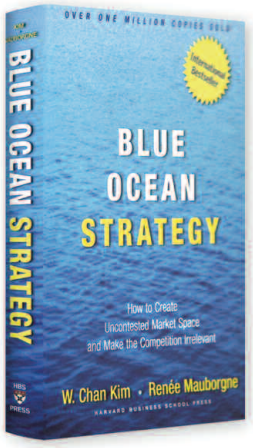
Review by Chris Lauer

Published more than two years ago, Blue Ocean Strategy *remains an international best seller in 2007. This groundbreaking book continues to influence business leaders around the planet. Since its publication in March 2005, it has been translated into and published in a record 32 languages. This is the all-time record for a book published by Harvard Business School Press. The book is a* Wall Street Journal *and* BusinessWeek *best seller. It has also received numerous honors, including* Fast Company*'s Best Books of 2005, Amazon.com's Top 10 Best Business Books of 2005 and* Strategy + Business*' Number One Strategy Book of 2005.* Blue Ocean Strategy *was also chosen as the Best Business Book of 2005 at the Frankfurt Book Fair.*

Endless battles on the high seas of the marketplace have made the ocean of competition a bloody mess. Competitors fight for market share with similar tactics in familiar regions of this blood-red ocean.

An alternative to the scene of this murky melee is a "blue ocean" where no competition exists to challenge a company's strategic moves. In their best-selling book *Blue Ocean Strategy*, business experts W. Chan Kim and Renée Mauborgne help companies navigate toward blue oceans with a clearly rendered map. Complete with valuable new research and dozens of success stories, this straightforward guide to modern business strategy succinctly describes how companies can chart a course for unexplored regions in the market.

The authors not only describe how a variety of modern companies have been able to create profitable business models based on the pursuit of uncharted waters, they also show executives how to pursue a logical strategy that can take them there.



BLUE OCEAN STRATEGY
by W. Chan Kim and Renée Mauborgne
Harvard Business School Press, Copyright © 2005, 240 pages, ISBN 1-59139-619-0

Kim and Mauborgne help company leaders sail to blue oceans with lessons learned from successful companies profiting from the creation of new market space. The strategy the authors unfold explains many recent industry-shifting business phenomena, including Cirque du Soleil's spellbinding success, the dominance of Australia's [yellow tail] wines and the innovations that fueled the rise of Southwest Airlines. By charting the strategic factors that help these businesses thrive, the authors demonstrate a framework of actions that create new sources of value for a company's customers. They also show how blue oceans can be extremely profitable for those who choose this counterintuitive strategic path.

Throughout *Blue Ocean Strategy*, the authors show executives how to create a "strategy canvas" that plots a company's offerings according to its value to customers. The strategy canvas also helps company leaders compare their offerings to those of competitors. Lastly, the strategy canvas demonstrates how a new type of competitor can create market space in places missed by those competing for the same sources of value year after year.

Australian Wine

The authors point to Australian wine producer [yellow tail] as a clear example of a company that has successfully created its own blue ocean. When the company entered the wine market, it faced competitors on its own terms. By picking middle ground between the price points of premium wines and jug wines, [yellow tail] chose a new path to profitability. The company also chose to buck tradition by

"One way a company can reconstruct the realities of its marketplace is to look across alternative industries for clues about where the blue oceans currently exist, the authors write."

jettisoning the usual wine label copy boasting of historic vineyards and wine medals. Instead, labels on [yellow tail] bottles feature a simple kangaroo.

The company paid no attention to the haughty habits of wine aficionados. Instead, it went after those who like to drink other types of alcohol. These potential wine consumers demand less challenging flavors, so [yellow tail] built a sweet, fruity wine to suit their needs. In addition, those with more expensive tastes enjoy its lower price.

Kim and Mauborgne describe how [yellow tail] refused to struggle with rivals on the same competitive battlefield where thousands of other wine companies with vague product differences fight for market share. The company rose to prominence with only two offerings: a Chardonnay and a Shiraz. To the chagrin of wineries in California, France and elsewhere, [yellow tail]'s Chardonnay quickly became the most popular white wine in the United States.

With a no-nonsense wine in a crowded marketplace, [yellow tail] created its own blue ocean. The company's fresh perspective on wine consumption and its attention to consumers previously ignored by wine companies opened up new market space beyond the doldrums of the status quo.

Charting a Path to Blue Oceans

In *Blue Ocean Strategy*, the authors describe a variety of ways for companies to profit by breaking boundaries and thoughtfully exploring new domains. Their fresh ideas about innovation offer businesses new paths to success. One way a company can reconstruct the realities of its marketplace is to look across alternative industries for clues about where the blue oceans currently exist, the authors write.

Often, companies in various industries serve the same purpose for consumers. By looking at the similar functions that companies in disparate industries serve, a company can gain vast insight into better ways of serving its customers. Kim and Mauborgne write that "the space between alternative industries provides opportunities for value innovation."

For example, NetJets was able to create new territory in the marketplace by simply evaluating alternatives to its own industry and then finding a solution that serves customer needs. Over the past 20 years, NetJets has created a blue ocean with its concept of fractional jet ownership. By offering its customers one-sixteenth ownership of an aircraft, the company opened up an entirely new industry that provides business travelers with an alternative to the costs and inconveniences of trips on commercial airlines.

NetJets helps frequent air travelers eliminate expenses, time and hassles from their trips by offering the advantages of smaller airplanes, smaller airports and convenient planning. Building on these benefits, NetJets opened up a multibillion-dollar blue ocean. The authors explain that companies find new market spaces to dominate when they become aware of the factors that cause buyers to choose alternative industries.

Curves' Middle Road

Companies can also find blue oceans by looking across strategic groups that pursue similar methods within the same industry, the authors write. Texas-based woman's fitness company Curves created a blue ocean by examining two different parts of the fitness business: large health clubs and home exercise programs. By focusing on the best elements of both of these industries, Curves was able to offer women an alternative to previous choices.

Curves gives women the specific elements of a fitness club they enjoy most, such as a group environment and a female-friendly fitness program. The company also eliminates the high costs, mirrors, men, food, spa, pool and locker rooms women can live without. Kim and Mauborgne point out that Curves offers women the time savings, lower costs and privacy of home fitness programs found in videos, books and magazines. This middle path between strategic groups has become a billion-dollar blue ocean for the franchise.

Apple Sails Into Clear Waters With iTunes

The authors also present other paths to reconstructing market boundaries. These include looking across the entire chain of buyers for an offering, looking across complementary offerings, looking across functional or emotional appeal to buyers and looking into external trends that will shape the buying habits of future consumers.

By reviewing a situation over time, companies can identify future trends to create a new blue ocean. For example, Kim and Mauborgne describe how Apple observed the popularity of illegal music downloading software, such as Napster and Kazaa, and created a legal response to the new demand for digital music. Apple identified the trend and imagined its logical conclusion. With the launch of iTunes in 2003, Apple was able to capitalize on the versatility of its iPod players and the downloading habits of a new generation of music lovers.

The Big Picture

Blue Ocean Strategy not only presents ways to reconstruct market realities with proper planning, but it also offers specific ways a company can create a new, individualized strategic plan. The authors show managers how to master a visual tool of the strategy canvas. Any organization can get a better look at the big picture surrounding its offerings to consumers by drawing a strategy canvas plotting the strategic profile of the company, an industry, current competitors and potential competitors. This graphical representation of a company's offerings shows leaders how much of the company's resources are being placed into various competitive factors. It also illustrates how these investments might be rearranged to produce a blue ocean.

The authors explain that blue oceans are found when a strategic profile contains three distinct, complementary qualities: "focus, divergence and a compelling tagline." One company that embodies all three of these qualities is Southwest Airlines. For example, Southwest focuses on friendly service, speed and frequent point-to-point departures. The company's point-to-point flights among mid-sized cities make it unique among airlines operating through hub-and-spoke systems. "Cheaper, faster, no-frills flights" is the type of tagline that resonates with customers.

Visualize Open Water

Kim and Mauborgne outline a four-step process for visualizing a blue ocean of opportunities:

• The first step is drawing a clear picture of the company's current strategy on a strategy canvas. This diagram plots the company's points of differentiation on a low-to-high chart that indicates where the company stands on a variety of factors. Comparing the line formed by these points with the lines of other businesses shows a company where it needs to change its strategy.

• The next step is exploring the six paths to creating a blue ocean. By observing the advantages of alternative products and services, a company can determine which elements of its business need to be kept, discarded or changed.

• The third step is creating a new line on the strategy canvas that describes the endpoint: where the company wants to be when the waves of change have settled. This vision will be clearer once insights, feedback and observations are assembled during the fieldwork that happens while the various paths to blue oceans are explored, the authors write. Customers, competitors' customers and noncustomers can enhance the dialogue that will create the best future strategy.

• The final step to visualizing a blue ocean involves communicating the new strategy within the company to align stakeholders with it. The authors point out that company executives should spread the word by distributing a single-page description of the company's old and new profiles. The single page is essential for easy comprehension and comparison. Kim and Mauborgne explain that success requires the company to support only company projects and operational moves that help it execute the new strategy.

" ... blue oceans are found when a strategic profile contains three distinct, complementary qualities: 'focus, divergence and a compelling tagline.'"

Counterintuitive Thinking

Many of the suggestions offered in *Blue Ocean Strategy* are counterintuitive and contrary to advice from other strategy experts. When Kim and Mauborgne describe ways to expand a company's blue ocean, they write that existing customers are not the only stakeholders who should be considered. A company must also look at noncustomers. Instead of focusing on customer differences, the authors write, a company searching for a blue ocean must also look at the "powerful commonalities in what buyers value."

That is how Callaway Golf created a blue ocean. The authors explain how the company was able to expand its market to include sports enthusiasts and country club members who had never taken up golf. By looking at how nongolfers perceived golf, the company was able to grow its business beyond seasoned players. Callaway researched its noncustomers and found that those who were not playing golf at their country clubs had something in common: They thought hitting a tiny white ball with the small head of a golf club was too difficult. The small-headed golf clubs that once dominated the sport required more intense hand-eye coordination than most nongolfers could master. This difficulty was the reason most novices never pursued the sport.

Callaway responded to this problem by creating the Big Bertha: a golf club with a giant head that made it easier for players to strike the ball. Callaway's Big Bertha became a best seller because it helped new players hit the ball with ease, drawing them into the sport with better scores. Big Bertha drivers also appealed to seasoned players. By looking at the commonalities of nonplayers, the authors write, Callaway found a way to create new demand by noncustomers while enticing seasoned players to switch to its new offering.

Get Your Ducks in a Row

According to the authors, there is a specific sequence in which a blue ocean strategy must be built. The process starts with asking the right questions in the right order.

This allows companies to land upon a commercially viable blue ocean idea. The authors conveniently provide readers with the most effective sequence for the questions that must be asked.

First, the authors encourage companies to ask whether there is a compelling reason for customers to buy an offering. If the answer is no, then company planners must rethink what new product or service customers would buy. If the answer is yes, they can move to the question of price. If the price works, the cost of producing the product or service must be considered. The final question examines the difficulties of adoption. Once adoption hurdles have been addressed, the blue ocean idea is ready to be rolled out.

Execute, Sustain and Renew Change

Moving away from the status quo toward a blue ocean can be difficult for companies, but Kim and Mauborgne offer many tips for overcoming limited resources, doubtful employees, low motivation and political opposition. Although the degree of each of these organizational hurdles depends on the company, the authors explain that success requires overcoming each obstacle. The leadership required to achieve this involves another counterintuitive approach. Instead of fighting each of these forces with massive responses, the authors write that successful leaders must conserve their resources by "focusing on identifying and leveraging the factors of disproportionate influence in an organization."

For example, when facing the cognitive hurdle of a company that is mired in the status quo, the authors offer two effective techniques that can change the mindset of an organization. The first way to shift mindsets entails directly presenting employees and superiors with the worst operational problems.

The second way to get employees and leaders to quickly switch their thinking away from the status quo is to encourage them to meet with disgruntled customers. Direct customer contact and town hall meetings can lead quickly to breakthroughs.

In the last part of their book, the authors offer organizations ways to sustain and renew blue ocean strategies. To stay afloat in a blue ocean, they write, a company must create barriers to imitation. These barriers include patents, legal permits, strong brand images, huge economies of scale in purchasing and loyal followings.

Blue Ocean Strategy offers readers a plethora of ideas from a history of strategic moves spanning a century and involving 30 industries. The authors combine new research and case studies to form a valuable strategy guide that has been embraced by business leaders around the globe. By describing the concept of blue oceans in basic terms and compelling stories, Kim and Mauborgne have created a blueprint from which forward-looking leaders can realize the rich possibilities of uncharted waters. ■

The Demand for Blue Oceans

Across the globe from Germany, an article in the Malaysian newsmagazine *The Star Online*, claims that the deputy prime minister of Malaysia is a big fan of *Blue Ocean Strategy*. The article features a photograph of Deputy Prime Minister Datuk Seri Najib Tun Razak reading a copy of the business strategy book by W. Chan Kim and Renée Mauborgne.

The article, which appeared in the March 18, 2007, edition of the newsmagazine, explains that the deputy prime minister liked *Blue Ocean Strategy* "so much that he ordered 30 copies for members of his staff."

In the article, Malaysia's deputy prime minister describes the business concepts found in the book as "getting business opportunities by thinking out of the box, and creating a demand for something that was not there before."

The authors: W. Chan Kim is The Boston Consulting Group Bruce D. Henderson Chair Professor of Strategy and International Management at France's INSEAD, the second largest business school in the world, and an advisory member for the European Union. Renée Mauborgne is an INSEAD Distinguished Fellow, a professor of strategy and management and a Fellow of the World Economic Forum. Together, they have written for the *Wall Street Journal,* the *New York Times* and the *Financial Times*. Their *Harvard Business Review* articles have sold more than 500,000 reprints. They were selected for Thinkers 50, the global ranking of business thinkers, and *The Sunday Times* (London) called them "two of Europe's brightest business thinkers." They split their time between New York and Fontainebleau, France.

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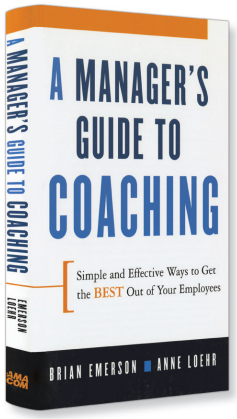
A Manager's Guide to Coaching

Brian Emerson and Anne Loehr

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Executive Book Summaries®

A Manager's Guide to Coaching

Simple and Effective Ways to Get the BEST Out of Your Employees



by **Brian Emerson and Anne Loehr**

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THE SUMMARY IN BRIEF

To stay on top, companies need to do more than just tread water—they need to grow. And that means that their employees need to develop and improve their skills at the same pace. Increasingly, managers are being encouraged to improve employee performance through effective coaching, but few of them have the time or the knowledge to do it successfully.

A Manager's Guide to Coaching comes to the rescue. Brian Emerson and Ann Loehr have spent years showing top companies how to develop their most promising employees. Now in this helpful manual they guide managers through every step of the coaching process, from problem solving to developing accountability.

To complete any task, we need three things to be as successful as possible: Aptitude, Attitude and Available Resources. Attitude is the most vital component of the equation and it must be a key focus of every manager.

Clear, practical and straightforward, ***A Manager's Guide to Coaching*** will help all leaders coach employees, colleagues, and themselves to excellence.

IN THIS SUMMARY, YOU WILL LEARN:

- The best method to combine Aptitude, Attitude and Available Resources to increase your level of success.
- How to apply the W.I.N. B.I.G. Coaching Formula to get more from others.
- The essential tenets of coaching and why they work in any situation.

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Getting the Best from Employees

The desire to "be more" drives us to be better at what we do and who we are. Thus, some managers have been told to "stop managing and start coaching." A coach is someone who helps another person reach higher effectiveness by creating a dialogue that leads to awareness and action.

The Success Equation

For any task, Aptitude + Attitude + Available Resources = Level of Success:

- Aptitude includes know-how, skills and capacity; it is more than innate talent.
- Attitude is drive, confidence, focus, determination, need, desire, fortitude and inspiration.
- Available Resources are tools, equipment and time.

In the equation, Attitude is the keystone. As managers, we see the need to focus on Aptitude and Available Resources; managers are often willing to train people in new skills or throw more money at the problem. Attitude is perhaps the most vital component in the entire equation, and focusing on it is a manager's business imperative.

Let's look at the relationships among these components of success:

1. Improved Attitude can compensate for deficiencies in Aptitude or Resources. Athletes who have suffered an injury but upped their determination and grit get highly successful results. When faced with a lack of Aptitude or Resources, people will often "dig deep" to find the extra determination they need to win in a big way.

2. A decrease in Aptitude or Resources often negatively affects Attitude, which can further hinder the Level of Success. Shifting Available Resources can directly affect Attitude. The same holds true with Aptitude. When an employee lacks the skills and ability to complete a task, their confidence and level of frustration will probably also be affected.

3. The converse of the above is not true — a negative Attitude does not decrease the level of Aptitude or Resources. Say Ariana, a highly successful employee, hears that downsizing will eliminate her position in the next 9-12 months. These rumors change her Attitude; Ariana's drive, confidence and focus may be negatively affected by the situation, decreasing her level of success. Her dip in Attitude does not lower or change her Aptitude or her Available Resources.

If you think you don't need to be coaching as a manager, think again. If you don't, chances are that talent will go elsewhere. The cost to replace an employee is higher than you might think — up to 1.5-2 times their annual salary. And there's a good chance that the new employee will not even work out!

Most of the time, when people quit their jobs, they are not leaving an organization; they are leaving their manager. People want to be developed. Gen-Xers (born after 1965) and Gen-Yers (born between 1981 and 1995) consistently cite "the opportunity to develop" as one of the key indicators of job satisfaction. Developing employees means increasing the employees' Aptitude and Attitude. The Attitude component is best developed through coaching.

The question, then, is not "Why should I waste my time and resources by focusing on coaching?" The real question is, "How can I not waste my time and resources?" The answer: "By focusing on coaching."

Using This Book to Coach Successfully

The difference between an average manager of people and a star manager lies in the ability to move people to higher levels of success when something is affecting their Attitude. At that point, coaching helps employees clarify what they really want to achieve and how to achieve it. We have seen the shifts that occur in people's lives as a result of coaching; it helps people "be more"—more successful, more productive and, finally, more alive.

This book can be used in a number of ways to help you get the biggest return on your coaching investment:

- To learn how to successfully coach employees and colleagues;
- To give to employees to kick-off and support (not replace) the coaching, when your time is limited;
- For groups or teams as they grapple with a particular problem;
- To coach yourself through different situations.

The What, Why and When of Coaching

Managing others is a big job that often comes with many thankless duties and responsibilities. Nowadays, in addition to managing, managers are expected to develop their employees. An effective manager needs to know how and when to use the tool of coaching and when to pick another, more appropriate tool.

To diagnose which situation calls for which tool, a manager needs to know

- What the tool of coaching actually is and does;
- Why it works and belongs in a manager's toolbox;
- When and when not to use the tool;
- How to effectively use the tool.

Let's look closer at the What, Why and When of coaching.

What Is the Tool of Coaching?

Employees need coaching when they are experiencing problems with the Attitude (motivation, confidence, energy, focus, determination) component of the Success Equation.

Good indicators of a coaching situation are things like

- When a person is experiencing trouble completing a job that they should already know how to do (i.e., there is not an Aptitude issue);
- When a person has gotten themselves completely wrapped around the axle about a certain situation; or
- When a person needs help dealing with the frustration they experience because they do not have the resources needed to complete the task at hand.

Managers should use coaching when an employee has the skills and ability to complete the task, but for some reason they are struggling with the confidence, motivation, drive or bandwidth to deal with the situation in as effective a manner as possible. How does a manager use coaching to develop employees in these situations? Let's break it down.

- **Dialogue.** In a dialogue, both parties seek to understand how the coachee is blocking their own success. They are not trying to prove, teach or motivate the other to do something.
- **Helpful.** There must be a genuine concern to see the employee succeed. Managers are so used to fixing problems that they often don't put themselves in the role of helping other people fix it for themselves; it takes trust.
- **Awareness.** People learn more when they figure things out for themselves, so a coach does not try to "fix it." Coaching is not the direct transfer of skills and knowledge; that is teaching. Rather, it involves helping another person gain the confidence, motivation and drive to complete the task at hand.
- **Action.** After a coaching dialogue, the coachee will do something differently, shift the direction of a goal or try a new approach to their situation.

Why Does Coaching Work?

Coaching works because it focuses on Awareness and Action. These two key tenets in Emotional Intelligence have quickly become recognized as one of the most important predictors of success. Emotional Intelligence is knowing and managing your own buttons and triggers as well as knowing and managing how you push the buttons of others. Research has shown that the best and most successful employees learn how to recognize, manage and harness the power of the emotions that drive them.

Think of a dashboard in a car. If the dials and digits didn't tell you the car was getting low on gas, why would you put more gas in it? If we are not aware of the impact of our actions, thoughts and feelings, then we have no reason to take action and start behaving any differently.

We are willing to venture that 9 times out of 10, when an employee is having an issue at work in which they are not being as productive as possible, it is not because they do not possess the specific skill set to get the job done. Coaching not only helps an employee discover for themselves the things that are in their way but also leads them to action, which is essential.

Coaching Versus Therapy

Coaching is not therapy. Therapy examines and tries to deal with or remove the impact of the root causes of people's "issues." Coaching looks at a person's motivation, focus, confidence, or chutzpah and gets them to figure out how they will deal with that to be successful.

There is a basic rule in skiing—where you focus is where you go. In therapy, you will focus on the trees—those things that keep the trail from being as wide and obstacle-free as possible. In coaching, you might glance at the trees, but the job of coaching is to keep you focused on the ski run.

Both Martin Luther King, Jr. and Nelson Mandela led people whose emotions of anger and fear could have blocked their effectiveness. Both tapped into those emotions and said, "That's an OK tree to have on your slope, but what do we have to focus on to get us down this hill in the best way possible?" Neither man ever asked the people who looked to him not to feel those emotions.

When to Coach and When Not to Coach

Recognizing when and when not to coach is just as important as learning how to coach. If an employee lacks the skill to complete a task, it is not the time for coaching; their problem relates to Aptitude. If an employee faces external obstacles, such as too few Available Resources, changing market conditions or ineffective vendors and partners, it

is not the time for coaching. Coaching is needed when employees' Attitude keeps them from being effective. They currently lack the motivation, focus, chutzpah, confidence or commitment to complete the task at hand.

Ask yourself if an employee's problem is about Aptitude, Attitude, or outside factors like Available Resources. If it's Aptitude, find a way for them to learn the needed skills. If it's outside factors, it's tricky. They may need some coaching and some teaching. If it's about Attitude, coaching is the right tool for the job.

If it seems that your questions about Available Resources reflect no problem there, ask the employee something like, "It seems that Project XXX is causing you a lot of angst. What would need to be different for you to say it was going smoothly?" or "Fill me in on how you are doing with XX; what's working and what's not?"

How to Coach and W.I.N. B.I.G.!

Next, we take all that we discussed so far and outline our W.I.N. B.I.G. coaching formula.This part is filled with tons of tips and practical suggestions to help you develop your flair and finesse when coaching.

The Coaching Process

The Coaching Process has three steps:

1. **Determine Coachability.**
2. **Build Awareness by asking questions.**
3. **Move the coachee to take action, and then hold them accountable to their commitments.**

Questions are the backbone and lifeblood of a coaching dialogue. Questions help the employee discover for themselves what it is that they need to be doing differently to stop hindering their own success.

Coaching Questions

It is possible for a coach to do nothing more than ask questions during a coaching conversation. To be effective, you can't tell a person how to feel; you can't give advice on motivation; you can't suggest that the person strengthen their backbone. This dialogue is created not by telling, but by asking.

There is a big difference between questions and coaching questions. Coaching questions open a dialogue—they are like keys that open doors to answers and possibilities for people. The keys allow people to look inside "rooms" and discover solutions and strengths that they may have never known existed. To ask good coaching questions, stay curious and focus on these five suggestions:

1. Keep them open.
2. Keep them advice-free.
3. Keep them short and simple.
4. Keep them thought-provoking.
5. Keep them forward-focused.

Let us look at each of these.

Keep Them Open. Closed-ended questions elicit an answer of "yes" or "no," or at best one or two other words, such as "good," "fine" or "OK." They don't lead to a dialogue, let alone Awareness or Action. Starting questions with words such as "will," "did" and "have" will likely lead you into a closed-ended question. Try to rephrase those questions to start with words such as "what," "who" and "how." "Did you check all of the requirements?" becomes "Which of the requirements most concerns you?"

The resulting open-ended questions require the responder to elaborate. They help create a fuller picture and raise awareness. Not only do they elicit better information; they might also help the employee think through an aspect of the situation that they would not have otherwise.

Keep Them Advice-Free. One of the biggest traps that managers who are learning to coach fall into is the old "advice disguised as a question" snare. They know they have to ask questions, but they don't let go of their need to fix it and give advice. They want to take the problem away from the employee and solve it. This doesn't work.

Advice disguised as a question often starts with, "Have you tried…?" or "Why don't you…" or "What if you …?" Very rarely are questions that start like the ones above met with an "Oh, my gosh, that's exactly what I should do. Why didn't I think of that!?" Better questions are, "What's the best solution to this in your mind?" and then "What would it take to make that happen?"

Keep Them Short and Simple. The most powerful coaching questions are often the shortest. The art of coaching is not asking magnificently complex questions but staying curious about what is going on for the employee and really listening to what they are saying. If you are busy composing your next brilliant question, then you're not listening!

Questions of 5-10 words often work best. They typically come from a place of curiosity, are too short to be advice and keep the coach focused on the employee. The short

question "What do you want?" sparks more thought than "In the end, if it could go perfectly in your mind, how would you like everything to work itself out?"

Keep Them Thought-Inspiring. Imagine teaching someone to kick a soccer ball. Asking them, "Are you keeping your eye on the ball as it comes toward you?" will elicit a "yes" or "no" that doesn't help them see the situation in a new light. However, asking a questions like, "As the ball comes toward you, which way is it spinning?" or "Do you see more black or more white on the ball as it approaches?" will help them to look at the situation differently and ensure that they are keeping their eye on the ball. Similarly, it's better to ask, "What are the times your team has the lowest energy?" Or, "If your team was a TV show, what would it be?" is better than "Is your team getting along?"

Keep Them Forward-Focused. One way people's Attitude is affected is by replaying past events. As a coach, you want to help the employee step back from the events, learn from them and then focus forward. It's like the skiing example: Where you focus is where you go.

People often need to express emotions before they are ready to look forward. That's understandable; people need to complain before they can create. Let them do that for a few minutes, but don't let them get stuck in the venting.

If an employee says, "The meeting I just ran was a fiasco… details, details, details," you as a manager could ask things that stay stuck in the past: "What happened then? Did you have the handouts of the project plans?"

Forward-focused questions would be, "How do you want your meetings to run? What do you need to do differently for that to happen?" To keep people forward-focused, avoid questions that begin with "why," e.g., "Why did you do that?" These questions put people on the defensive, which shuts them down. "Why" places you in the role of inquisitor and judge, not in the role of collaborator and coach.

Rather than ask, say, "Why did you do that?" try "What were you hoping to gain?" Forward-focused why questions are almost always advice disguised as a question: "Why not go to him and say …?" or "Why wouldn't you…? Our advice is, why not just avoid them altogether?

The W.I.N. B.I.G. Coaching Formula

There is a simple, six-step process you can follow to Build Awareness and Move to Action called the W.I.N. B.I.G. model.

The first three Build Awareness; the next three Move to Action.

1. W-onder about Root Cause — Discovery
2. I-nvestigate Wants — Visioning
3. N-ame Possible Solutions — Problem-solving
4. B-uild a Plan — Action
5. I-nsure Action — Accountability
6. G-ive Affirmation — Validating

We will look closer at each of these.

1. W-onder about Root Cause — Discovery. Busy managers may think, "I'm not paid to wonder. I'm paid to know." But Wonder is the first step of successful coaching. Start by getting curious. You know this employee can do good work, so what's going on? Is it a motivation problem? Don't judge it; just be curious about it. Ask curious questions in a way that makes it fun, not scary.

Good questions for this stage are

- How does that really affect you?
- If you were watching this on TV, what would you say was really going on?
- What's underneath all this?

Be curious and playful until you have gathered enough information about the feelings and the root cause, and then move on to stage two — Investigate Wants.

2. I-nvestigate Wants — Visioning. The more clear you are about what you want from a situation, the more likely you are to get it. The goal of this stage is to help your employee investigate what they really want. Good questions are

- What do you want?
- How would you like people to describe you as you resolve this?
- What would success look like?
- If you could use a magic wand to recreate the scene, how would you want it to look?

Spend a few minutes getting the person to focus on how they want "to be" as they go about doing what it is they want "to do." Give the person space and time to figure it out for themselves. If they feel stuck, just ask another open-ended question about their desired outcome. The bottom line is, the employee knows. Deep down, we all know what we want. If you get an "I don't know" to one of your questions, respond by saying, "That's fine; make it up."

3. N-ame Possible Solution — Problem Solving. There is a definite reason why this stage of W.I.N. is called Name Possible Solutions and not Name the Solution. The goal of this stage is to help the person become aware of the multitude of possible solutions. You should help brainstorm during this stage, but don't be attached to your ideas. Be OK with the person rejecting your suggestions. You want them to build on your idea so that it becomes their own, more-improved version. Ask questions like

- The 85-year-old you is looking back at this situation. What do you say to do?
- What are some ways to make that happen?
- What do you have to do to get where you want to go?
- How would Bill Gates tell you to solve the problem? Oprah?

Asking follow-up questions is key. Try, "That's a great idea; what's another?" Do not settle with just one solution. When you have a few solutions, ask questions like, "What would be the effects of your favorite solution?" and "Which option gets you closest to what you want?"

In this phase, name possibilities, and brainstorm!! You can be as wacky and wild as you want. Assume Vernice wants some work taken off her plate to bring balance and productiveness to her life. There are no stupid or silly answers. Vernice could just go home at 5:00 p.m. no matter what. She could auction off some of her work on eBay. What about getting an intern/college student? Or hire her grandmother! At the end, you could ask her which option gets her closest to what she wants.

4. B-uild a plan — Action. Now you can get down to the details. To get specific action steps, ask questions like

- What steps do you have to take to get there?
- When will you do that?
- What will you have to say no to in order to make this happen?

As you'll notice, your questions start to get more specific and, to a certain degree, closed-ended at this point.

As your employee is creating their plan, help them to make it SMART: Specific, Measurable, Achievable, Realistic, and Time-specific. So if an employee responds, "To make it happen, I'd have to make five sales calls a week for a month…" challenge him, "Great. Could you make nine calls a week?"

5**. I-nsure Action — Accountability.** Ask specific questions like, "How will I know?" and "How will I know if you need a nudge?" It can be great to follow up these questions with a conversation about what you should do if the person doesn't follow through on their commitments, e.g., by asking, "If you don't follow through, how should I help get you back into gear?"

When you remind them, do it compassionately and frankly. You don't need to cajole, threaten or beg.

Set up an accountability structure with your coachee.

Check in after a few days or weeks. Here are some good questions to get the ball rolling when you follow up:

- How would you summarize the work/effort so far?
- What's working well? What are you thinking of altering?
- If you were to do this again, what would you do differently?
- What can I do to be supportive as you move forward?

Eventually the employee becomes accountable to themselves, not you. This is called empowerment.

6. G-ive Affirmation — Validation. The final stage can be used anywhere during the coaching conversation but especially at the end. Take the time to Give Affirmation and acknowledge their hard work and their desire to grow and change. An example would be to say, "I have no doubt you can do this. You're determined and persistent. I know there's a lot to this, but your energy is contagious, and others are going to get on board." Just say what you know is true about that person. Then take a few seconds at the end of your statement and "let it land."

Once you know the W.I.N. B.I.G. model, you can coach in any situation. Keep it light and easy. It takes time and practice, but it's worth it when your coachee hits a home run and moves forward in life!

The Tenets of Coaching

Coaching is a dance of give and take in which everyone has their own style. Some basic tenets are common to coaches, regardless of their style. They fall into three groups: Coaching Mindset, Coaching Actions and Coaching Tricks of the Trade.

Coaching Mindset

1. Believe in Potential. Believe fully that the coachee can handle the situation more productively and efficiently with less stress. Many managers talk about how good a certain employee or team is in a specific situation, e.g., "Oh, but when the pressure is on, she can really kick it into high gear." Or, "He is at his best when he's focused on landing a major deal." Believe that your employee can be at their best in every situation.

2. Be Unattached. Set aside your own solutions, trusting the coachee to find the best solution to their own problem. The coachee may reject your ideas. That's entirely OK. If an employee responds to your idea, "I don't think I could do that…," don't respond like a typical manager: "Sure you could." Instead, try, "Well, what could you do?"

3. Don't Know and Don't Fix It. Let go of the need to know the answers or provide a solution. You don't even need to know anything about their issue to coach them. Help the coachee believe they know everything they need to know to find the best solution. If an employee says, "I think we need to start from scratch," a typical manager might say, "That's not possible. We'll have to make this work." A better coaching question is, "Great. What would that look like, and how would it affect the project timeline?"

4. Keep it Light and Fun! Adults learn best when they're having fun and being interactive. Creativity is a great tool for solving problems. Jokes, songs, games and movement can add to coaching. You may suggest that you take a walk around the block as you discuss the problem. Or if a coachee says he doesn't know what to do next, you could say, "Me either. Let's play a game. Starting with 'A,' let's name possible things you could do for each letter of the alphabet, no matter how silly it sounds."

5. Stay Curious. Curiosity is underrated in the workplace. Remain curious and unattached, listen without judgment, ask questions and don't tell the coachee how to fix the problem. If a coachee is feeling overwhelmed by a project, a typical manager might say, "Let me break it down for you," but a coach would ask, "What has hung you up the most?"

6. Trust Your Gut. Listen to your gut reactions, act on them and let the coachee examine his own gut instincts. If a coachee reports, "The numbers look good for this project, but my gut tells me not to do it," follow up with, "What is your gut telling you to do?"

7. Build Awareness Before Action. It is difficult to accomplish the task without a good process. If an employee says his workload is overwhelming, a typical manager would ask, "What are you going to do about it?" To build awareness, a coach would ask, "What do you think is causing the work overload?"

Coaching Actions

8. Mirror. Spending countless hours working on a project, an employee often gets too close to a situation to see clearly what's going on. To uncover any blind spots, hold up a "mirror" to the coachee, explaining what you see in the situation. Then let the coachee interpret the data.

An example would be, "I've noticed that whenever you head up a project that deals with Hector's department, you have a hard time getting it off the ground. Is there a connection there?"

9. Listen. Focus 100 percent on the coachee's words, emotions and body language. Notice what they're not saying — the ideas between their sentences. See if their body language contradicts their words.

Ask the next question based on what the coachee said, e.g., when an employee says, "I need more training on this topic," you could respond, "Your eyes lit up when you said that you'd like more training. Your voice sounded excited about the idea."

10. Create Space. Prepare for the coaching session; clear the area of all physical distractions, but clear yourself mentally as well. If you need to, take a few seconds to clear your head or stretch your legs. When you come back, enter with a focus and close the door.

11. Validate. Acknowledge what the coachee is going through and what they have accomplished. Point out something that you appreciate that the coachee may not see in themselves.

A coach might say, "I know how hard you worked to get to where you are today. You committed to a plan, you stuck to it and you asked for help. Your tenacity is inspiring others."

12. Ask. Ask open-ended questions that empower the coachee to find their own answers. Trust your questions. Even if you think you asked a bad question because the coachee didn't like it, it may be the perfect question for the coachee to mull over later.

13. Feedback. Give specific feedback regarding the coachee's behavior and its effects. Be specific, and speak in a matter-of-fact manner. Typically, the coach then asks the coachee to create an alternative behavior to create an alternative effect.

14. Celebrate. Acknowledge what the coachee has accomplished, and help them find a way to mark the achievement. It doesn't have to be a splashy event. Some people want an announcement at a staff meeting or a mass email. If the coachee does not know how they want to celebrate, give them some suggestions until they get excited about an idea.

Coaching Tricks of the Trade

15. Bottom Line. You or the coachee summarizes the situation in a few words or two to three sentences. Get to the heart of the matter. Say an employee says she's having problems with a co-worker named Rachel. Ask her, "So, bottom line, in two to three sentences, what is the issue with you and Rachel?"

16. Word Choice. Use positive words that motivate, and point out "red flag" words that a coachee uses that may prevent them from moving forward. Suggest "sometimes" when you hear "always," "some people," not "everyone," "rarely" over "never" and "won't" in place of "can't." Avoid entirely the words "why," "should" or "can't."

17. Story Shift. Someone may have told their story so many times that they think it's the absolute truth. Be matter of fact and concise when naming a story; don't judge it or give it any more importance than other perspectives.

A coachee may say, "We're screwed … there's nothing we can do to get out of the situation." Shift the story by saying, "Wow. What would President Lincoln tell you to do in this situation? Indiana Jones?"

18. Coach the Person. Keep the focus on the coachee, not someone else involved in the situation, because the coachee can't change other people but can change their reaction to them.

Imagine an employee says, "Tim didn't let me give my ideas for the new systems design at today's meeting." Your response would be, "How did you react to that?" If you hear, "I kept quiet; he didn't want to hear from me anyway, so why bother?" Then redirect: "Let's look at you, not Tim. What was the effect of you being quiet in the meeting?"

19. Deal with Resistance. Keep asking questions in a detached manner even when a coachee refuses to look at an issue another way or feels that they do not need coaching. Manage your own buttons so that if the coachee pushes them, you'll still be able to focus on them 100 percent. If a coachee says, "This is a waste of time," ask,"What would have to happen for it to be a better use of your time?"

20. Address Fears. Help the coachee objectively see fears that stop them from moving forward. Often, the coachee then sees how illogical the fear is and moves past it. Imagine an employee says he can't take a promotion because he's not ready. Ask him, "What would be the worst thing that could happen if you took the promotion now?" Repeat as they respond.

21. Create Vision. Help the coachee determine their vision of where they want to be in two to five years. If they can't achieve their vision with you, they will move or R.I.P. (retire in place), losing all motivation. Say a coachee tells you, "I see the organizational vision, but I don't see how my work makes much difference." You could ask, "What would it look like if your work was making a difference?"

Conclusion

We recommend that you practice one tenet at a time until you feel you have mastered it. Then choose another, and practice it until it comes easily. Eventually, these tools will all feel like second nature.

Your employees may not be able to articulate the details of their dream or vision yet; they may not have even thought about it at all. So give it time and don't rush it. Keep asking open-ended questions, and allow them the time they need to conceptualize it. Remember, they'll be much more dedicated and excited at work if you help them achieve their goals. And you'll be more successful if they're more successful.

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- ***Coaching for Breakthrough Success*** by Jack Canfield and Peter Chee
- ***The Coaching Effect*** by Bill Eckstrom, Sarah Wirth
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Brian Emerson, a certified coach, created Riverstone Endeavors, an organizational-development firm that partners with leaders as they determine how to get the best out of their employees and organizations. Brian has partnered with clients such as PBS and the Natural Resources Defense Council. Anne Loehr, a certified coach, has managed successful hotels and "green" businesses in Europe, Africa and the United States for over 15 years.

A Manager's Guide to Coaching: Simple and Effective Ways to Get the BEST Out of Your Employees by Brian Emerson and Anne Loehr.
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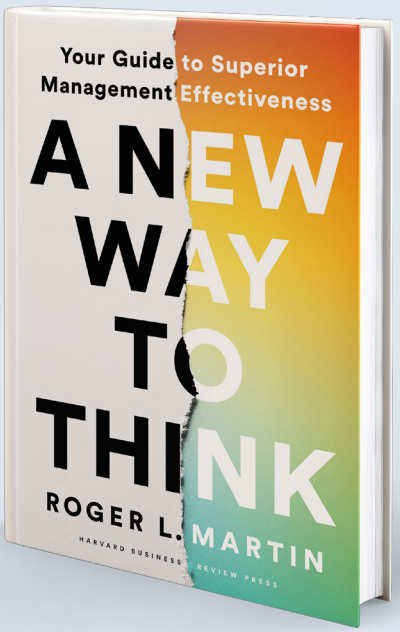
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A New Way to Think

Roger L. Martin

BOOK SNAPS™

Zooming In On Your Next Read



A New Way to Think

Your Guide to Superior Management Effectiveness

By Roger L. Martin

Roger L. Martin is Professor of Strategic Management, Emeritus, at the University of Toronto's Rotman School of Management, where he also served as Dean (1998–2013). In 2017 Thinkers50 named him the world's number one management thinker. He has published twelve books, including When More Is Not Better and Playing to Win (with A.G. Lafley). Martin is a trusted strategy adviser to the CEOs of many global companies. A Canadian from Wallenstein, Ontario, he holds a BA from Harvard College and an MBA from Harvard Business School.

Rethinking Ineffective Business Models

In ***A New Way to Think: Your Guide to Superior Management Effectiveness***, author Roger L Martin ends his book by discussing two different people he once spoke to: one was a business practitioner and one was an academic. These two professionals defended the often repeated trope that it is better to have a superiorly executed mediocre idea than a poorly executed superior idea. Martin tried to convince these people that their thinking was incorrect. His core reason is that with a well-executed mediocre idea, that best one can achieve is mediocrity. He was unsuccessfully able to convert their thinking, and they maintained their perspectives. His intent in this book is to prove that ineffective models are a serious problem and that when a model does not offer the results expected that the model should be examined and not just its execution.

Martin considers a model to be a promise that if the model is used effectively, certain results will inevitably follow. Too often, however, he sees models failing people and businesses. These failed professionals, he claims, then proceed to blame the execution of that model rather than consider the effectiveness or reliability of the model itself.

In this book, Martin points out 14 different models prominent in the workforce that he believes are inherently flawed. He then lays out a model for each that is more promising in his mind. His main concern is that people do not stay married to models that are ineffective. Therefore, he encourages his readers to try out his models and only keep what works for them and their businesses. He believes that if people continue to work and refine these models, the "practice of management will advance."

Martin understands that he is asking something big of professionals when he urges them to switch away from old, trusted models. He acknowledges that there is both inherent risk and difficulty in switching the way things are done. Part of this is because the whole process of models is automatic. Another reason is that it is not possible to prove an idea analytically before it is carried out. As such, if a professional is looking for proof before acting on a new idea, new ideas will never be implemented because the proof just will not be there. To overcome this, he believes that people need to work through a model logically and try to determine if it stands up to logic. If it does, then practitioners ought to attempt to find ways to gather data only

on those ideas that pass the logic test. Martin states that since many managers are trained as scientists, they are looking for the right idea. He does not believe there are right ideas. He merely looks for better and worse ideas.

The first model Martin takes on concerns competition. He says that "it's not corporations that compete" as is often believed to be the case. Rather, he states that it is the products and services the company provides that compete. Because of this, Martin believes that the true competition does not occur at the highest levels of the company. Rather they occur at what is often the lowest levels of an organization - where the customer actually purchases the product or service. According to this new model, the whole company should work to support those on the front lines. This new model says that customers are not so concerned about which company produces a product; rather, they are concerned with finding the product that best meets their needs. This mindset reframes competition because the competitors are no longer two large corporations but rather two specific products. This model also draws respect to the opinions of those employees on the front line and focuses less on hierarchies that are more concerned with "optimizing the use of their existing resources and capabilities."

Martin says that the existing model turns complex organizations into hierarchies whereby information goes to the people at the top who then make the decisions because they are believed to have the most information. The people at the top, however, are quite removed from the actual places and moments where people make purchases. Instead of focusing at the top of the hierarchy, Martin believes that each level should become a customer of the level below it, and the whole organization should be centered around helping those on the front lines most effectively meet customer needs.

Another model that Martin questions is one of familiarity. In his book, Martin uses Instagram's change in logo as an example as questions why successful companies embark on radical rebranding initiatives. He believes the answer to this question is that most modern companies believe that a competitive advantage is not sustainable in a world where things change as quickly as they do today. Therefore, companies believe they have to be constantly changing to stay competitive. Martin believes this is a false model and that it has led to some serious losses for companies. His belief is that in regards to customers, "the familiar solution usually trumps the perfect one." His new model asserts that instead of adapting, companies should be focused on making sure consumers do not have to make choices, that consumers' consumption habits should be automatic.

Martin uses psychological principles such as processing fluency to come to the conclusion "that the mind loves automatically more than just about anything else." Martin sees this as being especially important in the tech world, and he uses examples from the aforementioned Instagram as well as Facebook and MySpace. MySpace was the number one social media site in 2003 and became the most frequently visited website. Ultimately, however, it failed and could not compete with Facebook. He believes part of this is because users could create their own webpages on MySpace. The results of this was that there was no uniformity of design. Furthermore, MySpace cluttered the site with ads and allowed ads for indecent services that sometimes jarred users. Also, the company added many new disparate features going so far as to add a karaoke feature. The result of all of this was that customers were never sure of what to expect when they visited the site or of what might come next. This was in stark contrast with Facebook that attempted to create a uniform experience across the site, and who, when developing its app, was very careful to make sure the app experience was nearly identical to the website experience. Using the Facebook website was a predictable experience, and because of that, Facebook thrived.

Later on in the book, Martin tackles the model of how knowledge workers are organized in a company. He believes companies too often organize knowledge workers in the same way they organize manual workers, and this is not effective. The failure of the current model, Martin says, can be seen as companies end up hiring many managers who they then have to lay off when times get lean. He claims that times will inevitably become lean because businesses hire for their most intense times. This process, he claims, not only hurts individuals as they lose their jobs but it hurts companies as well.

Martin claims that most companies make two mistakes when it comes to managing knowledge workers. First, they attempt to structure their knowledge workforce in the same way they manage their manual labor work force. This involves individual workers repeatedly doing the same job every day. The second problem he sees companies make is in viewing knowledge as something that follows an employee rather than something that can be transferred the way manual skills are transferred. This is the existing model. Martin's new model is centered around the idea that knowledge workers should be organized around projects and not around jobs. He sees knowledge workers as being employees who manufacture decisions. He calls their workplaces decision factories. These decision factories are very expensive.

When knowledge workers' duties are centered around jobs, individual employees have specific jobs or tasks they are charged to handle. Typically, this means that during some times, employees are quite busy and productive while at other times, they spend large amounts of time just checking emails or drafting memos when work slows down. Nobody wants to be seen as having nothing to do. While this is what typically happens, the old model assumes that knowledge workers will complete the same amount of output each day which he simply believes is not the case. He claims that knowledge work typically centers around projects, and as such, knowledge positions should be project based, and when one project slows down, full-time employees then can be moved to other projects.

Martin claims that in manual work, heuristics are often used whereby different employees can complete the same job. He acknowledges that sometimes creating these heuristics is more difficult in knowledge work as many different decisions often need to be made, but he also believes another problem is that employees are not likely to want to create algorithms by which other people could complete their work because they fear it

> . . . employees need to embrace knowledge advancement and the creation of knowledge algorithms that can help others."

could leave them out of a job. He believes that part of this solution is to look at how professional services firms organize their workers. They typically put people on projects, and then when one project is done, they move that person to another job.

In this model, employees are not tied to specific jobs but rather they move where they are needed. This helps companies because most have more knowledge workers than they need, and this would allow them to work with more efficiency. Once this change has been made, he believes that employees need to embrace knowledge advancement and the creation of knowledge algorithms that can help others.

Following along with how businesses allocate talent, Martin also addresses how companies treat and approach talent. Around the end of the 19th century, businesses started to largely be run by managers who worked for those who provided capital. This resulted in companies that were fraught with tensions between investors, labor, and unions. As time progressed, further concern arose when investors' and managers' interests started to be in opposition to each other.

Martin believes that this model has resulted in talent acquiring more benefits than the capital providers acquire. Because top end talent is so crucial to any organization, top end talent's compensation has skyrocketed over the years. This skyrocketing cost has led to the belief that money is what top talent is most concerned with. Martin does not believe this to be true. Yes, in regards to hedge funds who destroy companies, investment bankers who promote bad investments to line their own pockets, and CEOs who skew the apparent value of a company in order to sell it, there is a primary monetary motivation, but he believes that for most strong talent, money is not the primary concern. Martin believes that for these top performers, feeling special is what is most important.

Martin uses numerous examples to illustrate this. One of these was a global account manager for a company that Martin was corunning. This man, Giles, approached Martin asking for paternity leave. Martin told him that at his level, he could have whatever he wanted. Martin was confused when Giles walked away looking Sullen. Martin realized that he had treated Giles as a member of a group. It was one of the highest ranking groups, but still, he did not treat him as if he were special. Martin then goes on to mention multiple examples of the highest level of talent in the sports world who are most interested in being treated special and as if their opinions are valued.

To help talent feel special and to both attract and retain this talent, Martin gives three rules. The first is that companies should never dismiss the ideas of those who stand out. These people have developed their skills to the highest level, and while it is not mandatory that all of their ideas are adopted, they should be considered. This will help the talent to feel respected. Second, Martin says it is important to never block the development of these individuals.

Finally, he encourages people to never pass up an opportunity to praise these people, not in trite, generic ways, but in a manner that is specific to them and their contributions. Because they will not ask for praise, the challenge is to spot moments when they need it and to provide it in a personal and sincere manner.

Martin starts out his book by stating that the chapters can be read in any particular order. Each chapter addresses an old model and then offers an alternative model. Because of this, readers can jump to sections that pertain to their specific situations and needs. While three old models and three revised models have been presented here, Martin addresses fourteen in total. He breaks these fourteen models into four categories: context, making choices, structuring work, and key activities. They pertain to diverse topics including innovation, the role of strategies, the design of innovation, capital investment, and mergers and acquisitions.

Martin does not posit that his models are the best that can be developed and that companies should stop everything they are doing and adopt them as is. Rather, he advocates that companies consider the models that apply to their unique situations and then test them out and see if they work. He believes that these models can be improved upon to create even better and more accurate models. None of this growth can occur, however, if professionals and organizations stick rigidly to the models they use even when they have proved ineffective. The greatest challenge Martin poses to readers is to reconsider their own models and whether they produce the results desired.

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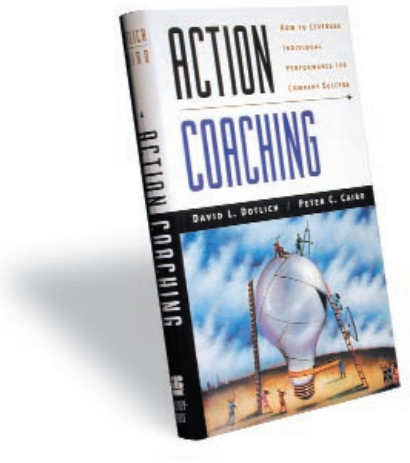
Action Coaching

David L. Dotlich and Peter C. Cairo

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By David L. Dotlich and Peter C. Cairo

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ACTION COACHING

THE SUMMARY IN BRIEF

Today's changing business environment has left a void in many organizations between the needs and goals of a company's greatest asset — its people — and those of the organization itself. Changes of leadership and vision, corporate mergers and acquisitions and constant upgrades in the role of technology all contribute to an incongruity or gap between a company and its people that can wear the company down at its very core if nothing or no one intervenes.

Consultants David L. Dotlich and Peter C. Cairo have created the perfect intervention program in Action Coaching. This method provides organizations and their coaching-minded leaders with the knowledge and tools required to evaluate problem situations, mediate effective solutions and align the needs and behaviors of employees to the organizational imperatives of their companies.

Their plan includes a number of powerful and consciousness raising tools to employ in your company's next coaching effort. Among them:

- ✓ A clear definition of Action Coaching, and a host of reasons for its effectiveness.
- ✓ An eight-step Action Coaching plan — from determining what needs to happen and establishing mutual expectations to evaluating the progress of both individuals and organizations after the initiative.
- ✓ A detailed discussion of motivation, including the identification of motivational patterns in employees and common motivation-related pitfalls you should avoid in coaching.
- ✓ A discussion on conflict, and how it can actually help individuals and organizations meet their goals and needs.
- ✓ A list of barriers to personalizing leadership, and how to overcome them.

Does your company have difficulty moving its employees through organizational or market-mandated changes, or aligning individual performance for company success? Turn the page and learn how to bridge the gap.

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ACTION COACHING

by David L. Dotlich and Peter C. Cairo

— THE *COMPLETE* SUMMARY

What is Action Coaching?

Action Coaching is the process that fosters self-awareness and that results in the motivation to change, as well as the guidance needed if change is to take place in ways that meet organizational needs. It's a synergistic concept — to develop change in an individual in such a way that your company's business goals are positively impacted in conjunction with the individual's personal development. There are four essential elements of Action Coaching that help you foster personal development to the benefit of your organization:

1. **Self-awareness is linked with business results.** The individual's need to change is reconciled with the organization's perception of the need to change very early in the process — usually during the first or second meeting.
2. **An action plan is put in place.** Action Coaching plans set both a list of specific work-related tasks and milestones that track development. The client then documents progress in each matter, along with the coach's recommendations on that progress.
3. **Level of achievement is set based on organizational need.** The coach sets one of four goals for the client — self-awareness, performance improvement, performance breakthrough, or transformation — to match the need of the organization.
4. **The process is structured and provides proven tools.** Action Coaching combines a formal strategy, tactics and explicit goals to facilitate a logical, orderly coaching process for the benefit of clients and their people.

Differentiation

Action Coaching differs from traditional coaching in several key areas:

- **Relationship.** Traditional methods of coaching follow a therapist-patient relationship, whereas Action Coaching relationships are firm business relationships.
- **Approach.** Action Coaches follow specific strategies and action plans tailored to specific individual needs and geared toward performance breakthroughs. Traditional methods tend to be unfocused in both approach and interaction, using one-size-fits-all methods rather than individualized processes.
- **Focus.** Traditional coaching focuses on personal insights rather than actions; individuals rather than the greater whole. Action Coaching translates insights into actions with organizational results, coaching in the context of environmental goals and obstacles to change. ■

Why is Action Coaching Effective?

While Action Coaching's linkage of individual and organizational concerns and its differentiation from traditional coaching sound good in theory, its true effectiveness can only be fully surmised when the process is put into practice. There are four crucial elements in the process:

Eye-opening perception. People tend to believe something is true about themselves or their workplaces, then selectively find examples of their beliefs to use as evidence to support their viewpoints. Action Coaching uses a variety of techniques to jar people out of this self-fulfilling behavior, open their eyes to the reality of their situations and push them toward change and growth.

Emphasis on doing. Although there is much to be learned from seeing things differently, people need also to act on their changed perceptions. Action Coaching relationships involve a contract between the coach and the person being coached to take solid, well-planned actions and ensure accountability, even after the coaching program is completed.

Recognition of complexity in the business world. Action Coaching functions as a form of support when individuals struggle with such business issues as redefining the customer service chain, changing a company's

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Why is Action Coaching Effective?

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culture, and interacting with others in the decision-making process. These "adaptive" issues require people to become more comfortable with new ways of leading and working. Action Coaching provides the feedback, information and reflection required to let people lead in new environments.

Tailor-made for transitions. Action Coaching gives people the forum to express concerns over transitions, allowing them to also receive feedback on their transitional progress and advice to navigate around roadblocks that hamper their ability to change effectively. ■

Are You an Advocate?

Ten years ago, Honeywell, Inc., set up an award program for employees who were superior developers of people, in order to encourage executive development at the managerial level. Because the company recognized that development occurred through relationships between employees and managers, it requested nominations for the awards. What it discovered was that everyone knew who was the best at developing their staff — that Mary in finance was a brilliant trainer, Don in marketing was a terrific coach, etc.

These "developers" were quiet advocates of coaching within their organization; they led by example, regardless of Honeywell's coaching or training policies. Likewise, you, as an insider in your organization, can fill roles that coaching consultants cannot. Your example, combined with expertise from outside the company, can put Action Coaching into practice, to meet organizational and individual objectives and develop a culture of constant improvement.

Eight Steps of Action Coaching

The Action Coaching process consists of eight steps:

1 **Determine what needs to happen and in what context.** It is important to determine both desired behaviors and the larger context in which those behaviors will need to happen. This may require initially focusing beyond a problem or developmental need, in order to understand why the problem or need is of concern to the team or the company. Context can also be shaped by organizational issues, such as succession planning, transition or an organizational skill deficiency. These issues must be recognized as ones that can drive a coaching effort, and must be addressed in advance of their occurrence, whenever possible.

Action Coaching through Transition

The new president of Levi-Strauss needed coaching assistance to help shape an agenda, a vision and the team he inherited, and to help him receive feedback. Action Coaching supported his efforts in all of these topics and helped facilitate the transition into his new position.

2 **Establish trust and mutual expectations.** You must clarify the purpose of your coaching effort, as well as what your client hopes to receive as a result. Be sure the individual you are coaching understands the purpose of the effort, as well as the steps in the process.

Although there are many methods you can use to implement this step, one particularly effective one is a process called "deep listening," which consists of five key components:

- **Open-minded hearing.** Do not talk when the client talks, either out loud or to yourself (turn off your "internal monologue").
- **Appreciative inquiry**. Reflect on the other person's tone, feeling and mood by restating his or her essential message and pressing gently for further clarification ("You must have been frustrated at that point." "That must have been difficult for you.").
- **Paraphrasing**. Restate the point to move the discussion forward and to give the speaker the chance to improve, correct or add to his or her statement.
- **Confirmation of reality.** Demonstrate that the person's logic is understandable and grounded in experience, and that you empathize with him or her.
- **Self-disclosure.** Open up to the person, sharing relevant experiences you have had, or that someone else has had. As much as possible, discuss how you or someone else made the same types of changes the client is contemplating.

3 **Contract with the client for results.** In order for Action Coaching to be most effective and efficient, a formal written and oral understanding must be reached between the coach and the client. Both must be held accountable for achieving specific, measurable goals, taking into consideration organizational needs, as well as any personal issues that may affect the ultimate outcome of the process.

You may have to confront or challenge your client to make a meaningful commitment. Here are some techniques you can use to get a solid pledge from the client:

- **Concretize reality.** Provide concrete evidence (usually feedback) that proves the problem is real or that the organization is definitely moving in the direc-

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Eight Steps Of Action Coaching

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tion you're discussing.

- **Transfer ownership.** When clients blame "the system," challenge their excuses and help them take ownership of their role, then find options to explore improvement.
- **Stop the action.** When the client exhibits the problem behavior with you, stop the interaction immediately and discuss what's happening.
- **Call to action.** Stop all discussions and rationalizations and ask the client, "What are you going to do about it?" This will move the conversation from awareness to action.

4 **Collect and communicate feedback.** Your effectiveness as a coach depends largely on your ability to gather and share feedback; this feedback moves coaching from a passive to an active experience and motivates people to take action. You must assess how the client affects those around him or her, via various methods of collecting data (interviews, surveys, etc.) and communicate that back to him or her. Keep in mind a general rule of thumb: The more complex and ambitious the goal level, the more feedback that is required. Consider also that feedback does not simply consist of relaying that which you have heard or collected; you also must help the client digest and deal with perceptions that might be surprising, even shocking.

5 **Translate talk into action.** You and your client must then determine a course of action based on the collected feedback. Your action plan should consist of the following:

- **Review and reset goals when needed, making sure your goal level is connected to the business results the organization wants to achieve.**
- **Explore different action paths to meet those goals, identifying specific tasks to perform and obstacles to avoid.**
- **Identify the required resources.**
- **Set a deadline for achieving your goals.**
- **Discuss the organizational impact these goals will have on the client's business.**

6 **Support big steps.** To change long-held attitudes and behaviors, managers need different types of support. You may be required to monitor meetings, be a sounding board for ideas, conduct advisory sessions or bring in other resources to help in the coaching effort. Your support as a coach can mean the difference between achieving an increment of awareness and making a performance breakthrough.

Role-playing

Role-playing can be very effective in supporting the actions your client must take; it gives the client the opportunity to test the waters and see how a new behavior or method works. Some role-playing methods you may want to consider are the following:

- **Role reversal.** You play the client, acting out his/her behavior or mindset, and let him/her see the situation from a different perspective.
- **Worst-case scenarios.** Construct a situation in which your client's worst fears are enacted. Rehearsing disasters and extreme situations takes some of the fear out of taking a certain action.
- **Videotape.** Record your client in action and play it back to him/her at a later time. Stop the tape at key points and ask probing questions that elicit thoughtful responses: "What was going through your mind then?" "What were you trying to accomplish?"

7 **Foster reflection about actions.** Encourage your clients to stand back and look at their situation from many different perspectives — those of their customers, peers, direct reports and bosses. Ask probing questions to foster that reflection, whether in a general forum or a series of specific situations.

Experiment with several techniques to spur reflection in your clients, including the following:

- **The values check.** Encourage the client to think about what's really important and meaningful in work and life in an effort to determine and discuss what the client values most.
- **The obstacles review.** Focus on what stands between the person and his or her goals to increase motivation.
- **The Vietnam model.** General Gordon Sullivan once recalled how commanders in the Vietnam war learned to ask three key questions in the heat of battle to allay their anxiety and decide upon a course of action: What is happening? What is not happening? What can I do to influence the action? Reflecting on these three points will keep clients from being frozen with anxiety or indecision.
- **The journal.** Suggest that clients keep a journal that details their reactions, feelings and ideas. Provide feedback on their journal entries or determine whether the things expressed in those entries result in concrete actions.

8 **Evaluate individual and organizational progress.** At the conclusion of the process, assess the person's

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Eight Steps Of Action Coaching

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performance level using both "hard" measures (revenue numbers, customer feedback, productivity increases) and "soft" ones (change of environment, satisfaction levels, perceptions, etc.). This assessment should provide both a snapshot of the new, improved employee and an impetus for continued improvement. ■

Coaching for Individual and Company Performance

As an Action Coach, you must constantly appraise the behaviors of your clients, as well as the business requirements affected by those behaviors. You must be able to first identify the client's behavior, then determine the impact that behavior has on others, and assess the behavior's link to an organizational or business requirement.

This requires coaches to think and assess on two distinct, yet connected, levels: the personality level and the organizational level.

The Personality Level

At the personality level, you must analyze the behavior of the client, and determine whether it is a productive or unproductive one. Some common unproductive personality types include:

- **The Egotist.** While every leader requires a healthy ego, Egotists take the measure to an extreme — self-centered and self-aggrandizing, they overvalue their capabilities and have trouble accepting other people's points of view. To coach an Egotist, determine the reason for the Egotist's behavior: perhaps an organizational change has occurred, or maybe he or she is simply overcompensating for a lack of self-esteem.
- **The Cynic**. Cynics tend to micromanage projects, discourage learning and development, and have a problem trusting others. To coach a Cynic, you'll need to differentiate between healthy skepticism and demoralizing cynicism, and determine the impact such behavior is having on the business goals of the client's organization. Cynicism can also be a marker for frustrated idealism — another path for you to explore as a coach.
- **The Worrier**. Worriers doubt their own abilities, have a deep-seeded fear of criticism and making mistakes, and often resist change in any form — a serious threat to many organizations. Begin your coaching of the Worrier by finding out just what your client is afraid of. Talking about and dealing with that fear through action can provide you with the basis for a serious improvement.

The Organizational Level

At the organizational level, you must take a look at the business requirements set forth by your client's organization and determine the level of coaching required to best meet the challenges those requirements present. Some common business requirements that can require coaching include:

- **Reconciling paradoxical situations and issues.** Unproductive behaviors often stem from the common yet maddening paradoxes at the heart of many organizations — the incongruity of meeting short- and long-term goals; the push for delivering results while maintaining values; the contradictions involved in developing your own resources versus outsourcing them. Coaches must have a handle on the frustration and dysfunction inherent to such an operational circumstance, and be able to address unproductive behaviors accordingly.
- **Making innovation and creativity happen.** In a knowledge-based world, management must find new ways of bringing out their people's best, most creative ideas, while at the same time balancing organizational needs for order and control. Coaches must address an atmosphere that includes fear of innovation as well as an embrace of the risks that innovation fosters.
- **Adapting to new roles or levels.** People often have difficulty adjusting to new positions. CEOs and other top executives frequently complain about resistance or inflexibility in their managers, some of whom have moved into management from more functional positions. Add to that general stubbornness the extremely fast-paced changes imposed upon companies by the Internet and other technologies, and you have an equation for organizational disaster. Coaches must be aware of the challenges transitions bring about in organizations, and the alienation and distrust many people feel when adapting to new roles, positions or cultures. The gap between the organization's expectations and the individual's behaviors must be closed; it is your job as coach to move the employee toward a desired action and possibly toward transformation. ■

Providing Motivation for Change

In a perfect world, people would automatically stop exhibiting and practicing unproductive behaviors and respond to organizational needs and imperatives. They would foster creativity because the organization would offer them some incentive to do so, and everyone would be more self-aware and change oriented.

But people are more complicated than that; they require motivation to change. Thus, coaches must figure out what motivates individuals and appeal to those aspects when attempting to link behavior to motivational goals. Organizations sometimes ignore the issue of

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Providing Motivation for Change

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motivation altogether in an effort to get their people up to speed, a circumstance that makes coaching those people an even greater challenge.

For example, a number of years ago, the CEO of Honeywell mandated that his top executives — who, like the CEO, were experienced engineers — learn about the science of human behavior in an attempt to make them more effective at their jobs by establishing better relationships with people. The executives were suspicious of the motives of the CEO and, while they followed their leader's directive, they did not or could not take the lessons learned to heart or use them in developing better relationships in the workplace.

What the CEO lacked in his directive was motivation. Taking the command-and-control method of issuing an order and expecting results did nothing to motivate his executives out of their long-held stance toward behavioral science, and into a new, more understanding frame of reference. He paid no attention to the executives' individual needs and motivations and, thus, was unable to effectively change their behavior.

Three Patterns of Motivation

Professor David McClelland of Harvard University identified three patterns of motivation in his groundbreaking research on the topic:

- **Achievement.** Achievement-motivated individuals want to be recognized for a job well done, and are driven by the desire to excel in their careers. They are motivated by challenge and are not moved by empty praise or undeserved promotions.
- **Power-Control.** Individuals motivated by power or control have a desire to shape others and have an impact on other people and the environment. They tend to build bases of influence within the organization, but also create distrust and envy among those not in that influential base, including those who work for them. They also are likely to be uncomfortable or even obstructive in team situations.
- **Affiliation.** People who exhibit this pattern are motivated by a need to be liked, achieving satisfaction in their relationships with others. They are typically well liked in the workplace, but not respected (or, consequently, feared).

Understanding each pattern's traits and manifestations will help you identify them as a coach, and can lend weight to efforts to foster a greater motivational climate with your client. ■

Common Motivational Mistakes

Be careful that your coaching effort addresses the correct motivational issues at your client's organization. Sometimes, the motivational "gap" you recognize between a client's behavior and organizational needs is not the gap that requires closure. Some common mistakes in this area are as follows:

- **The career gap.** In this instance, you attempt to close the gap between who someone is and where he or she wants to be in his or her career. Ignoring organizational requirements, you help the client develop marketable skill sets rather than ones that allow him or her to lead more effectively. To avoid this mistake, you must balance the needs of the organization with those of the individual, distinguishing the skills the client wants to develop from those that the company needs him to develop.
- **The bias gap.** In this instance, you attempt to close the gap between who someone is and who your personal bias dictates a client should become. Both you and the client misperceive what will truly contribute to the client's value to his team or department, thanks in part to some observation or misbegotten analysis you have performed. To avoid this mistake, talk to others about how your own attitudes and needs may be affecting the goals you set for the client.
- **The organizational trend gap.** In this instance, you attempt to close the gap between who someone is and an illusory business requirement, mistaking a trendy trait or ideal for an actual organizational need, and leading the client down an erroneous corrective path. To avoid this mistake, get plenty of feedback and direction from management in order to avoid making incorrect assumptions about needed traits or qualities.
- **The peer pressure gap.** In this instance, you attempt to close the gap between who someone is and the new behavior everyone wishes he or she would develop. Sometimes, people exhibit behaviors that others consider irritating or obnoxious, although those behaviors have no real impact on business results. As a coach, you must learn to focus past those inappropriate or unpopular behaviors, unless they do have an impact on a team or business. Project how the person might better meet a business requirement by changing a behavior, and how that change might help the person better fulfill his or her role in the organization.

Coaching One-to-One

Coaching can be messy, particularly early in the coaching effort, when issues are not always clear, goals seem contradictory, and the manner in which to begin the effort is not readily apparent.

In order to better understand the client's situation and help you proceed toward a useful solution, consider the following questions up front:

1. **Where did the assessment of the person originate? His boss? The individual himself? Other sources? What behaviors led to these perceptions? What is the intention behind the person's behaviors?**
2. **What are the effects of the person's behavior? Are there negative repercussions for the person and others?**
3. **What are the reasons for the person's behavior?**
4. **Is the person aware of the behavior?**
5. **Is the behavior intentional?**
6. **Is it a "why" issue — a matter of principle?**
7. **Is it a "what" issue — a habit or workstyle preference?**
8. **What is the organization's objective in helping the person change?**

Range of Reactions to Coaching

Enthusiastic people are, of course, easier to coach than those who react negatively to the prospect of receiving coaching. In fact, there is a whole range of reactions to coaching; different people receive instruction and assistance in a different way. Your approach is thus affected by that reaction and the initial relationship that results from it. You can usually gauge your client's reaction as one of the following:

- **Enthusiasm.** The client understands the need to adapt to a changing workplace environment; he or she may, however, have overly ambitious (sometimes-unrealistic) expectations for the results of your coaching effort.
- **Curiosity.** The client asks a lot of questions, but needs more information before forming a firm positive or negative impression of coaching.
- **Skepticism.** The client requires convincing before he or she buys into the coaching process.
- **Denial.** The client denies anything is wrong; to this end, he or she may blame others or the organization, may get defensive, and may be offended that the organization thinks he or she needs help.
- **Concern or Fear.** The client sees coaching as some sort of black mark or punishment. He or she is afraid of what it means and immediately distrusts the coach and the process.

Overcoming Fear of Coaching

Many current AT&T employees joined the company years ago, searching for the safety and security of working for a large organization. These days, however, the company needs its people to try new things and take significant risks — such as Action Coaching — and many veterans are simply not up to it.

To get these people past their fears to become more coachable, they must transform their negative energies — fear, anxiety, and doubt — into positive energies — enthusiasm, excitement and commitment. They must be encouraged to articulate their worst fears. This helps them recognize and address these fears, breaking the spell of anxiety and opening them up to new possibilities. ■

Combating Resistance

The speed of the coaching process slows in direct correlation with the level of resistance from the client. If the client is receptive to learning, the process can be carried through to a positive conclusion in relatively short order. If the client is resistant to coaching, it is nearly impossible to move forward with either speed or ease.

To fight off resistance to coaching, follow a few simple rules to set the client at greater ease:

1. Create a supportive environment. Don't rush to judgment based solely on the data you have accumulated before you know what the issues are. Establish an open communication with the person, providing feedback that indicates you understand what the client is saying.

2. Establish a neutral tone. Do not act like a boss or manager when dealing with people, even if they are your direct reports. Try to foster a warm, caring interaction, in which you demonstrate that you have their best interests at heart.

3. Adapt to the person's needs. Do not impose behaviors and goals on your clients. Instead, adapt the coaching process to the client's agenda and connect it to the organizational agenda for that client. Solicit feedback to determine whether the client feels you are trying to force something on him or her; if this is the case, isolate the issue and discuss it. The trick is to alleviate resistance while still moving clients forward, in the direction that will benefit both them and the business.

4. Favor practice over theory. While theory has its place in the way we approach coaching, having an overreliance on theory can alienate your client — conversations about conceptual frameworks will only help your client so much. Be pragmatic, concrete, and realistic about what is possible.

5. Establish clear boundaries. Discuss ground rules from the very beginning of your coaching effort, to allay any fears the client may have about self-disclosure or privacy concerns. Avoid questions about confidential matters when at all possible.

Coaching Conflict Management

The corporate push toward team building instills in many companies a sense of collaboration, yet few seem to recognize the positive aspects of conflict. In fact, conflict is essential for productive collaborations and only becomes a problem when it is spun into personal vindictiveness or hostility. Its enigmatic nature makes conflict difficult to define, but from the coaching perspective, three components emerge:

Perceived incompatibility. Individuals feel their goals, rewards or values are incompatible with someone else's. Coaching can help test this perception and suggest new ways of viewing conflict so that goals aren't incompatible.

Emotion. Emotion makes conflict difficult to manage. Managers often feel that they cannot "constructively" handle conflict with employees, because they are so concerned about what others will do or say in the grip of their emotions. Coaching sessions give people the opportunity to vent those emotions in a safe venue, giving them greater opportunity to analyze their conflicts effectively.

"Conflict is essential for productive collaborations."

The win-lose situation. Some people attempt to defeat others in a conflicting situation, rather than arrive at a solution that benefits both parties. Coaching gives them opportunities to find "win-win" options, to view the conflict from the "adversary's" perspective.

Dealing With Conflict

Conflict issues can bedevil coaches; you must help your clients learn to handle all types of people in a wide variety of situations in which conflict is an issue. The following techniques may help you deal with tricky conflict issues:

- **Get to the source of the problem.** Encourage clients who can't handle conflict to dig deeper, to discover and address the core issues of their problem (fear of confrontation, incompatibility with group dynamics, etc.).
- **Convince people of what's at stake.** Illustrate how conflict avoidance negatively affects work performance — when they realize how it prevents them from achieving their best, they are usually motivated to resolve the situation.
- **Encourage them to take the other person's point of view.** Coaches can help clients take a step back and find empathy for the other person's issues — to get down to the reasons why their "opponents" are acting or reacting in the manner they are.
- **Find out whether they're listening to each other.** People tend to tune one another out, in an effort to win an argument. Coaches must facilitate dialogue to help their clients actually listen to the other side. What is the other person really angry about? Is either party really hearing and understanding what the other side is saying?
- **Bring others into the process, when necessary.** Bringing an eyewitness into a conflict often helps calm things down. The new person offers a fresh perspective and can clear up misinterpretations faster and more credibly than the involved combatants. ■

Personalizing Leadership

Leadership can be coached, but it cannot be taught as a skill set or behavioral group. Effective coaching personalizes leadership, matching an individual's leadership beliefs and behaviors to the way in which an organization wants him or her to lead.

Self-awareness is key in personalizing leadership. When people are out of touch with their own feelings, values, needs and weaknesses, they sometimes "act out" those issues in the workplace, in ways that alienate, disappoint or anger others. Self-awareness, combined with an ability to read the organizational environment, implement a strategy and sell a vision of the future make leaders who and what they are; failure to address these points often requires third-party coaching to wade through and correct them. Some ways in which these issues are manifest include:

- **The leader isn't perceived as authentic.** In trying to fulfill a leadership role, some people feel they need to embody particular traits that are not true to their own personalities. Their employees pick up on that, and view them as phonies. Coaches must identify the behaviors that seem false and help clients understand why they act in an unauthentic manner.
- **The leader isn't perceived as empathetic.** Leaders sometimes have difficulty connecting with or understanding their people. Coaches must first get those leaders in touch with who they are, then get them in touch with who their people are.
- **The leader is thrust into a role for which he is unprepared.** What helps people excel functionally as workers does not always translate into leadership qualities. For example, the best sales reps do not always make the best sales managers — there are different skill sets needed for each, although when most organizations look to fill managerial slots, the first place they look is the rep pool. Coaching helps these people transition into new roles by helping them figure out how to use their beliefs and abilities to be the best leaders they can be. ■

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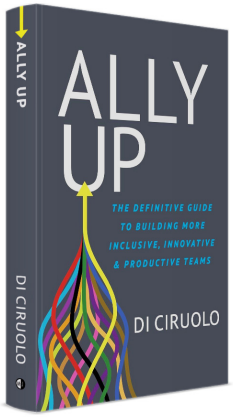
Ally Up

Di Ciruolo

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Ally Up

The Definitive Guide to Building More Inclusive, Innovative, and Productive Teams



by **Di Ciruolo**

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THE SUMMARY IN BRIEF

Companies everywhere say that they're making efforts to become more inclusive, but what exactly does that mean? Are they going far enough in their efforts to make workplaces more inclusive, innovative and productive by introducing ideas and perspectives in a more representative way?

In ***Ally Up***, you'll learn how to turn diversity, equity, and inclusion into more than just buzzwords. With 85% of corporate executives and board members in the U.S. being comprised of white men, diversity in corporate leadership and throughout companies everywhere has never been more important or relevant.

So, are new corporate policies enough? Not quite. They're missing allyship, which will allow leaders to understand systems of inequality in the workplace and promote more inclusive and higher-performing teams.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create a work culture that promotes diversity, equity, and inclusion and acts on those values every day.
- How to be more inclusive with your hiring practices, including attracting the right candidates, onboarding, and building teams.
- How to put diversity, equity, and inclusion into practice into your everyday work life.
- How to lead by example when it comes to DEI efforts and start before you're an 'expert'.

Published by Soundview Executive Book Summaries® (ISSN 0747-2196), 225 Wilmington West Chester Pike, Suite 202, Chadds Ford, PA 19317 USA. • Copyright ©2021 by Soundview, Inc. All rights reserved. Reproduction in whole or in part is prohibited. • Subscriptions start at $99/year. To subscribe, visit summary.com. • October 2021 • Order #43SS10D Meghan P. Kozak, Editor-in-Chief • Kylie Waytuck, Graphic Designer

Introduction

We can all be allies in the workplace. But to do so, we must first commit to standing up for others and speaking out, even when it's uncomfortable for us to do so. It's about being open, honest, and transparent in each of our relationships with others. It's about working together to achieve a common goal of acceptance and equality so everyone can thrive together in a truly collaborative and inclusive workplace.

We must all have a willingness to lead uncomfortable conversations to make the world a better place. It's time to take action and do the hard work it will take to become an ally for a more diverse, equal, and inclusive workforce.

Creating a Culture That Promotes Diversity, Equity, and Inclusion

Many large companies want to be seen making diversity and inclusion a priority, so they hire someone to solve all their internal and systematic problems, while granting them no power to make change.

This is one example of how a company with good 'diversity' policies can have no real allyship. You can have the absolute best diversity officer in the business instituting the best practices, but without a culture that promotes allyship, you've solved nothing. Without allyship, nothing changes. Without a willingness to change and learn and do better, everything stays the same.

As the research and stories in the following sections reveal, we're still a long way from creating cultures that promote true diversity, equity, and inclusion, no matter what their branding and marketing tells you.

Diversity Values are Devalued

It's time for those of us who are not from marginalized group to step up, step forward, and participate in making the changes that need to be made in tech and other STEM fields. The dependence on creating ERGs without committing to systemic improvements has stifled the tech industry because it displays a false sense of progress.

Women make up 57% of the U.S. workforce as a whole, but only 26% of the technical workforce. Black, Latina, and Native American women make up 16% of the U.S. workforce and hold only 4% of tech jobs. Meanwhile, only 10% of tech executives are women.

To transform these metrics, we'll need to go well beyond token changes or lip service to take real action in bringing equity and allyship to the workforce, especially in the tech sector. But what does that real action look like, and how can we go beyond those token changes that are so easy to fall into over real change?

The Working-Over of Working Moms

Did you know that statistically, mothers and fathers are actually more productive than childless employees? But women see a 4% decrease in pay per child born or adopted compared to a 6% jump in income for dads. This is often known as the 'fatherhood bonus.' Dads need to talk to other dads about prioritizing time with kids, regardless of the parent's gender. Get there, dads; your partners need you at the frontlines. Please. Women are drowning in work as they struggle to get equal pay while providing for their families and making time to be mothers.

Meanwhile, there's a huge divide between how employees think the COVID-19 pandemic will affect inclusion and how company leaders think the pandemic will affect inclusion. We need to bring these two visions into line.

How Employers Can Build More Inclusive Work Cultures

Psychological safety is the number one predictor of success in the workplace. For DEI (Diversity, Equity, and Inclusion), this means examining your current teams. Are they inclusive? If a candidate walks into your office, are they seeing themselves represented? Are they talking to employees who can answer their questions about how someone like them can expect to be treated? Do you have non-gendered bathrooms?

ERGs are a good starting point, but they only work if the buck doesn't stop with the group. Senior leaders need information to address noninclusive practices happening under their watch.

Building Communities for Social Justice

Social media is the second hardest place to teach social justice issues. The first is in the workplace. People often come into social media conversations ready to fight, as they find themselves 'waking up' to systemic racism for the first time and wanting someone to blame.

Let your diverse team members lead on these issues, and support them with all the passion in your heart. Self-educa-

tion is absolutely critical to allyship and effective advocacy. Political values have less to do with who supported social justice initiates in the group than you might think.

If you even lightly suggest people examine their own biases when they use racist or misogynistic tropes to talk about people they don't like who share those identities, you will likely receive aggression in return. Even people who call themselves allies have work to do on their self-education and social justice understanding.

Hiring with Inclusivity

Who can speak about racism? And when, and with what authority, is white supremacist thinking keeping people oppressed? Oppressed groups have been fighting for their human rights for generations, and if they had the power to free themselves, they already would have. They don't, and we know that. People who benefit from these systems need to do the work to dismantle these systems, because our voices are louder by the nature of these systems of inequity. You don't have to know everything, you just need to start making it a priority to understand and learn. To continue your education in allyship, you need to surround yourself with diverse teams, allow them equity in their career endeavors, and support their growth with inclusive policies and practices on the job.

Attracting the Right Candidates

Improve your job descriptions. Use welcoming language, be genuine, and be better than other companies hiring for the same position. Enable diverse and multidisciplinary teams working on algorithms and AI systems.

Promote a culture of ethics and responsibility related to AI. Practice responsible dataset development for your AI model, and establish policies and practices that enable responsible algorithm development. Establish corporate governance for responsible AI and end-to-end internal policies to mitigate bias.

We have a skewed perspective on the 'best possible candidate' based on the systems that we don't see. Systems that shut people out wholesale to the detriment of companies seeking exactly the skills and experience these people have. Let people decide for themselves what's important, and show more ways for folks to bring their most authentic selves to work and build community with other coworkers who share their interests.

Onboarding

Onboarding and orientation are not the same thing. The HR Department does the onboarding for 36% of companies, and a pleasant onboarding experience makes 69% of employees more likely to stay with a company.

You should have policies and practices surrounding your onboarding that can take a new employee from off the street to insider. They shouldn't vary wildly based on managers. Keep onboarding throughout the first year. Onboard people in the context of their whole lives. If they need help finding schools for their kids, places to worship, or places that cater to dietary restrictions, you can promote inclusion by supporting them as whole people outside of their work duties.

Building Teams and Tracking Performance

Hire for great teams, not just stars. Studies across multiple industries prove stars are only stars on their home team. Build teams for charismatic interactions within and without the team for success; psychological safety is a crucial factor in successful teams. Personality tests like DiSC are great tools, as long as there's room made for cultural diversity and individual differences that a lot of times these tests don't account for.

Some conflict can actually be productive when managed by an effective leader and not just swept under the rug. If you need to use NDAs, make sure that their impact is to protect trade secrets and not to silence employees who are being victimized or oppressed. Use data to track performance, not biases and assumptions. Recognize how much biases may already be impacting the career trajectory of marginalized team members, and manage against that.

Diversity, Equity, and Inclusion at Work

Women and people of color are graduating from top universities at greater numbers than men for the first time in history. Women make up more than half of the U.S. population and yet fluctuate on average between holding 5-6% of the CEO positions. And to be clear, every one of these CEOs is a white woman. What's happening here?

Whether the bias is intentional or not, the following sections are all about why you shouldn't let the harmful narrative of a 'pipeline' impacting hiring sway you from your allyship goals.

Handling Day-to-Day Operations

Quotas aren't always effective. They can lead to people

engaging in their worst impulses. The goal should be truly representative workplaces, not just hitting quotas. Don't only try to hire more diverse workforces to prove you care about diversity. Work on the inclusiveness of your culture so the people you hire don't immediately have terrible experiences with you and leave.

No amount of performative allyship will positively impact a toxic workplace. Do the real work, or expect that nothing will change and watch it go badly for your bottom line. Bias has an enormous impact. As little as a 1% bias against women can lead to the skewed representation we see at the top of companies today.

Trusting Team Members

Survey your team by holding focus groups. Use your inclusion team to track your progress, and share with everyone your findings and plans to do better. Every time you need to correct someone on your team, you need to praise them five times as often. Praise should be as specific and public as possible. There are a lot of great benefits to practicing call-ins in the workplace.

In the U.S., only 36% of employees have trust in their employers. This is a profoundly concerning trend, considering that trust is the backbone of any successful organization—successful in the traditional sense of company growth and bottom line, but also successful in terms of creating a culture of ethics and equity.

The first key to building trust is establishing common ground and common goals. Lack of trust comes from one party believing that the interests of another party are not aligned with their own, even if they are presented as being one and the same. If you can build alignment in your goals, not only for the business success of your company but for its moral success as well, you'll begin to build real and powerful trust. Trust is crucial to team success.

Leading by Example

Spotting a diamond in the rough when it comes to talent is a skill you will need to develop, especially if you are a start-up and want to win the war for talent. Building a strong and inclusive culture will attract members of URGs and help you build a more diverse and talented pipeline.

Millennials are 50% of the workforce, and care more about the company's values than compensation. There is no leadership 'how-to' for never messing up on issues of diversity and inclusion. You can fail with authenticity and model how to do better and still be considered an awesome leader.Use your hiring committee as hiring consultants and make informed decisions on hiring. Stop hiring strictly from your network.

Conclusion

You can fight for equality. You don't have to wait for permission. You don't have to wait until everything else is perfect. You can get started while you're in progress. You don't have to change everything all at once, you can change one thing every day, every week, every month and still be in the fight for equality. Don't go slowly out of fear of messing up.

Build the world you want to live in. Build bridges and longer tables, not walls and VIP lists.



Di Ciruolo has a degree in Anthropology from Georgia State University. She is a white-Hispanic, queer woman living in Boston, Massachusetts where she graduated from the foster care system as a young adult. After aging out of the foster care system, Di struggled to find stability, spending time homeless in Atlanta, Georgia. She now owns a consulting business teaching inclusion and advocacy in the workplace, with classes available at diciruolo.com. She is the Head of Inclusion at Jambb in Boston. She volunteers on several inclusion projects especially expanding access to tech education for children in foster care and is a space-maker and semi-reluctant public speaker.

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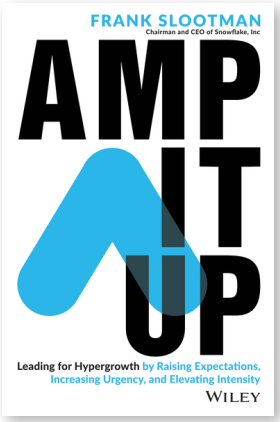
Amp It Up

Frank Slootman

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Amp It Up

Leading for Hypergrowth by Raising Expectations, Increasing Urgency, and Elevating Intensity



by **Frank Slootman**

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THE SUMMARY IN BRIEF

"Amp it Up" was a popular LinkedIn article whose main premise was that organizations have considerable room to improve performance without making expensive changes to the talent, structure, or fundamental business model. The advice was to keep playing your game but amp things up dramatically. Raise your standards, pick up the pace, sharpen your focus, and align your people. You don't need to bring in reams of consultants to examine everything that is going on. What you need on day one is to ratchet up expectations, energy, urgency, and intensity.

That article triggered thousands of responses online and a flood of incoming requests to learn more about the Amp It Up philosophy. Author Frank Slootman wrote ***Amp It Up: Leading for Hypergrowth by Raising Expectations, Increasing Urgency, and Elevating Intensity*** in order to summarize his convictions, observations, and beliefs about how to lead a mission-driven high-performance company and share them in an efficient, scalable way. Whether you are CEO or a leader at any level, whether at a startup, a big company, or a nonprofit, you can engulf your organization with energy, step up the tempo, and ***Amp It Up***.

IN THIS SUMMARY, YOU WILL LEARN:

- How to raise your standards.
- Why your culture and people should be aligned.
- How to sharpen your focus.
- Why you need to pick up the pace.

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Raise Your Standards

Make Your Organization Mission Driven

Being on a mission is a visceral experience, not merely an intellectual one. When your organization has a well-defined purpose, you feel it down to your bones. You feel energized when you start the workday, and you feel good about whatever progress you've made toward the mission when you shut down for the night.

Being on a mission unlocks the X factor: an intangible that can drastically elevate performance as people set out to achieve greatness–together. It makes your working life not just more productive but also more fun.

Conversely, you're not on a mission if you feel like you spend most of your days checking off trivial to-do items, passing the buck to other people, reading and forwarding email, and covering your ass so you won't get in any trouble.

Showing up every day at a "good enough is good enough" company is the opposite of fun and energizing. Just trying to get through each day is a depressing way to spend a career. And if most people at your company feel that way, the enterprise is in grave danger.

A clear purpose was common a few decades ago, but these days more and more companies are fuzzy, if not hopelessly confused, about why they exist. The mission clarity that used to be the norm has now become more of an exception–which gives leaders who get it right a competitive advantage.

There are three criteria for a great mission: big, clear, and not about money.

- **Big**: It massively exceeds in scale and scope what any company has tried to do in the same space.
- **Clear**: More defined and intense missions are easier for everyone to focus on.
- **Not About Money**: Financial targets are milestones along the way to your true mission of bringing good things to the world and improving the lives of customers and employees.

How to Nurture the Mission

Once you have your mission in place, you get everyone to embrace it and make it real through four key areas: applying focus, urgency, execution, and strategy.

Focus: If people don't focus on the mission, they are not really on a mission. We concentrate our resources and bandwidth on the mission, and we avoid distractions. That takes discipline.

Urgency: Time is not your friend. Time introduces risks, such as new entrants. The faster we separate from the competition, the more likely we are to succeed. Urgency is a mindset that can be learned when it doesn't come naturally.

Execute: Missions must be executed via an organized, orchestrated, and resourced set of activities. We have no chance of accomplishing it without a drive for world-class execution, which includes high standards and efficient use of resources.

Strategy: Strategies don't change day-to-day, only when there is a demonstrably better way to do things or if something isn't working, unrelated to execution failure. Everyone needs to feel confident that our strategy is in line with the goals of our mission.

Mission driven is not just about what you believe, it's how you make decisions every day about your time and effort and resources. It's about delivering on your most important promises, not racking up style points. It's about making choices during every meeting and every interaction. Grinding away toward your mission, day in and day out, will absolutely pay off.

Align Your People and Culture

Hire Drivers, Not Passengers

To be amped up, you have to hire drivers, not passengers, and get the wrong people off the bus. Passengers are people who don't mind simply being carried along by the company's momentum, offering little or no input, seemingly not caring much about the direction chosen by management.

They are often pleasant, get along with everyone, attend meetings promptly, and generally do not stand out as troublemakers. They are often accepted into the fabric of the organization and stay there for many years.

The problem is that while passengers can often diagnose and articulate a problem quite well, they have no investment in solving it. They avoid taking strong positions at the risk of being wrong about something.

Passengers are largely dead weight and can be an insidious threat to your culture and performance. They inadvertently undermine the mojo of the organization. They sap the animal instinct and spirit you need in business to thrive.

> Drivers, on the other hand, get their satisfaction from making things happen, not blending in with the furniture.

Drivers, on the other hand, get their satisfaction from making things happen, not blending in with the furniture. They feel a strong sense of ownership for their projects and teams and demand high standards from both themselves and others. They exude energy, urgency, ambition, even boldness. Faced with a challenge, they usually say, "Why not" rather than "That's impossible."

These qualities make drivers massively valuable. Finding, recruiting, rewarding, and retaining them should be among your top priorities. Recognize them privately and publicly, promote them, and elevate them as an example of what others should aspire to.

That will start waking up those who are merely along for the ride. Celebrate people who own their responsibilities, take and defend clear positions, argue for their preferred strategies, and seek to move the dial.

Getting the Wrong People off the Bus

When hired as a new CEO, at any level of a company, the first order of business is sorting out the valuable people from the dead-weight. Then you have to do what Jim Collins described in ***Good to Great*** as moving the wrong people off the bus and putting the right ones on the bus, in the right seats. In that order.

Parachuting into a new company or business unit is hard. Everybody is on edge, waiting to see what you're going to do. But you can't let anxiety slow you down from immediately assessing your people.

Don't surrender to the temptation to go into wait-and-see mode, hoping that time will reveal everyone's true value. You need to make things happen, not wait around and hope for the best. You have to practice sizing up people and situations with limited and imperfect information–because that is all you are ever going to get.

If you don't act quickly to get the wrong people off the bus, you have no prayer of changing the overall trajectory. We often believe, naively, that we can coach struggling teammates to a better place. And sometimes we can, but those cases are rarer than we imagine. At a struggling company, you need to change things fast, which can only happen by switching out the people whose skills no longer fit the mission or perhaps never really did in the first place.

The other advantage of moving fast is that everyone who stays on the bus will know that you're dead serious about high standards. The good ones will be energized by those standards. If others start looking for greener, less-demanding pastures because they don't want to meet those standards, that's fine too.

This philosophy may come across as harsh. But what's even harsher is not doing the job you were hired to do as a leader. If you can't find the backbone to make necessary changes, you are holding everyone else back from reaching their full potential. Leaders who do not act will soon find out that their leadership is in question.

Finding the Right People

Getting the wrong people off the bus is only half the challenge. The other half is finding and recruiting the right people for the right seats, which is much harder. This is not a process that can be rushed. The cost of a misfire in time, money, and reputation is huge. Leaders are expected to have well-developed networks, the ability to recruit, and the sharp critical eye to judge talent.

It's hard to maintain an active recruiting posture. That is often the reason why we tolerate mediocre performance–because it is so hard to relaunch a recruiting effort. We want to always have a list of prioritized candidates for each critical role. Candidates who we would seek to engage as needed.

It starts with knowing who is in the field, how well they are regarded, and keeping tabs on their ongoing status. Have some sort of ongoing relationship until the time comes to actively engage.

Do not rely on acute sourcing tactics such as recruiters and LinkedIn. You will only see the active job seekers, who are unlikely to be the candidates you really want. In high growth companies, functions and individuals can easily get overrun, as the expanding needs of the organization exceed their capacity. So you must staff ahead of need. Recruiting never stops.

Ultimately, leaders are only as good as the people they surround themselves with. Once you get good at both hiring and firing, you are well on your way to great results and a thriving career.

Align Culture with the Mission

Culture matters more than you think, and it is not optional. A strong culture can greatly help organizations and become an enduring source of competitive advantage. But a weak culture can easily destroy organizations from within.

An important question here is, to what aim do you direct your culture? All platitudes and high-minded principles aside, the culture needs to serve the mission of the enterprise. While there is nothing wrong with good intentions, we need to align the culture with the mission.

Culture is not about making people feel good, per se, it's about enabling the mission with the behaviors and values that serve that purpose. It is essential that leaders grab a hold of culture and start driving it to a desired state. Culture can become a force multiplier, but it doesn't just happen with good intentions.

Sharpen Your Focus

Put Analysis Before Solutions

Business tends to be "solution centric." We spend most of our time discussing solutions rather than diagnosing problems. We race to conclusions about what's wrong and what to do about it. We pattern match, reacting to situations based on our individual experience rather than studying the specific situation in front of us from a broader perspective.

It's easy to be irrationally confident in our judgment and anxious to move forward with implementing solutions. But if we are wrong in understanding the problems, our solutions won't work. It behooves us to slow down and critically examine situations and problems before settling on an explanation, never mind a solution.

This requires intellectual honesty–the ability to stay rational and set aside our biases and past experiences. Consider the full range of possibilities, not just the first one that jumps out at you. Seek council outside of your direct environment.

Align Incentives for Customer Success

Declare and constantly reinforce that customer success is the business of the entire company, not merely one department. This means that when a problem arises, every department has a responsibility to fix it. Everyone's incentives should be fully aligned with what's good for customers.

Customer grievances are best solved by establishing proper ownership, reducing internal complexity, and removing bureaucratic intermediaries. The product developers and salespeople who work directly with a customer should never surrender responsibility for that customer's well-being, which directly affects their career progress as well as the company's results. That way, everyone's incentives are aligned.

Pick Up the Pace

Ramp Up Sales

There's no simple answer to when to ramp up sales, but there are additional questions that can help to draw a conclusion:

- Are you happy with your current sales productivity metrics? If not, how can you improve productivity before adding more sales headcount?
- Are you happy with the metrics of your lead generation pipeline? If not, how can you improve it?
- Are you being realistic in your timeline of sales targets? Are you projecting too much too soon, or too little too late?
- Are you being aggressive enough and thinking big enough to outpace your competition?
- Is your sales team buying into your targets and timeline? Are they owning the goals and fully committed to hitting them?

Trying to staff a whole sales team prematurely is a very common managerial mistake. So is failing to figure out what distinguishes top sales performers from weak performers before ramping up headcount. And so is hesitating to invest major resources to scale up your sales effort after all the conditions are in place.

Putting gasoline into a car's tank won't matter if the engine isn't working. Likewise, you can hire all the salespeople in the world, but they won't pay off until you've figured out your product, your market, your demand and lead generation systems, and the kinds of selling motions that will convert prospects to customers.

If you have a sales force that's stuck in the mud, ask lots of questions to figure out what's wrong. Then take bold steps

> Your mission as a leader is to figure out how to hand on to your early-stage dynamism and avoid the lethargy of mass and bulk.

to mitigate the problem as soon as you understand it. You can't simply take a "wait and see" posture.

You have to aggressively manage nonperformance, cut headcount if appropriate, or add headcount wherever you have the highest probability of converting sales potential to sales yield.

Grow Fast or Die Slow

"Grow Fast or Die Slow" is the title of a 2014 study by McKinsey & Co that examined thousands of software and services companies between 1980 and 2012. It concluded that growth trumps everything else as a driver and predictor of long-term success.

The study found that when evaluating a young company, growth matters even more than profit margin or cost structure. Increases in growth drove twice as much valuation increase than equivalent improvements in profitability. No correlation was observed between cost structure and growth.

Relatively few leaders make growth as big a priority as it should be. One major reason is that too few leaders truly grasp the importance of growth. They have the misguided belief that their mission is to reach profitability as quickly as possible, and that growth can follow profitability. But that shows a misunderstanding of how value is created and how investors think.

Once a start-up begins to show profits, investors conclude that either it doesn't know how to invest in further growth or that it has run out of growth opportunities. They won't expect profitability yet; investors know that growth is a ferocious consumer of resources.

It's often impossible to assess the true limits of growth. It's not just plugging numbers into a formula; it requires human judgment and insights. That's why we have to keep leaning into it.

Leaders should focus on challenging the assumptions that add up to the current growth model. Very often, challenging those assumptions will lead you to conclude that your growth target is too conservative.

When in doubt, push the model to set a more ambitious target. It is better to ratchet up growth expectations and fall short than not even reach for it. Behavior is informed, if not driven, by expectations.

Fast growth separates great companies from their competition. You can psychologically leave everyone else in the dust when you outstrip their growth rates by considerable margin. It's intimidating and demoralizing to your rivals. Growth tends to slow down when you are starting to become well penetrated and saturated.

Most companies lose their original scrappiness as they get bigger. But the most valuable leaders are those who can combine the scrappiness of a start-up leader with the organizational and diplomatic discipline needed in a big company.

Those who can scale up or down as required. Those who can set aside experience when necessary, apply first principles, and think through situations in their elementary form. Your mission as a leader is to figure out how to hang on to your early-stage dynamism and avoid the lethargy of mass and bulk.

The Amped-Up Leader

Amp Up Your Career

Are you happy with your upward progress in your career? Could you go faster? Probably. Most people manage their careers in a haphazard fashion, jumping from role to role as new opportunities pop up.

Being more purposeful about your career can amp up your forward momentum. The most common reasons for career stagnation (or worse, self-destruction) can be instructive.

As professional people, we are products. So try to product manage yourself. Develop your product through education, training, and experience. Your resume is your shingle. Buff and polish it. Make sure it carries some punch. In this marketplace, the question isn't whether you're qualified; it's whether you're better qualified than other candidates.

A rigorous academic education is necessary to develop liter-

acy, numeracy, and general capacities to learn, observe, and analyze. But this degree doesn't need to be from an elite, Ivy League, or otherwise name brand school.

Further, it's popular to go back to get an MBA after a few years in the workplace. Yes, an MBA from a good university looks good on a resume but there can be a huge opportunity cost to getting an MBA and not only from the salary you'd be giving up for two years. Your time away from your field will put you behind on experience compared to your peers. Education matters some, but experience matters more.

The longer you are out of school, the more employers will favor meaningful experience over more education. Grad students are much less attractive than people who can point to a record of tangible achievements at a company. So think twice before pulling the trigger to get any kind of master's degree.

Aptitude Matters Most

Aptitudes are your God-given talents, whatever you are innately good at. Employers can give you experience, but they can't give you aptitude. Experience can help reveal your aptitudes, but hiring managers often don't try hard enough to understand and discern them.

If you are light on experience for a role you want, redirect the conversation to aptitudes. Why would you be great in this position? Smart managers will usually pick someone with less experience but more aptitude. But bad managers become hung up on checking off the boxes on experience, in a futile attempt to minimize career risk to themselves. They make safe choices, not optimal ones.

Hiring decisions are always fraught with risk and uncertainty. Extremely well-credentialed people can crash and burn in short order. That's why many hiring managers will trust their gut instinct on someone light on experience but strong on aptitude and potential. In those situations, personality often breaks the tie. People who are hungry, humble, and express a "can't fail" level of determination are often a good bet.

One often neglected skill set that can boost your career is your ability to communicate well, in both speaking and writing. An efficient, get-to-the-point writing style will help you at every stage of your career.

The spoken word is another big deal for anyone on the management track. Your career can easily stall out if you can't speak well, or at least competently, in front of groups large and small.

Career Doldrums and Career Killers

Sometimes your career may get stuck at a certain plateau, no matter how hard you've been working to move up. For good people, career doldrums are usually a function of not being in a growing industry and/or a thriving company.

In companies and industries that are dynamic and on the move, people with talent often get promoted even before they are fully ready for the new role. But if you find yourself in the opposite situation, you will have to take initiative to change the trajectory.

When asked what makes a great CEO, people expect a series of adjectives such as intelligent, charismatic, collaborative, eloquent, and so on. Of course the answer isn't so simple.

There are many different paths to superior outcomes in business. You will have to find your own path, one that suits your temperament, disposition, and natural aptitudes. Don't try to copy or emulate other leaders. That will only slow down the process of finding your own path.

Instead, make the most of your unique aggregate of experiences. Apply those experiences, and the insights discussed in this CEO guide, to become a truer, more honed, more effective version of who you already are. Finding your own path, however long it takes, will unlock your personal power.

At the end of the day, great leaders at any level have great outcomes. You can be the most empathetic, charismatic, and popular leader ever, but none of that will matter if your business falls short. And when it does, there will be nowhere for you to hide.

No one will care about your legitimate explanations, let alone your excuses. No one will care about the unlucky breaks that were completely beyond your control. It isn't fair, but it's the world we live in, the world we have to accept as leaders.

The good news is that if you persevere over long periods of time, if you focus intensely on delivering value for your customers, and if you build a disciplined culture for your employees, it will all pay off in the long run. You will drive great outcomes for your organization and reap the rewards.

It's hard to beat any leader who combines great resolve, persistence, mission focus, and clarity about what is and is not important. It's hard to beat any leader who truly amps it up.



Snowflake CEO Frank Slootman is one of the tech world's most accomplished executives in enterprise growth, having led Snowflake to the largest software IPO ever after leading Data Domain and ServiceNow to exponential growth and the public market before that. In Amp It Up, he shares his leadership approach for the first time.

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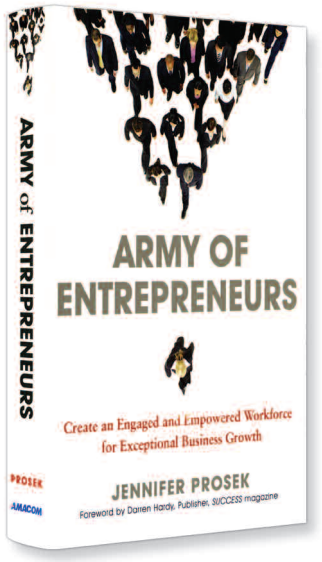
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Army of Entrepreneurs

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Army of Entrepreneurs

Create an Engaged and Empowered Workforce for Exceptional Business Growth



by Jennifer Prosek

THE SUMMARY IN BRIEF

Imagine the benefits to be gained from a pool of employees who act as if they own the business: greater motivation, increased productivity and a supercharged desire to succeed. As a young entrepreneur who turned a small PR business into a highly successful, international communications firm, Jennifer Prosek has experienced firsthand the power of instilling an "owner's mindset" in every employee.

With innovation driving the new economy, your company's people have never been more important. But old management models don't truly encourage the entrepreneurial thinking needed for success. In *Army of Entrepreneurs*, Prosek presents an easy-to-follow action plan any company — large or small — can use to build a workforce dedicated to generating new business, creating breakthrough products and services and sustaining growth.

With your own Army of Entrepreneurs, every employee becomes a powerful force for growth within the organization.

Don't go it alone. This clear, replicable roadmap is an invaluable guide for any business owner or manager.

IN THIS SUMMARY, YOU WILL LEARN:

- How to motivate, train and reward your employees.
- How to provide everyone — from interns to executives — with the skills and support they need.
- How to evaluate and refresh the program over time for continuous results.
- How to initiate a simple but effective incentive program that gets every member of the team actively involved in generating new business.
- How to develop internal training programs that foster an owner's perspective with a focus on how the business works, where the profits come from and how to identify new opportunities.

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THE COMPLETE SUMMARY: **ARMY OF ENTREPRENEURS**

by Jennifer Prosek

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For additional information on the author, go to www.summary.com or www.cjpcom.com.

Introduction

An Army of Entrepreneurs (AOE) is an internal force of committed employees. It is a structure and a mindset that enables a business to grow beyond the founder, owner or CEO. Each person develops an "owner's mindset" and becomes a powerful force for growth within the organization.

PART I: TAKING A NEW APPROACH TO BUILDING YOUR BUSINESS

Suppose I told you that the smallest professional action on your part could result in a lifelong payday. Suppose I told you that your rank in the company, the terms of your pay package or the vitality of your social network didn't matter. Do this one, basic action and you get the check. Would you try?

The answer is yes. I already know that. Because what I've just described to you is a system I call Commission for Life™, and it became the first building block of my new management model — the cornerstone of an AOE.

Not only would you try, but everyone in your company — from the interns to the executives — would try.

Introducing Commission for Life

My task was to figure out how to get my staff at CJP to make better choices, ones that would benefit them as well as the company. The answer I came up with was to create opportunities for them to make more money, either by taking on new responsibilities or earning a commission. I developed what I call the Commission for Life program, where the employee who sets up a successful new business meeting — that's it, just sets up the meeting — gets 5 percent of the revenue from the account for the life of the business as long as they remain with CJP.

Why does this very simple incentive work? Because it encourages employees to align their own financial and professional goals with the company's growth and success. If they help the company grow, they see a direct and substantial benefit. And while Commission for Life was developed in a privately held small business, the construct can be applied to any company, big or small, private or public. Although awarding literal cash commission may not be possible in all situations, the idea is to create an incentive that keeps on giving across the employee's career at the company and aligns the individual's goals with the company's goals. It's the nudge you need to change the behavior. ●

Creating a Core Culture

I have found four key elements to be the critical steps in the creation of a strong corporate culture: authenticity, commitment to people, commitment to the business and continuous effort. Attention to these foundation elements allows the kind of culture in which the AOE can grow and thrive.

Step One Is Authenticity

Your first step, if you are to build a culture supportive of an AOE, is to demonstrate that no matter what has come before — in this job or in other jobs — you are for real. You are serious about your commitment to creating an Army-ready culture. You believe it, you are

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willing to live and breathe it and you want, expect and trust that everyone in the company will do the same. In other words, you must make the system into a star.

How do you make this authenticity pitch read authentic? Here are three key tips:

- **Work hard at it yourself.** Nothing kills a culture faster than CEOs and managers who fail to live by their own rules.
- **Adopt transparency and honesty in all aspects of the business.** If what you really want is to empower your people to be entrepreneurial in their thinking and in their actions, you must give them what the entrepreneur naturally has: knowledge of what's going on in the company.
- **Strive for over-communication.** When you're trying to create a culture of entrepreneurialism, you can never communicate too much.

Step Two Is a Commitment to People

The treatment, care and training of the human beings are critical to the culture's success.

How do you show your commitment to people in your organization? Try the following:

- **Institutionalize celebration.** In an AOE environment, successes are noted, celebrated and set as standards for continued excellence.
- **Offer professional development.** It is unreasonable to demand excellence without providing the tools necessary to achieve it. One of those tools comes in the form of training.
- **Encourage autonomy.** Commit to trusting your employees to do their jobs, even when it seems they are wandering outside the lines of their job descriptions.
- **Provide challenge.** Complexity is not a barrier to success — it is an inspiration to action.

Step Three Is a Commitment to the Business

Ultimately, it is all about the success of the company. Attention to people, attention to authenticity, all must be in service to the ultimate goal: the growth and achievement of the firm. This is why we're all here. This is what will make all our efforts worthwhile.

What can you do to make this happen?

- **Present financial rewards that match contributions.** Individual success must be tied to company success.
- **Insist on deal-breakers and zero-tolerance.** If you're committed to creating a system that trains and nurtures star performers, ethics must be an ongoing commitment.

Step Four Is Continuous Effort

When you are building a corporate culture, your work is ongoing. You are always looking for ways to improve communication, improve training and provide more challenge. You are constantly evaluating the strength of the culture and what it may need next to continue to provide the right environment for your AOE. ●

Thinking Entrepreneurially — Even If You're a Big Company

There are several important reasons to foster entrepreneurial thinking in your ranks, reasons that explain why an AOE system is valuable to big firms and small ones. To stay successful, your company needs to:

- **Support innovation.** A company that does not constantly innovate is dying. A classic example is the General Motors Corporation (GM). GM was once synonymous with the American Dream. It embodied all the things America was proud of: manufacturing prowess, a popular and reliable product, a fair and loyal employer. But it also came to symbolize something else: a company that could not change. If there were good ideas popping around in the ranks of that company, the firm was too hamstrung by its old processes and policies to turn them loose and let them soar. Without a way to foster and nurture innovation from within, GM underwent a painful, public decline. The problem is that GM could not embrace innovation to keep its products in line with changing consumer tastes and the changing economy.
- **Keep in touch with your customers.** When did GM start to slide? Many business historians trace the decline to when the company began to lose touch with its customers. Throughout the country, tastes were changing. Brands like Toyota were moving into the consumer consciousness. Issues of affordability, reliability and energy efficiency began to loom large for buyers. But many analysts say GM didn't appear to notice. It just kept pumping out more big, gas-guzzling roadsters that had long been its mainstay. It was as if the company was blind to changes in the marketplace.
- **Retain top employees.** Successful employees are always thinking. Often they are the individuals who are coming up with new ideas and new ways to improve the business. Any manager should care deeply about keeping these top performers since they may be crucial and valuable rainmakers. One way to

do that is to nurture and reward the innovative, entrepreneurial spirit many top performers share.

- **Be faster.** An AOE is a key way a company moves quickly. It puts more minds to work on the process of innovation. Because the cornerstone of the concept is empowering your staff to take action, it cuts down on the time it takes for an idea to become a reality.
- **Be global.** No business today can be hemmed in by physical location. We must all be able to do business around the world. If you want to do business globally, you must be willing to relinquish the old command-and-control style of business. A global business happens in a variety of cultures, across a variety of time zones. Calling upon your employees to take responsibility for making their jobs work is part of the AOE system. They need to look outward and adapt. That is what makes for success in the global marketplace.

PART II: DEVELOPING AN ACTION PLAN

Here's how I trained my people at CJP.

As the firm grew and I was feeling overwhelmed, I wondered why all my clearly intelligent colleagues were not stepping up and doing the work I knew they were capable of. That's when I asked myself whether we had trained these employees and explained what we wanted them to do to be successful at our company.

The answer was no. We hired smart people and left it up to the informal training method — daily interactions between managers and employees — to clue them in as to what they had to do to succeed. That wasn't working for me and I was sure it wasn't working that well for the rest of the firm either. Nobody likes to have to guess. It is much less stressful to be told concretely: This is the path to success.

Four Elements of a Successful Employee

So I created a path. The catchy phrase I use is "Grinder, Minder, Binder, Finder."

- **Grinder.** The key attribute of a Grinder is efficiency. The Grinder juggles many balls in the air and seeks to amaze others with his or her ability to get a job done efficiently, effectively and profitably. Grinders know no rank. You can find them at every level of the organization. Even top brass are expected to do a great deal of grinding. For all, the message is this: Take on a healthy workload and juggle those balls.
- **Minder.** A top-notch Minder is a skilled people person. This is the individual who is good at managing both people and projects. Minders are organized, communicate well and tap into their Grinder skill set to be efficient and organized. A Minder is a person everyone in the company wants to work for and with. While being a Grinder may be considered an inward-focused effort, a Minder looks out to others and focuses on what needs to be done to support, guide and inspire them to succeed.
- **Binder.** A Binder builds on the Minder's people skills and takes them one step further, looking for ways to strengthen the bond of individuals to the company. A Binder is a whiz at client relationships, building the trust and fluid communication that makes clients or people want to keep their business with companies. A Binder is always alert for ways this relationship can be enhanced and tended, never taking it for granted, never assuming the business is "already won."
- **Finder.** Everyone in the company, from summer intern to CEO, must consider him- or herself a Finder of business. Finders are great listeners, constantly evaluating what they hear for potential business opportunities. Finders are also trend spotters, seeing the opportunity before it's publicly acknowledged. Finders create opportunity for the firm, either by bringing in new business, expanding existing business, or generating ideas for new products and services.

Training the Troops

The first step a company must take in creating its Army is to set up a system of basic training. In the "real" Army (the United States Army) that means taking the group of recruits to a remote training camp for 15 weeks and schooling them 24/7 in skills needed for combat. Since that's not possible in the business world, the alternative is to set up a system of mandatory, scheduled, high-profile training sessions. These are not the optional brown-bag lunches a traditional HR department might host for a discussion of business topics. These are professional workshops designed to train and inspire your staff to more proactive functioning.

The four boot camp workshops are:

1. **Teaching the Business.** This workshop will be the one that most resembles a traditional classroom experience. You will be walking your group through some business basics and establishing a common vocabulary. The goal of the workshop

is to get your team onto the same page of business understanding.

2. **Hunting for New Business.** In this workshop, you'll teach your employees the art of identifying and pursuing new business opportunities. In short, you will teach them to hunt for new business.
3. **Advanced Hunting.** In "opportunistic" hunting, you focus on your potential opportunities: your friends, family, neighbors and acquaintances. After opportunistic hunting has been mastered, it's time to move on to the next level. I call this "strategic" hunting, or strategic lead generation, which is more targeted. Strategic lead generation comes from analyzing the business' current footprint and determining where the natural extensions are.
4. **Intrapreneuring.** Lead generation is terrific, but there are more ways to contribute to the bottom line of a business than generating new opportunities. In addition, in any business, it is important to ensure that client retention and customer service are your first priority. That is the art of being a great intrapreneur — nurturing your existing business to its highest return. In this workshop, growing from the inside will be the focus. Content for this workshop should remain focused on the internal opportunities that can be spotted and exploited.

Short and Targeted Workshops

The workshops are designed to be short and targeted. Think two hours, although that's a recommendation, not a rule. Think short, intense training sessions rather than the occasional day-long marathon.

The goal is to get your staff thinking about these issues all the time. If there's too much time between training, it allows the impact of your teaching to wear off.

Recruiting and Retaining Talent

One way to hire smart is to never do it in a panic. This means creating and nurturing a constant pipeline of potential candidates. You may not need an individual right away, but you need to know that person now. Knowing who is out there and fostering an early relationship is the way you can make the right match at the right time.

Here's how to create a great pipeline:

- **Talent-spot constantly.** Recruiting requires an ongoing commitment from senior leadership and a programmatic approach.
- **Engage the staff in talent spotting.** It's important to open the talent-spotting process to the rest of the company. Encourage them by setting up a paid referral system for bringing in top talent. Your best talent spotter may be out there just waiting for you to acknowledge his or her talents.
- **Be creative in job creation.** One way to build a pipeline for full-time employees is to create ways for promising young staffers to get a taste of your company on a part-time basis.
- **Don't hire only in flush times.** Staff numbers should not be an economic indicator for your firm — up when times are good, down when they're not. The right staff is what drives your company forward, and that's doubly important when the economy is struggling.
- **Measure your results.** Like any other effort, recruiting needs to be measured to determine what's effective and what's not.

After the Hire

The tough job of recruiting isn't over when the offer is accepted. It just moves to the next stage: ensuring the new hire sticks. Here are three ideas:

- **Allow for an adjustment period.** Your entry-level hires will embrace the Army model faster than those who are seasoned and experienced. Your more senior hires will require time to adjust to the Army model, which can sometimes be dramatically different from their former environment. You need to understand the process of adaptation to your model and manage your own expectations.

More Than Just Bright Ideas

An Army of Entrepreneurs (AOE) does more than just generate good ideas. It becomes the eyes and ears of the company out in the marketplace. In a firm that is old-fashioned and top down, employees may not speak up when they see their employer veering off track. In an AOE environment, they are encouraged to speak up. What do you see out there in the marketplace? In what areas are we, as a company, succeeding? In what areas are we losing to competitors or to changing client/consumers tastes?

Your Army is your connection to what's going on outside your office. Years ago, focus groups and market research would have been paid to provide feedback. Today, you need information faster and from a wider variety of sources. Empowering your employees to do this work is not just smart, it's crucial.

- **Be transparent with existing staff.** One of the ways a new hire succeeds is when he or she is embraced by the existing staff. When I make a hire, I announce it. When I make a hire that might be controversial (such as during a tough economic period), I address that directly. I encourage people to talk to me about their concerns.
- **Get feedback from the employee.** Not only do we ask our new hires how they're doing, we also encourage them to share their experiences.
- **Consider retention a business priority.** It is not enough to have talented people flowing into your firm; you have to make them want to stay, integrate into your Army and serve. That means part of your recruiting strategy must extend to what happens next. ●

Using Technology

Communications technology enhances entrepreneurial behavior and when used well, it also becomes a critical point of differentiation. If I were to look at two companies, both with an AOE strategy, I could tell you which one was going to be more successful based on the implementation of communications technology. Technology, from my perspective, is all about the movement of information.

For our business, the most critical use of technology revolves around our ability to communicate with one another. Certainly, we all use the standard-issue technology around e-mail and cell phones. But to make the Army hum, we take our use of technology up a notch and tap into new media options.

One of our primary tools is the blog.

Blogging Is a Critical Technology Option

Former Sun Microsystems president Jonathan Schwartz wrote an article for *Harvard Business Review* about his experiences titled "If You Want to Lead, Blog." Among his observations:

"Blogging lets you participate in communities you want to cultivate — whether it's your employees, potential employees, customers or anyone else — and leverage your corporate culture competitively."

Technology as a Business Tool

Communicating is critical, but, ultimately, we need the AOE to move from conversation into action. Technology plays a critical role in the execution of the company's day-to-day efforts. Consider:

- **The importance of social networks.** For entrepreneurial companies today, social networks play a huge role in success.
  - **Project spotting.** This is the exercise of taking existing clients and developing a project they didn't know they needed.
  - **The value of technological sophistication.** Finally, technological expertise is something an AOE can use as a marketing tool. CJP managers are frequently panelists on discussions of technology in the business world. ●

Measuring Success

The key to smart measurement is knowing what to measure. Your initial benchmark process needs to gather and assess your current metric systems. What do you currently measure? Most companies measure revenue and profits on an ongoing basis. What else are you collecting data on? Are you regularly surveying for client satisfaction? For employee engagement? Are there other, less obvious measurement processes going on throughout the company? For example, are there awards given by different departments or managers? These are, in and of themselves, measurement processes; you should know about them and their history. These are the tools that will tell you where you are at the start of your process.

What follows is a list of elements that must be measured in an AOE environment. Alongside the traditional elements, such as revenues and profits, be sure you are measuring:

- **Pipeline growth.** One of the key benefits of building an Army is your team's ability to generate new business. Every business owner knows that a strong pipeline is the key to overall success; it helps guard against the feast/famine business cycle.
- **Product innovation.** If you've been effective in your communication during training, your staff should be coming up with new ideas — and new products on a regular basis, with energy and enthusiasm. You should be able to see a swift up-tick in the overall volume of new business ideas.
- **Assignment size.** At our firm, we benchmark the size of the client contract when it comes in, and then again one and two years later.
- **Employee satisfaction.** The Army model should improve employee satisfaction across the board. When you measure for employee satisfaction, you get a preview of your firm's financial future.

- **Participation in Army activities.** The AOE system opens up a new set of opportunities for staffers and you need to keep tabs on how many of them take advantage of that change. It's not enough to keep track of the volume of new ideas. You need to be aware of how many of your staffers are offering them up.
- **Customer satisfaction.** It should stay the same or increase under the AOE model. If it drops, you know you've got a problem. Staffers are too focused on entrepreneurial pursuits and they're neglecting their "day" jobs.

Officer Training

Every army needs officers. One of the key elements of success in an AOE organization is the selection and training of managers. These are the people who will be your voice as your company grows. They will be the ones to communicate the need for entrepreneurial thinking and action to staff every day. They are the ones who will take your thinking and make it happen.

What to Ask of Managers

There are key factors that managers must embrace to be successful in an Army of Entrepreneurs. You need to:

- **Be a good boss.** Bob Sutton, professor of management science and engineering at Stanford University, found that there are evidence-based ways to be a good boss, even in tough times when managers may be called upon to do tough things, such as cut budgets and staff. The key, he says, is to act in ways that both protect the company performance and preserve human dignity by being predictable, promoting understanding, being willing to give up some control and being compassionate.
- **Understand the role of money.** Money motivates many people. Money also makes people happy.
- **Avoid being a robot.** There's good research to indicate that a little emotion on the job is a good thing. Some emotions have a positive place in the successful firm. These emotions are appreciation and autonomy.

Innovation — It's a Management Discipline

Many people consider innovation to be the result of the free flow of ideas. But Esther Baldwin, of Intel Corp., is on a mission to reposition the idea of innovation as a management discipline. Baldwin launched the Innovation Center in Shanghai, China, and pushed to reposition innovation not as a happy accident, but as a task of everyday managers. Innovation, she says in an interview with *MIT Sloan Management Review*, is not about brainstorming. It is the result of measurable, manageable activities. Her advice on how to manage for innovation:

- **Use technology tools, such as databases, to capture employee ideas.** Managers need to supply technology tools to support ideas and find them larger platforms throughout the company.
- **Encourage employees to communicate with each other.** A great idea isn't just something you bring to your direct supervisor and hope for the best. Use chat rooms, video conferencing and social media to encourage greater sharing.
- **Be prepared for initial resistance from traditional innovators.** It's important to enlist these existing innovators in the expanded innovation process.

Maintaining Momentum

Momentum is not just a way to keep a program on track; it's a critical strategy to keep your most talented individuals in your ranks and working hard.

There is a web of activities and processes that combine to keep the energy level high. Three critical areas are compensation, morale and communication. These are the linchpins to maintaining forward momentum. The key is to keep the idea alive on a daily basis and not let the program fizzle out before it's had a chance to succeed. You need your people to stick with you and stick with the program.

Compensation, Morale and Communication

- **Compensation.** There are two basic types of compensation: traditional (cold, hard cash) and psychic (the elements of your new job that may not be entirely tangible but have a huge impact on how you feel about your work life). Both are vital to maintaining momentum. Both play critical roles in motivating and sustaining an AOE. Both must be present to ensure a stable, motivated workforce.
- **Morale.** An AOE that works well together and respects and enjoys one another is one that produces better results. Creating opportunities for team members to get to know and like one another should be part of your business strategy. The company that regularly facilitates ways to get to know people personally and professionally will function better.
- **Communication.** To keep the momentum going, you must communicate in ways that inspire your

Army. Without communication, your hard work can fall apart in a matter of months. Communication provides clarity and allows everyone to understand the forces at work inside and outside the firm. ●

Managing Disaster

A study by A.T. Kearney looked at businesses that wound up in bankruptcy and found that, in most cases, the economy was not to blame. "The root of insolvencies is often strategy. Managers often react too late and again lack strategic foresight. Enterprises are paralyzed; although the crisis is omnipresent, it is often underestimated and counteractive measures are taken too late," says Robert Ziegler, vice president, A.T. Kearney Middle East.

When businesses fail to embrace a smart long-term strategy, the worst eventually catches up with them. They float along during strong economic times and when the tide goes out they are stranded. They may think the economy is to blame, but the Kearney study shows that's not the case.

Top Reasons for Insolvency

Top reasons for insolvency include incorrect strategy/investment decisions, a cost structure that is too high, insufficient liquidity, and belated or inconsistent response of management. Other reasons include value chain dependency, management conflicts, and conflicts between workforce and management. Sometimes, but less often, insolvency is caused by outside forces, such as an economic or industry crisis.

And yet, even armed with that information, we do not see companies stepping forward with an AOE response. How do companies respond to financial woes? Kearney found the top responses are freeing liquid capital, seeking cooperation from customers or suppliers, cost reduction, and taking debt and equity capital measures. Other strategies include seeking better strategic alignment, staff reduction and communication enhancement. Some companies go outside for help, seeking outside consultants or support from public subsidies.

The most useful AOE tactics — communication and process improvement — are buried on that list. While businesses are learning that innovation is a critical strategy, many are missing the opportunity to use Army strategies to combat economic woes. ●

PART III: PUTTING IT ALL TOGETHER

To call IBM a giant is an understatement. It looms large both in physical size and in impact on the global business world. So what is it doing as an example of AOE thinking? It is a classic example of how good can come to a company when a leader brushes off the naysayers and taps the Army to do its best work.

In 1990, IBM was the second most profitable company in the world. But it was in trouble. As the market for its mainframes was drying up, the engine that had fueled the company's growth was stalling out. Starting in 1991, the company began losing money, bleeding nearly $16 billion over three years.

Lou Gerstner, who joined IBM as CEO in 1993, turned the company around. And he did it, in part, by embracing a radical idea: empowering his Army to make decisions.

Gerstner did not take the most ambitious decentralization route, the breakup of IBM into a collection of independent units. But he did look for ways to decentralize the decision-making process that was impeding the company's growth process. While critics said this would result in chaos within the company, Gerstner opted to tap the talents of his workforce.

Restoring the Line Manager's Accountability and Ownership

Among his efforts: He restored the line manager's accountability and ownership. He charged his senior managers with redesigns and gave them the power to make sizable changes. The charge to the senior managers signaled the change throughout the company. It would no longer be the case that decisions would be held up in committees at the company's Armonk, N.Y., headquarters. Line managers were to make decisions, and they would be held accountable for them.

This was just one of the many changes Gerstner instituted at IBM, but it was also one of the most lasting and impactful. By 1994, IBM was back in the black. While the job was not finished, the turnaround was clearly in progress. The naysayers were wrong. Empowering individuals to make decisions — even in a company as large as IBM — can have dramatic positive results. ●

RECOMMENDED READING LIST

If you liked *Army of Entrepreneurs*, you'll also like:

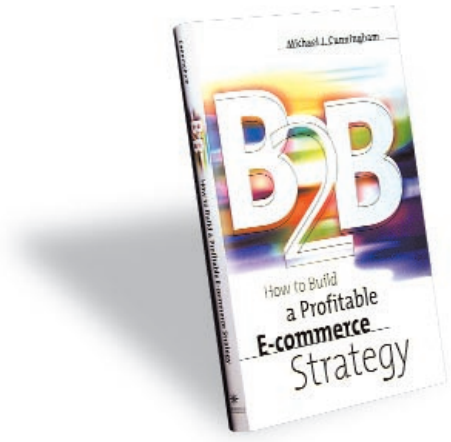
1. ***Multipliers* by Liz Wiseman and Greg McKeown.** Learn how to become a multiplier of people and how to get the most from their talents.
2. ***It's Your Ship* by Capt. D. Michael Abrashoff.** Abrashoff shares his experiences commanding a guided missile destroyer.
3. ***Open Leadership* by Charlene Li.** The coauthor of the bestseller *Groundswell* offers the next step resource that shows leaders how to tap into the power of social technology and use social media to be "open" in their leadership methods.

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B2B

Michael J. Cunningham

SOUNDVIEW Executive Book Summaries®



By Michael J. Cunningham

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How To Build A Profitable E-Commerce Strategy

B2B

THE SUMMARY IN BRIEF

For anyone involved in the world of business, these are wild times. Companies are gearing up to use the Internet to create new ways of doing business. For many, this will mean redefining themselves and carving out new roles. The Internet is changing whole industries from the manufacturing to the service sector. And it is all happening at break-neck speeds.

In this summary you will learn what it takes to build a profitable e-commerce strategy from scratch whether you are currently a brick-and-mortar operation or are an upstart with a new business model. Here's what you will discover:

- **Fundamentals of B2B E-Commerce.** The amount of business being done on the Internet is big and getting bigger. With the Web as the foundation, businesses are finding new ways to forge partnerships and make a profit. Old supply chains and partnerships have to be changed and renegotiated for the Web.
- **Relationships Are the New Focus.** Relationships are at the heart of any B2B e-commerce strategy. You will find yourself forging fluid partnerships in order to enter the marketplace quickly and maintain a competitive advantage once there.
- **Best Practices.** Already, the B2B scene is seeing the emergence of best practices for success. You will learn what they are, how they work, and how to apply them to your B2B venture.
- **Essential Technologies.** Creating a credible B2B presence requires that you obtain the services, applications, and software needed to operate effectively. You will see how to create the infrastructure to support sales, marketing, and service. The result will be a customer-centered enterprise delivering content, products and services quickly, efficiently and profitably.
- **Changing Organizational Thinking.** As a B2B e-commerce enterprise, you have to reinvent yourself over and over as e-commerce matures. To do that, you must create a corporate culture capable of changing as the need arises.

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Fundamentals of B2B E-Commerce

In these new times, with new rules and new players, business-to-business e-commerce will be the main underpinning of a company's strategy, operation and technology systems. E-commerce replaces traditional supply chain and distribution network models that have provided the materials, services and products for companies. Those who want to succeed must build a strategy that ensures them a position in the new e-commerce world.

Skeletal Beginnings

Fortunately, most companies already have at least the skeletal beginnings of an e-commerce business already in place. That foundation is your internal computer network, which is a key component of any future business-to-business e-commerce system. Your internal network likely includes an **Intranet**, which is an internal proprietary site created for effective collaboration and information sharing by company employees. Through it, employees share computer resources and data and communicate via email. Your company may also already have in place an **Extranet**, which is a section of your network accessible to partners or vendors outside the company who may have a need for the information.

Portals

Intranets and extranets are only a small part of B2B e-commerce, but serve as a starting point. As e-commerce matures, companies will need to create or use portals as gateways. Portals are the work spaces of the future where people will go for information specific to their jobs. If you expect to become a participant in e-commerce transactions, you will need to create or use portals with content that attracts other participants. For example, industries will begin seeing specific portals which gather and organize industry information. Those needing that information will return again and again.

Portals that provide information about specific industries will rely on **infomediaries**. Portals purchase, package and deliver content while infomediaries create, package and sell that content. For example, infomediary ZDNET.com creates computer and software-related content for their own site and sell that same content to others who need it.

Defining B2B E-Commerce

Business-to-business e-commerce consists of business transactions conducted over public or private networks, including transactions that use the Internet as a delivery vehicle. Financial transfers, online exchanges, auctions, delivery of products and services, supply-chain activities, and integrated business networks are all examples of B2B e-commerce. Business to Business e-commerce is already an oversized monster with a big appetite for growth. By the year 2004 the B2B marketplace will top $2.7 trillion, according to Forrester Research.

Digital Markets

Procurement systems are one of the first successes of the B2B market. Using the Internet to share information about products and services cuts the cost of procurement. Many business procurement processes can easily be adapted to the Internet. In fact, some functions that were very expensive when human interaction was required can become inexpensive when the need for a live person to perform the service disappears. Some B2B procurement solutions include using an online travel agency to arrange business travel, an online computer store to customize and purchase computer hardware and software, and online payroll services for payroll and 401(k) payments. As time goes on, procurement services will become more centralized, allowing business customers to make one stop for payroll processing, shipping, office equipment purchases, credit services, travel arrangements and investment planning.

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The author: Michael J. Cunningham is founder and CEO of the Massachusetts-based Harvard Computing Group, an international business and technology consulting firm. Its clients include NYNEX, Hitachi, Vignette, American Cancer Society and AT&T.

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Fundamentals of B2B E-Commerce

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Another emerging e-commerce marketplace is the **B2B exchange**. A B2B exchange is a place where suppliers, buyers and intermediaries congregate and offer products to one another using a predetermined set of "rules." Eventually, the B2B exchange will provide a fully automated business exchange for partners looking for products, geographic locations and buyers. The exchange itself may take a commission for each successful match much as a broker does or charge a membership or referral fee. Examples of B2B exchanges are Plasticsnet.com and VerticalNet.com.

Another type of e-commerce marketplace is the **auction.** Typical auction sites require you to register your company, agree to the rules, supply credit information, and specify shipping preferences. You may have access to automated bidding software that lets you set price limits. You are then ready to place a bid. If your bid wins, you receive e-mail confirmation and your account is charged. A variation is the reverse auction, in which the buyer posts what he or she wants and the seller responds.

Supply chains are also moving online. For example, Ford and Oracle have announced they will create a huge e-business supply-chain program to coordinate more than $80 billion in annual purchases from 30,000 suppliers into a single system. Companies that have already invested heavily in coordinating supplier and business partner activities into supply chains see that using the Internet can lead to even greater savings and efficiencies since all the information the partners need can be available instantly. ■

A New Focus

In the ideal world, business-to-business e-commerce systems would be self-service systems providing everything the participating business needs. There would be a seamless transition from sign-up through sale, transaction and delivery of the goods or service. In reality, e-commerce enterprises still have to build relationships. Trust, value and performance still count.

Branding is another crucial aspect of any e-commerce relationship, whether it is a consumer oriented or a business-to-business company. A B2B company will pay great attention to building its brand within its market segment.

Marketing is another area companies must focus on. One marketing tool B2B firms have borrowed from business-to-consumer companies is the affiliate model. Affiliate programs pay a commission to a Web site that refers a buying customer. Another tool is the customization of the information a customer views when visiting a B2B Web site. ■

Innovation in Action: B2B Best Practices

The B2B market is an extraordinary one — so many opportunities and so little time. One segment of the market that is particularly worried about B2B competition are the traditional brick-and-mortar companies afraid of upstarts building new online business models from scratch. To compete, brick and mortars have begun migrating to the Internet.

Take traditional retailer Staples. Its online presence, Staples.com, boasted $94.3 million in revenues in 1999 and quarter-to-quarter growth of 80 percent. Although its brick-and-mortar revenue of $7 billion dwarfs its online revenue for now, Staples demonstrated that moving online is possible and profitable. Staples did it by creating a separate operating division. Its strategy is to grab substantial market share in the small business and SOHO (small office/home office) market.

Successful Dual Crossovers From B2C, Brick-and-Mortar Industries

Some firms manage to enter the Internet B2B market as dual crossovers. They come from a business-to-consumer, brick-and-mortar background.

Take, for example, the highly successful online travel firm Travelocity.com. The company started as an intranet for American Airlines. From there, the company began including travel agents from around the world in an extranet. Its back-end system links agencies, companies and suppliers in the travel industry. Its entry on the Web initially focused on consumer travel. Today, it is expanding to include a new focus on the business traveler.

Also crossing over from the business-to-consumer model to a business-to-business model is online auction giant e-Bay. It has the tools, methods and clients to become a dominant player. With the world's largest personal on-line trading community, it has an established brand, and can pair buyers, sellers and suppliers fast. By shaving a portion of the revenue from each transaction, e-Bay is one of the few profitable companies on the Internet.

(continued on page 4)

Brick-and-Mortar Advantages

Companies with successful off-line operations have a considerable advantage over new entrants into their markets when moving online. These include:

- **Existing market share**
- **Brand recognition**
- **Back-end infrastructure in place**

Innovation in Action: B2B Best Practices

(continued from page 3)

Other entrants to the B2B e-commerce game are strictly Internet-based operations. These include VerticalNet, a business exchange. The company has over fifty sites that are destinations for information about industries. Each is a community offering specific content, services and products for participants. Its long-term plan is to take a portion of each transaction it facilitates, but currently most of its revenue comes from sponsorships and advertising. The company also features direct and reverse auctions, web storefronts and content licensing to generate income.

Best Practices

Here are some best practices that can be gleaned from successful B2B e-commerce companies:

- **Think Fast, Work Fast.** The ability to think and work quickly is essential to successful e-commerce. Agility is crucial.
- **Partnerships Are Essential.** Successful B2B e-commerce companies don't go it alone. Instead, they rely on partnerships for help with marketing, strategy, industrial development, sales and distribution.
- **Leverage Existing Relationships.** By leveraging existing relationships, B2B firms can penetrate new markets and seek out new business opportunities. Companies can migrate, for example, from delivering travel information to consumers to delivering travel information to business travelers.
- **Go International Early.** As it becomes more difficult to grab market share in the United States, consider the advantages of going overseas. There is an advantage in being first.
- **Understand Supply Chains.** Those who understand how the supply chain works in their industry already have a model for getting to online markets quickly.
- **Leverage Your Brand.** If you have a developed brick-and-mortar brand, you have an immediate advantage online. You don't have to spend millions developing brand recognition.
- **Multi-Headed Business Models.** Don't use one business model when several will work better. Many successful B2B operations have models that include exchanges, sponsorships, advertising and content licensing. More is better.
- **Build the Base First, then Leverage It.** First create a base of business clients and partners, then leverage them by introducing new products and partnerships or extend your site's reach through other portals or partner sites.
- **Add Value.** Partners will remain loyal and customers will keep coming back if you continually add value and improve the site.
- **Be Prepared to Spend Money.** It can be expensive to enter and keep a strong position in emerging B2B markets. Make sure you have enough cash to sustain yourself through periods of intense competition.
- **Ditch Old Market and Development Programs.** Sequential, long-term market planning and testing cycles are history. Integrate market research, testing, prototyping, and awareness programs from the start.
- **Develop Your Own Practices.** Evolving in real time is a challenge. But remember, while speed can kill, staying put is a guarantee of failure. ■

MeetChina.com

MeetChina.com is an e-commerce portal dedicated to facilitating business-to-business trade with Chinese manufacturers. Already it has over 15,000 electronics manufacturers planning to offer goods through the service. The site will offer cultural, financial, and work-practice advice for organizations planning to use China as a resource in their manufacturing activities. With support from the Chinese government, the portal is poised to reap the benefits of a market worth $195 billion and growing.

Building Alliances

Few firms can do it all in the e-commerce business. From marketing to hosting the site, developing a B2B organization requires forming strategic partnerships. This is especially true when experienced staff is in short supply. Whether the need is for funding, development, marketing or support, partners are involved in almost every phase. Partners can be used to outsource tasks, to assist sales, and as financial participants in the business.

The paramount principle behind developing effective partnerships is to recognize that the relationship must be win-win. In addition, speed is crucial and has a major impact on partnerships. Fast, smart partnering can produce results quickly, scaring competitors and creating unstoppable momentum. In general, the speed at which partnerships are being formed has accelerated as agreements become standardized for specific partnerships such as affiliate programs and content licensing.

Finding Partners

A major obstacle in the search for appropriate partnerships is the limited size of the experienced **Internet**

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Building Alliances

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gene pool, those individuals who have the skills and talent to guide companies into the unchartered waters of B2B. Premium talent commands premium prices, if it is available at all. Firms wanting to move fast therefore have to partner and outsource like crazy. Those who partner find themselves succeeding while others flounder.

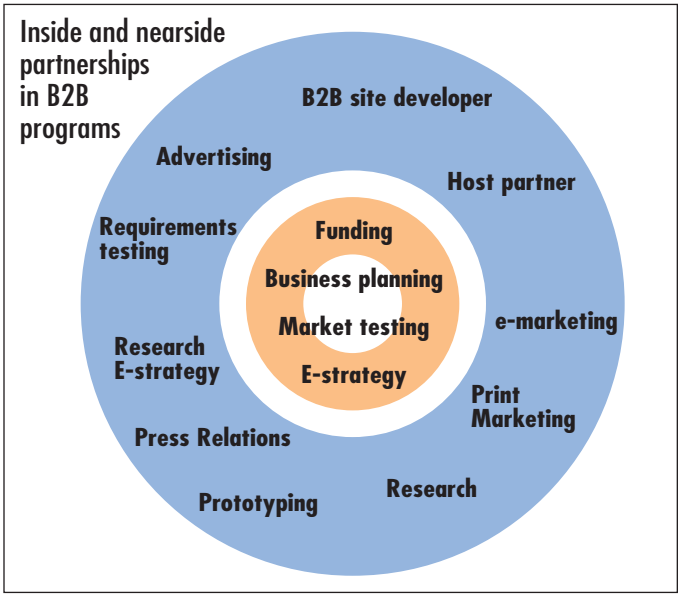
Finding the right partners means hiring an Internet B2B dream team. Different partners are needed for different phases of development. You need to develop a partnership network with **inside** partners for the development and execution of your business strategy and **nearside** partners for extending reach and market penetration. Finally, your network should include partners to assist the execution of your business model without day-to-day contact. These partners include associations, distributors and the media.

Next, develop clear goals to orchestrate the partnership strategy, including creating realistic scenarios. A typical 9-month plan might look like this:

- **Perform market research** (30 days)
- **Develop business plan** (30 days)
- **Select development and marketing partners** (30 days)
- **Specify systems to be used** (45 days)
- **Develop the systems** (60 days)
- **Implement the systems and rollout site** (30 days)

Measuring Partners

Partnerships need monitoring and measuring. You can't afford to just measure revenue and customer acquisition and ignore the partners who are making it happen. Nor can you afford to keep those partners who aren't contributing much value to your venture.



The inside partnerships are easy to measure, since there tends to be a lot of contact. Nearside partners are harder to measure, but their activities can have a profound impact on timing of new products and their acceptance in the market. Their activities need tight coordination. If you can, tie their compensation to success or failure and measure their performance against predetermined goals and schedules, such as time to market, cost performance, flexibility, market value, market perception of company (for PR partners), and customer acquisition and cost.

If partners don't measure up, you must be willing to fire them. They don't belong in your network. Comprehensive legal agreements drafted in plain language will make it easier for partners to understand their obligations and to fire a non-performing partner. ■

Selecting B2B Applications, Services and Software

Determining what to build and how to build it is a major concern for new B2B e-commerce companies. The applications, services and software you choose must be designed with the user of your site in mind. People who are enjoying a site (i.e. are getting useful and relevant information for the job) are likely to stay, and having people stay is what e-commerce is about. When they do leave, getting them to come back for more becomes crucial. To accomplish this you must make the site both relevant and compelling.

An ideal site:

- **Is the first stop for your service or product.**
- **Is extremely relevant to the visitor's business needs.**
- **Provides service or products in a way that increases brand loyalty.**
- **Allows for a customized experience so the customer is unlikely to go elsewhere.**
- **Accommodates the customer's need**s.

To create such a site, you must start at the core and work out. The first layer of your system is your intranet, which forms the core of your internal communications. Every intranet includes a TCIP/IP computer network, an electronic mail server, client e-mail software, a Web server, a browser, perhaps a chat function, and an FTP, or file transfer protocol, system. Together, these tools facilitate communication within the company and serve as the foundation of your system.

The second technology layer may be an extranet, which allows outsiders access to some parts of your

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Selecting B2B Applications, Services and Software

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electronic system. Back-office systems also play an important role in many companies. These systems can include financial, inventory, order-entry, and human resource systems. When integrated into an extranet, those who need access to the information back-office systems contain can get the information they need quickly and directly.

Hosting Firms

You don't have to build an entire computer network full of servers to host your B2B e-commerce site. Hosting providers now offer the best options for most firms entering the B2B market. The costs associated with creating a dedicated data center along with rapid obsolescence have helped make hosting services the first choice for most enterprises.

Some Internet Service Providers (ISPs) have grown beyond providing Internet service and now offer at least limited Web hosting for individuals and businesses. However, full-fledge hosting firms can provide the bandwidth e-commerce sites need as well as the ability to accommodate growth. They also provide twenty-four hour per day access to sites.

A recent entrant to the field is the application service provider, or ASP. ASPs provide both Web hosting and the software businesses need to run their firms via the Internet. Companies no longer need to have software installed on individual desktops, but can use software available on the ASPs servers through the Internet.

You must create a security system for your e-commerce site. Most B2B firms allow some level of public access to their internal systems. Examples include credit card processing and data collection. These contacts need to be secure and private. Technological features like firewalls and routers guard the system and control the traffic. ■

Essential E-Commerce Technologies

In order to understand just how open and powerful the Internet has become for e-commerce applications, it helps to understand the components. The framework for the Internet was started in the late 1960s when the Department of Defense funded a network of computers to connect researchers, government workers, and defense contractors. The computers needed to communicate with one another even though they were manufactured by many companies. A set of protocols, or rules for communication, were developed that allowed the computers to connect. Eventually, this lead to the creation of the TCP/IP protocol still in use today.

Today the Internet is a huge collection of networked computers around the globe. Each computer on the Internet has a unique name, known as the domain name, and each system has an extension that describes the general function of the organization using it. Domain names fit into one of six categories: *com* for commercial organizations, *edu* for educational institutions, *mil* for military, *gov* for government, *org* for miscellaneous organizations and *net* for networking organizations.

The Internet can be used to send and receive electronic mail, browse sites, transfer files, access newsgroups, chat and send instant messages, confer, search for information, and send bulk e-mail. Perhaps the most popular Internet software is the browser, which allows people to reach the content of remote sites.

Security

Since the Internet is essentially a system of connected computers with access to each others, security is a major concern. Computers connected to the Internet may contain sensitive information its owners want to keep private while allowing access to information that can be shared.

There are several security systems available to lessen the impact of the problem. One security measure is to encrypt data that is sent between computers to keep it safe from unauthorized snooping. Encryption software encodes data so it can only be read by the sender and the recipient. Authentification software then is used to verify that the sender and receiver are who they say they are so that the transaction can take place. Messages can also be checked to be sure nothing was added or deleted along the way.

Firewalls prevent unwanted users and data from getting into corporate networks. Companies considering B2B e-commerce must pay attention to the development of firewalls. With the use of proper security systems, you will be able to handle credit transactions.

Generating Web Content

While the World Wide Web has been around for a few years, until recently getting content formatted in a way that could be read by the browsers used by those surfing the Web depended on converting the content using HTML, or Hypertext Markup Language. Today a new language has arrived on the scene, XML.

XML is the standard that is linking Web and database activities. It allows individuals visiting a site to query a database for information. The information is then found and displayed in the visitor's browser. XML understands

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Essential E-Commerce Technologies

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the context of a request. For example, a visitor could ask for a list of all conferences where Mike Cunningham is the speaker. The request is then processed by looking through the files for all conferences featuring Cunningham as the presenter.

With XML, data can be sorted and arranged according to the need of the individual requesting the information. This means catalogs, article archives and other databases can be repackaged for different users many times over. To sum it up, businesses that use XML to create e-commerce sites can:

- **Reuse and repurpose information quickly and efficiently.**
- **Reduce maintenance costs.**
- **Design flexibility into the system.**
- **Share information easily inside and with business partners.**

As the Internet matures, companies that want to enter e-commerce will find more and more software that simplifies the creation of Web sites and manages the content. Online catalogs, searchable archives and other databases can be organized to individualize each visitor's experience to his or her needs. ■

Architecture and Infrastructure: Designing a B2B Business

Moving into Internet territory requires a whole new mindset. The new corporate assets are flexibility, integrity, continuous pursuit of value, creating a sustainable advantage, and staff and customer loyalty. But designing a B2B business is more than putting up a Web site. It changes aspects of your organization. Whether you are building a new company or revamping an old one, take some time for planning.

The easiest way to plan a B2B e-commerce business is to create a plan that integrates and includes a go-to-market strategy. The process should begin with a meeting that includes all groups involved in creating the business plan. The purpose of the meeting is to build consensus.

Next, create the go-to-market plan. It should include:

- **Marketing plan and tactical actions**
- **Press plan and tour**
- **Introduction to existing and new clients**
- **Pricing and packaging information**
- **Site traffic promotion**
- **Introductory offers, if any**
- **Partner programs**
- **Internal promotion and explanation**
- **Validation of the business model**
- **Internal communications**
- **Product development and release schedules**

Sales and Distribution Plan

The approach you will take to the development of sales and distribution plans for your B2B depends on whether you are a start-up or an established company. Existing enterprises already have operations and channels to protect (while new enterprises don't) and must take care not to cannibalize those existing channels. If you redesign existing systems, you must do more than make minor improvements.

New sales channels will rely heavily on changing the way the current business model is working. Therefore, you will need to start by doing a total review of current market conditions. Keep the following points in mind when revising or modeling new sales strategies:

- **How will you access business partners?**
- **How will you reduce distribution costs?**
- **How can you increase revenue per employee?**
- **What is the cost of acquiring new clients?**
- **How can you cross-sell to existing market segments?**
- **How can you provide as much self-service as possible?**

The electronic sales process offers many opportunities to improve the quality, speed and cost of bringing purchasers to a decision. Build in features that keep customers who come to your site on the site. Some tech-

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How Channels Are Changing

Here is a quick look at how e-commerce is changing old ways of doing business:

Old Channels	New Channels
Brick-and-mortar distributors	Web distributors and catalogs
Manufacturer's reps	B2B exchanges
Value-added resellers	Information on the Web
Direct sales	Web sales
Geographic distributors	Geographic distributors with Web support
	Self-service sales
	Partner development centers on the Web

Architecture and Infrastructure: Designing a B2B Business

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niques to keep surfers engaged include a self-guided tour of your product or service, as well as self-service sales. If you can get a buyer to make decisions about getting more information about the product, follow it with a demonstration, references and self-configuration.

A key to creating effective self-service sales tools is gathering enough information about the buyer to tailor the sales presentation to his or her needs. One B2B e-commerce firm that does this well is bizbuyer.com. Within the first ten to fifteen-minute session on the site the following actions have occurred:

- **Customer has approved legal agreements.**
- **Customer has provided a profile.**
- **Customer has provided a detailed description of needs.**
- **Bizbuyer.com has distributed the information to its partners.**

The customer then begins receiving on-line quotations from the first three vendors that meet the customer's needs, and is free to contact the vendors directly.

Marketing

It's not enough to have a great system in place to close the sale once the customer arrives at your site. First you must drive him or her there. Customer acquisition costs must be calculated and included in your marketing plan. Acquiring customers is a major issue in developing an e-commerce business.

There are several effective ways of driving traffic to your site. The first is an infomediary approach. Customers want quality content and will return to your site if you provide it. Crafting a strategy for acquiring content is essential. Content can be obtained from existing sources like a company magazine or licensed from other publishers or aggregators.

Once you have content, the next challenge is to keep it fresh and up-to-date. Every strategy should also include using e-mail and bulletin boards. Another technique is to provide customers with a free service or application that is useful, requires registration, and will make them want to return. Examples are online training, project management centers like shared document storage or calendars. B2B companies with cash to burn can also acquire customers through the purchase of competitors. Finally, proper pricing will help you acquire market penetration.

If there is one marketing method at which the Internet excels, it is one-on-one marketing. The technology available allows you to provide customized versions of information and products. Take advantage of it. Every B2B needs to design its customer database to become a **customer relationship management database**. In other words, the data you collect must be available to help everyone who interacts with the customer to customize that interaction. This is integrated Customer Relationship Management, or CRM. Use it. ■

Changing an Organization In Real Time

Preparing a company for dramatic changes is not easy. Being ready for change and making it happen are two different things. Getting a company to commit to embrace the current turbulent business climate is an ongoing management challenge. Attitude is pivotal. But cultivating a can-do culture without terrorizing staff and managers is a balancing act.

How do you manage to get everyone aboard when changes are happening at incredible speeds? It requires that you make everyone aware of the impact the changes will bring to the organization, that they be included in those changes, that there is true collaboration and involvement in the changes. In particular, there must be candid discussions of what will happen as a result of the new business processes being rolled out. Outline the game plan, explain why it makes sense and what the consequences of inaction are. Once the organization had chosen a path, those who will be included must be given the straight facts. Keeping secrets can result in key staff departure at a time the company needs them most.

Relationships

One problem with business relationships is that many organizations keep them in place too long. Relationships that have worked well for years may not work in B2B e-commerce. To guard against staying bound in a relationship too long, take stock of the relationship regularly. Don't just measure the relationship by what the partners have done for each other in the past. Since much of B2B success depends on having the right partners, some tactical introspection is required.

Start the analysis by drawing a map of who us in your business network. Then determine how those relationships can be leveraged to reduce steps, cut costs, and improve the effectiveness of the processes for which they are responsible. If you find that the current business model isn't working, it is time to end relationships and form others that allow you to compete in the marketplace. The B2B market is changing in real time, and you have to change with it. ■

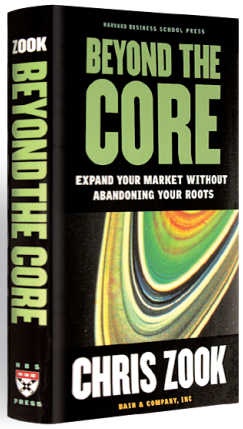
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Beyond the Core

Chris Zook

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Chris Zook

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Expand Your Market Without Abandoning Your Roots

BEYOND THE CORE

THE SUMMARY IN BRIEF

Growth is not a choice: It's an imperative. But the risks are substantial. Only a quarter of all growth initiatives succeed, and three-quarters of the top business disasters of the past five years involved growth initiatives gone terribly wrong. Yet in spite of these dismal odds, some companies experience growth rates that are three times as high as the average over extended periods.

In his previous book, Profit from the Core, *strategy expert Chris Zook revealed how the most enduring growth performers succeeded by focusing and building around one or two well-defined, dominant cores — and how otherwise well-positioned firms sabotaged their growth by prematurely abandoning their core in pursuit of the next "hot" topic. Now, based on extensive research on the growth patterns of thousands of companies worldwide — including CEO interviews with the top 25 growth performers — Zook argues that in order to continue to grow, companies must eventually expand* beyond *the core.*

What You'll Learn In This Summary

Zook's research shows that the best companies fuel sustained growth through carefully planned "adjacency moves" — expansion into areas away from, but related to, the core business. *Beyond the Core* shows managers how to:

✓ Determine when and whether adjacencies make sense, depending on their company's competitive situation.

✓ Evaluate which growth initiatives to pursue, which to avoid, and which to abandon.

✓ Discover their firm's ideal "adjacency pattern": a repeatable formula that will enable quick execution of a series of successful growth moves.

✓ Decide what types of organizational structure, reporting relationships, and decision processes will support adjacency growth.

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The Adjacency Challenge

If businesses have a primal urge, it is the need for profitable growth. That growth is the source of value creation to shareholders. *Beyond the Core* focuses on the question of how to expand a core business into adjacent areas in a way that is profitable and contributes to the strategic objective of expanding, defending or redefining the core business. The intention of this summary is to identify the most universal success factors and provide some ideas that management teams might find useful in improving the odds of an inherently risky undertaking.

Pushing out the boundaries of a core business is one of the most difficult management challenges. The typical odds of success are low. Managers have a built-in bias to underestimate and under-prepare for the ultimate complexity of these moves. Stock price swings and volatility are driven strongly by perceptions about adjacency expansion. And a large proportion of CEO departures occur in the presence of adjacency expansions gone wrong. Yet, in spite of these risks and penalties, the movement into adjacencies is the way that businesses ultimately find their next wave of profitable growth, without which they eventually stagnate and may even decline.

The Decision for Today's CEO

In my interviews of CEOs for this book, I started by asking what they believed were the key events in the development, shaping and growth trajectory of their company. Invariably, they listed key adjacency moves among the most defining events. Andy Taylor of Enterprise Rent-A-Car pointed to the decision to move from leasing cars into renting cars to dealerships, which triggered the business Enterprise has today. Tom Stemberg, founder and chairman of Staples, the lead office products retailer, talked about the movement from retail stores into distribution to small businesses, which spurred a sequence of adjacency moves that reshaped the company. Bob Norton of FTD florists emphasized how critical it was to make an adjacency move with the introduction of FTD.com, which allowed the company to link directly to customers to supplement its network of links between florists and defend its core against new competitors. These types of difficult, sometimes even agonizing growth moves punctuated the historical timelines in the minds of each CEO.

Wal-Mart Vs. Kmart

Consider the following example of how a growth strategy can go awry. In 2002, Wal-Mart became the largest company in the Fortune 500 and the most respected company in the United States, while Kmart drifted into bankruptcy. Both companies opened their first store in 1962. The history of Wal-Mart is one of methodical movement into adjacencies such as Sam's Club, electronics and Mexico, one by one. The history of Kmart is strewn with adjacency expansions gone wrong, from books (Walden) to sporting goods (Sports Authority) and even to a chain of department stores in Czechoslovakia. These failed adjacency moves sapped the strength of Kmart at exactly the time it was under a blistering attack to its core from one of the toughest competitors on earth.

The Promise of Growth

The promise of growth lies in methods that allow you to decide correctly, to tilt the odds in your favor, and to control the cost of failures when they inevitably occur. The examples, data and frameworks analyzed in *Beyond the Core* can help managers make and manage adjacen-

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The author: Chris Zook is a director at Bain & Co., a global management consulting firm focused on making companies more valuable. He is the author of the best-selling business book, *Profit from the Core*, and has written extensively in the business press.

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The Adjacency Challenge

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cy decisions better.

But CEOs facing decisions about major investments in new growth initiatives and pushing out the boundaries of their core business into new territory are right to be concerned. When my team examined the top 25 business calamities (other than Internet companies) of the period from 1997 to 2002, we concluded that a failed strategy to grow into a new adjacency around a once-successful core business was a critical factor in 75 percent of these disasters.

Defining the Adjacency Strategy

Jack Welch, regarding where he looked for growth within GE, commented, "Expanding into adjacent businesses is the easiest way to grow. By challenging the organization to continually redefine their markets in a fashion that decreases their share opens their eyes to opportunities in adjacent markets."

Profitable growth is the wellspring of most value creating in business, and our focus for growth is on adjacency strategies. These strategies have three distinctive features:

1. **They are of significant size, or they can lead to a sequence of related adjacency moves that generate substantial growth.**
2. **They build on, indeed are bolted onto, a strong core business.** Thus, the adjacent area draws from the strengths of the core and at the same time may serve to reinforce or defend that core.
3. **Adjacency strategies are a journey into the unknown, the true extension of the core, a pushing out of the boundaries, a step-up in risk from typical forms of organic growth.**

Understand the Distance of a Growth Move From the Core

A recurring theme of successful adjacency growth is the importance of understanding the distance of a growth move from the core, one indicator of risk and movement into the unknown. We find that companies continually underestimate how much they do not understand, taking on risks and future obligations that are greater than they may have realized. A second theme of successful adjacency growth is the importance of understanding the true strength of the core to support new growth. Again, we find that companies sometimes overestimate the ability of their core business to support new growth.

Not surprisingly, we also found that more than 40 percent of non-retirement CEO turnover was in the presence of a major adjacency move that had gone wrong or that was highly controversial. Tom Stemberg of Staples notes, "Adjacency expansion is one of the two toughest decisions I faced as a CEO, the other being the creation and retention of the best possible management team."

Three Truths

The following three truths reappeared over and over in our study:

1. **Adjacency expansion is successful only if it is built around the strongest cores that have potential for leadership economics.**
2. **The best adjacency expansion strategies have a repeatable characteristic allowing the company to build an adjacency machine that continually creates more growth opportunities of a similar nature.**
3. **The best place to look for adjacency opportunities is in the strongest customers.** It is not in the search for hot markets, the next big deal, or in corporate studies. Your customers' potential adjacencies become your own potential adjacencies. ■

Successful Moves

What are successful adjacency moves, and why are they so important? An adjacency move could take many forms:

✓ *A shift from a flagging product business into services*, like the creation of IBM Global Services that rescued the company.

✓ *A foray into a major new customer and product arena building on the strengths of a core business*, like the repeatable adjacency formula that Nike developed to enter sports, from running to basketball to golf.

✓ *The leveraging of a core asset to create a totally new business*, like the creation of the Sabre reservation business by American Airlines.

✓ *Migration into new geographic adjacencies*, like the string of acquisitions by Vodafone, which transformed that company from a small, local wireless operator in the United Kingdom to the world leader in cellular phone services.

✓ *The addition of major new product lines to a distribution network*, like the Lloyds Bank strategy of applying retail techniques to its branch bank network, thereby adding products from mortgages to insurance, and reversing its position from one of the worst to one of the best performing banks in the world.

For Additional Information on how Lloyds Bank revitalized itself through adjacencies, go to: http://my.summary.com

Playing the Odds

In looking at adjacency expansion moves, my research team and I combed the literature, and conducted our own independent analysis to understand as completely as possible the odds that major growth initiatives would truly drive a new source of sustained, profitable growth. We found, in our own data as well as in the secondary data, the success rate to be only about one in four. *Just 25 percent of investments in growth initiatives, most of them true adjacency expansions, created value and added to growth.*

The average success rate for new products is about 30 percent; for startups, below 10 percent; for joint ventures, about 20 percent; and for related acquisitions, about 30 percent. Studies of these initiatives span a wide range of methods and quality of data, but all show how hard it is to find and execute on new sources of growth in a company.

The unpredictability of the market can taint every adjacency move. It is important to focus on the controllable dimensions of adjacency expansion moves that can either lower the cost of failure or increase the odds of success.

The Pressures for Adjacency Moves

A somewhat surprising finding in this study of the search for profitable growth is the extent to which pressure to make adjacency moves exists across the gamut of business situations. It is felt by strong leaders who are gushing cash, and have opportunities hurtling at them from all directions, as well as by companies whose industries are in decline, or are falling hopelessly far behind competitively, and who wonder if they should make one final attempt to leap to a new lily pad.

Strong leaders in robust markets epitomize the epithet of Sun Tzu: "The more opportunities I seize, the more opportunities multiply before me." Strong core market growth can actually heighten anxiety about finding future sources of profitable growth to maintain such exceptional momentum.

Strong leaders in weak core markets face a different dilemma. Organic expansion plus "close-in" adjacency moves might not be enough to satisfy their investors' aspirations — or their own. However, one company's adjacency is another company's core.

Paradoxically, leadership businesses have the most to lose in adjacency expansions. Their valuable core franchises would be put at risk by major forays into the wrong adjacency or by premature abandonment of the core as an investment vehicle. And this risk is compounded by the abundance of temptation: The strongest businesses with cash to invest have opportunities brought to them every day. During discussions of adjacency expansion, Sir Christopher Gent, CEO of Vodafone, remarked that CEOs should be judged by the opportunities they decline as well as those they accept.

At the other end of the spectrum are businesses in weak competitive positions or collapsing core markets whose management would like nothing better than to jump to a better position, even a different business. However, the data show that few weak followers — in fact, only about 5 percent — materially change their positions over time. ■

Turbulence

Another situation in which adjacency expansion tempts management teams is when an industry is in turbulence. Turbulence can take a variety of forms. One form is when an entire sector that has been protected from the full pressure of competition suddenly has its protective shield removed. An example is the deregulation of public utilities in the United States in the 1990s, when company after company rushed into adjacencies ranging from telecommunications to global expansion to financial hedging.

A second form of turbulence is the rare, but stressful, situation of the *melting core*. A core melts down when the industry or market itself is in rapid structural decline. What happened to the typewriter industry with the advent of word processors is an example. The magnetic tape industry's giving way to optical storage is another, and the photographic film industry's encounter with digital imaging is a third. In each of these situations, companies like Imation (in storage) or Polaroid and Kodak (in photography) have faced strong pressure to find adjacent moves to serve as stepping stones to a more stable future.

For Additional Information on learning the six adjacency vectors, go to: http://my.summary.com

Repeatability for Successful Growth

Repeatability is the essence of mastery and control. "Relentless repeatability" was a phrase used by golf legend Ben Hogan to describe the driving force behind his professional success, and it is an apt term for one of the most critical elements in the growth of companies, the discovery of a repeatable formula to drive profitable growth.

Mastery at the customer level and control over competitive dynamics are the keys to earning profits in business. Focused companies that have a strong or dominant

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Repeatability for Successful Growth

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core and that hit on a repeatable formula for extending their strength to new arenas are the breeder reactors of business. About two-thirds of the most successful, sustained-growth companies studied in depth for this book have one or two powerful, repeatable formulas, "adjacency machines" that generate waves of new growth over time.

These singular moves, like atoms connecting to form molecules, can be combined into a series of interlocking moves. Sometimes there is an opportunity to make a series of similar single-adjacency moves, like Vodafone's serial acquisitions of local providers to build a global wireless network. Other times, there is an opportunity to create a sequence of moves of various types that truly redefine the core business.

Root Causes

Three critical factors, potentially the most important three root causes of sustained and profitable growth, coexisted in at least 18 of the 25 companies we studied. The results of our studies could be boiled down to these three elements:

1. Each company had a strong core that constituted a stable and suitable launching pad for a sequence of growth initiatives beyond the core.

2. These companies hit upon a repeatable formula for adjacency expansion that generated strong economic and competitive benefits in its repeatable application.

3. These companies' formulas were, 80 percent of the time, built around specific and deep insights about customer behavior that could be replicated in different products, segments or circumstances with high odds of success and profit.

Only about 15 percent of the adjacency formulas were based on clear scale economics of production in the build-out of a network. Fewer than 5 percent of the cases of repeatable adjacency expansions were situations of unique business models, or capabilities, that could be applied over and over to new competitive arenas.

The Competitive Advantage

Finding a repeatable method of moving into new adjacencies, one after the other, has several clear benefits, each of which contributes to competitive advantage:

- **Learning curve effects:** A repeatable model allows an organization to be built around it, creating an adjacency machine with its own processes that can move down a learning curve in repeated application.
- **Reduced complexity:** In our discussions of Procter & Gamble's ability to consistently outgrow its industry, CEO A.G. Lafley emphasized that "complexity is the bane of a large organization. It strangles growth. It strangles everything." Repeatability allows fewer organizational variations.
- **Speed:** Speed is essential to growth. Doubling the speed at which an adjacency succeeds has a material impact on the growth rate of a business that is constantly attacking new areas surrounding its core. Repeatability dramatically lowers cycle time relative to the practice of shifting gears from one area to another.
- **Strategic clarity:** Clarity of communication about the growth strategy affects investor and employer confidence. The ability to describe a repeatable approach, constantly adapted to a range of new conditions, has a powerful influence on investors and employees. STMicroelectronics CEO Pasquale Pistorio has repeatedly emphasized strategic clarity: "I now believe that any good strategy must fit on a single page, emphasize the clear competitive advantages, and show how that can be used over and over again."

Understand Details and Their Execution

- **Ability to "drill down":** For many businesses, the key to growth comes from a *drilling down*, that is, an understanding of the details of the business and the execution of them.

These benefits are the hallmarks of companies that are the most successful at expanding themselves through a repeatable method. Repeatability can create a sizable competitive barrier.

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Nike Vs. Reebok

A remarkable study in contrasts of repeatability versus non-repeatability is the story of the competitive battle between Nike and Reebok. In 1990, the two companies had uncannily identical financials. Nike's revenues were $2.3 billion; Reebok's were $2.2 billion. Nike's operating income was $481 million to Reebok's $300 million. Both companies were almost entirely focused on athletic shoes, with Nike focused more on performance athletes, while Reebok's focus was somewhat more diffuse. Both had well-known brands. By the end of a 10-year period, the companies' fortunes were quite different. Nike's market capitalization had increased by 380 percent while Reebok's had shrunk in half. Nike had a clear strategy apparent to all constituencies, consisting of a repeatable method it had developed and refined over the decade to attack one sport after another. Reebok's path was a mystery to those covering the company.

Repeatability for Successful Growth

(continued from page 5)

Mining Customer Insights for Repeatability

Throughout the CEO interviews we conducted, we constantly heard the refrain that not only does everything start with the customer, but also that the CEOs were constantly finding that their organizations did not really understand the customer's needs, behaviors, frustrations, categories and situations as well as the CEO thought they should. Furthermore, every time they invested the resources to get closer to the customer, they often found new sources of growth — sometimes organic growth in the core, occasionally a new vector of adjacency growth, and, sometimes, even the basis of a repeatable formula.

Pasquale Pistorio of STMicroelectronics agrees: "I insist that we keep total humility about customer knowledge. Almost all of our major new sources of growth have come because of this. When we have diverted to ideas not driven by the customer, like the ST personal computer chip or the PC graphics, we found we did not succeed, because we were not close enough to the customer and could not drive the speed of innovation fast enough without that intimate knowledge."

Throughout the case studies, more than three-quarters of the most successful companies had a repeatable formula, and three-quarters of those that did built the formula around insights related to customer behavior and customer segments. The key insights underpinning all these successful, customer-centric growth formulas originated from a relatively small number of ways to look at customers' needs.

The Primary Lenses

There are five primary lenses for looking at a core customer base in search of new forms of profitable growth. These lenses each uniquely focus on the following five dimensions:

1. Customer Economics and Profit Drivers: One of the most powerful ways to identify potential adjacency opportunities is through the detailed understanding of the cost and profit economics of key customers. Companies can create expertise in this capability by building organizational skills that allow them to understand the full economics of the customer's business drivers as completely as the customer does. A company may develop a deeper understanding of the customers' most vexing problems than the customers themselves have.

2. Customer Share of Total Spending ("share of wallet"): On average, share-of-wallet adjacencies — that is, the selling of highly related products to customers you know intimately — have the highest success rates among adjacency types. Building growth on proven and tested customer behaviors regarding multiple purchases is still one of the best strategies.

3. Customer Life Cycle of Events and Purchases: One way to identify the potential for share-of-wallet adjacencies is to look across the life cycle of the purchases of an individual customer, searching for linkages among purchases that create a chain of adjacency expansion opportunities. Rapid prototyping, testing the key behavioral assumptions rigorously, and then responding rapidly to proven success are key.

4. Customer Segmentation: Segmentation can create new opportunities either by identifying new geographic or customer segments to attack using the direct model, or by taking an existing segment and subdividing it to achieve greater customer focus.

5. Customer-Based Product Regimens: Some of the most difficult growth environments for business, like the world of consumer products inhabited by Procter & Gamble, may force companies to rise above their conditions and to push the boundaries of techniques to mine new adjacencies. P&G's ability to consistently find major new growth opportunities from deeper and deeper detailed customer knowledge holds lessons for all. Many of its approaches to turn its repeatable stream of customer insights into true moneymakers today involve open-market innovation, whereby a business unit fills in missing capabilities by looking outside its walls into other units in the company or by looking outside the company. ■

Evaluating Adjacency Moves

Adjacency moves are business journeys into the unknown. The most successful growth companies, like Dell, Vodafone, Lloyds TSB, P&G and Staples, insist on the most rigorous criteria for deciding what to pursue, and especially what not to pursue. While all the companies looked at a lot of data, each had a relatively short list of clear, agreed-upon criteria that the company determined were right for it.

Take, for example, Vodafone. To deal with the constant series of major forks in the road, Vodafone has honed a decision process that pays particular attention to three dimensions: the potential for leadership economics and market control in the new adjacencies, the robustness of the potential profit pool, and a clear sense of the relatedness of the adjacency to a strong existing core.

Deciding How to Decide

The average strong core business has typically 80 to 110 possible adjacent moves surrounding it at any one time. Perhaps the firm actually evaluates 15 to 20 of these per year. Deciding how to decide is crucial in order to avoid mere expediency, excessive complexity,

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Evaluating Adjacency Moves

(continued from page 6)

or excessive decisiveness. The best companies have honed their criteria and processes for adjacency decisions to a military precision. The most successful companies at adjacency expansion also have some of the most restrictive criteria.

One common attribute across most companies with the most evolved decision processes for growth is experience with periods of both strong success and disappointment. Another factor at play is the explicit recognition that rationality in human decision-making is inherently imperfect. The companies best able to pursue growth opportunities are aware of the need to impose rules and structure on their own decision-making process.

Three Success Factors

● **Success Factor One: The best adjacencies build on and reinforce the strongest cores.** Relatedness to a strong core is the most powerful and reliable engine of value creation by pushing out the boundaries of a business. Lord Ian McLaurin, chairman of Tesco, describes how his company's method evolved: "The key to our model was 'Keep it simple, stupid.' We knew we were a supermarket and only invested in things that we could prove our customers really wanted. The same list came up all the time, like petrol, coffee shops, greater freshness, or easy parking. So, we decided to invest all of our money in these areas in improving the model or extending it into new areas."

● **Success Factor Two: Drive adjacencies toward the most robust profit pools.** A profit pool is different from a market. A profit pool evaluation is designed to embody the size of the industry, its current and potential profit dollars, and the extent to which those earnings could cover the cost of capital for the leading players. Some industries, like the airline industry, have decade-long histories of not earning their cost of capital, with the exception of companies with highly specific ways to segment the market, lower their costs, and create profitability. The prism of profit pools is the way to view the fundamental attractiveness of a market, given its size, growth rate, economic structure (capacity conditions and competitive conditions), and customer alternatives.

● **Success Factor Three: Insist on the potential for leadership economics.** The decision to make a major investment to push out the boundaries of a core business into an adjacent area requires a clear view of the reinvestment and cash requirements in the future. If you do not have the potential to ever achieve economics equivalent to the leader, then you may be constantly outinvested or put in a position of having to match the leader's investment to achieve lower returns. The true power of leadership economics resides most often in the ability to generate higher margins through lower costs. Studies at Bain & Co. have found that 80 percent of the difference between a leader's profits and those of a more distant follower is due to unit cost levels.

When all three adjacency success factors hold at once, new, profitable growth usually is worth pursuing, given organizational capacity to execute.

Common Pitfalls in the Evaluation of Adjacencies

Several pitfalls in accurately evaluating growth opportunities were highlighted repeatedly in the CEO interviews and our other research. A more rigorous decision process can help a business executive avoid these and other common pitfalls:

● Mistaking a large market for a large profit pool.

● Failing to understand how tightly the profit pool is controlled by a competitor.

● Misunderstanding the root cause of market power, thereby defining leadership in the wrong way.

● Underestimating how today's competitive dynamics will shift tomorrow's profit pool.

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For Additional Information on how to assess the distance of an adjacency from the core, go to: http://my.summary.com

Mapping the Profit Pool

In mapping out a profit pool, it is first necessary to decide on the definitions and boundaries of the relevant markets. These could be defined by geography, stage in the value chain, current owner, product, end user, time phase, channel, or distance from the relevant core business. In addition, it is important to think about what constitutes profit. Is it pure dollars, or is it dollars earning more than the cost of capital? Is it potential profit under a new economic model? Just asking these questions of a growth initiative can be quite clarifying. Once the definition has been decided on and information has been assembled, it is worth considering the full range of profit pool effects that come into play:

- ✓ **The direct profit pool entered by the adjacency move.**
- ✓ **The impact of the adjacency move back on potential profitability of the core business.**
- ✓ **The impact of the core business on the adjacency.**
- ✓ **The option values of the move in creating further opportunities.**
- ✓ **Profit pools of customers, suppliers or complementary products.**

GE Capital

At GE Capital, the tremendous success of past acquisition-driven growth was becoming a less likely growth engine of the future, given the increased costs and scarcity of the right acquisition. The company recognized that it had unrealized potential in its core and embarked on a major program of training, tools and measurement systems that it called Find, Win, Keep (FWK) and later evolved to a program called Core Customer Connectivity (3C). The result was a booster rocket in its 25 operating units that fueled another wave of growth in the core. If you have a major, full-potential gap, consider a high-intensity initiative to bridge the gap, creating the platform for the next wave of adjacency expansion, rather than chipping away.

Evaluating Adjacency Moves

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- Not doing adequate homework on relative cost position across competitors, thereby underestimating the true economic strength of the leader.
- Falling prey to the tyranny of incremental economics and, in doing so, dismissing the importance of leadership economics in reinvestment.

Overarching these specific areas of potential failures of decision-making is what I term the *tyranny of apparent strategic rationale*. In certain situations, this creates an enormous pressure to act, even if the numbers do not add up. Untested assumptions about customer buying preferences are other sources of siren songs, which have led many companies into massive and costly adjacency moves that they have subsequently had to unravel. Assumptions about customer bundling or competitive mimicry can also be powerful enough that they compel management teams to forgo the usual analysis and concept testing. This has proved to be a dangerous route. ■

For Additional Information on a few more practical insights into adjacency strategy analysis, go to: http://my.summary.com

Executing Adjacency Moves

Most organizations inhibit growth. Why? They are often set up to protect the status quo, but growth is not about the status quo. Organizations tend to become more complex and more internally focused over time; each can stifle growth. The strongest core businesses have the muscle to retain their best people, as probably they often should. Yet the gravitational pull of the core can stem the flow of talent to new opportunities. The opposite response of creating such a magnetic pull in the new, "hot" adjacency that it depletes or distracts the core can be equally harmful. These natural tendencies of organizations need to be managed if a company is to achieve sustained, profitable growth.

CEO Insights

The CEOs interviewed for this book returned over and over to organizational factors that they believed had shaped success or failures in their experience:

Michael Dell says, "The unique structure of our organization makes it especially easy for us to move into new customer or product adjacencies. We have developed a formula for this that we apply over and over again, from reporting relationships to the transparency of our financial reports."

Tim Eller, CEO of Centex Homes, the major home builder with the best record of sustained, profitable growth, speaks of his company's organizational process: "Our new adjacencies always report to the CEO at the start in order to make sure that they get the proper care and feeding and to give us a chance to figure out the best long-term organizational solution. We spend enormous attention on the way that we later shift the business to become more tightly linked to the core, while trying to maintain enough autonomy.

Andy Taylor, CEO of Enterprise, also stresses the importance of organization: "We have spent a lot of time working on how to organize ourselves in ways that keep the adjacency tightly linked and controlled by the core, but do not stifle independent thinking. We start new businesses in our strongest three markets first. I attend all business updates on our learning in the new business. We believe that adjacencies must have the best and the brightest, and we have learned that if we do that, we can keep accountability like we do in the core business. We want the accountability to be no different than in the rest of the business."

Consider the fact that virtually all of the CEOs went out of their way to stress the organizational challenges of adjacency expansion.

Beyond the Core

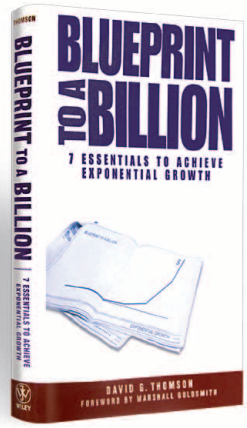
Adjacency expansion is a specific method to achieve growth. It is different from market growth, from diversification, from venture capital, from cost and price cuts, from combining with your main competitor, and from programs to improve the loyalty of current customers. Yet, adjacency expansion is what CEOs today identify as the primary way they hope to achieve their next major wave of new growth. As we have seen, the potential is great to create value from well-executed moves that push out the boundaries of a strong core business. ■

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Blueprint to a Billion

David G. Thomson

SOUNDVIEW Executive Book Summaries®



By David G. Thomson

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BLUEPRINT TO A BILLION

THE SUMMARY IN BRIEF

Microsoft, Google, eBay, Staples, Genentech, Starbucks, Nike and Harley-Davidson … these are just a few examples of an elite group of companies that have managed to turn billion-dollar ideas into billion-dollar businesses. What did these and other high-growth companies do to achieve such a goal? What blueprint do they follow to produce such results? Based on three years of in-depth research, this summary provides a quantitative assessment of the success pattern common across a distinct group of 387 "Blueprint Companies" that went from an initial public offering since 1980 and achieved $1 billion in revenue. They represent America's highest growth companies; they uniquely achieved exponential revenue growth and returns.

This summary is not about one unique company, its innovation and the financial returns it achieved. It's about the quantifiable, success-based pattern — independent of economic cycles or industries — that winning companies follow to produce the performance many admire and desire to emulate. These Blueprint Companies are known not only for their innovation, but also for their exponential revenue and returns — growth irrespective of economic or business climate.

It's about how you can use seven common essentials to better your business, organization, team or yourself and produce exponential growth. It's about taking the actions that matter while avoiding the pitfalls.

The bottom line is not about the coolness of the brand, the positioning of the business, or the pedigree of the CEO. Those can be important inputs; however, it is exponential revenue growth that makes a great company — so long as the management team ethically seizes the opportunity that it creates to achieve profitability, maintain positive cash flow, and produce high return on capital.

In addition, you will learn:

- ✓ ***How to create and sustain a breakthrough value proposition.***
- ✓ ***Why it is important to exploit a high-growth market segment.***
- ✓ ***Why "Marquee Customers" shape the revenue powerhouse.***
- ✓ ***How to leverage alliances to break into new markets.***
- ✓ ***How to become the master of exponential returns.***
- ✓ ***Why the management team is important in achieving growth.***
- ✓ ***How to build a board comprised of essential experts.***

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BLUEPRINT TO A BILLION

by David G. Thomson

— THE *COMPLETE* SUMMARY

The Blueprint Thesis

The odds are one in 50 that an idea becomes a business, one in 20 that a funded business sees an *initial public offering* (IPO) and, finally, one in 20 that a public company achieves $1 billion revenue. The odds of turning an idea into a billion-dollar business, then, are one in 20,000! A long shot. Nevertheless, we chase this dream. We want to be among the few winners.

What does it take to become a billion-dollar company? The answer came from a quantitative and fact-based analysis of America's fastest growing companies.

The Blueprint Companies have a simple but definable characteristic: They not only grew fast, they exhibited exponential revenue growth. Exponential growth is super-compounding. It describes companies that can double revenue every year.

When the 387 Blueprint Companies are compared to the 7,454 American companies that went public since 1980, they represent 5 percent of these companies and account for 56 percent of employment in 2005 and 64 percent of market value! (The list of Blueprint Companies is available at www.blueprinttoabillion.com.)

Significant Insights About Blueprint Companies

By first looking at the financial patterns of Blueprint Companies and defining the actions required to create their financial impact, it is possible to reverse engineer the behaviors and skills required. Like a rocket, these companies need to be on the right flight trajectory and have the speed to break the pull of gravity — to escape being a mediocre, low-orbiting projectile. The *exponential* revenue growth curves have these three parts:

1. A variable runway. The *time to the inflection point* was highly variable from the founding year to the inflection point. For instance, Google went from its founding to the inflection in two years while Cisco took seven years to get to that point. In an extreme example of a lengthy timeline to the inflection point, Fifth Third Bancorp had its beginnings in the middle of the 19th century.

2. An inflection point where revenue breaks out into an exponential trajectory.

3. Variable growth rates to $1 billion revenue that follow a four-, six- or 12-year trajectory. ■

Create and Sustain a Breakthrough Value Proposition

Whether the industry is chemicals, clothes, technology or financial services, Blueprint Companies have a big idea. It's an idea with legs: a set of breakthrough capabilities that delivers high value to customers. These capabilities come in the form of breakthrough products, breakthrough services or breakout levels of new value.

These are value propositions — clear statements of the tangible benefits a customer gets from acquiring and using a company's product or service.

Essential #1: The Blueprint Value Proposition

Every Blueprint Company had a compelling value proposition. All were founded on the delivery of a breakthrough set of customer benefits that went far beyond mere improvements to existing products and services. They may not have reinvented the proverbial wheel, but they have come close, delivering breakthrough products and services better, faster and cheaper than what existed previously.

It requires more than a breakthrough product. The product innovation has to be aligned with the needs of the outside world. When the product is good and the environment is ready — that's when a breakthrough innovation becomes a breakthrough value proposition. Blueprint Companies create breakthrough value propo-

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The author: David G. Thomson has been leading business growth for 20 years in general management and sales and marketing at Nortel Networks and Hewlett-Packard. He also served as an associate principal during his five years at McKinsey & Company.

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Create and Sustain A Breakthrough Value Proposition

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sitions by asking these three critical questions:

- **What market segments are we addressing?** Blueprint Companies can create new markets, redefine existing markets or optimize mature markets. But in each case they are aligning their contribution to the unmet needs of the outside world. Genentech created a new market in biotech products, Starbucks refined an existing market, and JetBlue has invigorated a mature market.
- **Who are our targeted customers?** Blueprint Companies see *people* on the other side of their products. They design their products or services for their customers. Michael Dell used to bring customers up to his dorm room at the University of Texas where he developed his latest computers and from there developed his company.
- **What benefits are we delivering?** Blueprint Companies also recognize that there are two kinds of benefits: functional and emotional. For JetBlue, the functional benefits include on-time arrival and departure, nonstop flights, and a choice of flight times. The emotional benefits include enjoyment, comfort, and peace of mind.

The best Blueprint Companies fall into one of the following three categories:

1. Shapers of a New World (57 percent of the Blueprint Companies) truly create a new market for their products and services. These companies include eBay, Amgen, Medtronic, Cisco and Genentech. This category also includes companies, such as Broadcom, that arrive just in time to fill a critical gap, unlocking new worlds of services and products.

2. Niche Shapers (33 percent of the Blueprint Companies) are companies, such as Starbucks and Harley-Davidson, that followed the *Shapers of a New World* with products or services that redefined a specific market segment. Another type of market niche is one that offers an alternative to the incumbent.

Redefining the market in the context of an established market can be achieved by fulfilling an unmet need with a highly differentiated service or product. The company must offer higher-order benefits such as superior capabilities or emotional benefits not found with adjacent market peers.

3. Category Killers (10 percent of the Blueprint Companies) optimize a market by attacking the existing incumbents with a better-faster-cheaper value offer. These companies include AutoZone, Best Buy and Home Depot.

Creating Breakthrough Customer Benefits

Blueprint Companies deliver more than functional benefits. They deliver intangible benefits with high emotional value. Offering customers higher-order emotional benefits creates strong customer loyalty. The higher a company goes from functional to emotional benefits, the greater the value and the better the margins. What a company offers is assessed by users for its functional benefits and its emotional benefits. Providing emotional or intangible benefits results in customers giving "permission" to providers as they endorse these broadening benefits. ■

Create and Sustain Exponential Revenue Growth

Exponential revenue growth is the distinguishing characteristic of Blueprint Companies. Creating and sustaining exponential revenue growth are often the hardest part of building a business. It's not so difficult to find great teams who knew how to spend and investors who knew how to invest. Developing markets, customers and alliance partners, however, is the much more challenging part. Blueprint Companies have found these three common essentials of revenue-building:

- They exploit high-growth market segments.
- They build deep relationships with their best customers.
- They develop alliances.

Essential #2: Exploit a High-Growth Market Segment

Opportunities exist in many industries. Fresh industries such as biotechnology and Internet retail spawned multiple Blueprint Companies in the 1990s. Still, industries such as specialty stores generated the highest number of Blueprint Companies with 18 firms.

Specialty stores are omnipresent retail chains that sell anything from tire jacks and spark plugs in one case, to office supplies in another, to kitchenware in a third. There has been a revolutionary proliferation of these retailers in the last decade and it is not only due to smart marketing and an inflow of consumer dollars. It is also part of a technological revolution in companies, product scanning, satellite-sent data and real-time tracking of inventory that has made massive retailing possible.

Technology also plays an important role in the distribution and supply chain of the niche housewares players. "If you can operate with 20 percent less inventory or 60 days less manufacturing time, that is huge leverage," says Howard Lester, Chairman of Williams-Sonoma. ■

For additional information on specialty retail stores, go to: http://my.summary.com

The Big Picture: Lessons From America's Top Markets

Powerful lessons can be derived from what top leaders have shared about why certain industries form the

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The Big Picture: Lessons From America' Top Markets

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backbone of the Blueprint Company set. Here are five:

1. Most of the Blueprint Companies are growing in mature markets, not newer industries such as Internet retail.

2. Top Blueprint Companies used best management practices and technologies to stay close to their customers.

3. Exponential revenue growth requires multiple product lines or service offerings.

4. Blueprint Companies partner with suppliers to lower cost for product delivery and product differentiation.

5. Import the talents and lessons from adjacent industries.

Essential #3: Marquee Customers Shape The Revenue Powerhouse

Customers can be more than customers. The best of them can serve as an extension of your sales force. These "Marquee Customers" are customers who shape the company by testing and deploying the product, recommending the company to their peers, and simply by providing exponential revenue growth on a per-customer basis. For example, eBay's top customers are part of a feedback system that helps shape eBay's new services. These top customers are also a powerful word-of-mouth sales force to attract other customers.

The underlying driver for corporate exponential revenue growth is exponential revenue growth within each of these customers. Maximizing customer life-cycle revenues is fundamental to achieving exponential revenue growth per customer.

Deep Relationships With Valued Customers

It is not just about the number of transactions a company completes. It is not even about just selling hard. Rather, *it is about securing deep relationships with a limited number of valued customers who become the rising tide for exponential growth.* To be sure, they will not account for all revenues. However, at Blueprint Companies, these deep relationships account for a disproportionate share.

These are the Marquee Customer relationships — like the booster stage on a rocket going into orbit, they supercharge growth. Marquee Customers are people or companies with such sparkling reputations that their glow extends to whomever they do business with. They give companies credibility and instant status — sort of like having Michael Jordan dropping by your driveway to shoot hoops with you.

Marquee Customers help companies in three ways:

1. Product Consumer. They test and deploy the product. If the product is deficient, they will say why. If the product is good, they will place an order.

2. Value Proposition Shaper. They co-develop the value proposition. They can tell you if your value proposition is good for them, regardless of how good it seems to you. Marquee Customers help the management team shape the business. Therefore, the choice of which customers to sell to is critical to early execution of the company's strategy.

3. Lighthouse Reference. They serve as a reference and sell to peers. Like a lighthouse, they draw attention to up-and-coming companies by offering recommendations and references to their peers in the same way you would tip a friend off to a good painter or plumber.

Marquee Customer buyers not only give Blueprint Companies "instant credibility," they increase their revenues dramatically. Joe Scarlett, CEO of Tractor Supply, describes his company's Marquee Customer relationships: "We have a small percentage of customers who are not only important but very loyal to us. This small percent of customers accounts for a significant percentage of our business." These customers come back time and time again.

Marquee Customers are not just adequate engines of revenue: They help Blueprint Companies become revenue powerhouses. The more effort a company puts into becoming a revenue powerhouse, the greater the chances of getting to $1 billion revenue.

Start by Securing a Customer Beachhead

Blueprint Companies find a customer champion that buys their product for the first time. Once they gain their beachhead, they quickly begin to develop their long-term relationship with their Marquee Customer that, in turn, shapes them and their success.

They do this by uncovering a latent or unmet need by asking many questions. They identify an innovative solution to that unmet need. Providing a unique solution for an unmet need can provide a unique win-win opportunity for them and their customer.

Finally, Blueprint Companies do not just look for a transactional sale; they fulfill a higher-order need and in this way maximize customer revenues over a period of years.

Capture the Mind of the Customer

Blueprint Companies not only act differently than slow-growth companies, they also think differently. They are truly guided by a mission. They have a "big picture" that motivates management, electrifies the brand and excites customers. Capturing the mind of the customer adds significant value to why they will want to do business with a company for the long haul. It underscores:

- A compelling emotional benefit.
- A road map of new services or products to come.
- The company's potential to serve a "greater good."

What is remarkable about the big ideas of Blueprint

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For additional information on how Cisco developed a Marquee Customer philosophy, go to: http://my.summary.com

The Big Picture: Lessons From America's Top Markets

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Companies is that they are synthesized into a simple, crystal clear concept that is aligned with a higher-order benefit that encompasses functional and intangible benefits. These intangible benefits create permission from customers to rapidly extend and add new products or services and importantly provide endorsement to other customers.

Find Your Marquee Customer

Executives often underestimate the time needed to develop deep customer relationships. Comparing this cycle to the product-development cycle, which can be much shorter, can be a reality check for managing priorities and lead times.

Marquee Customers are regarded as the thought leaders of the industry. They are not necessarily the largest, but they are regarded for their innovation and problem-solving skills. They may be identified either by the name of the company or a leader's reputation within a company.

You can also look for these customers among industry giants that drive or set industry-leading standards. Their commitment to a supplier is the testament required for others in the community to follow their lead. For example, being a supplier to Wal-Mart is a testament that these companies are of a price, quality and supply-chain standard worthy for others to consider.

To access Marquee Customers, try to become friends of their friends. Determine who their advisers are. Get to know them and ask for a recommendation. Go to professional associations in order to meet their executives.

Blueprint Companies developed deep relationships with Marquee Customers so that their customers became their best sales force.

Customer Life-Cycle Revenues

Blueprint Companies created exponential revenue growth with these customers using the following set of variables that maximized customer life-cycle revenues:

- **Product scalability.** This variable describes the size of the initial product sold — small or large. Because the customer has a choice of which size to buy, marketing and sales can influence this decision.
- **Revenue per unit.** Independent of size, revenue per unit is critical if the price per unit is low. Then, volume is more critical in order to generate the revenue required. The ability of the sales force to negotiate the best price per unit is critical to maximizing gross margins.
- **Number of customers.** The ability to attract and retain customers varies depending on the value proposition, target market and effectiveness of the sales force.
- **Frequency of purchases per customer.** If companies have low-priced products, then along with a high number of customers, high frequency of purchase is important to generating high revenues.
- **Number of new product extensions.** Maximizing a company's portfolio of products or services increases the number of customers and the revenue per customer.
- **Geographic coverage.** Companies need a diverse geographic coverage to increase the number of customers served or increase the revenue per customer.
- **New lines of business.** Companies expand into new lines of business to grow revenue or create pull for their core business.

Essential #4: Leverage Big Brother Alliances for Breaking Into New Markets

The complement to a Marquee Customer relationship is a "Big Brother-Little Brother" alliance relationship. These alliances, in which a bigger company helps a smaller one, provide credibility to the Little Brother, give it market intelligence, and lead it to Marquee Customers. It is a two-way street. Big Brothers also need Little Brothers to help them remain on the cutting edge of innovation.

Building new businesses requires assembling a host of new capabilities such as manufacturing, emerging technologies to complement the core value proposition, channels to market, geographic expansion, and systems integration. Certain companies require speed and flexibility in order to access the capabilities of others. Creating alliances requires less capital commitment and risk than do acquisitions — a big advantage when a company lacks scale and management capabilities.

Blueprint Companies abound in Big Brother-Little Brother relationships: Microsoft had IBM; Siebel had Microsoft and Andersen; eBay had AOL; Genentech had Eli Lilly; and Yahoo! had AT&T WorldNet. What do these relationships have in common? In each case, the Blueprint Company, the Little Brother, created a company-shaping alliance with an established Big Brother, an industry giant. This relationship helped the Little Brother get on its feet and enter a trajectory for $1 billion in revenues. Similarly, the Big Brother benefited in a significant way from its Little Brother, often in its help in solving a critical strategic or operational challenge.

This alliance pattern remained unchanged across boom-and-bust economic cycles. Little Brothers and Big Brothers *need* each other. Blueprint Companies leverage their success by forming successful alliances.

Getting Alliances Right

In an era of rapid market evolution, do the following to create a well-structured alliance agreement:

- **Choose the right agreement.** It is not always desirable to invest in a formal contract before the value of the partnership is clear to both parties. Choose an agreement

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The Big Picture: Lessons From America's Top Markets

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acknowledging uncertainty and nature of contributions.

- **Avoid granting exclusivity — but always push for exclusivity.** Hedge your bets by relying on multiple partners. Allow market forces to define de facto exclusivity.
- **Use equity to encourage mutual performance.** Contrary to popular belief, equity does not guarantee performance. Think of equity as an incentive one may pay out in the long run if the partnership is effectively executed.
- **Commit business unit heads along with the CEO of the small company to champion the alliance.** Senior executives on both sides should be champions of the alliance. Their names should be written into the agreement.
- **Have an exit strategy that includes triggers based on performance or market conditions.** This should include how assets and intellectual property created during the partnership will be distributed. There are three typical evolution paths: Buy the company, buy the intellectual property, and grow together or grow apart.

Scale Alliances Based on Success

In order to increase the odds of success, many Blueprint Companies institutionalize their successful alliances so that other companies can participate. In 1998, for instance, Siebel launched a formal alliances program modeled after its Big Brother alliances with Microsoft, Andersen (now Accenture) and IBM. The program featured a comprehensive set of technical and marketing programs that enabled new partners to develop and promote their products in conjunction with Siebel Systems. The alliance program was divided into three categories:

1. Consulting Partners. Siebel's partnership with Andersen Consulting established the standards for their program. The program enabled partners to provide services to customers in terms of systems integration, consulting, training and process re-engineering.

2. Software Partners. Independent software companies were given the right to provide Siebel customers with software applications and products that inter-operate with Siebel software.

3. Platform Partners. Providers of hardware, database and operating systems were certified to offer joint benchmarking, timing, sizing and configuration with Siebel. ■

Seizing the Opportunity to Create Exponential Returns

Essential #5: Become the Masters of Exponential Returns

A fairly common management behavior suggests that allocating more resources toward developing and introducing products will solve innovation problems. This often leads to directing too much investment. The technology industries serve to illustrate what it takes to create the highest value per company. To achieve such high market values relative to other companies in other industries, they were cash-flow positive early and sustained this positive cash flow to $1 billion revenue.

Shareholder value is maximized by three factors: high revenue and revenue growth, high return on invested capital (that significantly exceeds the cost of capital) and the sustainability of those factors.

The Financial Profile of the Blueprint Masters

Blueprint Companies implemented a process for executing, measuring key financial and customer metrics as well as providing the incentive to their organization to achieve exponential returns. The group of industries that delivers the highest market value at $1 billion revenue is high technology, which includes hardware, software, peripherals and semiconductors. These industries are not the most numerous in the Blueprint list of 387 companies, but the high-tech companies are the most highly valued by shareholders.

Here are four key principles to creating superior value that can be learned from their success:

1. Create attractive gross margins early. Blueprint Technology Companies not only achieved margins in excess of 60 percent early in their history, but remained at that level throughout their journey to $1 billion in revenues.

2. Contain expenses to achieve more than 20 percent earnings before interest, taxes, depreciation and amortization (EBITDA).

3. Become cash flow positive early.

4. Utilize incremental gross margins to self-fund incremental investment.

Delivering Shareholder Returns

While a firm's return on invested capital guided its market valuations, another perspective of market valuation of Blueprint Companies found that average shareholder returns were proportional to the revenue trajectory followed. In fact, companies that achieved $1 billion in four years averaged 87 percent annual growth in market value. Those that reached it in six years averaged 41 percent annually. Those that reached $1 billion revenue in 12 years averaged a market value increase of 21 percent annually.

Essential #6: The Management Team — Inside-Outside Leadership

Among Blueprint Companies, "dynamic duos" drove many of the star-performing companies. These are two individuals who worked tightly together to build the firm from dreams to $1 billion in revenue.

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Seizing the Opportunity to Create Exponential Returns

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One of the pivotal essentials that enables the other essentials to be executed is a strategic leadership pairing in which one leader (or team) faces *outward* toward markets, customers, alliances and the community, with the other leader (or team) focusing *inward* so as to optimize operations. Think of Blueprint Companies such as Microsoft, eBay, Yahoo! and Tractor Supply where the inside executive is typically the chief operating officer and the external-facing executive is the chief executive officer. Together, they manage forward and innovate continuously, whether in product or marketing innovation. They make swift decisions and quickly correct their mistakes. Most important, they have complete trust in and respect for one another.

These dynamic duos are not just colleagues or even just friends. They have a remarkable chemistry between them, built on a very high level of respect and trust. They benefit from having complementary skills and talents.

Leadership characteristics that distinguished the inside-outside pairing include consistent communication about the company's direction and priorities; consistent values, particularly during defining moments; problem-solving skills; and having a passion to address customers' unmet needs.

Breakaway Marketing Leaders

Blueprint leaders are superb communicators. They possess the personal chemistry, even charisma, that lets them bridge the gaps between alliance members, Marquee Customers, community leaders and important investors.

Outside-facing CEOs are highly exploratory — particularly with relationships and creating opportunities. This forward-thinking style is critical to proactively developing Marquee Customers and Big Brother alliances, securing the right board members, and evangelizing the company's vision to employees and the community. This leader affects the forward-thinking approaches of the person whose role is focused more primarily on the inside, who is responsible for innovation leadership.

Breakaway Innovation Leaders

While the dynamic duo is evangelizing customers, conceiving a brilliant marketing strategy and managing the business, a third critical leader, typically the founder of the company, focuses more on the product rather than on outside relationships. These third leaders are often highly creative, with a broad range of interests. They have a need for innovation because they have a passion for extremely creative inventions. They work with others, but mostly because of a mutual interest in the subject. Rather than personal charm or charisma, they often use brilliant new ideas and the lure of exploration to keep their teams working together.

Company founders often assume this leadership role. They are pivotal in shaping the innovation-based value proposition, creating and leading the core engineering team and contributing to the fundamental principles on which the business model is based. They serve to provide a consistent trajectory of innovation aligned to the company's core value proposition.

These leaders provide an important link to customers, partners and markets in terms of getting product feedback from them. As corporations grow with new employees, these product-centered innovators act as a critical adhesive element by spurring the team on to higher levels of innovation.

More Key Roles in Blueprint Management

No single CEO can possibly keep all of the essentials in motion without help. In fact, the successful corporation is much more like an *ecosystem* than a cult of personality or personalities.

Blueprint Companies need steady-handed managers who bring stability to the enterprise. These individuals exhibit control, discipline and predictability.

It is not true that most Blueprint leaders had previous experience working in smaller companies. Of the top companies, the inside-outside leaders came from varied backgrounds. It is also not true that the founders rarely stayed with the company all the way to the $1 billion revenue mark. In addition, Blueprint founders are not the same breed. They came from all walks of professional life — from college dropouts to college grads, from small company leaders to large company leaders.

Essential #7: The Board — Comprised of Essentials Experts

Blueprint boards are not packed with investors. Blueprint Companies recruited customers, alliance partners and other Blueprint CEOs on their boards, and that makes a big difference. Board composition is a reflection of the execution of the essentials.

In order to understand the structure, top companies that were on the four-, six- and 12-year trajectories were sampled under the assumption that these boards probably had many customers and investors represented on them.

Of the four-year companies, 60 percent had an alliance partner on the board and 30 percent had customers. This ratio was reversed for 12-year companies.

A consistent set of big-name investors did not show up on these boards. The same firms were often seen, but rarely the same partner. Instead, the CEOs from other Blueprint Companies were represented time and again.

Cross-board relationships between Blueprint Companies can occur for strategic reasons. At the high point of the Internet, Tom Stemberg recruited eBay's

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Seizing the Opportunity to Create Exponential Returns

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Meg Whitman to join the Staples board.

The boards were quite balanced in terms of structure. The average size was nine with customers, alliance partners, community leaders, and CEOs from other large companies counter-balancing the investors and management team. ■

Linking the Seven Essentials

Blasting into orbit is similar to what Blueprint Companies experience as they hit their inflection points and stretch skyward in growth. While the rest of us tend to simplify the picture and observe the graceful trajectory of rising revenues, inside the company critical, high-pressure decisions are constantly being made. The decisions at this stage — the value proposition, early customers, the leadership team — are critical to determining the difference between becoming a *growth company* and becoming an *exponentially growing company that achieves $1 billion in revenue.* These decisions are the g-forces (multiples of the force of gravity) that can hold back management — challenging them to build the company fast and furiously enough to achieve "escape velocity."

Most companies experience slowing growth as they get bigger. This tends to pull them back to Earth. If the company is going to make $1 billion revenue, then it has to start with a surprisingly high growth rate. A company that expects to reach revenues of $1 billion in just four years, for instance, must have an approximate compound annual growth rate of 110 percent. For six years, the growth rate must be 65 percent — and for 12 years, 30 percent.

The linkage of the seven essentials provides a growth boost, like the second stage of a rocket pushing the space shuttle in orbit. When you put the essentials together, they are more than the sum of their parts. Linking them, in fact, creates the dynamic "1 + 1 = 3" effect that accounts for exponential revenue growth and cash flow. Executing all seven essentials with average or above average performance can make the difference between being a growth company and being a Blueprint Company.

The linkages that differentiate Blueprint Companies — exponential revenue growth and exponential returns — can be described as follows:

- **Link the big idea with markets and Marquee Customers.**
- **Link the company's resources to the front line.**
- **Establish a board of essentials experts.**
- **The innovation leader leads the development team and links them to the value proposition (the big idea).**

A High-Performance Culture

It is important to step back from all the strategic, financial, leadership and governance issues around Blueprint Companies and consider the company culture implications. Such high-performing organizations can be extremely challenging to work in. Terms such as "performance focus," "bottom-line orientation," "accountability," "making the numbers" and "aggressive management style" may have a positive ring in the business sense, but can come at a high human cost: personal and mental health, shortened job tenure and strains on family life. To be frank, there are a few Blueprint Companies that had reputations for rapidly turning over teams if they failed to meet the numbers.

This is concerning, because most of us need some sense of belief that the place where we work is a "good" or "great" place to work. We also want the enterprise to be a success, largely because success is the best form of personal satisfaction and job security.

Fortunately, as can be seen with many Blueprint Companies, the best corporate cultures are ones with a high-performance focus *and* a nurturing environment. ■

Talent and Leadership

The primary growth challenge will come more from the constraints of recruiting, developing and retaining the best leadership and talent that a company needs than it will from financial constraints. Business talent will become even more mobile and, given the acceptance of virtual teams, will become even more accessible to employers around the globe. Therefore, companies are compelled more than ever to strike that right balance between employee satisfaction and financial performance.

In today's flat world, that means recruiting innovative and talented employees not just locally but globally. The ability to recruit and retain the very best talent a company would need is both a high priority and constraint — now and in the future.

Soundview Recommended Reading List

If you liked *Blueprint to a Billion*, you'll also like:

1. ***Good to Great* by Jim Collins.** Collins used strict benchmarks to identify a group of 11 elite companies that made the leap from good to great and sustained that greatness for at least 15 years.
2. ***The Alchemy of Growth* by Mehrdad Baghai, Stephen Coley and David White.** The authors offer the concept of strategic planning built on three "horizons" reflecting the present, short-term future and long-term future.
3. ***Competing for the Future* by Gary Hamel and C.K. Prahalad.** The authors describe ways to develop stretch goals, build new competencies, and define the future.
4. ***Competitive Advantage* by Michael Porter.** Porter shows how companies can achieve cost advantages on unique products or services in order to boost profits.
5. ***Creating and Dominating New Markets* by Peter Meyer.** Meyer shows company leaders how to create new markets (and thus avoid battling for a place in established markets that already exist) while reducing their risk.

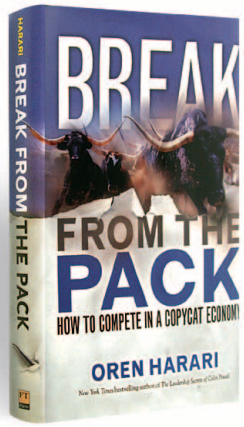
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Break From The Pack

Oren Harari

SOUNDVIEW Executive Book Summaries®

FILE: Strategic Management



By Oren Harari

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How to Compete in a Copycat Economy

BREAK FROM THE PACK

THE SUMMARY IN BRIEF

Everywhere, products are being commoditized, services are being imitated, and traditional barriers to market entry are collapsing. You can't survive on "me-too" products, services and business models, and the ever-popular "all things to all people" approach will fail you every time.

To sustain a competitive advantage in today's "Copycat Economy," you must break from the pack. Companies that break from the pack take customers far beyond mere satisfaction. These companies tend to go beyond the mission statement to a "higher cause." They build a pipeline of cool, compelling products and always manage to stay way ahead of their industries.

This summary captures the essence of bestselling author and business professor Oren Harari's advice and tips for competing in a Copycat Economy. The summary details how "Commodity Hell" demands that companies differentiate themselves from their competitors, how to dominate your own marketplace, and how to be the leader of a company that breaks from the pack.

In addition, this summary will describe the following:

- ✓ ***Ten Compulsions Guaranteed to Keep You Mired in the Pack.*** *Face the things that keep you stuck in the pack and plunge you further into the spiral of Commodity Hell.*
- ✓ ***The Power of Calculated Reinvention.*** *Learn how Madonna and Willie Nelson offer lessons for jumping in front of the pack.*
- ✓ ***Building a Culture of Disciplined Lunacy****. Find out how curious, cool and crazy companies do the things it takes to stand out and succeed.*
- ✓ ***Why Davids Beat Goliaths.*** *Discover why companies like Google, Whole Foods and JetBlue actually achieve greater success than their much larger rivals.*
- ✓ ***A 12-Step Recovery Program.*** *Gain a perspective on the kinds of personal leadership that you will need to demonstrate to inspire people to do extraordinary, break-from-the-pack things.*

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BREAK FROM THE PACK

By Oren Harari

— THE *COMPLETE* SUMMARY

The Never-Ending Race to Succeed

In every industry, a very small number of organizations are fast, fit, healthy and clearly at the forefront. They are followed by a few pretty good wannabes nipping at their heels. These groups are clearly ahead of "the pack" — that large, undifferentiated bulk of companies of all shapes and sizes that don't stand out and don't draw the kind of positive attention from customers and investors that they'd like.

Anyone Can Break Away

Any organization can successfully bust loose in any direction from the round-and-round-we-go pack mentality, but the bad news is that in a global free market, the pack is bigger than ever before! The pack grows, more players run earnestly, the racers constantly check each other out, and they mimic each other's movements.

The result is the Copycat Economy, an arena marketed by "me-too" mimicry and lots of commoditized products and services. As a leader, helping your organization stand out and win in a Copycat Economy is the most important strategic challenge you will face.

In business, frontrunners frequently fall behind and fail. So don't panic if your organization is currently stuck in the pack. You can break from it. You can overtake today's lead dogs.

Welcome to Commodity Hell

Vending Supply, Inc. (VSi) is one of the premier designers, manufacturers and distributors of children's stickers and temporary tattoos. "We brought stickers to the forefront of cool," said CEO Robert Winquist.

Then all the major players started copycatting VSi and VSi had to compete on price. Winquist said, "Today VSi is three times more creative and three times more efficient than we were 10 years ago. That means we're nine times better. But our margins are one-fifth what they used to be three years ago. What's going on?"

Welcome to Commodity Hell. Or more accurately, welcome to the Copycat Economy, where everyone has access to the same resources and talent, where the Web is the great equalizer, and where the market's twin foundations are imitation and commoditization.

Two principles keep companies trapped in the pack and snared in the Copycat Economy, and make up the most challenging double whammy affecting an organization's competitiveness and very survival:

1. The inevitability of perpetual imitation

2. The commoditization of everything

Commoditizing the 'Good Enough'

As more competitors rush to make incremental improvements of products and services, they get commoditized at a higher level, which leads many customers to conclude that "good enough" is really good enough.

It used to be that if customers didn't pay a premium, they'd have to accept low quality in return. In the Copycat Economy, that's not true.

The Causes of Commodity Hell

1. The Irrelevance of Time and Distance — Imitation can come from anywhere in the world, at any time.

2. The Rise of Glass House Transparency — Secrets, proprietary information and closed-door management systems don't have the competitive edge they used to because new technologies have the capabilities to create total transparency.

(continued on page 3)

The author: Oren Harari is the author of seven previous books including *The New York Times* bestseller *The Leadership Secrets of Colin Powell.* He is a professor at the Graduate School of Business, University of San Francisco.

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Welcome to Commodity Hell

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3. The Customer as Superpower — Customers are now capable of reducing any well-promoted, well-packaged market offering to a bare-bones commodity.

4. Cost-Crushing Technology — New and existing technologies allow for radical cost-cutting and operational efficiencies, which, in turn lower barriers to entry and create more players competing in the pack.

5. Mobs of Competitors — In industry after industry, a fragmented playing field means an ever-growing number of competitors and a harder challenge to break free of them.

6. A Zeitgeist of Irreverence — Customers and competitors are irreverent, creating dissatisfaction with the present.

Accepting the Challenge of the Copycat Economy

Consider the payoff of breaking from the pack: A clear differentiation from competitors; rapid, sustained and real growth; higher margins; higher stock prices and market caps; boosts in market buzz; more customer loyalty; an optimistic and creative work environment; easier sales and marketing; and an agile, aggressive infrastructure. ■

How to Lose

Faced with the twin plagues of commoditization and imitation, business leaders reflexively resort to 10 courses of action that plunge their companies further into Commodity Hell.

1. The Compulsion to Cut Costs

To be sure, cost-cutting efforts are useful and necessary, but only when part of a well-executed growth strategy. By itself, the frenzy of cost-cutting is often a self-defeating compulsion.

In early 2006, Ford — mired in deteriorating market share and "junk bond" status — announced another big restructuring plan.

But will this unleash a fresh wave of capital, innovation and employee commitment necessary to design, manufacture and deliver sexy, high-quality "gotta-have" cars with superb after-sale service? If the answer is yes, Ford will rock. If the answer is no, the savings will be illusory.

2. The Compulsion to Cut Prices

Desperately lowering prices to keep customers from bolting decimates a company's margins and trains customers to wait for another round of price cuts before buying. When one competitor copies the other's price-cutting sales promotion, both fall prey to the Copycat Economy.

3. The Compulsion to Improve Current Products and Services

If you want to survive in the pack, improving current products and services is a must. If you want to thrive beyond the pack, it's not enough.

The compulsion of "incrementalism," or making minor product enhancements that are not coupled with any breakthrough growth strategy, appeals to a manager's aversion to risk.

4. The Compulsion to Concentrate on Marketing and Sales

The track record of sales and marketing initiatives is, at best, mixed. Despite our love affair with sales and marketing, their impact in a Copycat Economy is cloudy and often turns out nowhere near what we hope it will be.

5. The Compulsion to Get Bigger

The benefits of bigness — scale, scope, synergy and cross-marketing — are genuine. Nevertheless, the impact of these benefits has been grossly misunderstood and overestimated.

The key predictors of corporate success and shareholder value are not the size of a company's tangible assets, but the size of its intangible assets like its speed in execution and customer care, its culture of constant innovation, and its mobility and agility in capitalizing on fresh, fleeting opportunities.

To predict who's going to break from the pack, look at who's got the quickest adaptivity and imagination, not who's got the biggest numbers on the balance sheet.

6. The Compulsion to Control

More than a few managers still instinctively buy into the compulsion to control. In the short term, tightening controls and increasing pressure might indeed uncover some inefficiencies and get people to hustle out of sheer fear.

Short-term financials might actually improve. Yet in the long run, such autocracy kills risk, initiative and personal accountability.

7. The Compulsion to Ask Customers What They Want

The compulsion to ask customers what they want can leave you reactive and fossilized. Breaking from the pack requires you to lead customers to a place they didn't ask to go and didn't know existed.

Market leaders who break from the pack pull the customer to new places. They take some chances that push them past their market research.

Before Starbucks, how many consumers would have assured Howard Schultz they would stand in line to

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How to Lose

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spend $4 for a cup of coffee in a paper cup?

8. The Compulsion to Embrace Organizational Fads

When a company gets mired in the pack, nervous executives sometimes resort to adopting well-accepted, well-known in-house development or assessment programs that have to do with "total quality," "diversity," "conflict management" and such.

9. The Compulsion to Use Legal and Political Force to Protect Your Business

If companies rely on legal and political force for competitive advantage, they are doomed. Lawsuit and protectionism strategies drain a company of resources, money, vision, and the urgency to challenge and reinvent itself in the face of new technological and competitive realities.

A company that is serious always proceeds "as if" there is no "protection" anymore because, ultimately, there isn't. Feed your lawyers and your lobbyists, but don't compulsively let them determine your strategy.

10. The Compulsion to Do Anything as Long as You're Doing Something

Many businesspeople respond to the Copycat Economy with manic bursts of action, such as acquisitions, divestments, restructuring, downsizing, outsourcing or new alliances. It doesn't matter whether there's any strategic discipline, due diligence or follow-up execution, as long as action happens.

Sometimes a leader gives up any pretension of knowing what to do. "Do whatever it takes to get the numbers Wall Street wants" becomes the message. When a company goes down this track, the inevitable setbacks begin and the dysfunctional actions are accelerated at a frenzied rate. ■

Enacting Reinvention

Here is what you must do to execute the Madonna Effect and the Willie Principle.

1. Take those small, in-the-distance trends seriously.
2. Be willing to regularly challenge what made you successful in the past.
3. Be willing to change long-time suppliers and disrupt current supply chains.
4. Don't become paralyzed by the fear of going too far.
5. Listen to the crazy customers.
6. Take underserved markets seriously.
7. Take emerging demographics very seriously.
8. Don't be panicked by finicky investors.
9. Have the courage of your convictions.

The Madonna Effect and the Willie Nelson Principle

Whether or not you're a Madonna fan, there's no denying the fact that, as an artistic enterprise, she's been spectacularly successful. What is her secret?

Madonna's brand relies on crossing over from mainstream to the margin and showing everyone else how to do it, too. She reinvents herself by keeping her antennae attuned to the culture, norms and behaviors that interesting fringe groups are currently experimenting with.

Jeffrey Katzenberg, the former head of Disney Studios and DreamWorks Animation, described Madonna this way: "She is always evolving; she never stands still. Every two years she comes up with a new look, a new way of presenting herself, a new attitude, a new act, and a new design. And every time it is successful. There is this constant genesis." That is the protean mantra that applies to any business that wants to break from the pack over the next decade.

The essence of the Madonna Effect is, "Don't just respond to your customers; lead them."

The Willie Nelson Principle: Jumping in Front

Willie Nelson and Waylon Jennings pioneered a major transformation in country music: "Outlaw Country." Willie and Waylon were key forces in reconciling hip and redneck musical interests, thus restoring a rawness to country music and leading a new explosion of popular interest in the format.

In the late 1980s, Willie was asked about how he and Waylon "knew" that their leadership on "outlaw" music would be so successful. In what could be the most important quote in this book, here is his reply:

"Being a good leader is finding a bunch of people going in one direction and jumping in front of them. That's what I did. I saw all these things happening, so I called Waylon and we came down to Austin and acted like we started the whole thing. We didn't start nothin'. It was going on."

Willie and Madonna paid attention to the oddball but interesting stuff that was "goin' on" — stuff that was available to anyone who paid attention to it. ■

Curious, Cool and Crazy

In today's hypercompetitive environment, organizations that break from the pack are curious, cool and crazy.

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Curious, Cool and Crazy

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Curious

Curiosity has three components: audacity, a "yes" culture and passion. If the strategic direction of your organization can be described as willfully daring, calculatingly bold and deliberately adventurous, then you're on the right track.

A corporate culture of "yes" sends a complex but clear message to every employee to "go for it," even if it challenges what was done in the past. Passion is the fuel for curiosity. Breaking from the pack is heavily dependent on leaders and employees who are passionate about what they're doing and what they might accomplish.

Cool

What you do, what you make and how you do it all must be perceived and experienced as cool by your employees, customers and investors. Anything that resonates with innovation and imagination — anything that is counterintuitive, controversial and delightful — is cool.

Crazy

"You can't proceed in a calm, rational manner," said Jack Welch to *The Wall Street Journal*. "You've got to be out on the lunatic fringe." In the world of business, today's lunacy is tomorrow's conventional wisdom, while today's conventional wisdom is mired in the Copycat Environment.

At the end of the day, organizations need a very healthy dose of purpose and precision. Passion for purpose without passion for precision yields corporate recklessness and irresponsibility, while passion for precision without passion for purpose yields conformity and stagnation; there must be a balance.

The EMBER Model

To make your organization curious, cool and crazy, employ the EMBER model. As you weigh a course of action or decision, ask yourself:

1. (E) Does it make us *extraordinary?*
2. (M) Does it *matter* to customers?
3. (B) Does is *break new ground*?
4. (E) Does it encourage *evolvement*?
5. (R) Is it *real*?

If the answer is a firm "yes" to each of these questions, then your decision could ignite your business like oxygen to an ember in the fire.

Final lessons: Winners do strategy on the run; intangibles are more important than tangibles; and it's gotta be fun. ■

For additional information on the EMBER model, go to: http://my.summary.com

Dominate or Leave

In today's Copycat Economy, you must choose your markets, products and customers very carefully, then go in with tremendous creative and productive force until you dominate the arenas you've selected. The implications are twofold: One, don't enter any space you're not prepared to dominate. Two, once you figure out what you will dominate, exit everything else. Period.

One Size Doesn't Fit All

"One-stop-shopping" should be eliminated from corporate strategy sessions; the phrase is diabolical, making otherwise sensible executives salivate with infantile glee. Their eyes glaze as they visualize hordes of customers. However, to challenge the famous *Field of Dreams* dictum, if you keep on building it, they probably won't come. And then you're stuck with a big stadium.

Apart from those darn customers who insist on making their own decisions, there's another reason why "one-stop-shopping" is a fantasy. No matter what your consultants and investment bankers tell you, you can't be great in everything, you can't do it all, and if you try to do it all, you'll wind up with a big diversified menu of undistinguished "me-too" products and services, while dominating nothing.

Why Davids Beat Goliaths

David Google doesn't dominate Goliath Microsoft. Google dominates search. David Whole Foods Market at $4.7 billion doesn't dominate Kroger at $60 billion. Whole Foods dominates natural foods. The $1.6 billion David JetBlue is miniscule compared to the $16.6 billion United Airlines. Yet while JetBlue was growing in leaps and bounds without megamerger, United's sizable debt, cost-inefficiencies and mismanagement threw the company into bankruptcy.

The Goliaths above aren't "bad" companies. There's nothing inherently negative about size and diversification as long as they remain true to the spirit of dominance. The companies that dominate don't dominate because they got big. They got big because they dominated.

The Seven Steps to Dominating

1. Choose to dominate — whether part of a start-up or a leader of an established business, the first step is to choose dominance over size.

2. Be a laser, not a floorlamp — your growth strategy should be laser-like: simply stated, easy to convey, highly concentrated and precisely focused on the area you'll dominate.

3. Make sure the laser is exciting — concentrate your efforts on a compelling and intriguing growth area.

4. Be willing to subtract — you must prune things

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Dominate or Leave

(continued from page 5)

down before thinking about domination.

5. Choose metrics that dominate — profitability, organic growth, customer retention and retention of top talent.

6. Ensure that your organization's talent and skills stay dominant — choose the best people with the greatest talent and the best fit with your mission, and then nurture and invest in them.

7. Build a dominating culture — figure out what it takes for your corporate culture to be powerfully dominating internally and built for dominance externally. ■

Put the Pieces Together for a Higher Cause

Mission and vision statements are good things to have. But to break from the pack, a company would be wise to strive for something bigger than a mission and deeper than a vision. A company must define a cause.

A central idea or cause will be essential if you want to have any sort of success in a Copycat Economy. But to improve your odds of truly breaking from the pack in a sustained way, you should consider going a step up, to a *higher* cause. A higher cause is about somehow bettering the lot of human beings. A higher cause can serve as an organization's strategic beacon, market brand and organizational "soul."

Six Steps to Help Your Organization Find Its Higher Cause

1. Ask the deep questions about your organization.
2. Concentrate your attention on the horizon.
3. Rearrange the pieces to make a big difference.
4. Don't let anyone else define coherence, authenticity and revolution/evolution for you.
5. Enlist champions.
6. Learn to synthesize. ■

Build a Defiant Pipeline

To stay ahead of the pack, you can't rely on one product, even if it's a home-run product. You must develop a pipeline of continuously emerging products that defy — and visibly transcend — the "me-too" value of whatever is currently being offered in the market by rivals and by the company itself.

Strong pipelines allow companies stuck in the midst of crowded mass markets to differentiate themselves. A strong pipeline allows companies to survive and thrive under seemingly impossible circumstances.

The 10 Commitments to the Defiant Pipeline

1. Always be cannibalizing.
2. Become an anthropologist with your customers.
3. Be a NASCAR racer, not a basketball player.
4. Be a magnet for the crazy three percent of customers.
5. Be a magnet for the crazy three percent of employees.
6. Be a magnet for the crazy three percent partners.
7. Become a pipeline for design.
8. Target new terrain.
9. Think broadly, act narrowly.
10. One more time: Dominate or *Leave*. ■

For additional information on the power of the pipeline, go to: http://my.summary.com

Take Your Customer to an Impossible Place

How do you take your customer to an impossible place? Fortunately, for you, there's no quick fix answer to that question — if there were, it would be copied instantly, sending you right back to Commodity Hell.

Here are five steps that will help you lead your customers to an impossible place.

1. Lead institutionally
2. Lead with profound authenticity
3. Lead with genuine caring
4. Lead with turbo speed
5. Lead with the individual customer in mind

Seven Quick Impossible Questions

Here are seven quick, simple questions you should be continually asking yourself and your team from the perspective of your customers.

1. How *easy, hassle-free, fast and fun* is it to work with this vendor — before *and* after the sale?

2. Does the vendor really, truly *listen* to me? *Seek my input? Understand me* and the challenges and opportunities in my life (or my business)?

3. One a *personal* level, how *responsive, caring, empathetic* and *concerned* is the vendor toward me? Do I feel taken care of when I deal with this vendor?

4. Does the vendor know me (or my business) so well that he or she can *anticipate* what I might want and need before I do?

5. How effective is the vendor in devising a *fast, creative solution* to my *real* problems and *unique* needs?

6. Can I *trust and count on this vendor* to continually

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Take Your Customer to an Impossible Place

(continued from page 6)

come up with great ideas for me (or my business)?

7. When I get involved with this vendor as a corporate customer, is my *work distinctly better*? Is my *business distinctly better*? Or, if I'm an individual customer, is my *life distinctly better*? ■

Take Innovation Underground

Today there is a group of companies whose executives devote their *primary* attention to their corporate undergrounds. The secret to success of these companies is that they are ruthlessly hyperefficient in their underground operations and supplier relationships.

There is a constant innovation in their processes and systems that allow them to continually and creatively shrink their costs and cycle times. Because the innovation occurs underground, far from the eyes of the customers, it's not directly experienced by customers except at the end point: lower prices, convenience, reliability and fast service. To get your best shot to break from the pack, you must demonstrate as much *obsessive innovation for the underground* as you do for your company's above-ground product development, design, marketing and customer service. ■

Consolidate for Cool

In a Copycat Economy, you'll need to employ new and rigorous standards for consolidating with other companies. There's nothing as fast and sexy as a high-profile merger to quickly inflate your numbers and show that you're a "bold, can-do" leader. However, most mergers and acquisitions fail.

How to Consolidate for Cool: Accessing the Intangibles

Here are the kinds of intangible elements that your prospective merger or acquisition needs to aggrandize if it is to help propel the new company in front of the pack: Knowledge, talent, imagination, speed and agility, foresight, the desire to be a renegade and inspirational leadership. ■

Eight Reasons Why Mergers and Acquisitions Fail

Why does the typical merger or acquisition fail?

1. Fantasy logic.
2. Delusional projections.
3. Absurd overpaying.
4. Obsession with the top line.
5. Lousy due diligence.
6. Crummy customer consequences.
7. A naïve belief in easy integration.
8. The dinosaurs mating syndrome.

You, the Leader of the Pack: A 12-Step Recovery Program

To add some serious value to both your organization and your career prospects, you will need to move beyond nostrums. You will need to get down to the bare-knuckles basics of leadership. This "12-Step Program" is designed to put you on the path to success.

Step 1: First, Admit You're a Commodity

You will be wise to admit that in a Copycat Economy, whatever your organization is doing and providing today is right now becoming imitated and commoditized, and, therefore, will inevitably require significant change.

Step 2: Take a Risk on Risk

We fear the negative consequences of risk, even when we're dissatisfied with the status quo. We fear the negative consequences of risk, even as we ignore the even more negative consequences of staying the course. We need to reassess risk and then take a prudent risk on risk.

Step 3: Set 'The Way'

Establish a concise, urgent, and inspiring direction for your company. Define "The Way" for your organization. The Way has two components: path and tone.

Your path must buck some conventional wisdom and strive to rewrite some industry rules.

Tone is the climate, the mood that expresses your organization's values and soul.

Step 4: Believe that Customers are More Important Than Investors and Employees

You must be able to convey to people that the prime purpose of their jobs and investments is to help make customers very, very happy.

Peter Drucker always said that the only reason for a company's existence is to create and serve customers. Many business people seem startled by this notion. However, no matter how much resistance you receive, you must lead with the premise that all else follows from your success with the people for whom your company exists.

Step 5: Unleash Talented Maniacs

Break-from-the-pack leaders continually scour the landscape not for people who can "do the job," but for

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You, the Leader of the Pack

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maniacs who, without being asked to, will transform their jobs on behalf of the team, not their own egos.

You must provide these talented maniacs with the training, development, information technology and other resources so *they* can figure out how to best reconfigure their jobs to achieve your organization's objectives.

Step 6: Rev Up Your Base

Open the Windows: Help people open their windows and look at the world outside their jobs. Expose them to the same eye-opening information you have, and discuss it candidly. People get on board when they see for themselves the reasons that are inspiring you to change.

Open the Doors: Keep your planning and decision-making processes as transparent and inclusive as possible. As a leader, you must take the lead not only in setting "The Way," but also in including others in business analyses, strategic conversations and operation problem solving thereafter.

Start Driving: Once leaders have clearly articulated The Way and have opened windows and doors, it's time to challenge people to get on or off the bus because it's time to put the operation in gear and step on the gas.

Step 7: Get Personally Engaged

Great leaders delegate liberally, but they stay engaged: They *personally* remain in touch with employees to learn their perspectives. They *personally* stay involved with critical issues, not only so their decisions aren't made in a vacuum, but also to use their power to help their people achieve big goals. They *personally* immerse themselves in seeking the truth.

Step 8: Lead From a Glass House

Leaders always function from a glass house, where their actions and attitudes are visible to everyone around them. The glass house effect is so pervasive that it makes people draw conclusions about the leaders themselves. When the leader's words and deeds match, the leader's credibility and influence go up.

Step 9: Honor a Minimal Number of Priorities

The fewer priorities you have, the more likely you'll be able to honor them, and the more likely you can achieve the breakthrough results necessary. Any plan with more than five "priorities" usually winds up prioritizing nothing.

Step 10: Team Up With Aliens

If you want breakthrough knowledge, leap outside the walls of your industry whenever possible. You'll gain even more insight and power when you go beyond observing and partner closely with talented aliens outside your industry who don't come to the table with the mindset and history that's considered conventional in your business. Encourage as many of your people as possible to see the value in alien knowledge and partnership.

Step 11: Lead from the Middle

Don't Wait for Orders: Initiate Solutions: Executives desperately need fresh ideas and initiatives. They don't want people just to come up with a great idea and then toss it upstairs. They want their midlevel leaders to create solutions.

Focus on the Customer's Needs: One of your safest bets is to let the customer drive your imagination. Figure out ways to make customers more delighted and loyal.

Do It Without Asking: Think like a businessperson, not as an employee. Don't ask for permission to take action. Working independently, develop big goals that will address some big gaps, and then start with small and meaningful steps toward your goals.

Don't Let the Career Skeptics Get You Down: If you're ever challenged, explain your actions on sound business principles and then continue to act without asking for permission.

Don't Give Up Even If They Want You To: If you do get orders to stop, don't automatically roll over and play dead. If you feel strongly about your cause, stay true to it.

Step 12: Know When to Hold, Know When to Fold

One of the most important and honorable attributes of a great leader is to know when to stay and when to exit. Knowing when to hold and when to fold is an act of reality and integrity.

Breaking from the pack in the relentless Copycat Economy is no small feat. You have the capability to help your organization break into the lead. Make yourself one of the leaders in the effort to break from the pack. ■

SOUNDVIEW *Recommended Reading List*

If you liked *Break From the Pack*, you'll also like:

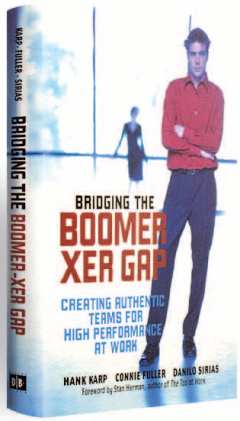
1. ***Jumping the Curve*** **by Nicholas Imparato and Oren Harari.** To stay competitive and profitable during transitions, businesses must jump the curve, that is, leave "one pattern of behavior for another."
2. ***The Innovator's Dilemma*** **by Clayton M. Christensen.** How do successful companies with established products keep from being pushed aside by newer, cheaper products?
3. ***The Pursuit of Wow!*** **by Tom Peters.** To succeed, individuals and organizations must stand out from the growing crowd of look-alikes.
4. ***Blink: The Power of Thinking Without Thinking*** **by Malcolm Gladwell.** *Blink* is about the first two seconds of looking — the decisive glance that knows in an instant.
5. ***The Tipping Point*** **by Malcolm Gladwell.** Gladwell's thesis is that ideas, products, messages and behaviors "spread just like viruses do."

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Bridging the Boomer-Xer Gap

Hank Karp, Connie Fuller, and Danilo Sirias

SOUNDVIEW Executive Book Summaries®



Hank Karp, Connie Fuller and Danilo Sirias

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BRIDGING THE BOOMER-XER GAP

THE SUMMARY IN BRIEF

Today's workplaces are dominated by two generational groups: Baby Boomers and Generation Xers. The Boomers now hold top management and policy-making positions, while the younger Xers have just recently entered the world of work.

Unfortunately, both groups view each other with suspicion. Boomers tend to believe the stereotype that Xers are slackers, loners and self-absorbed. Xers think Boomers are incapable of adapting to technological and social change. Both stereotypes are false, and those who manage Boomers and Xers must learn how to dispel the myths. What is true is that each group sees the world through a different lens.

In this summary you will learn how to help Boomers and Xers in your organization overcome their stereotypical thinking and bridge the actual differences that do exist.

What You'll Learn In This Summary

✓ **Building Authentic Teams:** Authentic teams let Xers and Boomers work together by allowing them to see, appreciate and accept their differences. Once they do, intergenerational teams will work together effectively while retaining their individuality. You will learn how to take your team through difficult but predictable stages as it becomes a high-performance team.

✓ **Supporting Authentic Teams:** You will learn what a team leader needs to do to let an authentic team do its best work. Authentic team leaders know when to make decisions and when to let the team take responsibility.

✓ **Authentic Problem Solving:** You will learn exactly how a team should go about determining what it wants to accomplish and how it will implement objectives designed to get it to the goal.

✓ **Managing Conflict:** You will learn why intergenerational conflict exists and how you can defuse it.

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Baby Boomers and Generation Xers at Work

"The old-timers won't change" and "the kids won't work" are fighting words. The attitudes behind the words represent a serious threat to workplace effectiveness. If we want to retain our position as global business leaders, we need to capitalize on every asset we have. Our greatest asset, and potentially our greatest Achilles' heel, is the American worker.

Two age groups currently dominate the world of work: Baby Boomers born between 1945 and 1962, and Gen Xers, born between 1963 and 1982. Both groups eye each other with suspicion. Boomers believe Xers are slackers with little work ethic, while Xers believe Boomers just don't get technology.

Boomers have difficulty taking a stand on issues, often attempting to bridge the generational differences between their parents and their children. To Xers, those behaviors seem to reflect ambiguity and lead to a perception that Boomers simply never take a stand on anything. Xers have responded by taking strong stands on even minor issues, behavior which certainly isn't ambiguous.

A New Version of the Protestant Work Ethic

As Boomers reach higher levels of authority, the values of their parents become dominant. Boomers grumble about younger workers' work ethic much as their parents grumbled about long hair and short skirts. As Boomers climb the corporate ladder, they are beginning to demonstrate the belief that "work is its own reward," and that the motto "live to work" describes their attitude. The Xers' motto can best be described as "work to live."

Another significant difference between the two groups lies in their perception of the appropriate place loyalty plays in the workplace. Boomers grew up with the belief that if you took care of your employer, he would take care of you. Xers have seen that, in practice, loyalty may not be a two-way street, as they observed the jobs of their parents downsized, right-sized, process reengineered, and eliminated. In fact, one recent study showed that only 25 percent of employees today consider themselves truly committed and plan to stay two or more years. One third don't plan to stay even that long, and a full 39 percent plan to stay, but only because they are "trapped" with no other options.

This lack of commitment is hard for Boomer managers to accept. Faced with unprecedented high turnover rates, managers find themselves continuously recruiting and training new employees. Given issues of loyalty and commitment alone, organizational survival is at risk. Commitment plays a major role in an employee's willingness and ability to be fast and flexible on the job. Ultimately, it is people who make or break the organization. Without a willing work force pulling together to fulfill the organization's mission, dysfunction is the logical outcome. If Boomers and Gen Xers continue to

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A Different Kind of Loyalty

Gen Xers have strong feelings of loyalty to family and friends. They were the first generation of children to come home after school to an empty house because both Mom and Dad were at work. Xers have vowed to make it different for their own children. They take time off to get children to the doctor. Xers know there is another job just around the corner and that no job should come before family and friends. Xers are very loyal, but not to their company. That relationship is one of service rendered for dollars paid. For Xers, putting family first means being there. Period.

Generation X members look at work as a necessary evil. Work itself is not a reward. If work can be fun, it can be tolerated. And the very thing that makes work "fun" for Xers is problematic for Boomers. Xers love technology, speed, and continuous change. They want to multitask. They play video games to relax.

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Baby Boomers and Generation Xers at Work

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move in separate directions regarding commitment, corporate dysfunction will get worse.

The Evolution of the Baby Boomer

The formative years for the Boomers range from 1955 to 1975. The older Boomers were shaped by the Vietnam war in ways their fathers weren't by WWII. They lost their innocence — and their respect for authority. They questioned the wisdom of decision-makers, adopting the phrase "Never trust anyone over 30."

The youngest Boomers had a different coming of age experience. The draft ended before they were old enough to be eligible, and by the time it was seriously under consideration again during Operation Desert Storm, they were too old.

Gen Xers know nothing of the experiences and lessons of their parents' generation. They have grown up to be independent and self-sufficient. Equal rights became something they took for granted as they entered the work force, taking advantage of the benefits won by Boomers.

Xers believe as a group that men and women have equal employment opportunities and should share in household and child-raising efforts. These attitudes impact the Boomer managers for whom these young people now find themselves working. If the baby gets sick, Mom or Dad will stay home to care for her. Unlike Boomers, where women often stayed home to care for the sick child because she made less and was primarily responsible for family-related problems, the responsibility falls on both.

For Boomers a second income was often a luxury. For Xers, that's not the case. Many work for the benefits (such as health insurance), finding that their take-home pay goes principally for child care. Boomer managers rarely understand this reality. Nor do they understand that a father might be the one to stay home. The Xer who calls in to say he will be at home with a sick child is simply taking his turn with the kids. But to his Boomer boss, this guy just became a slacker and is thrown into the deep end of the Gen X stereotype pool. ■

For a look at how one company mismanaged a generation Xer, go to: http://my.summary.com

Research Yields Three Conclusions

If you want to bring Boomers and Xers together in the workplace, you must take to heart the conclusions reached by the researchers:

✓ Boomers are team-oriented and willing to subordinate personal goals to those of the group, while Xers are both team-oriented and honoring of personal goals. Simply forcing Xers to conform to group values won't make for good teams.

✓ Boomers are here to stay, and hold the majority of policy-making roles, and will remain on the job for a long time to come given the lower numbers in the Xer generation work force.

✓ Tolerance must be exercised at work, and each generation must recognize what it is the other has to offer. Boomers bring to the table experience, a sense of group values, and a long-term perspective. Xers bring a focus on the present, a high-tech proficiency, and a balanced view of work and life.

Once you recognize these realities, you can begin to develop managerial strategies and organizational structures that will support Boomer and Xer values while integrating members of both groups into effective teams.

Studies Outline Xer and Boomer Characteristics

Today's workplace relies on teamwork to succeed. Yet if the participants in those teams don't buy in, business may be creating self-defeating organizational structures. They may be building teams for people who don't like teams. Given preconceptions about Xer and Boomer behavior and values, it would be easy to conclude that Boomers value teams while Xers value individualism.

Two recent groundbreaking studies shed light on just how each group feels about teams.

The first study used 189 Baby Boomers and 209 generation Xers from six public and private organizations. The study measured how the participants viewed teams and teamwork using the Team and Organizational Behavior Inventory. The researchers expected to find that Boomers valued teamwork more than did Xers. That was not the case. In fact, the results showed that Xers actually were significantly more team-oriented than Baby Boomers!

The second study was designed to test the question "Are Gen Xers more individualistic than Baby Boomers, despite their stronger team orientation?" This study used the Individualism-Collectivism Scales to determine how individualistic survey participants were. It measured competitiveness, solitary work preference, self-reliance, supremacy of group interest, and supremacy of group goals. The results show that Xers scored significantly

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Studies Outline Xer and Boomer Characteristics

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higher in individualism. This was most apparent in the following responses:

1. A group is most productive when its members do what they want to do, rather than what the group wants them to do.

2. A group is most efficient when its members do what they think is best, rather than doing what the group wants them to do.

3. A group is more productive when its members follow their own interests and concerns.

The two studies yield a single statement that can easily change the direction of team building, management, and human resource development for the next two decades. That conclusion is:

Generation X is significantly more individualistic AND significantly more team-oriented than the Baby Boomer generation. ■

A Different View of Teams

To bridge the boomer-Xer gap, you need to develop a different kind of team. The current model holds that effective teams are based on common ground and similar interests. The new model, called the "authentic individual-based model," holds that the most important element in team building is how each contributing member is uniquely different from all other members. Although both models aspire to the same end — highly effective teams whose members work well together — they differ in how that end is achieved.

The Traditional Team

The traditional model for team building is based on the following assumptions:

1. Human behavior is subject to certain "laws" of group dynamics and specific directions.

2. These laws and directions are normative, being better than others. For example, democracy is better than autocracy.

3. Because norms exist, it is possible to define categories of behavior and determine whether individuals exhibit these behaviors.

4. Those that do not conform to the norms are not maximizing their full potential and can be trained to do so.

5. A group must adopt certain preferred behaviors such as openness, trust and cooperation before they can function effectively as a team.

Thus, the traditional approach emphasizes common values and objectives. Group cohesion is an important value, and maintaining supportive interpersonal relationships is often as important as accomplishing team objectives. This model has been successful because it fits well with the views held by members of the Boomer generation and their parents.

The Authentic Team

Authentic teams have their origins in Gestalt psychology. Gestalt emerged in the early 1960s as a strong counter to traditional psychotherapy and the idea that someone is either mentally ill or mentally healthy. It is instead based on the personal growth model. Organizational experts began in the 1970s to see applications of the personal growth model to organizations. The term "authentic teams" grew out of this movement.

The authentic team supports the right of each individ-

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Traditional vs. Authentic Team Characteristics

1. **Traditional:** Interdependence is the key value.
   Authentic: Individual autonomy is the key value.
2. **Traditional:** Experimenting with new process behaviors is preferred.
   Authentic: Increasing awareness of existing behaviors is preferred.
3. **Traditional:** Good work is a result of good working relationships.
   Authentic: Good working relationships are the result of doing good work together.
4. **Traditional:** Appropriate behavior is determined by conformance to team norms.
   Authentic: Appropriate behavior is determined by individual choice within each situation.
5. **Traditional:** Responsibility and rewards are best viewed in terms of team effort.
   Authentic: Responsibility and rewards are best viewed in terms of individual effort.
6. **Traditional:** Values conflict resolution.
   Authentic: Values conflict management.
7. **Traditional:** Attempts to empower others.
   Authentic: Recognizes only self-empowerment.
8. **Traditional:** Values being "open."
   Authentic: Values being "upfront."
9. **Traditional:** The effective team leader/coach puts the welfare of the group before his or her own.
   Authentic: The effective team leader/coach looks to his or her own welfare first.

A Different View of Teams

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ual member to hold separate values and to base commitment to team objectives on those values. Each person's uniqueness is valued.

From a starting point of differentiation, the team then explores ways it can work together effectively. Authentic teams encourage participation at levels that are comfortable for members. On an authentic team, there may never be equal levels of participation among members at any one point in time. Over time each member will participate in his or her own way at a level that supports a desire to continue to be part of the team.

Conflict is seen as natural and constructive, and is managed rather than resolved.

A Different Team-Building Paradigm

To build an authentic team, every member is encouraged to become more appreciative of how each team member differs from the others. Once individual team members are clearly differentiated, team construction occurs through developing connections between members. The team will more likely be effective than one that is homogenous, provided that everyone on the team is equally clear about and committed to attaining the team objective.

One distinct advantage is that authentic team members can work in isolation, in small group configurations, or as a total team, depending on the task at hand. Members can also enter and leave the team without disrupting it.

Two American sports illustrate the difference between the traditional and the authentic model. The National Football League (NFL) is a prototype of the traditional model. Players are almost anonymous; eleven men dress alike, wearing masks. Each player knows his role. Sacrifice for the good of the team is highly valued, and almost every score is the result of players collaborating in a precise and orchestrated fashion. Football mirrors the corporate ethics of the 1950s; centralization, division of labor, doing what you are told. The biggest supporters of the NFL are Baby Boomers.

The National Basketball Association (NBA), on the other hand, operates as an authentic team. While basketball is a team sport, the NBA recognizes and celebrates individual contributions. There is a spirit of rebelliousness in the NBA that doesn't exist in the NFL. In basketball, individual performance is what the fame is all about. Doing whatever it takes to win is the approach. The NBA is far more in line with the values of Generation X. ■

Building Authentic Teams

A new organizational structure must emerge that allows different generations to work together efficiently. Work teams are the means by which the workplace of the twentieth century will evolve into the workplace of the twenty-first century, and authentic teams are most likely to do so successfully.

In 1965, B.W. Tuckman identified four fundamental phases of team building: forming, storming, norming and performing. This framework can be applied to building authentic teams as follows:

Forming. A work team is a collection of individuals who have come together for some shared purpose. Yet each member may not know why he was asked to join, or how it will benefit him. At this stage in the creation of an authentic team, it's crucial to let members know what's in it for the individual. A team made up of Boomers and Xers will work better if members clearly understand the personal benefits of being on the team.

Storming. It is the make-or-break stage of team success. The development of individual team members consumes considerable energy at this phase. Interpersonal conflict will be at its highest. Many members will be happy to see the team go at this stage. Yet it is during this phase that the group becomes a team. Rewards

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How One Team Made it Through Storming

At one work site, a strong and decisive leader had supervised the group. The new team members had a history of not getting along and of letting the supervisor mediate disputes. After the creation of the new team structure, the supervisor continued to believe he should resolve any problems. Fortunately, someone from the human resource department was assigned to support the development of the team. The advice over and over again was that the supervisor could resolve the conflicts, but then the team couldn't expect to grow. They were told the choice was theirs to make.

Tough decisions continued to be made by the supervisor, and conflict predictably increased. Finally, the members agreed to try to work through a conflict themselves. They struggled, and tension increased. Then a breakthrough came, agreement was reached, and the team took a significant leap toward high performance. Team members learned two important lessons. First, they were able to manage conflict on their own, and second, they learned that managing conflict made them stronger and better able to handle conflict the next time it occurred.

Building Authentic Teams

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won't come until this phase has passed. Team members must be encouraged to be aware of and responsible for the behavior they use with one another and the consequences of that behavior. They must also learn that conflicts must be solved by the group, not the leader.

Continue to hold team meetings on a regular schedule. Let team members get to know each other as individuals. Each member must realize that he or she is a unique contributor to the team's success and that personal success is part of overall team success.

Norming. You will know that your team has reached this phase when:

- **Discussions focus on issues, not personalities and opposing points of view are respected rather than rejected;**
- **Team members seek solutions rather than just talking about what is wrong.**

The norming stage is where true synergy begins. The whole becomes greater than the sum of its parts. Generational differences become team strengths. At this stage, it isn't unusual for a Boomer or an Xer to venture into a previously avoided task.

Performing. For authentic teams, this phase represents a new environment in which each person is willing and able to contribute his or her best to achieve team objectives. Perhaps the most remarkable attribute of team members at this phase is their ability to see each other as unique individuals without characterizing anyone by age, gender, race or religion. No Xer is determined to be of lesser value to the team by a Baby Boomer peer, and vice versa. There are disagreements and conflicts, but these are never personal. ■

For a case study on building authentic teams, go to: http://my.summary.com

Supporting Authentic Teams

Building authentic teams is only the beginning. They must be supported by the organization to endure. Recognition and reward for team effort and success are critical. Rewards should reflect individual, team and organizational achievement. All three must be considered.

Two other factors play an important role in team management: the role of the coach or team leader, and managing the changing membership of an ongoing team.

The Coach: Every team needs a coach. Whoever the coach is, his or her main role will be to assess the team and its members' ability to handle decision-making on their own and encourage the gradual assumption of more independence.

Train coaches first. Give them the tools needed to teach and develop the team. You must also offer coaches a clear idea of how they will spend their time once the team is working independently. Encourage them to work themselves out of a job.

Changing Team Membership: The team you put together today probably won't be made up of the same people next year. Companies change, work changes, people come and go. Team membership will change. Unfortunately, if that change means that every team has to start from scratch, most of the productivity benefits gained in the forming and storming stages will be lost.

The traditional team development process calls for the team to revisit its mission and guidelines each time a new member comes aboard. Fortunately, that isn't necessary for an authentic team. It already values diversity among its members, and integrating a new member is much easier. He or she can remain an individual and still become a member of the team. ■

The Authentic Approach To Problem Solving

If you want to create an authentic team, you'll need the right problem-solving tools to do the job. One of these is the **"prerequisite tree,"** which is taken from the Theory of Constraints.

The Theory of Constraints

The Theory of Constraints is a management philosophy developed by Eli Goldratt in 1994. One of its basic principles is that there are only a few variables, or constraints, preventing a system from achieving its goals.

One of the most important premises is that a system's behavior is governed by an underlying conflict. All undesirable effects observed in the system are the result of the compromises adopted to manage the conflict. In other words, if problems exist in a team, it is because some conflict has not been resolved. In teams made up of Boomers and Xers, that conflict is often their differing views on the world of work.

The Prerequisite Tree

The **"prerequisite tree"** is a tactical problem-solving tool based on the Theory of Constraints. The prerequisite tree works especially well with intergenerational teams because addressing all *individual* resistance is viewed as an essential step to achieving *team* objectives.

To build a prerequisite tree, a team will first identify the obstacles that prevent a goal from being reached, then determine intermediate objectives to address each

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The Authentic Approach to Problem Solving

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of those obstacles. It then builds a tree based on these intermediate objectives.

For example, at one company, an intergenerational team used a prerequisite tree to solve an excess inventory problem. The company provided replacement parts to customers worldwide. The problem was that some of its excess inventory was obsolete, while at the same time, there was a shortage of the right inventory parts.

A team was assembled to solve the problem. One objective the team identified was **to reduce slow-moving, surplus and obsolete inventory.** Everyone on the team identified obstacles, and then intermediate objectives to overcome those obstacles.

For example, one obstacle was: "Relationships with

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Building a Prerequisite Tree

There are six steps to constructing a Prerequisite Tree. They are:

✓ **Define the team's goal.** Team members need a clear understanding of what they are trying to accomplish. There must be agreement by everyone on the team that the goal is vital and that accomplishing it will benefit both the organization and members of the team.

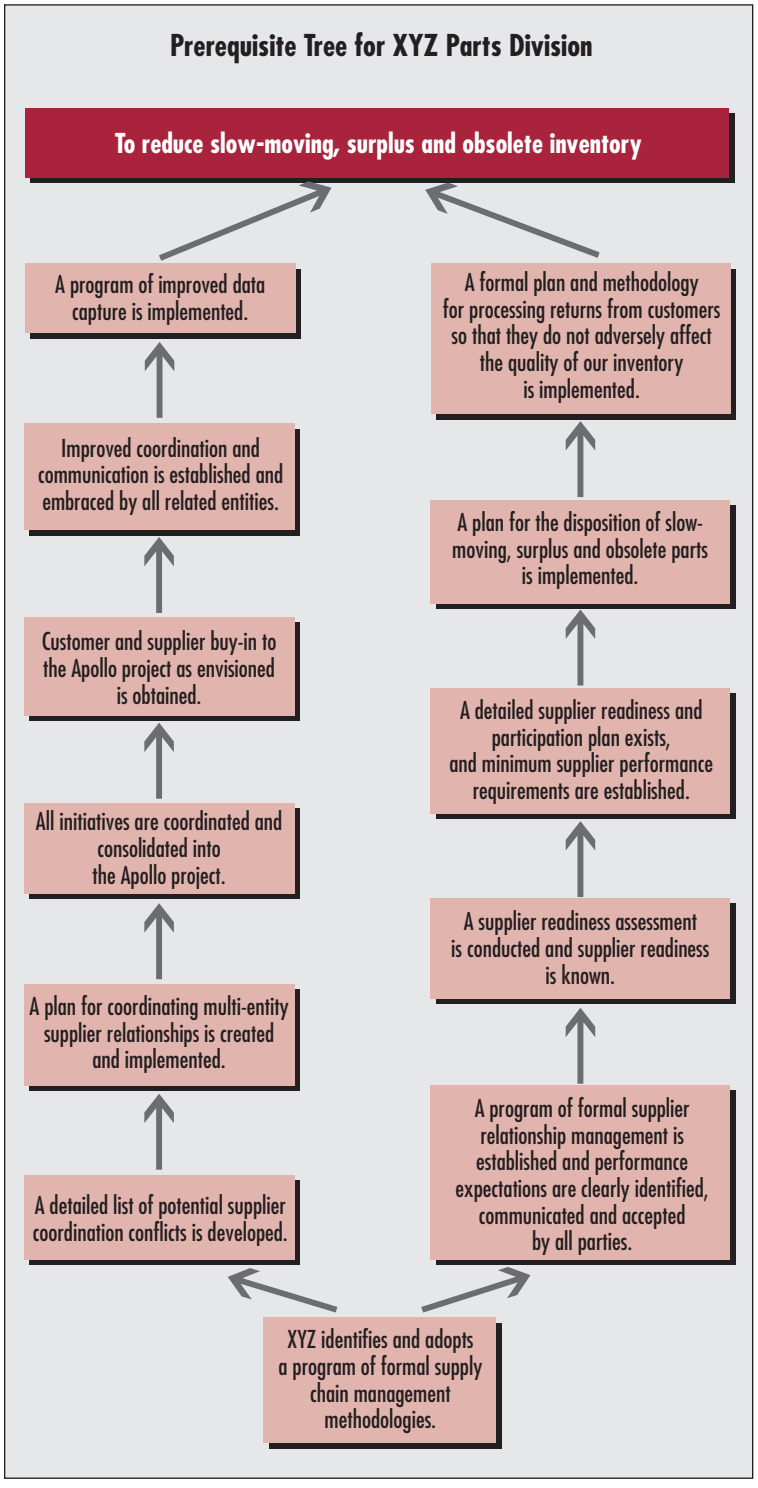
✓ **List obstacles to implementing the goal.** The team creates a list of obstacles to meeting the goal, and continues the list until no one can come up with any additional obstacles. Obstacles are categorized as either related to implementation, as reflecting policies or procedures that will have to change if the goal is to be met, or as personal obstacles faced by team members.

✓ **Determine intermediate objectives to overcome obstacles.** The team next comes up with solutions to each obstacle. These become the intermediate objectives. For example, if lack of expertise is an objection, training is the solution. Training becomes an intermediate objective.

✓ **Map the intermediate objectives implementation sequence.** At this juncture, the team has a list of intermediate objectives that, if accomplished, will eliminate all obstacles to achieving the team's goal. Task four is to organize these into a linked plan.

✓ **Assign intermediate objectives to team members.** Assign each intermediate objective to a specific team member. He or she has responsibility for meeting the objective. The team must also identify resources needed to meet the objectives and set timetables for completing them.

✓ **Execute implementation plan.** The plan is a living document and can be altered as you go along. If done properly, it will be a reasonable estimation of how implementation will take place.



The Authentic Approach to Problem Solving

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many of our suppliers are informal and not well defined as to performance expectations." The corresponding intermediate objective was: "A program of formal supplier relationship management is established and performance expectations are clearly identified, communicated and accepted by all parties."

The finished tree is shown on page seven.

For another case study of a Prerequisite Tree, go to: http://my.summary.com

Working With the Adversary Relationship

When the goal is to develop positive team attitudes and behaviors, collaboration is the long-term objective. Collaboration creates synergy. Synergy is what separates a team from a group. Synergy means that the whole is greater than the sum of its parts. Team members working together actually create energy.

Unfortunately, there are many adversary relationships in the workplace. Whether based on prejudices or on real differences about core issues, adversarial relationships stand in the way of developing team synergy. Generational conflict has the potential to become adversarial. A Boomer may think Xers don't value hard work, while the Xer thinks Boomers are stuck doing things the way they were done 30 years ago.

The best way to avoid adversarial relationships is to prevent them from forming. Take care not to play one group against the other. Focus on rewards rather than punishment, for example. And never compare one generation member to another. Don't, for example, react to an Xer messing up by comparing her unfavorably to the typical Boomer. Don't dehumanize anyone. Finally, make sure everyone has work to do that is meaningful.

What do you do if preventing an adversary relationship is impossible? Take the following steps to stop the conflict from getting worse:

1. Both groups must decide that they want to change the relationship.
2. Once they decide to change, bring in a facilitator.
3. Clarify positions after both sides acknowledge that they have a right to different views.
4. Redefine roles in light of current conditions. Each party lists its wants and concerns.
5. Develop a contract between the adversaries. This provides the parties with a clear list of what each can and cannot do or say to the other. ■

Retaining Generation Xers

In looking at salient factors most critical to retaining Generation X employees, six categories emerge. These are:

Work Environment: Xers are individualistic and appreciate casual attire. They also appreciate the ability to personalize workspace.

Work Content: Money isn't as much of a motivation as is interesting work. Xers will leave for a competitor if they think the work will be more fun, challenging and interesting. You must make work fun and allow Xers to make decisions.

Growth Opportunities: Xers expect to be promoted based on their performance, not on their seniority. They don't expect to "Pay one's dues," if they've already proven that they can do the job. Xers also appreciate training opportunities.

Compensation and rewards: Xers want to be rewarded individually as well as for team accomplishments. They also appreciate nontraditional benefits that benefit their daily life. They want to be rewarded frequently and don't like waiting for a yearly bonus.

Organizational Culture: Xers want their organization's culture to reflect their values. They want to work for companies that don't demand long work hours and family sacrifice. They won't tolerate a threatening work environment.

Working Relationships with Manager and Co-Workers: While Xers place a high value on autonomy and independence, they also need supportive working relationships to balance the isolation. Mentoring, for example, which is both supportive and individual-oriented, works particularly well. On the other hand, Xers will resent — loudly — any attempts to micromanage their work. ■

For a look at Boomer and Xer characteristics, go to: http://my.summary.com

Boomer Manager Loses Xer Over Game

When a small but very effective high-tech company began expanding, it hired a young Boomer to manage a workgroup made up mainly of Xers. On his first day on the job, the Boomer called his staff in and laid out some ground rules. He told the staff that he wanted them to remove any computer games they might have on their work computers. One of the Xers mumbled "Whatever," and walked out of the room and the organization. He had another job within three days while it took the Boomer six months to find a replacement.

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Bring Your Human to Work

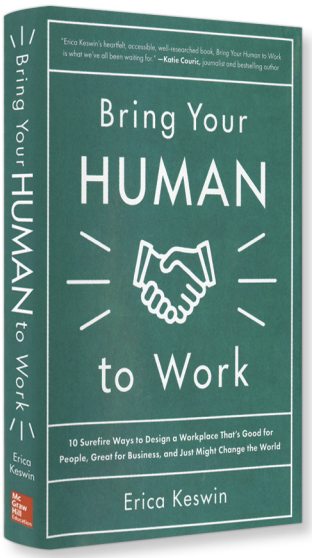
Erica Keswin

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Management

Bring Your Human to Work

10 Surefire Ways to Design a Workplace That's Good for People, Great for Business and Just Might Change the World



by Erica Keswin

THE SUMMARY IN BRIEF

As human beings, we are built to connect and form relationships. So, it should be no surprise that relationships must also translate into the workplace, where we spend most of our time! Companies that recognize this retain the most productive, creative and loyal employees, and invariably seize the competitive edge.

Paying attention to the effects people have on one another other is key to developing a winning culture where people perform at the top of their game. *Bring Your Human to Work* shows that the most successful leaders actively form quality relationships with their employees, honor fundamental human traits — authenticity, openness and basic politeness — and apply them day in and day out.

Author Erica Keswin distills the key practices of the most human companies into advice that any business leader can use to build a "human workplace." The lessons in *Bring Your Human to Work* foster fairness, devotion and joy in the workplace. By bringing your human to work, you can design a workplace that is genuine, aligned, true to itself — and just might change the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How to honor relationships in your organization.
- To embrace sustainability and make work practices intentional.
- To find the right balance between technology and human connection.
- Inspiring stories of companies that put gratitude to work every day.

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THE COMPLETE SUMMARY: **BRING YOUR HUMAN TO WORK**

by Erica Keswin

The author: Erica Keswin is an expert in helping businesses, organizations and individuals improve their performance through honoring relationships. She was previously a consultant at the Hay Group and Booz Allen Hamilton, Inc., and worked as an executive director at Russell Reynolds Associates. She contributes regularly to *Forbes*, the *Harvard Business Review*, *Entrepreneur* and *Quartz at Work*.

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Introduction

Many CEOs, entrepreneurs, managers and employees around the country have realized that, in light of the digital deluge occurring around us, we all need a more human workplace. People are no longer willing to accept work as a soul-crushing, Dilbertesque, cubicled nightmare.

Bringing your human to work is not rocket science, but that doesn't mean it's easy. It takes hard work and discipline. It requires honoring relationships in everything we do — creating our values, running meetings, deciding who we hire, using technology, choosing whom we partner with, and evaluating and rewarding talent.

It's about putting technology in its place in order to build strong relationships and about inviting technology to the table, making good use of everything that can create a more human workplace.

Honoring relationships is the theme that brings everything a human workplace stands for together. What does this mean, on the ground, in your particular company? And even if you get it right, will all this human business help the bottom line?

According to the American Institute of Stress, $300 billion is lost in our economy every year to stress. Imagine the human impact we could make if we could get that money back. Or, better yet, if that stress hadn't happened in the first place. By working human, we can begin to literally cut our losses and cultivate a more human world.

There are 10 surefire ways to approach the challenge of the human workplace, depending on the needs of your company and your stage of growth. Prepare to change the way you do business.

Be Real

Speak in a Human Voice

In order for a human company to flourish, it has to be genuine, aligned and true to itself. A real company actually flaunts its humanity; it doesn't hide it.

Here are three ways smart companies are bringing their human to their brands by being real.

Know your brand's values. The thing about values is that they are hard at work, calling the shots of your business, even when they are implicit. That's why it's so important to make our values seen and heard.

The ride-sharing market is worth billions and was originally dominated by Uber. Then along came Lyft, a San Francisco–based ride-sharing company identified by a glowing pink moustache on the front dash. How did they manage to break into the space?

They let their values drive them, that's how. Lyft emphasizes human connections. Lyft's mission is "to reconnect people through transportation and bring communities together." It sounds lofty, but a mission has to be. Like any strong brand, Lyft knows that developing and embracing core values is the way to manifest that mission, however aspirational it may be. Their official core values apply to passengers, drivers and employees alike:

- Be yourself.
- Create fearlessly.
- Uplift others.
- Make it happen.

Speak in an authentic voice. Once a company knows who they are and what their values are, that

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identity must be shared with customers, employees and the world. This is a company's voice, and like all voices, it must be heard. In order to breathe life into a brand, companies need to confidently broadcast what that brand stands for.

Telling stories — personal stories, professional stories and brand stories — is the perfect vehicle for expressing the truth of your company's brand. Stories are free, are always available and are such a core part of our human DNA that they automatically make us feel good. Especially when they're true.

Best of all, when a company brings true stories to light, the culture becomes more attentive to stories, and it's a virtuous cycle. Leaders and managers learn to keep their eyes and ears on what's most important: the real experiences of real people.

Empower employees to be brand ambassadors. "Engagement" is what happens when an employee is in front of a customer. What happens when no one's looking? Should companies provide a script, guiding an employee's response based on values and voice? No way. That would be inauthentic and the opposite of a human interaction. Instead, employees need to be educated, mentored, supported, rewarded and then empowered — it is up to them to bring their human to work with your mission in mind.

Since a core value at Lyft is to uplift others, it is up to employees to actually do this important heavy "lyfting." One of the most incredible stories is about a driver who picked up a passenger on Valentine's Day and handed the passenger a card that read "Be My Valentine." The passenger started crying. The driver pulled over, turned the meter off and talked with her, and when she seemed ready, the driver took her to her destination.

A few weeks later a friend of the passenger wrote to Logan Green, Lyft's CEO: "Your driver saved my friend's life." Apparently, that passenger was contemplating suicide, and that human touch made her reconsider.

There is nothing in an employee handbook that could have instructed someone to have the heart and mind to reach out and help customers in this way. Except maybe, "Bring your human to work."

Play the Long Game

True Sustainability Is a State of Mind

Not long ago, the word "sustainable" conjured images of recycling tree huggers, people who were so focused on saving the planet and its critters that they lost sight of us bipeds. Today, the concept of sustainability has evolved to include all the inhabitants of the earth, and a human workplace is about creating an ecosystem of sustainability for all of us.

Sustainability is playing the long game, and playing the long game is not easy. Not only is investing in the future the right thing to do for the world and your company, but top talent is also looking for companies that are willing to embrace sustainability.

Playing the long game requires changing the way we think about everything.

Make work practices intentional. To stay ahead of the curve — to play the long game — we must craft vital, intentional work practices that account for the complexity of people's real lives. Let's start with the ground-level, employee experience and the way we ask people to spend their days. Top talent is demanding a more human schedule. So what does that look like?

Technology has made certain aspects of progress look so easy. Much of our work can be done virtually, but what happens to our company culture when we're texting from home or from the local Starbucks? We have to be strategic in our flexibility.

Raytheon, an innovator in defense and cybersecurity solutions, implemented a popular program called the 9/80, which allows employees to work nine-hour days and get every other Friday off. This way, employees can "take care of personal business, see family, travel, take a dance class and have a life outside of work."

Diversify and include. The data is clear: Studies reveal that truly heterogeneous teams (think age, race, gender, sexual orientation, work experience, technical expertise and level of education) are more accurate and accountable than homogeneous ones.

EY is a global professional services firm with 250,000 employees in over 150 countries. It was named number one on DiversityInc's 2017 Top 50 Companies for Diversity list. Karyn Twaronite, global diversity and inclusiveness officer at EY, says, "We understand that [aligning with sameness] feels easier, faster, but we want and expect our people to lean into bumpy and to try to explore differences on their teams."

"Leaning into bumpy" is what it takes to effect change as we aim to bring our human to work. Challenging assumptions, creating new paradigms — this is important, impactful, bottom-line work. And it's personal. Consequently, we are bound to have personal, emotional — bumpy — reactions all along the way. Instead of letting the bumps throw us off, we must lean in and learn.

Enlighten your supply chain. On April 24, 2013, a five-story commercial building in Bangladesh called the Rana Plaza collapsed. More than 1,100 garment workers were killed and over 2,000 were injured. The prior year, factory fires in Pakistan and Bangladesh killed 350 workers and left many disabled. These tragedies, along with a list of similar tragedies, led consumers to demand transparency from the garment industry.

These days, it's not just the garment industry that is under careful scrutiny for its humanity. Now, instead of caving to consumer pressure, companies are wearing their transparency on their sleeve, touting their corporate responsibility as part of their offerings. This makes for good business. In everything from toys to food, glasses, shoes and more, companies are seeking ways to shine a light on their supply chains as part of what they're selling and who they are.

Once you change your state of mind, you will see that the long game is the only game in town. A long-game state of mind means honoring all the relationships connected to our business — not only the people we work beside at the office every day but also the people, animals, land and natural resources affected by what we do.

The Sweet Spot

Finding That Special Something Between Tech and Connect

These days, technology plays a supporting role in pretty much everything we do and especially in how we communicate. Our communication options for making ourselves heard are dizzying, but they are not all created equal.

We need to think of how we communicate as being along a continuum. Today, we have quick-exchange platforms such as Snapchat, WhatsApp, IM and text messaging on one end, email kind of in the middle, snail mail further down the line, and at the very end, the old-school reliability of picking up the phone, walking across the hall or even hopping on a plane.

To figure out which mode of communication is best, it's important to think about what you are trying to convey. As a rule of thumb, match the medium to the message. The higher the stakes, the more we should invest. In any given situation, ask yourself, "What is the best medium of communication to honor this relationship?"

We must understand the trade-offs and how to find the sweet spot between tech and connect. If we let technology serve as a stand-in for real, human relationships, we miss the point. Big time. Digital discipline is important for all of us to practice, personally and professionally.

High-Tech for Human Touch

Walking up to the ticket agent at the airport was once a routine (and even exciting) part of the travel experience. Back in the day, this was a time to exchange pleasantries and amp up the excitement of a big trip. More recently, this interaction has gone the same way as too many customer service experiences and now feels stiff, rushed and sometimes even hostile.

As a result, when JetBlue introduced self-serve kiosks, some customers loved how these slick ATM-like machines helped them save time and avoid an unnecessary trip to the counter. Others, though, flustered and frustrated by having to print their own bag tags and check themselves in, felt like they were witness to the utter demise of civilization.

Joanna Geraghty, JetBlue's executive vice president of customer experience, has set out to please both types of customers. Her goal is to automate those features that don't require a personal touch by using self-serve kiosks for check-in and bag tagging, so crew members have more time to identify the people who really do need (or simply want!) the help, thereby deepening those connections.

This means that crew members have more time to help passengers by doing things like grabbing coffee for an overtired mother and ensuring that customers in need of wheelchairs get the extra TLC they require to make it safely to their gates.

For companies looking for ways to improve performance and the bottom line while looking for balance in their embrace of technology and customer engagement, JetBlue is a powerful example of using technology wisely and well.

Mind Your Meetings

Honoring Relationships with Purpose, Presence and Protocol

Each year, we waste an estimated $37 billion on unproductive meetings, with executives spending up to 23 hours of their work week in meetings.

It is interesting to note, however, that most people still believe that meetings are fruitful, and they don't want to give them up. After all, humans do love to connect. This means that the problem might not be with the number or length of meetings but, rather, with the fact that most

meetings don't respect people's time, leaving them feeling fatigued and, worse still, abused. All too often, our meetings don't honor relationships.

Meetings, almost by definition, are our opportunities to make those connections that are good for people and great for business.

Have a purpose. When you call people together, it's up to you to honor the relationship you aim to build. Before sending that invite, ask, "Is this meeting really necessary? If so, what is its purpose?" Meetings are most useful when they are linked directly to a company's values, which then trickle down into preferences and ways of working. If your company values a meticulous process over quick-and-dirty decision-making, then schedule think-tank-type gatherings periodically, and let go of the more aimless status meetings.

Be present. When it comes to meetings, like it or not, we must curate connection and add a little cruise director to our manager mentality. You don't have to hire a magician to grab your employees' attention. Even simple efforts and little tweaks work, too. Centro, a digital advertising firm in Chicago, begins each meeting with a simple round-robin check-in, asking each participant to share a bit about how she or he is feeling. This allows people to be present by addressing where they are emotionally as well as physically.

Create protocols. The good news is that there are many ways to set protocols for a meeting. You can send a checklist of "pre-work" to give the meeting context. You can send a clear agenda, with enough advance notice for everyone to read and reflect upon it before the meeting, which is a great way to engage introverts. You can also assign someone to keep time against an agenda, making sure the meeting stays on task.

Well-Being at Work

Finding the Human Side of Wellness

It's not difficult to make the argument that providing a path to wellness is just plain human. The *Harvard Business Review* reports on a study of organizations with highly effective wellness programs. These organizations have a 9 percent turnover rate, while organizations with ineffective programs have a 15 percent turnover rate.

What does it mean to have a "highly effective" wellness program? The authors of a study by the Health Enhancement Research Organization believe such programs focus on "social, financial, spiritual and mental wellbeing." That is to say, since we're bringing our human to work, our whole human selves need to be kept in check, not just our cholesterol.

One exemplary company personifies well-being in everything it does — in its mission, its values and its own wellness. Vynamic is a Philadelphia-based consulting firm that specializes in healthcare. The goal of its CEO, Dan Calista, is to build the healthiest company in the world. Most clearly, the Vynamic website says, "Healthy culture is our business strategy."

One of Calista's most foundational well-being initiatives is also his most radical. He allows consultants to choose their projects and their locations, instead of the more conventional "go where the job is" and "do what you're told" approach of most (if not all) other consulting firms.

By allowing his employees to have a say in choosing their projects, Calista is honoring his most important relationship — the one with his employees — and building kindness into the very fabric of the company.

About five years ago, Laura Pappas, one of Calista's consultants, approached him about her growing interest in the field of wellness coaching. Sensing an opportunity and wanting to encourage his employee, Calista invited Pappas to pursue that interest and even offered to pay for her to become a Certified Health Coach (CHC).

Having an on-site coordinator of health and care makes it clear to everyone that Calista means business in his commitment to well-being. From healthy snacks to treadmill desks, ergonomically correct chairs and special LED lights, Pappas now covers all the wellness bases for Vynamic.

Vynamic and Calista have also been recognized for one of their most important and influential programs, called zzzMail. The zzzMail policy eliminates work emails between the hours of 10 p.m. and 6 a.m. and on the weekends. That's one doozy of a protocol!

Calista's entrepreneurial wisdom has been good for his company's business. In 2017 Vynamic's revenue was $24.5 million, placing it in line with similar-sized consultancies, which is darn impressive.

Give Back

You've Got Nothing to Lose, Only Inspired Employees to Gain

Giving back, volunteering, embracing the idea of corporate responsibility — these concepts are top of mind at companies big and small, and there is mounting evidence to support this wave as a strong business practice.

A recent study by Bain & Company showed that "inspired" employees are 225 percent more productive than "engaged" ones and three times more productive than those who are "disengaged." It's a beautiful thing, the way offering ourselves to others sharpens our focus and gets our wheels turning.

Giving back can be as simple as donating a portion of one's proceeds or product to the needy, or it can entail multiple organizations with large coordination efforts. Here are 10 specific ways to give back:

- Build giving back into your company values.
- Offer your specialty to a community that needs it.
- Go local: Connect with the community in your backyard.
- Do it your way: Give as an individual.
- Give as a group: We're all in this together.
- Leverage technology to amplify impact.
- Involve the whole family.
- Give on location.
- Include your virtual team in the give-fest.
- Wait and see: Give when so moved.

For example, Mack Weldon followed the "wait and see" strategy. In 2012, when the super-cool, online-centric men's underwear and clothing company Mack Weldon ("the Apple of underwear," according to the Huffington Post5) was initially launched, founder and CEO Brian Berger knew he wanted to weave giving back into his business. Still, he wasn't sure exactly how he wanted to do it.

On the one hand, Berger was just starting out, so the company couldn't really afford to start giving away free stuff. Berger didn't want to just dive into an approach he didn't feel truly connected to, either. So Berger and Mack Weldon waited.

In March 2017, Mack Weldon Recycles — "easy and effortless" — was born. Berger's authentic solution to the social impact opportunity was for Mack Weldon to partner with a third-party apparel and textile recycler called Community Recycle, a Philadelphia-based company whose objective is to keep all apparel and other soft goods out of landfills and send it to communities in need. Don't worry, the underwear itself is not recycled (that's just wrong). It's only the cotton that's recycled.

This is how it works: When customers place an order, Mack Weldon sends their wares in what they call a "two-way drawer" (drawer, get it?), which can be returned with up to 45 pounds of underwear or anything else from their closet at no cost to the customer. Upon receipt, Mack Weldon sends the used goods off to Community Recycle to be transformed and given a new life.

Berger's give-back strategy is a win-win-win. It helps customers rid their closets of old clothes, while helping them feel good about purchasing from the company. The program has already kept 11,241 pounds of apparel out of landfills. This is equivalent to a reduction of 65,197 pounds of carbon dioxide emissions and a savings of 12.2 million gallons of water and 72 trees. And, importantly, it supports Berger's goal of making Mack Weldon a profitable, growing enterprise.

Disconnect to Reconnect

Where There's a Will, There's a Way

Human beings need a break. They need time for their minds to wander aimlessly, to enjoy one another's company, to sleep in or to do nothing. Neuroscientists have confirmed this, showing that allowing our brains to take a break from the constant stimulation of productivity benefits us in many ways.

A so-called "social vibe" is what we humans need. Right? But how we resist! A recent survey from the employer-reviewing site Glassdoor identified that the average U.S. employee who receives vacation and paid time off (i.e., 91 percent of full-time employees) has taken only about half of his or her eligible vacation in the past 12 months.

While it's true that some people and some industries just skew toward high-octane work habits, we all wrestle with a certain problem. You guessed it. Project Time Off reports that "as internet adoption goes up, vacation usage goes down." The report continues, "America's culture of busyness has been driven in large part by connectivity, so much so that the Pew Research Center determined nearly half of office-based workers say that email has increased the amount of time they spend working."

Our technology, as incredible as it is, is keeping an already workaholic culture more tethered to our roving desks than ever. In a culture where we check our phones an average of 47 times per day, even a little disconnection is a lot to ask for.

Here's the good news: Where there's a will, there's a way. The first step is to incorporate disconnection into the company values. Next, be sure everyone does it — staff, managers and executives. Finally, don't disconnect on the sly. Celebrate the joys that come from disconnecting!

Encourage employees to go home without supper. While many Silicon Valley companies boast about their many and varied on-site restaurants or dining options, Slack, the fast-growing messaging connection platform, has taken a different approach. The motto that hangs on a sign in Slack's San Francisco headquarters reads "Work hard and go home." The idea is that if you don't serve dinner, it's more likely your employees will leave the office to have dinner with family and friends.

Send friendly reminders. One of Google's product managers reports that when he hits 20 days of unused vacation, he receives a reminder from the human resources department instructing him to take some time off. Seriously. He continues to receive a "nudge" every 10 days or so until he actually takes a vacation.

Leave loudly. Robbert Rietbroek, CEO of PepsiCo Australia and New Zealand, implemented "Leaders Leaving Loudly" to ensure leaders felt comfortable going home and to get them to announce it to their teams. He says, "For instance, if I occasionally go at 4 p.m. to pick up my daughters, I will make sure I tell the people around me, 'I'm going to pick up my children.' Because if it's okay for the boss, then it's okay for middle management and new hires."

Space Matters

Curating Connection Starts with the Water Cooler

If you want to get the most out of the people in your company, pay attention to space. A survey by Steelcase discovered that only 11 percent of workers surveyed were highly satisfied with their work environment. And we know what happens when workers are unsatisfied! On the other hand, an office environment that fosters connection can raise employee productivity by at least 25 percent.

Since the human company curates connection, that is how we should consider our space. Here are some tips from companies that have done just that.

For example, Anthony Casalena, CEO of web-design company Squarespace, enlisted A+1, a design firm in New York City, because he wanted the company space to reflect his belief that "design is not a luxury," which also happens to be their number-one corporate value. Casalena also wanted the new space to "line up" with his company by reflecting the way his employees worked — equal parts wild collaboration and intense solitude — a working style that architect Brad Zizmor referred to as a "binary state of being."

At Squarespace, nobody has a private office now, not even Casalena. However, people still need to do quiet work, so the entire exterior wall of the three-floored space is wide open, bright and quiet, available for everyone to use as they wish. All the common spaces — the conversation pods, conference rooms, etc. — are nestled into the interior space. As employees move closer to the exterior and closer to the light, the office provides more private space for working in quiet mode.

A design decision like switching offices for common space might not sound like much, but the experience is powerful and speaks very clearly to a culture of transparency, community and intentionality. This is evidently a place that both values the power of solo concentration while still honoring relationships.

Take Professional Development Personally

Empower Employees to Be Their Best Selves

The human workplace must take meaningful, on-the-job education seriously, whether it's related to a person's job description or not. Leaders must take it upon themselves to help their employees connect with the right opportunities. Then, instead of focusing on one or maybe two annual conversations, they must build development into the culture, the operations and the ongoing dialogue, tailoring experiences to actually fit their talent.

In the human workplace, leaders and managers know that one of the best ways to foster an employee's loyalty and engagement is through showing a genuine interest. We can't throw a bunch of professional development options out there and hope people find something that suits them.

We need to slow down, pay attention to the individuals on our teams and make them an offer they can't refuse. Everyone is different and has different needs. Remember, there is no cookie-cutter model to employee engagement!

Ask. So how do we get started? Just ask your people what they want! Ask employees what they want to learn and how they want to learn it. If they aren't sure, they will be thrilled to give it some thought and get back to you.

Receive. Your very own workforce is an untapped wealth of knowledge, skills and insights that other people in your company will no doubt enjoy. After asking employees how they themselves want to develop, try asking them what

they'd like to offer to their colleagues. By trading knowledge, you are creating a network of people all taking their professional development personally — together.

Coach. More and more companies are offering coaching to employees at every stage in their career. While it might seem counterintuitive to offer coaching to employees who already seem qualified for their jobs, offering additional support says, "I care about you and your happiness." Having truly happy, actualized people on your staff is a great retention strategy. And coaching helps every employee develop — professionally and personally.

Say Thank You

It's a Human Thing to Do

The question of "how to be grateful" is so big these days that an entire industry has sprung up. Globoforce is a successful company devoted to helping companies find their own way of expressing gratitude. Saying thank you is the right thing to do, and just as Globoforce's CEO Eric Mosley makes clear, "The simple act of recognizing employees has a proven impact on your bottom line."

Let's look at some powerhouse brands that honor relationships by putting gratitude to work, broken down by Who, When and How.

Who. Everyone Can #Soulitforward. Offering gratitude is everyone's job. Receiving it should be everyone's opportunity. One of fitness company SoulCycle's values is "show gratitude." Soul Cycle defines gratitude as "We give thanks to our riders, our staff and each other. We are humble and remember it takes a village."

CEO Melanie Whelan and her employees express gratitude through their very cool (and contagious) pin program. Employees are "gifted" a package of pins after a year with the company, with each pin representing one of Soul Cycle's 10 core values. There's a "We Get Dirty pin" (i.e., every single employee is responsible for the day- to-day operations), a "Culture of Yes" pin (i.e., everyone is committed to saying "yes" to riders and doing whatever it takes to satisfy their desires) and an "Embrace Change" pin.

When an employee sees anyone embodying any of the company's values, he or she is encouraged to #Soulitforward — give the person a pin, and share with the recipient how the actions were inspiring and emblematic of the values. Giving thanks in this systematic way creates what Whelan described as "an ecosystem of celebration of core values."

When. Every Morning at 9 a.m. It's important to infuse your calendar with a culture of gratitude. This can be done in a variety of ways — by establishing regular feedback sessions and by developing good daily habits.

Indagare, a boutique, membership-based, travel community founded in 2007 by Melissa Biggs Bradley (Indagare's CEO) and Eliza Harris, holds regular, daily gratitude sessions. Harris says, "At 9 a.m., we grab whoever is around for our morning gratitude practice." The folks at Indagare take turns around the room, as each person is invited to offer one thing for which they are grateful and one wish of happiness to another person.

As Harris conveyed, "What we've discovered is it's the most delightful way to start the day when you see how people's faces light up when they're saying what they're grateful for."

How. Lift Employees to New Heights. JetBlue manages to safely shuttle over 38 million people from one place to another every year. But customers aren't the only ones getting a lift from JetBlue. Employees also get a "lift" that comes in the form of recognition for a job well done.

When crew members feel inspired, they can nominate one of their peers, their direct reports or even their boss for upholding the JetBlue values in some remarkable way. The person nominated is rewarded immediately with a gift card of their choice. The key to this program is saying "thank you" in real time.

It seems so simple. We should all do it. Every day. Just say thank you. It's good for people, great for business and, along with the other strategies for bringing your human to work, just might change the world.

MORE SV CONTENT ON MANAGEMENT

Summary: *The Age of Agile* by Stephen Denning. Companies that embrace Agile management learn to connect everyone and everything all the time to meet rapidly changing technology and customer needs. With this approach, global giants can learn to act entrepreneurially.

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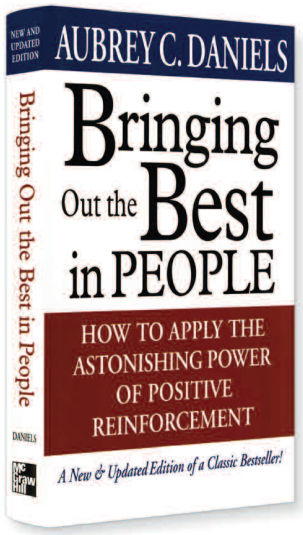
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Bringing Out the Best in People

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Bringing Out the Best in People

How to Apply the Astonishing Power of Positive Reinforcement



by Aubrey C. Daniels

THE SUMMARY IN BRIEF

What motivates people? What encourages employees to work to their fullest potential, not just for a short while but for the long haul? Many managerial fads promising quick fixes have come and gone, but none have approached the success experienced by organizations that have employed Dr. Aubrey Daniel's ground-breaking motivational methods. *Bringing Out the Best in People* provides the latest and best motivational methods currently in use at such major companies as Xerox, 3M and Kodak.

Applying scientifically-based behavioral stimuli to the workplace while also making it fun, celebrated behavior analyst and nationally known expert and author on performance, Aubrey Daniels, describes practical, precise, data-oriented methods to help you implement a management system that will maximize the long-term performance of every aspect of your company. He also helps you attain a clear understanding of human behavior so you, too, can bring out the best in your employees and achieve results that are measurably superior. By identifying what reinforces the people in your company and skillfully managing those reinforcers, you can attain the kind of *individual* performance that adds up to great *organizational* performance.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create effective recognition and reward systems in line with what today's employees want.
- How to stimulate innovation and creativity in new and exciting ways.
- When to apply reinforcers — and how to tailor them to meet individual employees' needs.
- A powerfully positive system for gaining maximum performance from every employee.

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THE COMPLETE SUMMARY: **BRINGING OUT THE BEST IN PEOPLE**

by Aubrey C. Daniels

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Preface to the Second Edition

All of us must stay in tune with behavior analysis as its applications change the world and are, in turn, changed by the world. The use of behavior analysis must not be allowed to become a business fad and, as such, suffer the vagaries that have affected other worthy business initiatives that have come and gone. Behavior analysis is not a good idea to be tried for a while and then cast aside for some other good idea. It is a science that explains how people behave and the influences that affect that behavior. It cannot go away anymore than gravity can go away and it cannot be ignored as long as people continue to be the most important element of every organization. In a changing world, the science of behavior must remain the bedrock, the starting place for every decision we make, every new technology we apply and every initiative we employ in our efforts to bring out the best in people.

PART 1: THE PERILS OF TRADITIONAL MANAGEMENT

Very few managers use systematic, scientifically-based management methods to bring out the best in people at work. Most try a variety of management approaches until they find one they like. But even when that approach seems to work, they don't know exactly why it did or why it works sometimes and not other times.

Conversely, the approach used here is based on more than 80 years of research in human behavior. The body of knowledge is called *behavior analysis*. The application of these scientific findings to the workplace is called *Performance Management*. Once managers understand the principles of Performance Management, they can create the right environment and conditions to bring out the best in performers today, tomorrow, next month and next year.

Most senior managers are not particularly impressed with one-time performance improvement in a job, office or factory. They know that things occasionally get better. They get interested when things improve and continue to improve.

Organizations such as Eastman Chemical Co., Allied Systems, 3M Dental, Blue Cross/Blue Shield of Alabama, BP Amoco and Preston Trucking Co. (featured in Robert Levering's book, *A Great Place to Work*) have used Performance Management and thrived on its methods for more than a decade. Other organizations have had the same experience.

Delta Faucet Co., for example, began applying Performance Management techniques almost 20 years ago. "Delta has had nothing but better years, every year," Don Ginder, retired vice president of human resources, stated. Today, Delta leads the faucet industry in America and has begun exporting its products to Japan.

Performance Management is not a one-time management solution to a single problem at work. It provides a precise way of analyzing work and implementing a management system that will not only address the problems associated with inadequate performance, but will lead to practical ways to maximize performance in every aspect

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer,** Contributing Editor

of the company's business. Because Performance Management is a precise, data-oriented approach, the solutions can be replicated in the same or similar settings and even extended to new settings with similar results.

A Most Practical Approach

Because Performance Management focuses on understanding behavior, we are able to tell what works and what doesn't simply by looking at the effect any intervention has on the behavior of people. Did the behavior increase or decrease, change or stay the same?

Performance Management uses scientific methods to change behavior. At first, a scientific method for managing behavior may not sound practical for line supervisors and managers, but in reality it is the most practical way to manage people.

Using scientific methods to manage behavior includes: precise specification of what we want to improve; the development of a baseline of current performance against which we can measure progress; and then a precise intervention and the evaluation of its impact on performance. This is no more than we would ask from any change in any other business process.

Management by Common Sense Is Not Management at All

Contrary to popular belief there isn't too little common sense in business, there's too much.

The alternative to commonsense knowledge is scientific knowledge.

1. *Commonsense knowledge is acquired in ordinary business and living, while scientific knowledge must be pursued deliberately and systematically.*

No special effort is required to obtain common sense. As a matter of fact, you can't stop it. It occurs just from the fact that we are alive. No wonder it's so plentiful.

On the other hand, scientific knowledge requires a special effort to acquire.

2. *Commonsense knowledge is individual; scientific knowledge is universal.*

The biggest problem with so-called common sense is that it is not really common at all. It's drawn from personal experience and, as such, is as different as our lives. When someone asks, "Why didn't you use your common sense?" he or she is really asking, "Why didn't you do what I would have done?" The fact is that when you use common sense, you always do what makes sense to you.

Scientific knowledge goes beyond the individual to look for that which is applicable across all situations.

The Challenge of 'Stretch' Goals

I hope by this time your company has discontinued the practice of setting stretch goals.

Stretch goals reduce the probability of success because they are too difficult, maybe even impossible, to attain. Depending on how far your performers are stretching, the probability of success may be less than 50 percent. No business can survive these days by reaching its goals only 50 percent of the time.

3. *Commonsense knowledge accepts the obvious; scientific knowledge questions the obvious.*

This is probably the most distinguishing characteristic of the scientific mind versus the ordinary mind. Common sense always says, "Of course," while science asks, "Why?" In other words, the commonsense person always has an answer. Before science entered the picture, common sense told people that the sun came up, the stars came out at night and the earth was flat.

Science eventually taught us that none of these things were true even though for centuries people conducted their affairs according to these common beliefs.

4. *Commonsense knowledge is vague; scientific knowledge is precise.*
5. *Common sense cannot be counted on to produce consistent results; application of scientific knowledge yields the same results every time.*

This is the most compelling reason for people in business to abandon common sense and to seek scientific explanations to problems involving human performance in the workplace.

6. *Common sense is gained through uncontrolled experience; scientific knowledge is gained through controlled experiment.* ●

PART 2: THE ASTONISHING POWER OF POSITIVE REINFORCEMENT

A retired maintenance superintendent was called back to a Chrysler plant to train new employees involved in the manufacturing startup of a new car. He was one of several people who made a presentation to plant management about the new product and the production training process.

He introduced himself by saying, "I'm Don F. and many of you don't know me, but I retired from this plant several years ago. Since I retired I've had a lot of time to think about my career here. I started as a mechanic in the maintenance department and after sev-

eral years became maintenance superintendent for the entire plant. As I thought about those days, something bothered me. Of the hundreds of employees that I supervised and managed, I can remember the names of about 30 that I would classify as 'no good.'

"I can remember the names of about the same number who were 'outstanding.' That's 15 to 20 percent of everyone I managed. What really bothers me is the remaining 80 to 85 percent who came in and did their jobs every day. They were the most responsible for my success in the plant and I can't even remember their names. I hope when you retire you don't bear that burden."

Bringing out the best in people requires that *all* performers get the right consequences every day. We shouldn't ignore poor performers, but if we are to have a high-performance organization, we can't ignore the good performers either.

The More Immediate, the Better

Consequences that are immediate and certain are very powerful in governing behavior. For example, if, when handling caustic chemicals, performers know a small drop on the skin will produce an immediate and painful blister, it will not be a problem to get them to wear gloves.

However, performers who handle lacquer products that may cause cancer and/or possible nerve damage with prolonged exposure may not consistently wear protective gloves. In fact, many don't wear them at all.

Reinforcers Are More Effective than Rewards

The immediacy factor explains the difference between a reinforcer and a reward. You should remember that a reinforcer provided immediately for a behavior has much more effect on that behavior than a delayed reward.

Because a reward is usually in the future, there is always a degree of uncertainty associated with it. Those offering the reward may withdraw it or change the conditions necessary to get it. The performer might not be able to meet the conditions, could die or otherwise not qualify for the reward. People typically respond more predictably to small, immediate, certain consequences than they do to large, future, uncertain ones.

The consequences that cause people to do their best every day occur every day. Yet experience has shown that most organizations spend more time, energy and money providing consequences that occur when employees get sick, retire or die than on the ones that occur every day.

This has enormous implications for every firm. It means that bonuses, profit sharing, retirement benefits and similar forms of compensation are future, uncertain consequences and, as such, do not bring out the best in people every day. These incentives are necessary, but not sufficient, to maximize performance. Certain forms of compensation facilitate performance better than others. However, compensation alone will not do the job of maximizing performance. Only effective and frequent positive reinforcement can do that.

No-Fault Performance: Change — Not Blame

When you understand how consequences influence performance, you realize that finding fault with people for inappropriate performance is unproductive and unfair. They are simply behaving in a manner consistent with the consequences they are receiving now and have received in the past.

The role of leaders in every organization is not to find fault or place blame, but to analyze why people are behaving as they are and modify the consequences to promote the behavior they need.

This approach to management does not overlook poor performance. Nor does it seek to use only positive reinforcement to attempt to create some type of unrealistic, utopian organization. Quite the contrary.

The management system we should create employs all of the consequences appropriately and skillfully to stop problem performance and promote the kind of behavior that supports the organization's goals.

The ABCs of Performance Management

The first step when attempting to change the way people perform is to *understand why they are currently behaving the way they are.* We now know that people do what they do because of the consequences they experience following their actions. Therefore, it is helpful to discover what antecedents are setting the stage for the behavior to begin and it is necessary to know what consequences are causing the behavior to continue.

The ABC (Antecedent-Behavior-Consequence) Analysis is a simple method for systematically analyzing the antecedents and consequences influencing a behavior. This analytic technique will allow you to understand behavior from the other person's perspective, even when it appears to be unproductive, irrational or self-defeating.

Antecedent: Something that comes before a behavior that sets the stage for the behavior to occur.

Behavior: What a person does.

Consequence: What happens to the performer as a result of the behavior.

Once you view performance in terms of ABC, you will be able to develop solutions to performance problems that you may never have attempted in the past.

In the ABC Analysis, consequences are classified on three dimensions:

1. *Positive* or *negative*. This dimension answers the question, "Is the consequence positive or negative from the *perspective of the performer?*"
2. *Immediate* or *future*. Here we want to know, "Does the consequence occur as the behavior is happening (immediate) or some time later (future)?"
3. *Certain* or *uncertain*. This dimension expresses the probability that the performer will actually experience the consequence.

Understanding and managing consequences is the most effective way to improve performance.

PART 3: THE SCIENTIFIC APPROACH TO LEADERSHIP

The importance of pinpointing *active behaviors* was made clear by Dr. Ogden Lindsley. In 1965 Lindsley developed the "dead-man's test" which is: "If a dead man can do it, it isn't behavior; and you shouldn't waste your time trying to produce it."

Yet much of what we typically track in quality and safety violates the dead-man's test. "Zero defects" and "days without a lost-time accident" are prime examples of popular goals that violate the dead-man's test. Dead men never have accidents and they never produce defective parts.

Like behaviors, results can also be more precisely pinpointed. In 1978, T. Gilbert developed a test for determining if you have an accomplishment. He called his test the "leave-it test." The leave-it test works this way: If you can leave it behind when you walk out of the office or plant, it is a result. If it's something you take with you, it is not. For example, safety awareness cannot be left behind at the end of the day and therefore would not meet Gilbert's definition of a result.

Safety awareness, better communication and increased teamwork are not pinpointed results, and effort spent trying to produce them may consume considerable financial and personnel resources, generating little value to the organization. These phrases are descriptions of a problem and, as such, represent only a beginning. You must pinpoint the desired result more precisely if you are to solve problems reliably and efficiently.

Behaviors and results define performance, and you need both to run an efficient and effective organization. So how do you pinpoint?

Precision Pinpointing

Pinpointing means being specific about results and behaviors. It requires *precise descriptions* of results and behaviors that are *observable, measurable* and *reliable*.

- **Observability.** *Seeing is believing*. In the final analysis, business has to be interested in results and behaviors that can be seen. Pinpointing observable results is relatively easy. The problem of observability comes up when we try to pinpoint behavior. Factors that affect behavior but are not observable, such as thoughts and emotions, are not the province of management. We can't expect line managers, or anyone for that matter, to delve into the inner feelings of others. The good news is we don't have to. You can manage yourself and others very successfully by limiting yourself to pinpointing behaviors you can see and hear.
- **Measurability.** Many people, when faced with these characteristics of good pinpoints, immediately complain that these criteria (especially measurement) will limit the pinpoints they can identify. This is not the case.
  The fact is, if something is happening it can be measured. Every behavior can be measured in terms of frequency or duration, or both. Even when something is not happening, it is being measured. The measure is zero. Some things may not be worth measuring, but if it is important, it can be measured.
- **Reliability.** When two or more people can observe a behavior or result and come up with the same count or measure, you have a true pinpoint.
  Have you ever heard someone described as "friendly" by one co-worker and then described as "aloof" by someone else? They are either observing or measuring different things or their measures are not reliable.
  Refining observations to the point of reliability is an important skill in pinpointing. We may start with a pinpoint that is not totally reliable but, as we use it, measure it and discuss our observations, we can refine it until it becomes more and more reliable.

The Effective Use of Measurement

In business, measurement is used to solve problems and to help the company perform better, but one of the most frequent uses of measurement is to identify performers who aren't measuring up. Based on the measurement, negative action is usually taken to correct the performance problem. No wonder employees avoid measurement whenever they can. It's no fun being identified as the problem.

The purpose of measurement in a Performance Management system is different. Rather than using measurement to find problem employees, *measurement is used to enable employees to do better*, which, of course, should help the company perform better.

PART 4: TURNING GOOD INTENTIONS INTO HIGH PERFORMANCE

Noted quality expert W. Edwards Deming advised us to eliminate goals altogether. Deming had observed how, in actual practice, goals and standards limit performance. He said that people who are capable of more reach their goal level and stop. In other words, performers typically give only what is asked for, even when they are capable of more.

What Deming saw in many organizations was that the majority of people attain goals in order to escape or avoid the consequences of not meeting the goals, rather than attaining or exceeding their goals as a means of receiving positive reinforcement.

Understanding the True Nature of Goals

Goals are antecedents for either reinforcement or punishment. If people are punished when they fail to reach a goal, they will reach the goal only to avoid the punishment. On the other hand, if people reach their goals and receive positive reinforcement, they will not stop when they get to the goal but will continue to perform at their best knowing that more positive reinforcement will be forthcoming.

The belief that goals improve performance interferes with the effective use of goals. If goals are set but there are no consequences for either success or failure, the goals will produce no improvement and will ultimately be a waste of time.

A textile sales organization in New York used a goal-setting process called *targeting* with their salespeople. This process consumed several months of management time each year. It involved the sales manager sitting with each salesperson, reviewing every account and setting sales targets for each season.

When asked how many targets were met each season, the most common response by far was, "about 75 percent." The actual data was available but was not routinely reviewed. When results were examined for the previous season, it was discovered that only 8 percent of the targets had actually been met! Management was shocked. They were sure the data was wrong. The next step was to look at the data from the season before and that showed that goal attainment was only 11 percent.

Management had mistakenly assumed that good participative goal setting would surely produce improvement.

Goals Get Results (a Management Myth)

When Deming encouraged management to eliminate goal setting, he was really calling for the *elimination of goals as they are currently used.* However, goal setting does have the potential to contribute to improved performance if used correctly.

Very clearly, the purpose of setting goals should be to increase opportunities for positive reinforcement.

If this is the purpose, *we should want many, not few, goals*. And, contrary to common sense, the best mistake to make in goal setting is to set the goals too low. The reasons for these techniques may be obvious by now:

1. If the goal is low, it increases the probability of success. If the goal is reached *and success is celebrated*, the motivation to do even more the next time is increased.
2. If goals become the antecedent for positive reinforcement, then the more goals you have, the more occasions for positive reinforcement.

The mistake that is most commonly made when setting goals is associated with the word *challenging*. The concept of "challenging goals" usually causes managers to set fewer goals and to set them too high. Fewer goals, harder to attain, equals very few opportunities for positive reinforcement and reward.

The fastest way to change individual behavior is to set small goals, reinforce effort and celebrate attainment. Remember, positive reinforcement accelerates the rate of improvement. The only way we can achieve dramatic improvement in anything is with lots of reinforcement.

Compensation and Performance Appraisal

The first thing to do to improve the effectiveness of compensation and appraisal systems is to pinpoint the results and behaviors needed from every job. While this seems like a formidable task, it pays dividends. This is also the first step in Performance Management.

The best job you will ever have is one where you know how you did at the end of every day. The ideal performance appraisal is one that is done every day. It is certainly not practical for management to measure performance every day, even if measures are available. However, if performance can be monitored by the performer, it is possible to get the benefits of daily measurement without the high cost of management time.

PART 5: REVITALIZING THE WORKPLACE

It's the responsibility of a company's executives to determine the desired organizational results. Once this is determined, the executive should define, within limits, which behaviors will be reinforced as a means of obtaining those results.

This task is value-driven. It answers the question: *"What are acceptable and unacceptable ways to get results here?* Is it results at any cost? If not, what are the limits? How are they determined? *What are our guiding principles and values?"*

Although values are not usually stated in pinpointed terms, doing so is the only way you can ensure that your organization lives by them. Concepts such as honesty, teamwork, innovativeness, concern for people, customer service, commitment to quality and so on can be defined in behavioral terms. In fact, if you can't define your organization's values in terms of specific behaviors, they will be practically useless in helping you accomplish your mission.

The ultimate purpose of developing a mission statement is to determine which results to reward and which behaviors to reinforce. (Listing the behaviors and results that will not be reinforced and rewarded is an equally useful exercise when a significant shift in behaviors and results is being attempted.)

After determining organizational results, the task of determining organizational values and their associated behaviors is the highest priority of executive management. This task should come before all other executive responsibilities, including those that directly affect profit. The executive cannot exercise true financial responsibility if profit is attained by behaviors that are self-serving, wasteful or repressive — not to mention illegal, unethical or immoral.

Increasing Creativity and Managing Change

Years ago, a plant manager at a manufacturing plant in Florida was asked, "What do you make here?" "I don't know," he replied, "I've only worked here a year and a half, and it takes us two years to make one." He was only being halfway facetious. The plant made the first guidance systems for satellites, and unreliability and failure to meet production schedules were serious problems.

Walking through the plant, you could see rows and rows of desks where engineers worked. To illustrate some of the problems of managing such an operation, the plant manager stopped and pointed down one of the rows. "See that man?" he asked. He was pointing to an engineer who was racked back in his chair blowing smoke rings at the ceiling. "How much do you want to bet that if I go up and ask him what he's doing, he will say, 'I'm thinking.' And how much do you want to bet that just as soon as we go into production, he will be the one running down the hall waving a change order. And if he does, I'm going to fire him."

Managing the Creative Process

He was venting his frustration at managing the creative process. Like many people, he thought creativity was a "mind thing," not a "behavior thing." Of course, he was stymied because you cannot manage someone else's thinking. That the engineer was not thinking about work-related issues concerned the manager, but he had no idea how to confirm or refute this concern. One thing he could have done was to ask the engineer to make a list of what he was thinking about that day, how the items on the list related to the problem or project at hand and a list of next steps to take to complete the task. If he had done that, the manager would have had some behavior to work with.

Too many managers hesitate to interrupt the solitude of "thought workers," like engineers, because they are afraid they might interrupt the creative process. To them creativity is a fragile and mysterious process. Many managers, even those in charge of research laboratories, have said that you can't manage creativity. Indeed, you can't manage creativity until you define it behaviorally, but once you do that, you can apply positive reinforcement to accelerate the behaviors that enhance creativity daily.

The fact that behavior is variable means that some things are selected by reinforcement to be repeated and some are not. Variability in behavior that is strengthened will lead to new behaviors that, in turn, produce new results, innovative products or unique services. In delivering a service or manufacturing a product, we usually don't want variability. We want consistent quality. Therefore, it is important for managers to identify when variability is valued and when it is not. ●

Epilogue

The Performance Management approach is value-laden. Values come from behavior. They are statements about desirable behavior patterns that a group seeks to promote. To the extent that values can be pinpointed, they are much more achievable in any group, whether at home, at work or in society in general. Let's examine some basic values.

Honesty. Honesty means that everything is above-

board. There are no hidden agendas. The stated purpose of asking for a certain behavior or performance is clear to everyone.

Integrity. Performance Management teaches that a manager should carefully follow up to make sure that the consequences match the antecedents. This is the basis for trust. The follow-up is to make sure that what the company *says* will happen after a certain behavior or performance *does* happen. This might be a positive consequence following good performance or it might be a negative consequence following a poor performance. Either way, the credibility and integrity of the company are on the line. This is how the value of *integrity* is promoted by Performance Management.

Equality and Respect. The Performance Management approach implies a certain equality and respect in the way we approach another human being. The basic assumption in the approach is that most behavior is learned from consequences in the environment. Therefore, we conclude that there are logical reasons for the behavior of others: They act the way they do because they have *learned* to act that way. Looking at behavior from this perspective, we are less likely to be judgmental in our estimation of others.

Justice. In a larger sense, the value of *justice* is also implied and promoted by Performance Management. Justice means that each person gets what he or she deserves. This is certainly what justice means in the courtroom sense. In Performance Management, this is what we say about managing people: *Those who perform well should get more reinforcement and rewards than those who perform poorly.*

Self-Esteem and Personal Growth. Reinforcement and rewards that are earned lead to higher self-esteem and personal growth. Earned recognition and rewards increase performers' feelings of confidence and competence. These performers have visible evidence that they add value to the organization. Confidence leads to an increase in initiative and a willingness to try new ideas. What organization can't profit from that?

Peace of Mind (Personal Security). By pinpointing for people exactly which behaviors are wanted and the nature of the consequences for those behaviors, you encourage calm, well-thought-out decisions and stress is reduced. When the relationship between behaviors and consequences is not clear, when people do not know how to earn positive consequences or how to avoid negative consequences, confusion and stress is the result.

The Golden Rule. When positive reinforcement becomes a way of life in the organization, with reinforcement going from boss to subordinate, peer to peer and peer to boss, adversarial relationships begin to disappear. People begin to treat each other as they would like to be treated.

Managing the Nintendo Generation and Beyond

Workplace reinforcement has changed little in the last 50 years. However, reinforcement in everyday life has increased dramatically and will continue to do so. To work effectively with the younger generations, a must for management will be an in-depth understanding of reinforcement and its effects. Indeed, even now, reinforcement skills are at least as important as technical job knowledge in capturing the discretionary effort of the Nintendo Generation and beyond. The ability to design high rates of reinforcement into the workplace will be the key to high and sustained performance for the work force of tomorrow.

Performance Management in a Nutshell

Performance Management focuses on the here and now. It is not an abstract, convoluted management principle with limited applications. *It is a precise scientific approach that works.*

There are no tricks or gimmicks. Unlike motivational theories, you don't need to delve into your workers' deep-seated feelings, anxieties or motives. Performance Management requires no psychoanalysis or role-playing. You don't need to find out what kind of childhood your performers had, what their birth order was or how they were raised.

Since everyone operates under the same laws of behavior, applying these universal laws in a positive, effective way will bring about the behavior changes you are seeking in employees — whether you manage two people or 20,000. ●

RECOMMENDED READING LIST

If you liked *Bringing Out the Best in People*, you'll also like:

1. ***Change the Culture, Change the Game*** **by Roger Connors and Tom Smith.** Learn how to build a culture of accountability in your organization through the Results Pyramid: Experiences, Beliefs, Actions and Results.
2. ***Multipliers*** **by Liz Wiseman and Greg McKeown.** Learn how to become a multiplier of talent and people and how multiplying can have a resoundingly positive and profitable effect on your organization.
3. ***Full Engagement!*** **by Brian Tracy.** In *Full Engagement!*, business success expert Brian Tracy shows managers how they can supercharge their employees' efforts.

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Bringing Strategy Back

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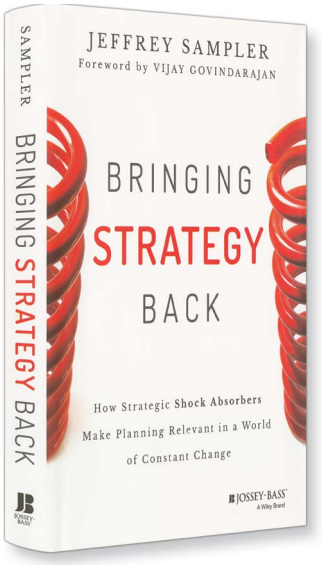
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Leadership

Bringing Strategy Back

How Strategic Shock Absorbers Make Planning Relevant in a World of Constant Change



by Jeffrey Sampler

THE SUMMARY IN BRIEF

In *Bringing Strategy Back*, strategy expert Jeffrey Sampler cuts through the clutter to reveal exactly why the usual tools of strategy are so sorely out of sync with our needs: windows of opportunity close far faster than they once did, many of these opportunities are smaller than they once were, growth rates are uneven across markets, and today's competition is more asymmetrical than ever. The upshot for managers is that they need to reorient their approach to absorb the shocks and surprises that strike at a moment's notice. Only then can strategic planning reliably play its part.

Leaders all around the world at organizations of any size and type will benefit by shedding their obsolete notions about strategy and becoming more resilient. *Bringing Strategy Back* rises to the challenge and presents a new prescriptive model. It introduces four "strategic shock absorbers" that enable leaders to build resilient organizations that can withstand even the most unexpected global turbulence. Based on the author's in-depth research in the world's most tempestuous markets, the model delivers several must-have qualities that interact and work together in an ongoing process: Accuracy, Agility, Momentum and Foresight.

With this new framework, *Bringing Strategy Back* shows how to be prepared and proactive, rather than reactive, even when the future is uncertain.

IN THIS SUMMARY, YOU WILL LEARN:

- Why strategy is more important than ever for your business.
- Groundbreaking strategies from businesses in India and Dubai.
- The four Strategic Shock Absorbers and techniques for how to use them.

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THE COMPLETE SUMMARY: **BRINGING STRATEGY BACK**

by Jeffrey Sampler

The author: Jeffrey Sampler is an adjunct professor of strategy and technology at China Europe International Business School. His research interests include the strategic implications of new technology and the management of information as a strategic resource. He has been featured in *Newsweek*, BBC Television, CNBC, *Economic Times* and *Financial Mail*.

Bringing Strategy Back: How Strategic Shock Absorbers Make Planning Relevant in a World of Constant Change by Jeffrey Sampler. Copyright © 2014 by Jeffrey Sampler. Summarized by permission of the publisher, Jossey-Bass, a Wiley Brand. 224 pages, $30.00, ISBN 978-111-8830093. To purchase this book go to www.amazon.com or www.bn.com.

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Introduction

In business we equate great strategy with great performance. Our heroes are the bold movers and shakers who can shift on a dime when it matters most and bring the entire organization with them.

But this type of behavior is the exception rather than the rule. More often than not, strategic change occurs exclusively in reaction mode. Sales are slipping, and market share is declining. Profitability is worsening. Disruptive competitors enter the fray and dethrone incumbents. Only then do we find that we are able to break the strategy mold and make bold moves quickly. But, having waited, these are often ill-fated attempts born of desperation, and they frequently fail or arrive too late to turn the tide.

The root cause is a dusty and broken process. In many cases, strategic planning does not work because the tools we use are seriously out of date. The five-year strategic planning horizon, for example, is a surviving relic from the previous age. Few today can plan five months ahead (not to mention five years), and so strategies die on the vine. As a result, executives in fast-changing industries are abandoning strategy altogether at a time when they need it the most.

One-size-fits-all, long-range planning and prediction models have all but been laid to rest. Where does this leave us? How do we bring strategy back and make it an ongoing process? The challenge is to make strategic planning proactive and preemptive as a matter of course. That type of fast, fluid approach requires a mind shift, to be sure, but it also requires a new set of tools.

In recent decades both India and Dubai have experienced massive growth and transformation. Because strategy planning in India and Dubai needed to be modified under conditions of extremely rapid growth and dramatic transformation during this time, they present highly relevant case studies for Western organizations that need to learn the lessons of strategic change. The turbulence India, Dubai and other high-growth regions faced then (and continue to face now) have since become a global contagion. Turbulence and turmoil, expansion and contraction, growth and decline: all of these in rapid succession are the norm everywhere.

For this reason, we need strategic planning today more than ever. With executives fully occupied responding to seismic shifts, surprises and bumps in the road, it is crucial to have tools to simplify the task. The challenge for organizations is to somehow develop the capability to absorb everyday bumps and shocks in order to maintain operating speed and adjust strategy as the global environment continues to change.

Like many of the management innovations of our time, the way forward begins with a solution from a different domain. It is retooled and translated here for the management space. Bringing strategy back is no small matter, but it is both possible and necessary.

Strategic Shock Absorbers

Cars have brakes so that we can drive faster. Similarly, cars have shock absorbers to enable speed. Before shocks, a car's frame would bend or break if it hit a bump at high speed. Shock absorbers enable cars to go fast and maintain their speed.

For executives, operating in a business environment that is extreme and unfamiliar is a lot like driving down

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a winding English country lane in very heavy fog. They cannot see far ahead. Perhaps there is a deep rut in the road or even a meandering cow. Driving under these opaque conditions, the reflexive response is to proceed slowly and almost feel your way along. Yet, this is not an option in business — the competition is too intense. Companies need to absorb the impact of unexpected events without slowing down or destabilizing the entire organization.

With constant change the norm, having a fast reaction time is crucial. There is a clear and convincing rationale for this. First, even small shocks have a cumulative effect. Companies are made up of a complex web of associations. They are global and multinational; connected in myriad ways to customers and employees; and they operate in an ecosystem where partners and competitors may be one and the same. With this interconnectedness, surprises that hit one part of a business or ecosystem can affect other parts in ways that are difficult to predict. The bigger the shock, the greater the potential for throwing off a destabilizing effect in multiple parts of the business.

In addition, there are always new bumps just down the road a piece. When you cruise over a pothole and continue without regaining control, it becomes more difficult to swerve to avoid the sheep standing in the road or to veer around whatever obstacle arises next. In other words, stability is the exception rather than the rule. Companies need a means for adapting to environmental changes without slamming on the brakes every time. When the world is in chaos, strategy needs to be adaptive in order to be effective. The solution is Strategic Shock Absorbers.

Why Strategic Shock Absorbers?

Why Strategic Shock Absorbers? Because the capabilities that are part of this integrated framework allow companies to move quickly and fluidly, even amid massive turbulence. In addition, like the mechanism in cars, Strategic Shock Absorbers *oscillate*. They allow companies to move with the environment, contracting inward and expanding back again as conditions on the ground evolve. For example, as companies experience bumps in the road, the Strategic Shock Absorbers call for lean operations that enable speed and precision. Then, when the environment stabilizes, they expand — empowering people and preparing them to gear up for growth and new options.

Strategic Shock Absorbers put people at the center of the process as opposed to at the margins. Yet, in times of extreme change, organizations just as frequently need to limit people's involvement. This is where the oscillation comes in. Resources and options contract when surprises hit — because compression creates clarity. Later, resources and options expand again when we have clarity around the strategic plan. Knowing when to compress and expand is part of the art of management. It is discretionary as opposed to mechanical — but the Strategic Shock Absorbers act as an expert guide.

There are four Strategic Shock Absorbers that work together in an integrated way and form a discipline that can be generalized to suit the needs of almost any organization regardless of size: Accuracy, Agility, Momentum and Foresight.

Accuracy delivers on-target forecasting; enables granularity and specificity.

Agility delivers speed and flexibility in terms of strategic options.

Momentum delivers continuity and minimizes disruption to the organization.

Foresight delivers capability for sense making and scanning the external environment.

Accuracy: Creating Order and Transparency

Although Pizza Hut and other YUM! brands (including KFC and Taco Bell) continue their march overseas, it is arguably more notable that Pizza Hut also managed to grow in the United States even following the 2008-09 recession, when many of its competitors remained flat at best. Their secret sauce had everything to do with creating a discipline of accuracy around knowing themselves, their priorities and the changing competitive environment.

They put together a strategy to reach secondary cities in rural markets — cities that their competitors moved out of or passed over. The management of YUM! made their distinctive location choices not on the number of people in a city, as others had, but on the restaurant-to-people ratio. Beyond targeting hamlets that were dramatically underserved by national concepts, YUM! did their homework in these markets and made adjustments to their business model and value proposition. They cut their asking price on menu items across the board. They also simplified their online portal. Next, they honed in on what franchise owners needed to succeed. In short, Pizza Hut got the price-value equation exactly right for owners as well as customers. That's strategic accuracy — finding growth opportunities and focusing on them. YUM! used this same strategy to dominate in rural markets across China.

Internally, the Accuracy shock absorber delivers a clear-eyed understanding of one's capabilities and performance

gaps. Externally, it leads to a precision awareness of the competitive environment. To get there, we will look at several implementation tools: decision triggers, management by majlis and developing a strategic wedge.

Decision Triggers

Imagine you are idling at a busy intersection in Mumbai, waiting for an opening to inch out into the rush of traffic. In this environment you need a rule to guide your actions. This is what a decision trigger is — a rule that dictates actions and decisions. Individuals act faster because information is focused and compressed. In this case, the decision trigger may be, when you spot a small opening in the line of traffic, move quickly to seize it before it is too late. You would not pause to ask your passengers if they agree with the decision. By the time the question can be asked, the window of opportunity will be shut tight. This simple decision trigger allows you to proceed when you spot a rare change to move ahead in Mumbai traffic.

The same idea applies within companies. Decision triggers limit options and create transparency and clarity around when and how to act. They are particularly useful in complex, chaotic environments where decisions must be made quickly without a lot of discussion. Compressing resources and activity around key actions equals speed.

Decision triggers put a clear stake in the ground in terms of creating a strategy that is simple and powerful so that people throughout an organization can make decisions that align with broad objectives. The most salient benefit of having clear decision triggers is the efficiency it creates in terms of enabling people to understand what matters most to their organization. That type of internal transparency yields not only engagement but also accurate, speedy decisions.

The Majlis System

Another means of achieving accuracy by internal transparency is illustrated by Dubai's "management by majlis" system. Majlis is a type of decision-making process not unlike an informal town hall meeting. The Sheikh has a majlis weekly, and anyone from street vendors to billionaire businessmen can attend. Through the cascading intelligence that occurs with this process, information moves freely and informally across the country from one circle to the next. It is a very organic and efficient system.

Management by majlis creates transparency. Options are compressed because qualitative core values are widely recognized by everyone. In ruling a country or running a company, there are too many moving parts to have it any other way. The majlis becomes a way to structure unstructured strategic planning — it makes implicit priorities explicit. By design, decision triggers are formal planning tools, whereas majlis is the catalyst for formalizing the corresponding deliverables. By bridging the formal and informal elements of management, Strategic Shock Absorbers deliver accuracy.

The Strategic Wedge

Strategic wedge opportunities are low-cost, low-risk strategies that allow companies to enter a market quickly and remain under the radar for a time. They are small enough to allow for flexibility and enable accuracy in terms of fit, but they are solid enough to learn from and build on. With this model, if your initial projections prove to be wrong, you can pivot in a new direction because you are not locked in based on a sizable investment.

With a strategic wedge, the initial move provides the toehold and market intelligence. To leverage that, simply look around for any direction to grow. The small size of a first move enables a certain amount of optionality, but building on that requires managers to be opportunistic — always scanning the environment. They need to be ready to use their position to adapt, as opposed to having one firm plan and sticking with it.

Wedging opportunities expand the use of resources in search of opportunities.

Agility: Seizing and Repeating Opportunities

In the face of uncertainty around the world, companies need to be in a position to react quickly to conditions in flux. They need agility.

Constant Adaptation

A primary ingredient of agility is the ability to respond quickly to challenges in the environment. Constant adaptation is one way to make that happen. In terms of how to achieve constant adaptation, there are two ways to consider: frequent planning cycles and the corporate concierge.

Frequent Planning Cycles: Established financial planning is time consuming, costly and largely obsolete in today's fast-moving world, where the window available to make crucial decisions is compressed. Focusing on performance goals that are months or years away creates tunnel vision, making it impossible to respond to important signals from the market. Agility entails a fast, flexible response to the external environment.

The Indian automaker Mahindra & Mahindra is an organization that takes frequent planning to new heights. They have honed their capability to change on the fly because they have compressed their planning cycles into a monthly exercise. This is not the way GM, Ford or even Toyota is set up to operate. But at Mahindra & Mahindra, constant adaptation (not just a readjustment of a five-year plan) is a way to respond to a changing world. They compress the time from idea to action.

The Corporate Concierge: Without a way to capture ideas and trends, organizations that are large and dispersed can suffer when information escapes without a trace because there is no existing process to capture it.

The corporate concierge — a compression tool that optimizes relationships with external partners (customers, suppliers and vendors) — puts more power into each interaction by centralizing knowledge and channeling it up the chain of command. Creating a corporate concierge — a single point of interaction for dealing with outside companies and analyzing key intelligence — improves competitiveness by channeling important information to the right places. It is also a powerful catalyst for cross-pollination, helping to create synergies between business units and building bridges across silos.

Making Strategy a Bottom-Up Process

Strategy has traditionally been a process driven from the top down. A few senior executives in the strategy department are charged with looking into the future and developing a plan. Everyone else sees the plan in its polished form when it's past the point of no return. But it is the people who witness the specter of change (and experience it firsthand) who are best equipped to plan a response. These people often reside at the lower tiers in the organization — closest to the front line.

When was the last time you heard a CEO present a new strategy and finish like this: "Now tell me everything you think is wrong with this. Help me poke holes in it." This seldom occurs in the West because designing strategy is considered to be a reflection of a CEO's intellect, and it becomes a measure of his or her success. Thus, a challenge to strategic direction is taken as a personal affront.

Yet in many rapidly changing environments around the world, the exact opposite occurs. In Dubai, for example, this type of sentiment is common: "We know this strategy is about 90 percent correct, now let's share it within the company and get some feedback." They know from experience that getting a strategy right on their own will take twice as long — and the market will have moved on. It is built into their process to get input from the employees who are closest to frontline customers.

Bottom-up strategy is an expansion tool. It calls for empowering many more people to get involved in strategy creation, and it opens up new options.

Momentum: Speeding Past Shocks and Surprises

No matter how ardently an organization tries to anticipate them, surprises — from global economic turmoil to unforeseen upstart competitors — occur. What is of vital importance, however, is developing the capability to absorb shocks and maintain momentum without destabilizing the entire company.

Companies absorb shocks and retain their momentum when they have two elements in place. First, they focus on the end versus the means, and, second, they create intellectual buffers.

Mastering the End Versus Means

Achieving results in a permanently turbulent environment requires a focus on the end goal — and watching to see if it has shifted — as opposed to institutionalizing the one best way to get there. Focusing on the ends, not the means, is a compression capability that is common within the technology space. It is about homing in on the result or objective that is most critical to success and toeing the line there, because everything else may change as the environment shifts. When everything else is changing, that overarching end goal, along with an organization's core values, remains the guiding light.

Intellectual Buffers, Not Physical Buffers

It is impossible to absorb the bumps and surprises that materialize without losing momentum when every last man, woman and personal computer is already operating at full capacity. How can companies run lean and still form fast and agile responses to bumps in the terrain? The best way to manage this dilemma is by replacing traditional physical buffers — inventory and slack resources — with intellectual buffers.

Intellectual buffers are ways that an organization can build up intangible advantages that lead to better decision making: management innovation, creative ideation, more effective communication and smarter strategic thinking. This is achieved when companies can effectively leverage people at the same time that they bring better technology and communications to bear.

Active Think Tanks: A common type of intellectual buffer, active think tanks are a brain trust of functional specialists — people from both senior and junior ranks — who conduct a type of scenario planning. They meet regularly, often informally, to discuss what moves to make if various future events come to pass. More specifically, they consider implications and suggest responses to disruption before anything actually occurs. They look at resources to develop, markets to target, and they monitor the wider industry environment.

Active think tanks overlap and work in tandem with an organization's regular management team — which, in balance, may be too occupied driving the current strategy to speculate about future events and appropriate organizational responses. As a result of this type of intellectual buffer, when "surprise" events do materialize, a company is much quicker to respond because they have proposals and first-response scenarios at the ready.

Managing for the end result (compression) and building intellectual buffers (expansion) are two ways that organizations can absorb bumps in the road without sacrificing momentum. As with the other shock absorbers, this one, too, depends upon the judgment of managers. It is the manager's judgment around when to compress and when to expand that makes all the difference.

Foresight: Getting Ahead of Change and Chaos

Foresight, the fourth and final Strategic Shock Absorber, is about seeing bumps and opportunities in advance and having contingency plans at the ready. Foresight is also about seeing the present for what it is and being prepared to respond to the changing external environment. As the competitive terrain within an industry inevitably shifts, strategic plans need to do the same at a commensurate pace.

Strategic Assumptions, a compression tool, guides companies to focus on the archival information that indicates whether a plan can succeed. Alternate Strategies is an expansion tool that focuses attention on seeing what is new and next, as opposed to measuring interim progress toward a goal that will very likely shift before you can achieve it.

Strategic Assumptions

Strategic Assumptions systematizes something that is almost universally overlooked: the original context of an idea. Individuals who do strategic planning in most organizations are smart people with their eyes fixed on the future, yet they frequently fail to capture this original context. That is, they neglect to identify and track what the environment looked like (or what the future environment was expected to look like) when the idea was conceived. Preserving the all-important original assumptions allows executives to determine whether a strategy remains applicable months or years later. It provides clarity around whether the plan still has a chance to succeed or if it should be scrapped altogether.

Alternate Strategies: Scanning the Periphery

One simple and underutilized means of identifying the next best strategy is by scanning the periphery. The idea is to systematically sweep for opportunities that are adjacent to your own. These adjacencies come in many forms. Concept adjacencies, for example, are incrementally new ideas designed to suit your existing market, such as when towel maker Welspun expanded their business by producing sheets and rugs. But there are numerous other adjacencies to consider. Physical adjacencies are a chance to adapt an existing idea for a different locale. Business model adjacencies deliver an existing idea in a new way (going from retailing to e-tailing). Domain adjacencies lift an idea from one domain and transfer it into another (using a solution created in manufacturing to deliver health care, for instance).

The Foresight shock absorber moves in the same fluid way that the others do — compressing, expanding and moving back again. In this case, the shock absorber illustrates the cyclical nature of oscillation and the need for constant adaptation. We design a strategy and track the strategic assumptions that are associated with it. Then, when the context changes, it is time to put an alternate plan into place (based on new strategic assumptions).

Execution: Shock Absorbers in Action

Harnessing the properties of the Strategic Shock Absorbers creates important new options for executives managing through chaotic change. And the power to truly transform an organization comes not from contraction and expansion alone but from the two modes working together.

DLF's Strategic Shock Absorbers

India's independence and the creation of Pakistan in 1947 caused large numbers of people to cross borders and

settle into areas which were hitherto uninhabited in India. Entrepreneur Chaudhury Raghuvendra Singh saw this as both a business opportunity and a chance to provide a necessary service to the uprooted masses flooding into the country. Today, only a handful of people realize that it was Singh who built the up-market residential colonies of Delhi years before he started Delhi Lease and Finance, better known today as DLF.

With footprints at more than 30 locations, DLF is a dominant player in the Indian real estate market. As of March 2014, the company had 3 million square feet of leased retail space across the country. DLF needed all four Strategic Shock Absorbers to secure their position as a landmark company navigating the turbulent terrain of the Indian economy.

Using their foothold in the residential colonies of New Delhi as a classic Strategic Wedge, DLF systematically expanded their business over the last quarter century. They spread out across multiple verticals (or business units), with their strongest segments being office space, housing developments and retail leases. Building office space was DLF's foremost venture, followed by housing projects in 1982 and community shopping centers in 1989. Shopping malls and organized retail space came into the picture in 2002.

These initial businesses, first created using a strategic wedge, set the stage for much more growth to come. From there, DLF became expert at spotting opportunities adjacent to their native space. Scanning the periphery and entering into joint ventures allowed DLF to expand outward more recently — into hotels, special economic zones (SEZs), local infrastructure and leisure development.

DLF also manages to execute compression strategies, minimizing information and time, in service of efficiency and speed. In order to guard against property risks, DLF managers across the board abide by their decision trigger for securing property: The cost of acquiring land must be less than one-tenth of the selling price. This decision trigger is an imperative within DLF, and every employee recognizes its importance. It helps them manage risks and restrict potential losses caused by fluctuations in land prices.

Another way DLF compresses time and information (and other resources) is by adhering strictly to their minimum debt strategy. Since its inception, DLF has grown by utilizing its development earnings and not merely its wealth of land reserves.

Through oscillation and the art of management, the Strategic Shock Absorbers enable speed — but speed is not enough. The final two elements we will examine are control and innovation.

Driven By Values

The role of shock absorbers is to provide options for maintaining speed. Yet, accessing that advantage requires sound judgment. Good judgment is not something that is easily taught, but we can use parameters to guide our choices. How? By using values as a GPS.

Companies accustomed to operating in fast-moving markets are the ones more apt to rely on values to steer strategy. Values and a culture that appreciates them are the most important tool of all for making strategy agile and creating a foundation for the Strategic Shock Absorbers. Because values remain a constant backdrop, they enable companies to decode a changing environment.

Values Dovetail with Competitive Advantage

Arvind Mills is a company established in 1931 to cater to the demand in India for fine and superfine fabrics. At the time, the textile industries of the U.K. and its Indian dominion were interlinked by necessity because most regions of India were colonized by the British. As a result, almost all of the high-quality cloth available in India was manufactured in Britain by modern power looms and mills, and imported.

That began to change during the recession of 1929, when Mahatma Gandhi championed the boycott of imported fabric by Indians under what was known as the Swadeshi Movement. With that, the Lalbhais family, founders of what came to be known as the Arvind Mills, saw an immense opportunity. They reasoned that the demand for imported fine and superfine fabrics, which were now being boycotted, could be satisfied if they were manufactured in India by Indians.

The Lalbhais set up the most modern integrated cloth mill of the time in Ahmedabad, India. It was one of the few mills that incorporated all the facilities, from spinning and weaving to dyeing, bleaching, finishing and mercerizing. Raw cotton fiber could be spun into yarn, woven into cloth, dyed with the color of choice and finally finished as per requirements, all at one place with the help of modern equipment. Hence, Arvind's core value of quality above all was born and became the basis for their competitive advantage, then and now. Every strategy that Arvind adopts is ultimately in service of that value.

Creating a Culture Where Values Matter

In order to benefit most from values, they must be clearly communicated and widely apparent internally and externally. Next, values need to be top-down. But values also need to be bottom-up. Looking through a grassroots

lens, values create a positive ends-versus-means dynamic, enabling people to understand bottom-line priorities and act accordingly.

All of these things point to people as being more important then ever. You can teach someone rules and give them tools, but values are ingrained. They require a different type of buy-in that comes from within. As an organization's internal GPS system, values are the stabilizing mechanism that enables shock absorbers to deliver their benefits.

Management Innovation From Fast-Moving Markets

India has had to deal with chaos and unpredictability for decades. Its approach to strategy, as a result, is highly proactive. The only way to succeed amid chaos is to stay one step beyond chaos.

In contrast, Western corporate strategies are traditionally more reactive. Companies change tack when sales, profits or stock prices are down; when there are new competitors; or when employees begin to leave. The trouble is that these are all trailing indicators.

Indian companies have become adept at picking up leading indicators so that they can change strategies positively and proactively rather than defensively and reactively. Indian approaches to shaping and executing strategy share common elements that together add up to their own unique contribution to management innovation.

Values Enable Coordination: In managing through complex, uncertain, high-speed change, it is critical that organizations have a common lens through which to interpret the changing environment. For Indian companies, values provide that common lens. Values in the Indian context are not decorative adornments but rather decision-making touchstones and reference points.

Absorbing Change Without Losing Momentum: Being able to absorb change without losing momentum is a matter of focus and endurance. Indian companies have a willingness to take a hit and carry on, and this is increasingly necessary for all companies.

Developing Foresight and Anticipating the Future: In Indian companies, changing course is seen not as failure on the part of strategy but as a natural and positive part of a continuous process of strategy development and implementation.

Executing with Accuracy: India is a rush of people and of business coming from every conceivable direction. We've seen that to make a move successfully in this type of environment requires incredible accuracy. This applies internally as well as externally. The Indian companies studied demonstrated that one of the fundamental elements of accuracy is for an organization to understand itself. In order to have quick decision making and immediate reactions to changing conditions, strategy must be transparent. This requires decision triggers.

Reacting with Agility: Lessons learned from Indian companies indicate that agility requires three things happening consistently and simultaneously: a willing interaction with the environment, accurate processing of all available information, and the ability to make decisions and take actions based on these.

Formalizing the Informal: Bringing both formal and informal elements to the planning process is not new, but what is different is the manner in which the Strategic Shock Absorbers act as an adaptation and integration mechanism between the two. In many ways, the Strategic Shock Absorbers formalize the informal in order to clarify opportunities and accelerate change. Informal communication, ideation and feedback are ongoing inside an organization; however, without these tools, ideas and expertise get lost or are very slow to filter up to senior management.

The advice given here will make a positive difference only if individual leaders put a stake in the ground and make an effort to customize the approach to suit their own business. On a personal level, this requires asking the question, "What type of leader do I want to be?" Abandoning the old mode of strategic planning requires the courage to adopt a new gestalt. It may appear risky, but the bigger risk is in not pushing against the norm and choosing to remain the same.

RECOMMENDED READING LIST

If you liked *Bringing Strategy Back* you'll also like:

1. ***Elevate* by Rich Horwath.** Strategy expert Rich Horwath focuses on advanced strategic thinking that will drive results in the short and long term.

2. ***Absolute Value* by Itamar Simonson, Emanuel Rosen.** The authors describe how a company should design its communication strategy, market research program and segmentation strategy.

3. ***Best Practices Are Stupid* by Stephen Shapiro.** Shapiro offers 40 counterintuitive yet proven strategies for boosting innovation and making it a repeatable, sustainable and profitable process.

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Building Corporate Soul

Ralf Specht

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Building Corporate Soul

Powering Culture & Success with the Soul System™



by **Ralf Specht**

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THE SUMMARY IN BRIEF

In ***Building Corporate Soul: Powering Culture & Success with the Soul System™,*** Ralf Specht provides a framework that allows leaders to act immediately for the long-term benefit of their businesses. The Soul System™ gives answers on how to approach this seismic shift by giving away practical and reality-tested approaches that enable leaders to maximize the impact of their workforce. In doing so they will gain the broad acceptance of society as a whole— winning the hearts of their stakeholders on an emotional level and convincing their minds on a rational basis.

This book summary provides the means by which leaders can inspire their people to do what they did not believe possible, not by some magic potion but through a framework driven by courage to challenge the conventions of how to create value sustainably in extraordinary times.

IN THIS SUMMARY, YOU WILL LEARN:

- How to move beyond current thinking and create an environment where business goals are understood.
- How corporations can 'walk their talk,' going beyond words to truly embody their vision and culture.
- How to turn a company's purpose into a real means to an end.
- How every leader can ignite or re-ignite the corporate soul in their firm.

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Introduction: The Soul Index

Building Corporate Soul is not looking at the absence of soul. It celebrates companies that have been successful at building—or in some cases re-building—it. At a time when purpose seems to be the flavor of the day in discussions about corporate leadership, this book aims to provide a framework for how to take purpose to a higher level: corporate soul. If you are able to build corporate soul, the rewards to your company are huge.

Corporations in many sectors and cultures are taking every effort to achieve it-at every level and every day. They are united in how they ensure a solid understanding of the company's direction and how they leverage key principles of behavior that make a difference for the thousands of people who give their very best for "their" company day in and day out.

The Soul Index is a global ranking that identifies companies across a wide range of sectors that have corporate soul. In researching the quantitative studies available that identify the performance of companies in terms of their brand strength, their brand impact, their employer brand qualities, and their ability to create employee satisfaction, a correlation emerged between the business success and the level of employee engagement and satisfaction and their appreciation for their company's CEO. The companies featured on the Soul Index speak the language of success based on a clear system of the key elements of the Soul System: a shared understanding and corresponding shared behaviors.

As the Soul Index proves, making the effort to build and maintain corporate soul provides significant value and growth. So how can a company find and build its corporate soul? And then how does a company ensure its soul grows and thrives?

The Corporate Soul

Corporate soul is the ultimate currency of success. It is a function of aligning both corporate understanding and behavior around a purpose that is inclusive to all stakeholders-by "simply" ensuring that all three levels are a shared property of the firm and its people.

That shared purpose allows a company to develop a shared understanding of what drives that company and its people, as well as the corresponding shared behaviors that reflect that shared understanding.

As a result, shared understanding and shared behaviors are inextricably linked in building the soul of a company and its brand. If corporations walk the talk-meaning that they behave on the basis of shared understanding--then you find companies with soul. As the social philosopher Charles Handy said, "The companies that survive longest are the ones that work out what they uniquely can give to the world, not just growth or money but their excellence, their respect for others, or their ability to make people happy. Some call those things a soul." This was a new perspective that Handy introduced in his 1989 book *The Age of Unreason.*

Until then, a different view had been predominant in the world of business. Handy, who has been rated among the Thinkers 50, a private list of the most influential living management thinkers, was one of the first who understood that soul might also be a relevant attribute when it comes to corporations.

The Soul System™

The Soul System is a framework that enables business leaders to assess the level of corporate soul that their firm has. The shared aspect of the three dimensions of the Soul System allows companies to measure their achieved levels of understanding and behavior on the basis of the firm's purpose across all areas of the business-internationally or domestically, across different departments or across different leadership levels.

To develop corporate soul, making a shared purpose the guiding principle for the entire company is critical. You accomplish that by defining the different elements of the Soul System for your company. At the core of the Soul System sits that all-important shared purpose--it represents the heart of everything your company does. Surrounding that core are four key elements-vision, mission, values, and spirit-that build shared understanding.

Creating the Soul System is not just a task for top management. It is a company-wide project that never ends. It is not a straight line. Even the companies that do extremely well in this space have lost their way at times. In start-ups this can happen when the founding generation leaves. In established companies, management changes often include the risk of losing the way. Few companies recognize that they have lost their soul-and then they start to look at it as a detour on their way forward. They find a contemporary way to give the soul back to their company, which often allows them to make giant leaps in business success during

the next few years. Companies that implement the Soul System methodology and create "their" Soul System all have one thing in common: a shared understanding of the forces that drive their success and the shared behaviors that express that understanding. And they all are ready to be on the journey for the long haul.

Purpose Meets Soul

Purpose gives us direction, motivates us, gives reason for our existence. It also helps us make decisions -big ones and small ones. Merriam-Webster differentiates between the various words that are synonymous with purpose: Intention, intent, design, aim, end, object, objective, and goal all mean what one intends to accomplish or attain. What makes purpose different, though, is that it "suggests a more settled determination." While purpose is important for individuals, it has been recognized more and more that it is critical for business success, too.

Without purpose at the heart, there is no chance for soul to develop throughout the entire company. Like Harvard Business School professor Ranjay Gulati discovered in his work on start-up companies, "There's an essential, intangible something in start-ups-an energy, a soul. Company founders sense its presence. So do early employees and customers. It inspires people to contribute their talent, monev, and enthusiasm and fosters a sense of deep connection and mutual purpose. As long as this spirit persists, engagement is high and start-ups remain agile and innovative, spurring growth. But when it vanishes, ventures can falter, and everyone perceives the loss-something special is gone."

Understanding the Soul of Your Company

The Soul System can get into full swing when all elements of shared understanding—mission, vision, values, spirit-and the corresponding shared behaviors are completely internalized by everyone in a company. A company's culture is a manifestation of its corporate soul. The shared behaviors that drive that culture are either true to the soul of the firm-or not. In both cases, understanding your company's soul is key. Why is that important and what makes it so difficult?

Successful start-ups develop their culture beyond the leadership spirit very naturally, as they are often driven by the sheer motivation to do things differently. Airbnb's CEO Brian Chesky is famous for his quote, "Culture is simply a shared way of doing something with passion." But as simple as it sounds, it is one of the most difficult things to achieve when a company grows beyond the founding partners.

Lead with Soul

The larger your company becomes, the more challenges will be around the corner to ensure the soul of your company stays healthy. Your first twenty associates will get it from the horse's mouth every day and reinforcing the soul of the company will be a natural thing. But then, if your product and your business model are sound, the company will grow and you will need to establish larger leadership structures.

Nurture the Soul Ecosystem

Souls are very sensitive. Individual souls, but also collective souls, as in the soul of a company. As with individuals, companies go through ups and downs. The resilience of their organization is a testament to the ecosystem of all the players inside the organization and the stakeholders outside the firm. The shared behaviors inside the company allow new employees to "get it" fast-actions speak louder than words, and the behaviors display what gets rewarded, ignored, or destroyed inside an organization. LEGO is a prime example of a firm where that ecosystem got out of balance and then subsequently restored, which helped the company rise to greatness again.

This true self differs from company to company, but the principle remains universal since we are all human beings. Whether we work as an accountant, as an engineer, as a pilot, or as a chef-it's those principles of behavior that human beings have fostered over thousands of years.

Promote Soul Drivers

Promotions are a very powerful tool. Not only do they have the ability to increase employee morale beyond the individual who is being promoted, but they also are a credible sign to everyone else that career progression is possible internally. Plus, promoting individuals from within the organization who are ready for the next step often makes more sense than finding someone from the outside to both do the job and fit the culture of the company. Yet very often it is so much harder. In 2018, Michael C. Bush, CEO of Great Place to Work®, and his colleagues Jessica Roman and Chinwe Onyeagoro shared their experience based on a survey of over 400,000 US workers. The title says it all: "How You Promote People Can Make or Break Company Culture."

Soul drivers are a rare species— identifying them is really

critical when you are on your way to building a company with soul. Once your organization has been able to find them, make sure they are being nurtured and given the opportunities to grow. They are definitely worth it.

Reward Soul Supporters

Whether your company is an international enterprise or a domestic business, there aren't many corporations these days where every member of the workforce stems from the same gender or ethnicity. In other words, don't expect that everyone else has the same perspective on what is going on at your firm. To state the obvious, soul supporters can come from anywhere with any kind of background or orientation.

To develop soul supporters, it is critical for global companies to really understand the drivers of outperformance when building successful teams. The numbers indicate that more and more firms are understanding this, but the level still remains low for now.

Hire Soul Makers & Grow Soul Leaders

It goes without saying that when you want to ensure that your company maintains the corporate soul that has made it so strong, you want your people to know how to hire soul makers-the right talent that will live up to that soul. That means finding people with good or strong emotional intelligence— which is the capability of individuals to recognize their own emotions and those of others, discern between different feelings and label them appropriately, use emotional information to guide thinking and behavior, and adjust emotions to adapt to environments. This is a critical factor when it comes to hiring people and developing people- but it hasn't been a priority for many companies so far.

Identify Soul Allies

As a matter of course, corporations are maintaining partnerships with other organizations-whether these are mere sponsorship arrangements or commercial activities such as creating joint venture entities or other forms of collaboration. A multitude of criteria is usually applied when it comes to forming these partnerships: Do we have successful shared experiences with one another? Do we share the same passions? Is this an opportunity to expand our business network? Can I trust the other partner? Do they apply a great level of creativity in their dealings? Do we share the same vision?

Create Soul Followers

Too often, the connection that a customer has with a company or brand is not a human-to-human interaction. Instead, it feels like a machine-to-human interaction. The principle behind the success of leaders with their internal stakeholders and their external stakeholders, too, is human-to-human interaction. When strategic clarity and emotional intelligence connect, interactions become effective, connections become stronger, and a loyalty emerges that has the power to drive long-term success, both for the company and its customers. Corporate soul can become tangible inside and outside the corporation.



Ralf Specht is a visionary business leader and creator of the Soul System™, a framework that aligns value-creating employee action with broader corporate strategy through shared understanding & shared purpose. As a founding partner of Spark44, he was the architect of an innovative, industry-first joint venture with Jaguar Land Rover which he grew to a global revenue of $100+m and 1,200 employees. Previously, he consulted with global companies and brands for more than two decades with McCann Erickson.

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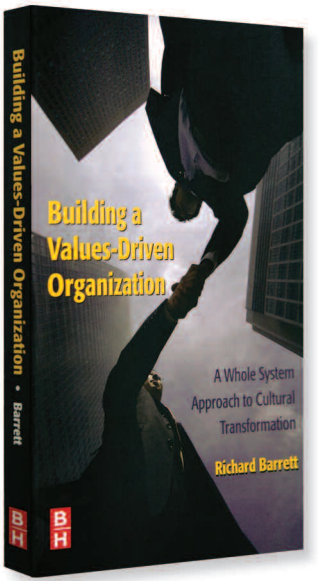
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Building a Values Driven Organization

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Building a Values-Driven Organization

A Whole System Approach to Cultural Transformation



by Richard Barrett

THE SUMMARY IN BRIEF

The responsibility of leaders is to enhance, harness and direct the capacity and energy of their people toward virtuous and valuable ends. To achieve long-term success, the organization needs to have a solid foundation built on principles and values that act as a center of gravity. In business, you get what you target, design, measure, provide incentives for and are passionate about. This applies equally to principles and values, which need to be nurtured and directed through an effective whole-system approach and values-management framework. This is exactly what *Building a Values-Driven Organization* provides.

The tools, ideas and framework found in this summary can help any leader who is committed to a values-based approach and long-term sustainable success.

Richard Barrett shows how business is learning to develop a more integral or holistic approach to organizational evolution. In addition, he offers a reminder of the importance of values-based decision making; the need for leadership training programs that build full-spectrum, self-actualized leaders; and the urgent need to create a global cadre of master practitioners of whole-system change to support leaders in creating a values-driven future for business, society and humanity.

IN THIS SUMMARY, YOU WILL LEARN:

- How to build a values-driven organization.
- How the process of values management can be used to support continuous improvements in organizational performance and develop long-term sustainability.
- How new leaders can become new agents of change.
- How leadership can become the key to cultural transformation.
- A blueprint for whole-system change.

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THE COMPLETE SUMMARY: **BUILDING A VALUES-DRIVEN ORGANIZATION**

by Richard Barrett

The author: Richard Barrett is the managing partner of Richard Barrett and Associates. One of the world's leading thinkers on building values-driven organizations, Barrett is the author of the best-selling book *Liberating the Corporate Soul*. He has carried out cultural values assessments for more than 600 organizations in 35 countries in the past eight years and works closely with CEOs of major organizations around the globe.

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Introduction

The concept of whole-system change is based on the work of author Ken Wilber. Whole-system change can best be explained by referring to a modified version of Ken Wilber's Four Quadrant Model. (See chart below.)

	Internal	External
Individual	**Personality** Personal values and beliefs	**Character** Personal actions and behaviors
Collective	**Culture** Group values and beliefs	**Social Structures** Group actions and behaviors

Figure 1-1 The four quadrants of human systems

As individuals change their values and beliefs, their actions and behaviors change. When a critical mass of individuals changes their values and beliefs in the same direction, their collective actions and behaviors also change. For this to happen, there must be a parallel shift in all four quadrants.

Engineering parallel shifts in the four quadrants within a group structure, such as an organization or any human system, is called "whole-system change." Whole-system change begins with a shift in the personal consciousness of individuals and ends with a shift in a group's actions and behaviors.

Values Management

The purpose of values management is to actively measure and monitor the values and behaviors of an organization so that we can continually adjust the culture to sustain high performance.

As a change agent, it is vital that you understand what levels of consciousness and what worldviews different segments of the executive and employee population are operating from if you are going to successfully design and support the leaders of an organization in managing a whole-system transformation process.

The Seven Levels of Consciousness Model

Seven well-defined stages can be distinguished in the development of personal consciousness. Each stage focuses on a particular existential need that is inherent in the human condition. The seven existential needs are the principle motivating forces in all human affairs. Individuals grow in consciousness by learning to master the satisfaction of these needs. Individuals who learn how to master all seven needs without harming or hurting others operate from full-spectrum consciousness. They have the ability to respond appropriately to all of life's challenges.

Here are the seven existential needs that constitute the seven stages in the development of *personal* consciousness (from most developed to most basic):

- **Level 7: Service.** Leading a life of selfless service.
- **Level 6: Making a difference.** Making a positive difference in the world.
- **Level 5: Internal cohesion.** Finding personal meaning in existence.
- **Level 4: Transformation.** Finding freedom by letting go of our fears about survival, feeling loved and being respected by our peers.
- **Level 3: Self-esteem.** Feeling a sense of personal self-worth.

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Level 2: Relationship. Feeling safe, respected and loved.

Level 1: Survival. Satisfying our physical needs.

The "lower" or basic needs, levels 1 to 3, focus on our need for physical safety and survival as well as our need for emotional safety and self-esteem. The "higher" needs, levels 5 to 7, focus on our "spiritual" needs — the need to find meaning in our lives, the need to make a difference in the world and the need to be of service.

Individuals who focus *exclusively* on the satisfaction of the lower needs tend to live self-centered, shallow lives, subconsciously or consciously dominated by the fears of the ego.

Individuals who focus *exclusively* on the satisfaction of the higher needs tend to lack the skills necessary to operate effectively in the physical world. They can be ineffectual and impractical when it comes to taking care of their basic needs. We say they are not "grounded."

To be successful in the world we need to learn how to master the satisfaction of all our needs so we can operate from full-spectrum consciousness.

The Seven Levels of Group Consciousness

The seven stages in the development of personal consciousness also apply to the development of group consciousness, where "group" is defined as a collection of individuals who share a common physical heritage or a common purpose (culture of meaning).

Groups grow and develop in the same ways as individuals — by successfully mastering the satisfaction of their needs. The most successful groups are those that develop full-spectrum consciousness — mastery of the needs associated with every level of consciousness. They are able to respond appropriately to all of life's challenges.

Here are the seven stages in the development of *group* consciousness:

Level 7: Service. Caring for humanity, future generations and the planet.

Level 6: Making a difference. Cooperating with and forming alliances with other groups.

Level 5: Internal cohesion. Aligning group members around a shared vision, mission and values.

Level 4: Transformation. Involving group members and giving them a voice in decision making.

Level 3: Self-esteem. Creating order, performance and effectiveness that engenders respect and group pride.

Level 2: Relationship. Building harmonious internal relationships that create a sense of belonging.

Three Key Insights

Here are three key insights on building a values-driven organization:

1. A cookie-cutter approach to the design of cultural transformation programs in organizations, where one size fits all, does not work.
2. Cultural transformation will work only if it is part of a whole-system change process.
3. Cultural transformation will succeed only if the leadership team is committed to this work.

Level 1: Survival. Establishing conditions of financial stability and safety for group members. ●

The Cultural Transformation Tools

Cultural transformation tools (CTT) have been used in corporations, government agencies and nongovernmental organizations since 1997. They have also been used in schools, classrooms, religious institutions and communities.

The success of CTT is due to their ability to provide a detailed road map for the evolution of consciousness of an organization or any group of individuals that share a common heritage or purpose. In some instances, the objective of using the tools is cultural transformation, and in other instances the purpose is to build a values-driven organization.

Cultural Values Assessment

The CTT cultural values assessment (CVA) is used to identify and measure the *personal values* of the individuals who make up the organization, the *values of the current culture* of the organization as perceived by the members of the organization and the *desired culture values* of the organization as expressed by the members of the organization.

At the heart of the CTT technology is the concept that all values and behaviors can be assigned to one of the seven levels of consciousness. If you can identify the values and behaviors of a group of individuals, you can measure the consciousness of the group by mapping their values to the seven levels of consciousness model. ●

Mapping the Values of Organizations

When mapping the values of organizations, researchers have learned four things:

1.Organizational culture is the new frontier of competitive advantage, particularly in circumstances where talent is in short supply.

2. **Organizational cultures can be changed either by changing the leader and/or through whole-system change.**
3. **The intangible assets of an organization, such as culture, have a significant impact on the share price of a company.**
4. **Whatever you focus on and measure gets done.**

Ultimately the culture of an organization is a reflection of the personality of the leader or the personalities of the leadership group. Therefore, organizational transformation always begins with the personal transformation of the leaders. Individual values assessments and leadership values assessments play a significant role in helping leaders to change their behaviors.

Full-spectrum consciousness is the natural pathway to long-term success. Research shows that full-spectrum organizations are the most successful. ●

Mapping the Values of Individuals

One of the best ways of raising the awareness of the members of the leadership group to the importance of values alignment is to provide them with their own personal profiles from the cultural values assessment. They are able to see, firsthand, their own top personal values, the values they see in the organization and the values they would like to see in the organization. They are also able to compare their results with the overall results of the leadership group.

Individual Values Assessment

The individual profile when used on its own for coaching purposes is called an individual values assessment (IVA). An individual goes online and picks 10 values/behaviors that represent who they are, 10 values/behaviors that describe how their organization operates and 10 values/behaviors that describe how they would like the organization to operate.

The IVA is an invaluable coaching instrument. It helps people understand with clarity what is working and what is not working for them in the culture of their organization and clarifies individuals' feelings about the organization.

The gap between the current and desired culture values enables people to see what is working and what is not working for them and what they would like to do about it. The gap between personal values and current culture tells an individual to what degree he or she can bring his or her whole self to work. ●

Merging Cultures and the Importance of the Values of the Leadership Group

Mergers that occur between companies with similar values and levels of organizational consciousness have the greatest chance of success. The least successful takeovers are those that involve companies that operate from lower levels of consciousness taking over companies that operate from higher levels of consciousness.

Here are three hard-and-fast rules about organizational cultures and leadership groups:

Rule 1: An organization cannot operate at a level of consciousness higher than that of the personal consciousness of the leadership group.

Rule 2: The culture of an organization either is a reflection of the personal consciousness of the leadership group (conscious and subconscious) or is inherited from previous leadership groups.

Rule 3: In general, most organizations operate with a "default" culture because it arises unconsciously; the culture is not managed, the culture is not monitored and the culture is simply recognized as "the way things are done around here." ●

Leadership: The Key to Cultural Transformation

In his book *Good to Great* Jim Collins states that the first job of a new leader is to get the right people in the right seats on the bus and that this is absolutely fundamental to building a long-lasting successful company. The right people are those who display what he refers to as level 5 leadership. Collins' level 5 leaders are those who display full-spectrum consciousness.

The Seven Levels of Leadership Consciousness

There are seven well-defined levels of leadership that correspond to the seven levels of organizational consciousness. Each level is presented with the leadership focus point:

Level 7. ***Wisdom/Visionary***: Service to humanity and the planet.

Level 6. ***Mentor/Partner***: Strategic alliances and partnerships, mentoring and coaching.

Level 5. ***Integrator/Inspirer:*** Developing a strong cohesive culture.

Level 4. ***Facilitator/Influencer:*** Adaptability, continuous renewal and learning.

Level 3. ***Manager/Organizer:*** High-performance systems and processes.

Level 2. ***Relationship Manager/Communicator:*** Relationships that support the organization.

Level 1. ***Crisis Director/Accountant:*** Pursuit of profit and shareholder value.

Each level of leadership corresponds to the satisfaction of the needs of the organization at the corresponding level of consciousness. Leaders who learn to master the needs of every level of organizational consciousness operate from full-spectrum consciousness. Research shows that these are the most resilient and successful leaders because they have the ability to respond appropriately to all internal challenges and external threats while taking full advantage of opportunities to grow and develop.

Focus

The principle focus of the lower levels of leadership consciousness is on creating a financially stable organization with a strong customer base that has efficient systems and processes.

The principle focus of the transformation level of leadership consciousness is to promote a climate of continuous learning and employee empowerment so that the organization can be responsive and adaptable to changes in its internal and external environment and continuously develop new products and services.

The principle focus of upper levels of leadership consciousness is to create a vision, mission and values for the organization that builds internal and external connectivity through strategic alliances and makes a contribution to society. ●

Whole-System Change: The Context for Cultural Transformation

Values alignment and mission alignment together create group cohesion.

For whole-system change to occur, there must be a parallel shift in personal alignment, structural alignment, values alignment and mission alignment. All four relationships must change in the same direction for the group to experience a shift in consciousness. When all four relationships change in the same direction, the group finds a new level of internal stability and external equilibrium at a higher level of consciousness.

Cultural Entropy

Cultural entropy, which is the proportion of energy in an organization consumed by nonproductive activities, occurs when there is a lack of alignment between the four quadrants. Cultural entropy is inversely related to resilience. When cultural entropy is high, resilience is low. When cultural entropy is low, resilience is high.

There are four causes of cultural entropy:

• *Lack of personal alignment* occurs when there is a lack of alignment between the stated values of individuals and their behaviors, particularly among the leadership group.

• *Lack of structural alignment* occurs when there is a lack of alignment between the stated values of the group and the behaviors of the group as reflected in the rules, regulations, structures and systems of governance.

• *Lack of values alignment* occurs when there is a lack of alignment between the personal values of individuals and the collective values of the group and a lack of alignment between the values expressed in the current culture and the desired culture.

• *Lack of mission alignment* occurs when there is a lack of alignment between the sense of purpose or mission of employees or their prime motivational drivers and the collective sense of purpose and mission of the group. ●

The Framework for Whole-System Change

The framework for whole-system change can be divided into two phases: preparation and implementation.

The Preparation Phase

There are eight steps in the preparation phase:

Step 1(a): Cultural transformation tools values assessment. The first step is to carry out a company-wide values assessment to identify employees' personal values, perception of the current values and their desired culture values. This is known as the baseline assessment.

Step 1(b): Business assessment. In developing the compelling reasons for change, it will be important to include the business case for change as well as the cultural case for change. Usually, the business case for change is blatantly obvious from the financial results of the organization or key performance indicators such as employee retention, market share and customer satisfaction.

Step 2: Create vision and mission. The vision and mission statements should be concise, inclusive and easily memorized.

Step 3: Choose values and select behaviors. The results of the cultural values assessment provide

significant insights as to what values leaders, managers and employees consider important.

Step 4: Evaluate organizational resilience. Examine the long-term sustainability of the organization by carrying out a baseline evaluation of the organization's resilience. Find ways to enhance the organization's ability to withstand shocks and anticipate risks — find ways to build its adaptive capacity.

Step 5: Develop compelling reasons for change. There must be a clear understanding among the executive population, managers and staff why the organization is embarking on a whole-system change process.

Step 6: Survey of worldviews and drivers. Identify the worldviews and key drivers of the employee population.

Step 7: Develop an Implementation Strategy. Make the vision, mission, values and behaviors pervasive throughout the culture. There are three major components to the change process: personal alignment, group cohesion and structural alignment.

Step 8: Develop objectives and key performance indicators. Measurement matters.

The Implementation Phase

Here are the steps of the implementation phase:

Step 9: Structural alignment. Reconfigure the systems and processes of the organization so that they align with the vision, mission, values and behaviors of the organization.

Step 10: Leadership values and behaviors assessment of the senior executive group, coaching and action plans. People with deeply ingrained limiting beliefs should be assigned a personal coach. Those who cannot adjust will leave, often under their own volition.

Steps 11,12,13: Personal alignment programs with the executive population, group-cohesion programs in intact teams of business or functional units and subunits and leadership values and behaviors coaching with the executive population. These three programs (personal alignment, group cohesion and individual coaching) reinforce each other in bringing about a shift in the individual and collective behaviors of the executive population.

Step 14: Values awareness program. At whatever level we stop the cascade of the personal alignment and group-cohesion programs, we replace it with a "values awareness" program and cascade it through the rest of the organization. ●

The Importance of Values-Based Decision Making

Over time, the human species has developed five modes of decision making. The difference between each mode of decision making is the source and emphasis we give to meaning making. There are five sources of meaning making: instincts, subconscious beliefs, conscious beliefs, values and intuition.

Instinct-based decision making takes place at the cellular level and is founded on learned DNA responses, principally associated with issues of survival.

In ***subconscious belief-based decision making*** we also react to what is happening in our world without reflection, but on the basis of personal memories rather than cellular (DNA) memories. In this mode of decision making, action also precedes thought. The action is often accompanied by the release of an emotional charge.

If we want to make rational decisions, we have to leave behind subconscious belief-based decision making and shift to conscious belief-based decision making. What allows us to make rational decisions is the pause we insert between meaning making and decision making. We are using beliefs based on our past experiences to design our future experiences.

To create the future we want to experience, we have to shift from conscious belief-based decision making to ***values-based decision making***. The question we need to ask when making a decision is the following: "Is this decision rational, and is it in alignment with our values?" A decision that is not in alignment with your personal values lacks authenticity. You cannot create personal or group cohesion by making decisions that lack authority and integrity.

The shift from values-based decision making to ***intuition-based decision making*** is for many a bridge too far. However, it is not a bridge too far for the more evolved leaders in an organization — those who have developed full-spectrum personal consciousness. Intuition allows us to create a future based on the emergence of being. When we create the conditions that allow our minds to tap into the collective mind-space, our intuition informs us of what wants or needs to emerge.

It is important for individuals and organizations to shift from belief-based decision making to values-based decision making. They should try to eliminate subconscious fear-based decision making. To create a values-driven organization requires us to constantly focus on our individual and collective values. One way to do this is to practice values management. ●

Values Management

Values management is the process by which an organization actively measures, monitors and responds to its causal indicators of performance in such a way that it adjusts its culture and way of being to sustain high performance (outputs) and meet its objectives (outcomes).

To continually sustain high performance, four conditions must be met:

- **Personal alignment:** The alignment of an individual's values and beliefs with their actions and behaviors.
- **Values alignment:** The alignment of an individual's values with the group's values.
- **Mission alignment:** The alignment of an individual's sense of purpose, mission or drivers with the group's stated purpose or mission.
- **Structural alignment:** The alignment of a group's values and beliefs with their actions and behaviors as codified in the collective rules, laws and processes of governance.

The process of values management enables us to measure the degree to which the four conditions are being met and how close they are to prime. Prime represents the healthiest possible state of the causal performance indicators commensurate with sustained mission assurance taking into account the levels of consciousness of the executive and employee populations.

When the four quadrants are in alignment, the organization is as close as it can get to prime and cultural entropy is minimized. ●

Integrating Appreciative Inquiry

Transformation is seen to happen when people have new, meaningful conversations they have never had before, either one-on-one or in small groups.

The process of whole-system change creates a number of opportunities for transformational conversations: when the leadership group revisits or develops a new vision, mission and values for the organization; when the individual and collective values assessment results are debriefed with the leadership group; during the leadership group's discussion on their core motivations; and during the leadership group's discussion on core business.

These types of conversations clarify and align the intentions of the leadership group. Another important conversation that needs to occur is translating the espoused values of the organization into specific behaviors that reflect the organizational context. *Appreciative inquiry* is one of the best technologies available for this task.

Future Evolution

Appreciative inquiry structures and focuses the conversation, and just like the cultural assessment, it gives employees and other stakeholders a voice in defining the parameters that will guide the future evolution of the organization. It focuses on enhancing what is working rather than dwelling on what needs to be fixed. It affirms and builds on what is positive and strong about an organizational culture — what gives it life. ●

Integrating Resilience

The seven levels of consciousness model, with the insights it provides on values alignment, cultural entropy and full-spectrum sustainability, is an essential framework for evaluating the cultural resilience of our organizations and institutions. Blending cultural transformation tools (CTT) and a whole-system approach to cultural transformation with resilience and adaptive-capacity-building techniques is essential for creating long-term resilience.

What has become clear is that the emergent systemic risks that organizations face cannot be reliably identified within the current silo mentalities that exist in our organizations, nor are silos suitable for managing resilience programs.

Organizations of all types are migrating mission-critical business processes to information technology platforms that can be accessed from anywhere in the organization. Managing and maintaining these systems require a culture of cooperation, coordination and collaboration across all parts of the organization.

The Role of Culture

The concept of values management is a timely innovation that allows organizations and institutions to monitor their cultural resilience by regularly monitoring their operating values and identifying high levels of cultural entropy. Wherever cultural entropy is high, resilience is low.

If a comprehensive resilience baseline diagnostic is not performed initially as part of a whole-system change effort, the cultural diagnostic needs to include some form of risk and resilience survey.

This survey, together with the cultural values assessment, should be used to identify areas where cultural entropy and significant risks combine to create resilience "hot spots." Scenario-based tabletop simulations that explore these hot spots can be used to help organizations test existing decision-support and collaboration processes under complex event consequences. ●

Integrating the EFQM Excellence Model

An example of a whole-system approach to organizational transformation was developed by the Centre for Integral Excellence at Sheffield Hallam University in the United Kingdom. The approach brings together the European Foundation for Quality Management Excellence model (EFQM) and the seven levels of consciousness model in an integral, whole-system, evaluation process. The model incorporates a continuous learning feedback loop that promotes innovation and continuous improvement.

The basic principle of the EFQM excellence model is that there are many approaches to achieving sustainable excellence but that in general: *Excellence Results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy and Strategy, People, Partnerships and Resources, and Processes.*

Integrating EFQM and CTT

A key learning from recent research is the significance of the relationship between improving processes and a whole-system approach to cultural transformation.

There are significant similarities between the areas for improvement identified by the EFQM assessment and CTT assessment — employee issues: employee commitment, employee recognition; and employee fulfillment and performance issues regarding information sharing and accountability (empowerment). ●

New Leaders, New Change Agents

To move into the mind space of values-based decision making, we must be willing to let go of some of our beliefs. This process is called *self-actualization*. In this process, the "self" that is actualized represents the soul-self; the self that is able to transcend the conditioning of the enculturation process; the self that frees us from the beliefs of the past that we accepted without thinking because we wanted to belong, and be respected by our peers; the self that is a composite blend of the positive beliefs held by the ego and the values held by the soul.

Self-actualization leads to freedom because it loosens the bonds of enculturation. We become free to choose our own path, our own way of being — a way of being that may be different from that of our parents and our peers. We can only do this in a democracy or a governance structure that respects individual differences; a structure that accepts and is comfortable with diversity; a structure where everyone has a voice and where different beliefs are celebrated as long as they do not undermine the stability of the whole.

During the process of self-actualization our minds change. The ego-based drivers that dominate the lower levels of consciousness evolve into the soul-based drivers that dominate the upper levels of consciousness. Instead of focusing on our ego-based personal survival, relationships and self-esteem needs, we focus on our personal soul-based needs — finding meaning in existence, actualizing that meaning by making a difference in our world and, finally, when making a difference becomes a way of life, entering into the realm of selfless service.

Master Practitioners of Whole-System Change

For those who are leaders, your challenge is to recognize that the impact you have on the world depends on your ability to grow in consciousness — to become a full-spectrum leader. You will need to seek out master practitioners of whole-system change who can support your endeavors.

For those who are practitioners, your challenge is not only to grow in consciousness, but also to equip yourselves with an understanding of the models and tools that allow you to design and customize integral approaches to whole-system change to support the leaders you work with in creating a positive future for their organizations and the communities that they serve. ●

Social Constructionism

The theoretical basis for appreciative inquiry rests on the concept of social constructionism. The underlying beliefs of social constructionism are that reality is formed through conversation and storytelling, that language and communication facilitate meaning making and that knowledge is generated and passed on through social interaction. In its basic form, appreciative inquiry is a formalized process for designing powerful conversations.

RECOMMENDED READING LIST

If you liked *Building a Values-Driven Organization*, you'll also like:

1. ***The Soul of the Corporation*** **by Hamid Bouchikhi and John R. Kimberly.** Learn how to manage the unconscious shared beliefs that give your organization coherence.
2. ***Firms of Endearment*** **by Rajendra Sisodia, David B. Wolfe and Jagdish Sheth.** Today's best companies generate every form of value that matters: emotional, experiential, social and financial. This book tells you how.
3. ***Leading at a Higher Level*** **by Ken Blanchard.** Blanchard has spent more than 25 years helping leaders and organizations become and remain great. In this book, he distills the knowledge of his years of experience.

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Built To Last

James C. Collins and Jerry I. Porras

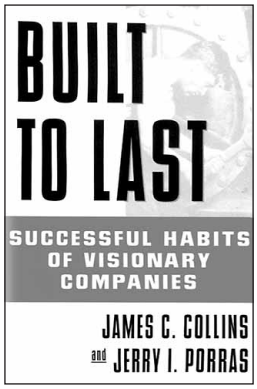
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SOUNDVIEW Executive Book Summaries®

You Can Learn from the Habits of Visionary Companies

BUILT TO LAST

By James C. Collins
and Jerry I. Porras



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Nordstrom	Melville
Philip Morris	RJR Nabisco
Procter & Gamble	Colgate
Sony	Kenwood
Wal-Mart	Ames
Walt Disney	Columbia

THE SUMMARY IN BRIEF

You are about to look at the results of a landmark study that will change the way you manage.

Authors James Collins and Jerry Porras spent six years studying exceptional companies — visionary companies — to see what accounts for their success.

What are visionary companies? They are the premier organizations in their field, firms that have a long record of having an impact on the world. Ford. Sony. Procter & Gamble. Merck. Motorola. Johnson & Johnson. These are companies that have distinguished themselves as a special and elite breed of *institution*. And, with an average founding date of 1897, and stock-return performance of fifteen times the general market since 1926, they are companies that have stood the test of time.

Collins and Porras surveyed hundreds of CEOs to find out which companies they most esteemed. They chose eighteen, and then researched them deeply. They charted their growth, ran numbers on them, analyzed their cultures, and identified key moments in their corporate lives.

They also compared each to a carefully chosen competitor from the same founding era. Their goal: to uncover the underlying factors that helped the visionary company outperform the competition.

As the box to the left shows, the comparison companies are not dogs. Most are still in business and have done well. But not as well as the visionary companies, which have shown they can bounce back from adversity and stay at the top of the heap year after year.

What Collins and Porras discovered will work for you today, whatever your job or level. You'll learn to view yourself as a "clockbuilder," to preserve the values that set your company apart from others, to set audacious goals, to experiment freely, and much more. And you'll know these concepts have value, because they come from the same playbook that has helped visionary companies soar for decades.

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Take an Architectural Approach

Suppose you read of a person who could tell the exact time just by looking at the position of the sun or stars. "It's April 23, 1996, 2:36 A.M."

Wow, you'd think. What a remarkable person. Yet wouldn't it be more remarkable — and useful for the world — if that person built a clock that anyone could refer to, even after the clockmaker had died?

Having a great idea, or being a charismatic, visionary leader is like "time telling." Building a company that's healthy long after the visionary leader is gone, or after the great product is passé, is "clock building."

Visionary companies have clock-building managers whose greatest creation is the company itself.

Tyranny of the 'Or'

Great companies can hold paradoxical or contradictory ideas.

For instance, they can be conservative at the core yet progressive in their actions; they can invest for the long term and still expect short-term results; they can have high quality at a low cost; they can plan seriously yet move fast when opportunities arise; etc.

In short, they aren't tyrannized by either/or thinking. For them, it's not A *or* B; it's A *and* B.

No Great Ideas at HP

Visionary company founders take an architectural approach to building their firms. They concentrate first on the organization's systems and values, then on products.

In fact, you don't need a great product idea to begin. William Hewlett and David Packard of Hewlett-Packard, for instance, had no product in mind when they got together in 1937. They just wanted to start a company together. "We did anything that would bring in a nickel," said Hewlett. Early products included a bowling foul-line indicator, a clock drive for a telescope, and a device to make a urinal flush automatically.

None of these products went anywhere, but the two persisted until they figured out how to build a firm that could pump out great products.

Likewise, Masaru Ibuka didn't have a single product in mind when he launched Sony in 1945. The company survived selling heating pads.

Myth of Charismatic Leaders

Though many visionary companies have had high-profile leaders like Henry Ford or Sam Walton, charismatic leadership is not necessary for success. 3M, for example, has never had a charismatic CEO.

The best leaders, charismatic or not, make it a point to develop managers and processes. In their view, the firm is not a vehicle for products or personalities; products are a vehicle for the company.

Looked at in that light, Walt Disney's greatest creation wasn't *Snow White* or Disneyland, it's the Disney Company and its ability to make people happy.

Motorola vs. Zenith

Paul Galvin, Motorola's founder, didn't dream about making battery eliminators for radios, its first product. He dreamed foremost about building a great and lasting company. He did that by developing people. He encouraged dissent, discussion, and disagreement, and he gave people freedom to make contributions. He set challenges and gave people responsibility to achieve them.

Zenith, a competitor of Motorola's, was lead by the charismatic Eugene F. McDonald, Jr. The brilliant McDonald moved the company for three decades through the force of his personality. But he gave no thought to management succession or promoting individual initiative.

After McDonald died, Zenith never regained the energy and spark he provided. Compare Zenith with Motorola today, and you'll see how much more valuable clock-building leaders are than time tellers.☆

Built to Last by James C. Collins and Jerry I. Porras

Selected by Soundview as an Outstanding Book for Business People

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Ideals Drive Visionary Organizations

Decades before "values statements" became popular, George Merck II said, "[We] are workers in industry who are genuinely inspired by the ideals of advancement of medical science, and of service to humanity." Former Merck CEO P. Roy Vagelos echoed the ideals years later: "Above all, let's remember that our business success means victory against disease and help to mankind."

Merck has long used its values to guide its actions. For example, it once developed a drug called Mectizan to cure a Third World disease known as "river blindness." While it hoped to sell the drug to government and relief agencies, the return on investment would be small.

When it came time to sell Mectizan, however, no one bought it. So Merck gave the drug away to the millions who needed it.

Why give away a drug it took years to develop? It was, of course, good public relations that could pay off down the road. But it was also because the company has never forgotten George Merck's words: "We try never to forget that medicine is for people. It's not for the profits. The profits follow . . ."

Such statements are part of Merck's core ideology — the values and sense of purpose that go beyond just making money.

Merck has lived by its ideals for generations. Competitor Pfizer, in contrast, didn't mention ideals until the late 1980s. Indeed, a former Pfizer CEO once said, "So far as is humanly possible, we aim to get profit out of everything we do."

Core Ideologies

Visionary companies have core ideologies. These are basic precepts that say, "This is who we are; this is what we stand for; this is what we're all about." These aren't just words but vital, shaping forces.

Like Merck, visionary companies tend to be more ideologically driven than profit-driven. For them, profit is like oxygen — necessary for life, but not the point of it.

This attitude, paradoxically, can pay off in greater profitability. Asked whether he started Marriott Corporation to create an empire, J. Willard Marriott, Sr., said no. He wanted to give friendly service to guests, provide good food at a fair price, and work hard to make a profit to create more jobs — in that order.☆

Ideological Clash: HP and TI

When David Packard addressed a group of managers in a management-development program in Hewlett-Packard's early days, he didn't talk about techniques, policies, or numbers. He talked about values. "You can . . . see people who are interested in money and nothing else, but the underlying drives come largely from a desire to . . . do something of value." A statement by a recent CEO, John Young, shows that Packard institutionalized this sentiment: "If we provide real satisfaction to customers, we will be profitable." HP also aims to satisfy itself — to manufacture equipment that advances science and improves the welfare of humanity.

In contrast, the corporate goals of Texas Instruments are all financial. For TI, bigger is better — even if it means making low-quality products or those that offer no technical contribution. For instance, it got into things HP wouldn't touch, like low-end digital watches.

There's little question that HP's ideals, including its respect for employees, have helped it outperform TI over the long haul.

Recipes for Success

Sample the core ideologies of these well-built companies:

Nordstrom: Service to the customer above all else, hard work and productivity, continuous improvement, excellence in reputation, and being part of something special.

Procter & Gamble: Product excellence, continuous self-improvement, honesty, and respect and concern for the individual.

Wal-Mart: To provide value to customers, to buck conventional wisdom, to work with passion and commitment, to run lean, and to pursue ever-higher goals.

An ideology consists of two ingredients: core values and purpose.

Core values are the organization's enduring tenets and guiding principles — the things that can never be compromised for financial gain or expediency.

A value can usually be boiled down to a simple statement. Procter & Gamble co-founder James Gamble said, "When you cannot make pure goods of full weight, go to something else that is honest, even if it is breaking stone."

Visionary companies generally have just a few core values that are unique to them. You'll need to come up with your own based on what you believe deep in your bones.

Purposes are your organization's fundamental reasons for existing beyond making money. They are broad and enduring. For example, Robert W. Johnson founded Johnson & Johnson "to alleviate pain and suffering."

Purposes are not about specific products or services. The Disney Company doesn't exist to "make cartoons for kids," for example. It exists to "use our imaginations to bring happiness to millions."

To come up with a purpose, ask: What is our reason for being? What would be lost if we ceased to be?☆

Preserve the Core; Stimulate Progress

Every visionary company needs a core ideology (see page 3). But that's not enough; visionary companies couple ideology with a relentless drive for progress that impels forward movement in everything but the core. As Sam Walton pointed out, "You can't just keep doing what works one time, because everything around you is always changing. To succeed, you have to stay out in front of that change."

Don't confuse core ideology with noncore practices or products. As an example, IBM began to ignore its "three basic beliefs": respecting employees, making customers happy, and working hard to do things right. It emphasized mainframe computers, blue suits, and white shirts — none of them core values. That may be why IBM has stumbled lately.

Wal-Mart's core belief "exceed customer expectations" is permanent and unchanging. Having greeters at the front door is a practice that can change. Boeing's core value, "being in the leading edge of aviation; being pioneers" is permanent. Building jumbo jets is a practice that can change.

Whatever your business, strategy and tactics, operations, culture, and products must change over time. The only thing that shouldn't change is core ideology.

Finally, this drive for progress — to go farther and do better — is an internal force. Visionary companies don't wait for the external world to say "it's time to change." They practice self-criticism daily. They make sure they change well before the world forces them to change.

Bruce Nordstrom, talking about the Nordstrom retailing chain's lavish service, said, "We don't want to talk about our service. We're not as good as our reputation. . . . You just have to do it every time, every day." That self-imposed discipline guarantees constant renewal.☆

BIG, HAIRY, AUDACIOUS GOALS

Use BHAGs to Surge Ahead

A great way to stimulate progress is to set big, hairy, audacious goals (BHAGs, pronounced "bee-hags").

Consider Boeing in 1952. Its workforce had dwindled from a peak of 51,000 during World War II to 7,500. To survive, it knew it had to get into commercial aviation. But airline companies viewed it as a firm that built good bombers, period.

What to do? Commit to a challenging goal: Build a jet for commercial use. The penalty for failure? Perhaps the end of Boeing.

But it didn't fail. It developed and built the 707, bringing the commercial aviation world into the jet age.

In contrast, Boeing competitor Douglas Aircraft, precursor to McDonnell Douglas, stuck with propeller planes and took a wait-and-see attitude regarding commercial jets. It finally introduced the DC-8 in 1958 but never caught up to Boeing.

Boeing has a history of setting BHAGs. When Eastern Airlines said it needed a jet with precise specifications, Boeing took on the challenge.

The plane had to land on runway 4-22 at La Guardia Airport in New York, a notoriously short runway. This jet also had to be able to fly non-stop to Miami without refueling, seat six abreast, and hold 131 passengers. All in all, most agreed, this was an impossible task.

Boeing met the challenge with its 727. It succeeded because, once it got going, it had no other choice. Such goals, by the way, are always aligned with a Boeing core value: to be on the leading edge of aviation.

Clear and Compelling

A good BHAG is clear, compelling, and serves as a unifying focal point. It engages people by reaching out and grabbing them in the gut. A good example: General Electric's goal to be number one or two in every market it's in.

GE competitor Westinghouse, in contrast, has had vague goals like "market leadership, focused growth, total quality," and so on — nothing that stirs the blood.

Commitment and Risk

The goal alone can't stimulate progress. You need to show a high level of commitment to reaching it. That sometimes involves a great deal of risk. Walt Disney invested most of his company's resources to create *Snow White* in 1934, for instance. People called it "Disney's Folly," believing no one would care to see a full-length feature cartoon.

That movie succeeded, of course, but the naysayers were back at it when Disney proposed creating the radically new kind of amusement park we now know as Disneyland.

Compare Disney with Columbia Pictures, which did little that was bold, visionary, or risky. It turned out a few good movies in the 1950s and 1960s, but it was run by people who saw themselves "first, last, and always . . . as investors, not managers." Columbia was sold in the early 1980s, just as Disney roared back to life.

Finally, a good BHAG can transcend the leader and take on a life of its own. Wal-Mart's Sam Walton, for instance, set a goal he knew would outlive him: to become a $125 billion company by 2000.☆

BHAG Guidelines

- A BHAG should be so clear and compelling that it requires little or no explanation.
- A BHAG should fall outside the comfort zone. It should require a heroic effort.
- A BHAG should be so bold and exciting that it will continue to stimulate progress even if leaders disappear before it's achieved.
- A BHAG should be consistent with a company's core ideology.

Great Places to Work — for Some

Visionary companies must be great places to work, right? Not necessarily. If you "fit" with the core ideology and demanding standards of a visionary company, you'll do fine. If not, you'll be ejected like a virus. There's no middle ground.

For example, if you don't want to crusade for quality at Motorola — even if you work in the lunchroom — you won't last long.

The Nordstrom Way

Retailer Nordstrom presents a good case of "cultism" — using practices that create an almost cult-like environment around ideology.

For example, heroic stories about "Nordies" delivering great service abound at the company. So do reminders on the wall, cheering, and chants of affirmation.

Those who fit adhere zealously to the core ideology (extraordinary service to customers) and get lots of positive reinforcement. Those who don't flounder and leave.

Nordstrom also draws strong lines between those who are inside and outside the organization. It portrays "inside" as something very special.

Not Really Cults

Nordstrom, of course, isn't really a cult. It just indoctrinates its employees strongly and expects a tight fit to its ideology. Also, true cults often revolve around a charismatic leader. Cult-like companies bow down to their ideologies, not a charismatic leader.

Further, while Nordstrom employees are controlled and disciplined, those without an entrepreneurial spirit and initiative will fail.

Indoctrination at P&G

Procter & Gamble is another cult-like visionary company that uses many techniques to enforce the behavior it wants. These range from a strong dress code and open offices to the famous rule that no memo should be longer than a page.

P&G also controls information tightly. Employees, for instance, can't work on airplanes.

Such practices work. Employees take great pride in their work, and the firm has rolled over competitors, like Colgate, that don't instill the same sense of ideology and elitism.

What You Can Do

To get these beneficial effects, build an organization that preserves ideology in specific ways. The following send a consistent set of reinforcing signals that indoctrinate people and create a sense of belonging:

- Training programs that have an ideological as well as practical slant.
- On-the-job socializing.
- Promoting from within.
- Penalties for breaching ideology.
- Constant emphasis on corporate values and heritage, and tales of heroic deeds in the line of duty.

Such mechanisms pay. Cult-like cultures built around an ideology let you turn people loose knowing they'll do things the company way.☆

IBM and Burroughs

IBM has been cult-like since its inception, when founder Thomas Watson set out to create an organization of "dedicated zealots."

Watson instituted strict rules of personal conduct, encouraged marriage, and forbade alcohol. He hired young, impressionable people; set up training programs to indoctrinate new hires; and promoted only from within. He also created IBM-managed country clubs so IBMers could socialize with each other.

These and other practices resulted in a company filled with ardent believers in the IBM way.

Competitor Burroughs, on the other hand, once had a technical edge over IBM. Yet IBM pulled ahead at key moments in the evolution of the computer industry.

Why? In part because Burroughs had no "indoctrination" center, nor did it try to impose tight discipline. Unlike IBM, it did not have a clear self-identity or elitist attitude.

USE HOME-GROWN MANAGEMENT

Here's a surprising fact: Of the eighteen visionary companies studied, only four times — in a combined 1700 years! — did one of them go outside the firm for a CEO.

Consider General Electric. Business people rightly revere Jack Welch as one of America's strongest business leaders. GE has soared under him.

Was Welch "new blood" brought in to stir up a drowsy giant? No. Welch joined GE directly after graduate school, and he worked there for twenty years before becoming CEO. Welch, like *all* his predecessors, came from deep within the firm.

GE has a history of "change agent" CEOs who have delivered extraordinary returns while leading the firm. In this stellar group, for instance, Welch places only fifth out of seven in average return on equity. (Of course, no one will argue with his 26.29 percent average ROE!).

Visionary companies like GE develop, promote, and carefully select managerial talent from inside the company. That helps them preserve the ideals they believe in and ensure a long line of quality leaders. And as the GE story shows, there's no inconsistency between promoting from within and stimulating significant growth and change.

What does all this mean for you? Whether you are CEO or a department manager, ask yourself who could step into your role and how you could help develop that person. Succession planning is a key to long-term high performance.☆

Pounce on Opportunities

Visionary companies make some of their best moves by experimentation, trial and error, opportunism, and sometimes by accident.

Lucrative Accidents

Johnson & Johnson, for instance, primarily made antiseptic gauze and medical plasters around the turn of the century. When it received a complaint about skin irritation from certain plasters, J&J began including a can of Italian talc to soothe the skin.

Customers started asking for the product, and the firm introduced Johnson's Baby Powder. Its success prompted J&J to get into the consumer market, a shift that eventually became 44 percent of its revenues.

A different kind of accident led Marriott to airport services. In 1937, J. Willard Marriott discovered that customers at one of his restaurants near Washington's Hoover Airport bought meals to carry on flights.

Marriott paid a visit to Eastern Air Transport and arranged to deliver prepackaged lunches directly to departing airplanes. Successful, Marriott convinced American Airlines to join in, and Marriott Corporation eventually supplied airplanes at more than one hundred airports.

Like Evolution

Accidents often add to the revenues of visionary companies. Such unplanned progress is like evolution — it begins with small incremental steps that sometimes grow into unexpected, large-scale opportunities.

Or wither early. Either way, evolution requires many experiments. As Darwin himself said, "Multiply, vary, let the strongest live, and the weakest die." Johnson & Johnson to this day tries new things often, keeps what works, and discards the rest. Discards, however, can act as fertilizer. R.W. Johnson, Jr., said, "Failure is our most important product."

Think of evolution in terms of a tree. You add new branches through experimentation, but you prune away dead branches quickly. That allows successes to flourish and makes room for more experiments.

Variation at Wal-Mart

While Wal-Mart may look like a finely engineered machine today, it's really the result of many experiments and accidents.

Take Wal-Mart's "people greeters" — the kindly gentlemen who meet you at the door of a Wal-Mart store. Sam Walton didn't think this up; it came from a store manager in Louisiana who was having trouble with shoplifters. The experiment proved effective and became standard practice at all stores.

A Wal-Mart executive explains the branching and pruning philosophy: "We live by the motto, 'Do it, fix it. Try it.' If you try something and it works, you keep it. If it doesn't work, you fix it or try something else." Like all visionary companies, Wal-Mart makes sure any practice fits with its ideology.☆

Where to Begin

Five lessons for stimulating evolutionary progress:

1. *Give it a try, and quick!* Do, adjust, act, move.
2. *Accept that mistakes will be made.* Dump flops fast, but remember: You can learn much from failure.
3. *Take small steps.* Small experiments can be seeds that grow into large strategic shifts.
4. *Give people the room they need.* A measure of autonomy and decentralization can lead to the increased quantity and variation of product ideas.
5. *Put mechanisms in place.* Leadership "tone" isn't enough. To ensure a constant stream of innovation, use concrete methods.

How 3M Succeeds Every Day

Minnesota Mining and Manufacturing began life poorly. Its initial idea, to mine corundum, failed, and the company searched desperately for something to do. 3M settled on sandpaper and grinding wheels, which kept it afloat.

Such troubles led an early CEO, William McKnight, to insist on diversifying. But rather than chart the course himself, he built an organization that would continually change based on the initiative of employees.

McKnight hired good people, let them alone to do their work, and encouraged experimentation. The result was many unplanned, successful products. For example, 3M employee Dick Drew was visiting an auto paint shop when he saw a problem to solve. Two-toned paint jobs had become popular, but shops had trouble separating the two colors.

Drew went to work and came up with a solution: masking tape. Five years later, he used his experience to develop Scotch tape. Note that 3M hadn't planned to get into tape, now a huge part of its business. It was an outgrowth of the organization McKnight created.

That legacy lives today in a number of mechanisms that foster profitable experimentation:

- **The 15 percent rule.** Technical people can spend up to 15 percent of their time on their own projects.
- **The 30 percent rule.** Each division is expected to generate 30 percent of its annual sales from products and services introduced in the previous four years.
- **Technology sharing awards.** An award for those who share new technologies with other divisions.
- **Genesis grants.** Internal venture capital to develop prototypes and market tests.

Is it any wonder 3M recently topped $13 billion in sales?☆

Never Rest

Visionary companies don't ask, "How well are we doing?" They ask, "How can we do better tomorrow than we did today?" This question is a habit of mind and action in the best companies. It requires constant self-criticism and investment in the future — for a race with no finish line.

Continuous Improvement

Visionary companies are demanding of themselves. Listen to J. Willard Marriott, Sr.: "Discipline is the greatest thing in the world. Where there is no discipline, there is no character. And without character, there is no progress."

In such companies, continuous improvement, a current buzz phrase, is nothing new. William Procter and James Gamble used the concept in the 1850s, and David Packard used the term as far back as the 1940s.

Continuous improvement isn't a fad at visionary companies; it's institutionalized in ingenious ways. For example, in the 1930s Procter & Gamble already had excellent people, products, and marketing muscle. How could it avoid complacency?

CEO Richard Deupree approved a proposal to create a brand-management structure. This allowed P&G brands to compete as though they were from different companies. If the marketplace can't supply competition, why not create it yourself?

What You Can Do . . .

If you're helping build a company, department, or team, ask:

- What "mechanisms of discontent" can I create?
- How am I investing for the future?
- Do I build for the future even in the midst of downturns?
- Do my people understand that comfort is not the goal — that super results take hard work?

This structure made it impossible for any brand to rest on its laurels.

There are numerous ways to "stimulate discontent" with the status quo; see the box to the right.

Long-Term Investment

Besides seeking continuous improvement, visionary companies invest heavily in the future. The authors' research showed that visionary companies consistently invested more in new property, plant, and equipment as a percentage of sales than all but a few comparison companies. They also paid less in dividends, opting to reinvest the money.

In specific, they spend more on human capital. Merck, 3M, P&G, Motorola, GE, Disney, Marriott, and IBM have all made significant investments in "universities" and education centers. Motorola, for example, requires each division to spend 1.5 percent of its payroll on training.

Visionary companies also spend more (and earlier) to bring in new technologies, management methods, and industry innovations. Merck, for instance, embraced a TQM process back in 1965, and Disney bought new film technologies as competitors dithered about their usefulness.

Pay Now or Pay Later

Citibank has outperformed the Chase Manhattan Bank by investing in the long term. Citibank invested in the following areas before — often long before — the Chase: merit pay, management training programs, college recruiting programs, automated teller machines, credit cards, and foreign branches.

Pinching pennies doesn't help you become a world-beater. Boeing, for example, has always shown a willingness to "reach out to tomorrow," while McDonnell Douglas has worried more about the short-term implications of its investment opportunities. As a result, it has abandoned new-generation jets and ceded the future, for now, to Boeing.☆

To Improve, Create Discontent

To excel, the best companies often use "discomfort mechanisms" to combat complacency and stay vibrant. Here's how a few visionary companies create discomfort:

Merck consciously yields market share as its products become unprotected commodities. This forces it to innovate.

Motorola has also used an "innovate or die" technique. It has been known to cut off mature product lines that still account for significant sales volume.

Boeing uses a process called "eyes of the enemy." It assigns managers the task of developing strategy as though they worked for a competitor and wanted to wipe Boeing off the map. What weaknesses would they exploit? What markets could they invade? Boeing then figures out how it would respond to each threat.

Nordstrom ranks a person's sales per hour and compares them with peers. Nordstrom expects ever-better performance; there's no ultimate goal.

Hewlett-Packard also ranks employees relative to peers. Managers argue with each other over the rankings of their people until they reach consensus. Thanks to this uncomfortable process, no successful manager can coast.

HP also has a policy against taking out any long-term debt. The pay-as-you-go policy requires powerful boot-strapping innovation and self-discipline. More remarkable, HP expects 20 percent growth year after year.

Wal-Mart uses a "beat yesterday" ledger that compares store sales figures to the exact same day in years past. Standards thus rise year in and year out.

More Than Vision Statements at Ford

These days, companies spend large sums and many hours to come up with vision statements, mission statements, values statements, objective statements, and so on.

These can be useful, but they are not the essence of a visionary firm.

The essence lies in the translation of its core ideology and drive for progress into the fabric of the organization. It can be seen in goals, job design, strategies, tactics, pay systems, cultural practices, building layouts, etc. In short, the essence infuses everything the firm does. It envelopes employees with messages so consistent and reinforcing that no one can misunderstand the firm's ideology or ambitions. Each element is aligned with ideology and aims.

Alignment at Ford

Ford, a visionary company that has had its ups and downs, turned itself around in the early 1980s.

Reeling from red ink, Ford paused in 1983 to redefine itself. Out of the process came Ford's "Mission, Values, and Guiding Principles" (MVGP), a remarkable document that explicitly put people before products and profits. It also emphasized quality, employee involvement, and customer satisfaction.

Ideology and Aims into Reality

Many companies have created such documents and then let them gather dust. Ford, however, dramatically translated the MVGP into reality.

For example, Ford instituted statistical quality control. It forced suppliers to install quality programs of their own. It created employee-involvement programs, participative-management programs, and a satellite TV system to communicate Ford news to employees.

It also negotiated a profit-sharing clause with its union labor, which linked workers directly to the company's success.

World-Class BHAGs

Further, Ford used big, hairy, audacious goals. It formed a group with the mandate to develop a completely new, world-class car. It invested heavily in this goal by providing a $3.25 billion budget. The result — the Taurus/Sable — is now the best-selling car in the U.S.

In hundreds of ways, big and small, Ford translated its core ideology, as embodied in the MVGP, into daily practice. As a result, all company practices, programs, communications, etc., work together harmoniously within the context of its core ideology and overall goals.☆

But I'm Not the CEO!

There's still a lot you can do. For example, you can apply most of the principles in this summary to your work area, however large or small. You can be a clock builder, for example, by thinking about what processes you can use to solve problems rather than jumping to solve them yourself.

And if your organization does not have an ideology, create one.

A manufacturing manager said, "I got tired of waiting for those on top to get their act together, so I just went ahead with my people. We now have a very distinct set of values here in my group, and we manage by them. It gives my people a greater sense of meaning in their work."

You can also use BHAGs at any level or "try a lot of things and see what works." It'll make you more effective and your job a lot more interesting.

Six Steps to Visionary Alignment

We hope you begin to discover your core ideology and set lofty goals. That's only the beginning; you need to weave them into the firm's fabric.

1. *Paint the whole picture.* One program, strategy, speech, or symbolic gesture isn't enough. Visionary companies employ a variety of signals and actions that continually reinforce the core ideology and stimulate progress. A visionary company is like a great work of art — magnificent in detail, with all elements working together in concert.

2. *Sweat the small stuff.* People don't work in the "big picture." Little things make an impression, like the business cards Nordstrom gives all its sales people. This says, "We want you to be a professional."

3. *Cluster, don't shotgun.* Put mechanisms and processes in place that reinforce each other. Ford, for instance, used statistical quality control *reinforced* by involvement programs *reinforced* by participative management programs *reinforced* by promotion criteria based on these skills. Clustered practices deliver a powerful punch.

4. *Swim in your own current.* Look to your internal compass for guidance, not the standards, trends, or fads of the outside world. Don't ask, "Is this practice good?" Ask, "Is this practice appropriate for us?"

5. *Obliterate misalignments.* Your workplace may be littered with inappropriate practices that go against your core ideology or impede progress. Don't forget: The only sacred cow is core ideology. Change anything else.

6. *Abide by the universal requirements.* These are your core ideology and a drive for progress, and an organization designed to preserve the core and stimulate progress.

BHAGs, cult-like practices, and evolutionary growth are all ways to preserve the core and stimulate progress. But they aren't the only ways, so be creative. Tomorrow's visionary companies will employ methods not yet thought of.☆

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Business Chemistyr

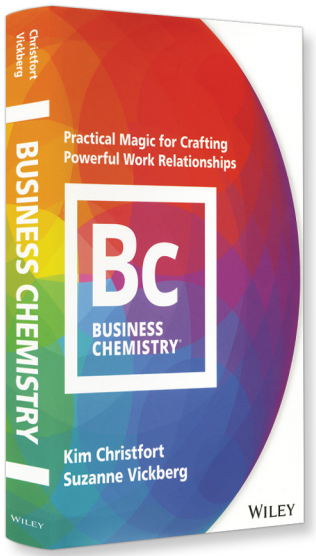
Kim Christfort and Suzanne Vickberg

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Business Chemistry

Practical Magic for Crafting Powerful Work Relationships



by Kim Christfort and Suzanne Vickberg

THE SUMMARY IN BRIEF

Ever wonder what it is that makes two people click or clash? Or why some groups excel while others fumble? Or how you, as a leader, can make or break team potential? Based on extensive research and analytics, plus years of proven success in the field, *Business Chemistry* provides a simple yet powerful way to identify meaningful differences between people's working styles.

Who seeks possibilities and who seeks stability? Who values challenge and who values connection? Authors Kim Christfort and Suzanne Vickberg will help you grasp where others are coming from, appreciate the value they bring and determine what they need in order to excel. It offers practical ways to be more effective as an individual and as a leader.

Imagine you knew how to create a work environment where all types of people excel, even if they have conflicting perspectives, preferences and needs. Suppose you could activate the potential benefits of diversity in your organizations.

You don't have to leave it up to chance, and you shouldn't. Let *Business Chemistry* guide you in creating great chemistry.

IN THIS SUMMARY, YOU WILL LEARN:

- The meaning of Business Chemistry and the strategies that support it.
- The four Business Chemistry types and how to help them thrive in the workplace.
- Tips for working with both similar and opposite types.
- To use Business Chemistry to develop both individuals and teams.

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THE COMPLETE SUMMARY: **BUSINESS CHEMISTRY**

by Kim Christfort and Suzanne Vickberg

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The Power of Chemistry

Chemistry. A powerful word used to represent that magical *something* that can exist between people — and not just the romantically inclined.

In most cases its presence is obvious but mysterious. It is hard to know exactly what's behind it. It's just there. Of course, chemistry is also a branch of science that explores what matter is made of and how those ingredients interact, combine and change.

Chemistry is a huge factor in business. Once you start looking, its presence or absence is noticeable everywhere. With that colleague you seek out when you want to riff on a new idea versus the one you avoid because he's so difficult to work with. With the client who will work with no one but you, versus the one you can't seem to click with. With the teams that achieve outsized success, versus those that churn and churn and never make progress.

We often consider the great chemistry in these situations to be something we either have or don't. But what if, instead, we viewed it as a discipline, one that explores the elements behind human interactions and how they might be brought together to minimize explosions and maximize positive outcomes? What if we took a scientific view of the art of business relationships?

Decades of studies have shown that empathy is integral to effective human connection, and recent research further demonstrates links between empathy and leadership performance, as well as commercial success at the organizational level.

Working style is essentially your personality manifest in a business setting. It's a composite of how you process information, make decisions, connect with people, and a multitude of other facets that reflect your unique perspective.

To cultivate empathy, you need to recognize differences for what they are — useful signals about an individual's perspective and the building blocks of powerful working relationships. But in order to fuel that magical chemistry of great business relationships, you need gem-grade empathy. That requires going beyond simply acknowledging differences and building understanding, to acting on that knowledge.

The mission of Business Chemistry is to provide a simple, practical way to identify meaningful differences between people's working styles; to grasp where others are coming from, appreciate the value they bring and determine what they need in order to excel; and finally, to offer ways to act upon that information in order to be more effective as individuals and as leaders.

Let's start by learning the four Business Chemistry types: Pioneers, Guardians, Drivers and Integrators.

Pioneers Value Possibilities and Spark Energy and Imagination

The essence of the Pioneer in one word is "possibilities." Pioneers love imagining what could be, and don't hesitate to reach beyond the status quo. Expressions like "What if…?", "Picture this…", "Yes, and…" and "Why not?" are music to a Pioneer's ears and often are lead-ins to lively brainstorms.

They have little regard for rigid structure and an almost allergic aversion to details. That agenda the

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Kylie O'Connor**, Graphic Designer; **A. Imus**, Contributing Editor

team put together so painstakingly? Don't expect the Pioneers to follow it. Their thinking can be non-linear and resists constraint. But give them a juicy, open-ended challenge and a whiteboard, and they'll be formidable idea generators.

Don't expect Pioneers to stick to any one task or activity for long. They tune out and are easily distracted.

Pioneers are very comfortable with risk and are likely confident that their inherent adaptability will carry them through, regardless of where they land. For a Pioneer, it's more important to expand upon what could be than to analyze why it can't be, because for Pioneers there is rarely such a thing as a dead end.

The Problems With Pioneers

All that energy and passion can be great, but it can come across as frenetic chaos. A Pioneer jumping from topic to topic, often without warning, can be perceived as scattered, erratic and unfocused.

Pioneers tend to be really comfortable taking risks — not because they've calculated probable outcomes and impacts and are consciously accepting those as costs of action, but simply because *it feels like a good idea*. This confidence in their own intuition as the basis for risk-taking can make Pioneers appear reckless.

Ultimately, even the best idea is only as good as its execution, and here's where Pioneers get the most criticism. Their strong dislike of rules, process and pragmatic realities sometimes makes them come across as impractical and unable to get things done.

The Promise of Pioneers

In spite of the fact that people report Pioneers are the most challenging type to work with, there is an almost universal appreciation for their value on a team.

Pioneers often provide the spark that ignites others' creativity. Their out-of-the-box thinking and "insanely creative ideas," as one executive aptly described it, catalyze innovation for teams and organizations. When a team is backed against a wall, Pioneers are the ones who see a window or suggest a ladder.

Pioneers' adaptability and flexibility are seen as a real asset in times of rapid change. Their boldness and ability to pivot make them effective on the front lines of disruption, rapidly formulating response options while the organization catches up in the trenches.

Not only willing but eager to step up into leadership roles, Pioneers are more common in the C-suite than any other type. They are often captivating individuals, social and networked.

Guardians Value Stability and Bring Order and Rigor

One word to represent what the Guardian values is "stability." A Guardian knows it's essential to forge a solid foundation before building anything skyward. And when it comes to how the Guardian does things, many aspects of their working style serve to establish and maintain such stability. They're methodical, careful, disciplined, meticulous and exacting.

Spontaneity? New environments? Ambiguity? A Guardian will likely say "no thanks," because spontaneity, newness and ambiguity all threaten stability. When they simply *must* embark on something new, Guardians seek to first understand as much as possible.

Guardians are most comfortable when the waters are calm and no big waves are rocking their boat. And they themselves often serve as anchors.

Guardians tend to be introverted and reserved, both socially and emotionally. You won't usually find a Guardian at the center of a large group of colleagues, and they don't need to be in charge. Instead, they often contribute in other, less out-front and obvious ways.

The Gripes About Guardians

Because of their reserved nature, others sometimes complain that Guardians are tough to get to know. Guardians are also viewed as sticklers for the rules. They tend to think rules are there for a reason, and it's certainly not to break them.

People also complain that Guardians are stuck in the status quo like tractors in a field of mud. As the pace of change quickens everywhere, some see Guardians as unable to free themselves and adapt, and wonder if they, perhaps, like being stuck in the mud.

The Gifts of Guardians

People value the Guardian's commitment to follow-through. They know they can count on a Guardian to do what they say they're going to do and to be accountable. People describe Guardians as dependable, responsible, persistent and loyal.

People also appreciate Guardians for keeping them out of trouble. Because they're less likely to embrace risk, Guardians will often insist that proper due diligence be conducted when other types might skip it. There's also something to be said for the Guardian's organizational skills and their attention to detail. Someone has to be paying attention to these things!

Let's say you're really good at coming up with outlandish ideas — no one is more creative than you! But if your success depends on making those ideas a reality, a Guardian can help. Guardians are known for their realism and practicality, which can be a great balance for creativity.

Drivers Value Challenge and Generate Momentum

Ask people the best thing about Drivers, and a clear theme emerges: They get stuff done. Even when it's difficult. Especially when it's difficult. Because if you had to capture the spirit of Drivers in a word, it would be "challenge."

Drivers love a challenge, and they love to challenge. They are focused and competitive. To get the results they want, Drivers will calculate the shortest possible path and stay on course despite whatever, or whoever, gets in their way. This directness infuses everything they do, from the way they make decisions to the way they interact with others. They like to get to the point.

Drivers are not the warmest and fuzziest of the types. They don't mince words and they don't sugarcoat. Expecting small talk? Drivers see it as a waste of time. No clear agenda? Come back when you have one. Vague ambitions? Intuitive conclusions? Emotional interpretations? Good luck with that.

Drivers are logical, technical and quantitative. They want data and structure. Try to engage them without these things, and they have no qualms voicing their displeasure.

There are two subtypes of Drivers: Commanders and Scientists. Commanders are the take-charge, more extroverted type. Scientists are the cerebral, more introverted type.

The Difficulties with Drivers

Drivers are impatient and don't particularly value social niceties. Add to that their single-minded focus and direct speaking style, and it's not surprising that Drivers often come across as blunt and abrasive.

Drivers are quite focused, but this can look like "tunnel vision" to those who view the world from a broader vantage point.

Drivers tend to want to be leaders and strive for advancement and achievement. They think second place is for losers. Drivers like to know how they measure up and how they can move on up.

The Deftness of Drivers

Drivers possess a unique combination of originality and pragmatism, which helps them to translate vague visions into actionable strategies. They'll make sure discussions are grounded in facts, without getting bogged down in too many details. And while their straight-shooter style might occasionally offend, it also gets the truth out quickly. Sometimes you need someone who can call out the elephants in the room — and volunteer to subdue them.

Drivers are particularly good at making tough choices. More than anything, Drivers are great at getting results. This is perhaps why they are the second most prevalent type in the C-suite (after Pioneers). As leaders they channel the energies of the rest of the team into productive progress toward goals.

Integrators Value Connection and Draw Teams Together

Connection — that's what it's all about for Integrators, and connector is the role they often play on a team. Sometimes an Integrator is focused on creating connections between people and other times on connections between ideas. Either way, Integrators like working on teams more than toiling away in solitude. They're trusting and they forge deep relationships — beyond networking or teamwork — getting up close and personal to form real friendships with colleagues.

Integrators are great listeners and observers, too. They pay close attention to what's being said and can often sense even unspoken emotions and reactions. And then they take others' feelings into account. They consider it a worthy goal to reach consensus, getting everyone on the same page without leaving anyone out.

There are two subtypes of Integrators: Teamers and Dreamers. Teamers are more extroverted, and Dreamers more introverted. Teamers are outgoing, perhaps best defined by their relationships with others. They place a high value on traditions and loyalty in relationships — if you've got their back, they'll have yours.

Dreamers are typically defined more by what's happening in their head and their heart, which makes them a bit more elusive than the Teamer. Dreamers are reserved, particularly around new people, listening and observing more than talking. During that quiet time, Dreamers are processing what's happening in the moment and what it means, reviewing how things have happened in the

past (particularly what's gone wrong), considering what might happen in the future, and tracking how others in the room are feeling and reacting.

The Issues with Integrators

One of the most common criticisms of Integrators is that their diplomatic style makes it difficult to know where they stand — "Do you love my idea or hate it? I can't tell."

While Integrators are busy considering everyone else's feelings, they don't always get the same courtesy. Instead, they're accused of being overemotional and oversensitive. People complain they often have to worry about hurting an Integrator's feelings and that it's exhausting to have emotions in the mix at work.

One of the reasons for the Integrator's indirect style is their aversion to conflict, and some people see this as a real problem. People sometimes also see Integrators as being overly inclusive and taking too long to make decisions because they're trying to make sure everyone is on board.

The (Social) Intelligence of Integrators

If two people are standing on opposite banks of a river and need to accomplish something together, a bridge might be a good idea. Integrators often serve as that bridge. Their ability to see both sides of an issue, combined with their diplomatic skill, makes Integrators well suited to the roles of mediator, facilitator and peacemaker.

The Integrator's specialty is asking people for their input, opinions, thoughts, suggestions and reactions. The bottom line is, people feel understood when someone really listens, and they start to trust the listener.

Integrators have an uncanny knack for connecting ideas that others might not connect, and for recognizing context others might not see. Say your newly formed team needs to complete a complex project, but it's unclear who's in charge. An Integrator is likely to be the one to suggest that the solution might be found in how ants collaborate without a leader.

Pioneers in Hell: How to Stop Killing Their Potential

Let's discuss how to create an environment where each of the four Business Chemistry types can excel.

To meet the needs of Pioneers,

- Allow time for free-flowing discussion and idea generation.
- Brainstorm and whiteboard on the spot.
- Keep an open mind. Even if you can't say yes, try to avoid saying no.
- Provide options for where, when and how to work.
- Position them to do what they love, and explain how more mundane tasks enable them to do so.

If you are a Pioneer, here are a few suggestions regarding how you might flex to fit just a bit better into an environment where people might not seem to acknowledge the full extent of your creative genius:

Stick with it. While Pioneers are often thought of as visionaries, people sometimes complain that they struggle to stick with an idea long enough to make it a reality. If you're a Pioneer, try breaking your idea into smaller execution chunks, and celebrate the achievement of each one (Pioneers love a good party) before launching into the next "new" phase.

Make the new seem old. Your love of novelty isn't equally shared by everyone. Indeed, some people are quite suspicious of ideas that seem totally new or foreign. Instead, they're more comfortable with what's familiar. To reach these people, emphasize what's not new. This will likely feel counterintuitive to you, but it can get people comfortable with your idea more quickly.

Take a breather. A common complaint about Pioneers is that their high-energy, put-it-all-out-there, talk-to-think style can be overwhelming and can crowd out other voices. Pioneers often aren't even aware of their verbal steamrolling, so simply making a conscious effort to let others get a word in edgewise can help.

Guardians in Hell: How to Stop Killing Their Potential

To meet the needs of Guardians,

- Provide pre-work, data and information in advance of a discussion or decision.
- When a change is required, acknowledge the potential domino effect on the details Guardians care about, and explain why the change is needed.
- Provide clear expectations, including what success looks like.
- Offer workspaces that provide permission to be alone, control over the environment, sensory balance and psychological safety.
- Acknowledge the value of the Guardians' work, which often involves more invisible tasks that keep the trains running on time.

- Pipe down and listen up so Guardians have a chance to process and don't need to fight to enter the discussion.
- Ask Guardians to help solve any potential problems they identify.

If you're a Guardian, you don't have to sit around waiting for someone to fix the situation for you — there is plenty you can do yourself:

Dip a toe in. Some people will assume that if you don't share your thoughts, you have no thoughts. They'll judge you as disengaged, not leadership material or even as being not too bright. If you're not yet ready to share an opinion, you can still contribute to the conversation by asking a question.

Be a positive force. Guardians are great at spotting mistakes, identifying the cracks that make an idea impractical, and foreseeing what might go wrong with a plan. This is a valuable role to play, but people won't always love you for it, because it feels like a downer. Try strategic optimism on for size. This practice involves envisioning the best possible outcome and then planning up a storm to make that happen. Both involve planning — the Guardian's specialty — but the tone is quite different and is likely to impact those around you differently.

Open up just a little. While everyone has a right to privacy, keeping to yourself can make others feel like you're not interested in them. Plus, it reinforces the stereotype that Guardians are boring. If people never have a chance to learn the interesting things about you, what other conclusions can they draw?

Drivers in Hell: How to Stop Killing Their Potential

To meet the needs of Drivers,

- Time-box socializing time, make it optional or explain why it's valuable.
- Explain what you and others want and why you want it. (Drivers may miss subtleties.)
- Provide ways for Drivers to measure their success.
- Offer practical workspaces where Drivers won't be disturbed more than necessary.
- Don't overreact to the Driver's brusque style.
- Be clear, concise and confident.

If you are a Driver, maybe you feel frustrated about some of the ways in which your work environment or the people on your team seem to be interfering with your progress. Here are some things you can do about it:

Be nice. If you work with people who aren't Drivers (and who doesn't?), a little bit of nice can go a long way toward getting what you need from them. It's not that you should avoid telling the truth. Rather, spend a moment thinking about how what you're about to say might make someone else feel, and whether there's a way to say it that would make it easier for that person to receive.

Get a second opinion. If you're baffled by how people respond to you, it might be a good idea to ask someone for help. One CIO worked with an executive coach after receiving poor reviews from his team. The coach asked the CIO to re-enact a typical interaction on film. When he watched himself, the CIO was shocked. "I'm making such an angry face," he said, "I had no idea." The coach also pointed out that the specific words he used made him sound accusatory and judgmental. They practiced communicating the same message substituting different words.

Get a sidekick. Just look at the leadership ranks of many Fortune 500 companies to see examples of leaders of all types teaming with others who complement their skills. For Drivers this can be particularly powerful — not only because they can rely on that individual to round out their edges and fill in their gaps but also because that person is optimally placed to provide the second opinion.

Integrators in Hell: How to Stop Killing Their Potential

To meet the needs of Integrators,

- Support Integrators in their desire to help others, and reward them for doing so.
- Provide opportunities to work in teams.
- Help Integrators see the meaning in their work.
- Spend time connecting.
- Use technology to make virtual teams and meetings more personal.
- Enable them to socialize issues and gather info from stakeholders.
- Be nice and say thank you.

If you're an Integrator who works on a team or with a leader who understands and can provide what you need to thrive, then you are very lucky, indeed! If you're an Integrator who's not so lucky, there are things you can do yourself to make things a better fit:

Accept trade-offs. While it's great to have everyone on board with a project or decision, getting there is both time-consuming and labor-intensive, and it's not necessary in every case. So take some time to determine whether a particular project or decision requires everyone's buy-in, or whether speed is more important, because it's difficult to attain both.

Make a decision already (and stick to it!). Research shows that second-guessing decisions — looking too hard for the very best option rather than a good-enough option — leads people to feel less committed to that decision and less satisfied with it. So, Integrators, go ahead and do what you do before making a decision (gather input, consider the people implications and so on), but once you've made a decision, popular or not, try to stick with it.

Toughen up. Integrators are the most likely type to sense others' emotions and to be concerned about how they make others feel. Remember that others aren't always as naturally attuned to people's feelings as you are. Try to put their behavior in context. Is it likely that they're purposely trying to offend you? Or is it more likely that their focus is simply elsewhere?

Creating Powerful Relationships with Colleagues, Customers and Everyone Else

Let's address how your type impacts the ways in which you should flex to best work with others.

Flex is a funny word, because it can mean seemingly contradictory things — to bend and stretch but also to tighten and contract. The concept here is that sometimes you need to tweak your style to adjust to other people's needs, while also being true to yourself.

When it comes to one-on-one relationships, how you go about flexing, and how challenging it's likely to be, depends on your type and that of the other person.

When You've Got Too Much in Common

You may think that when you're working with someone who's the same type as you, you're on easy street. But like-type pairs can quickly find themselves in trouble.

If you find yourself in a situation with someone of your same type, your goal is to flex but not to get closer to the other person's style. Instead, you want to get a little bit further away.

If you're a Pioneer working with another Pioneer, try to bring things back down to earth. After you've enjoyed some time brainstorming cool ideas, focus on developing actionable next steps so the path forward becomes clear.

If you're a Driver working with another Driver, while debating an issue, avoid tunnel vision by bringing up context or the human implications to get a broader view. Otherwise you may end up driving a bus together with no one else on board.

If you're an Integrator working with another Integrator, temper your shared desire to explore all alternatives, and settle on a direction. If there's an elephant in the room, address it, even if it's uncomfortable.

If you're a Guardian working with another Guardian, challenge yourself to ask whether the current way of doing things is really the best way to reach your goal. Avoid fixating on unknowns, and instead focus on what is necessary to move ahead.

When You Need to Flex Just a Little

What about the types with whom you share some traits despite your differences? Here are some tips for how to flex.

If you're a Pioneer working with a Driver, go ahead and bring your out-of-the-box ideas; Drivers like to explore, too. And feel free to spar a little; you're both likely to thrive on it. But don't lose sight of logic or practicality. Pie-in-the-sky isn't going to work here, and ill-considered risks will likely not be embraced.

If you're a Guardian working with an Integrator, the Integrator shares your distaste for confrontation, so make sure any issues that need to be discussed are surfaced and not ignored. Be patient with discussions that may seem tangential; an Integrator's way of thinking through an issue may be more roundabout than yours.

If you're a Driver working with a Guardian, you may need to access your reserve tank of patience. Like you, Guardians thrive on facts and data, but they're likely to need more of both than you are, and they'll probably take longer in considering them. Be prepared to continue reviewing the details even if you've already reached a conclusion yourself, and don't attempt to take shortcuts.

If you're an Integrator working with a Pioneer, you both value working closely with others. You may also enjoy thinking big together, but don't forget to address critical details, something neither of you is likely to do naturally.

You might need to pick up the pace, as Pioneers like to move quickly and they may feel impatient with your tendency to consider things more thoroughly.

Putting Business Chemistry to Work on Your Teams

You now have a variety of options for flexing to individuals of different types. That will take you a long way, but what if you're dealing with multiple people at the same time? How do you go from focusing on the needs of one to addressing the needs of two, three or maybe even four types at once?

How to make a team effective usually involves asking a series of questions to help leaders take a step back and consider the issue in a different way.

1. What kind of environment do you have today? Ask yourself, "Does our team's culture or way of working enable all types to thrive?" This is important because you can add all the diversity you want to a team, but if it's set up to work in a way that's more accommodating to some types than others, you're likely to get inconsistent performance.

Here are some questions you and your team members might ask yourselves:

- Do you typically dictate all aspects of a project? Or do you define what needs to happen and then set team members free to determine how they accomplish it? Pioneers, in particular, crave more freedom and autonomy, and your approach here is likely to impact them most.
- Are roles and expectations crystal clear? These answers may be particularly relevant for Guardians, who perform best when they have clarity.
- Are those expectations also set high? Drivers sometimes feel held back by what they see as the subpar performance of others.
- Is your door open? *Really* open? Integrators thrive when they can forge real connections with people.

2. What's your team's goal? Depending on what a team is trying to accomplish, certain types might add extra value. Need meticulous, high-quality work? A few extra Guardians might be a good idea. Looking for lots of big ideas? More Pioneers might be important. Need to navigate some tricky political waters? Maybe an Integrator-heavy team is what you'll want. Have a big goal to reach in a very tight time frame? You might benefit from including more Drivers.

Yet, it's important to recognize the complexity involved in reaching most any goal, which means it would rarely be ideal to have a team heavily dominated by just one type.

3. Who are your primary stakeholders, and what's their perspective? Sometimes it's easiest to work with those who are just like you. In those cases you get each other, and things feel good because they go smoothly. For this reason, a like-type team or individual may be effective when working with an important stakeholder.

Other times what stakeholders most need is a perspective that's different from their own. Your team's client might be a big-picture thinker who needs help sorting through the details of an implementation plan. Or they might prefer to avoid conflict and want some support in making the right decision, even when it's unpopular with others. In these cases, a different-type team or individual may bring more value, but only if you can offer a different perspective in a way that's palatable to the stakeholder.

4. What's the current composition of your team? There are many factors to simultaneously consider when choosing team members — like their knowledge, skills and experience; who's available when; what the budget is; the balance of gender and other types of diversity; and a multitude of other complicating factors. So even if you wanted to select your team based on their Business Chemistry types, in most cases it would be a real challenge to do so.

Instead, carefully assess your team's composition in the context of the issues just explored above, and then actively manage it by making adjustments to how your team works.

Whether your goal is to turn difficult relationships around; to manage your boss or your reports more effectively; to influence and connect with clients, customers and stakeholders; or to tap into the unique strengths of different people, Business Chemistry can get you there.

Like a hidden pattern revealed, once you've become aware of Business Chemistry, you'll see it everywhere.

And therein lies the magic.

MORE SV CONTENT ON MANAGEMENT

Summary: *Flex* by Jane Hyun, Audrey Lee. The authors present lessons on "flexing," which is the art of switching leadership styles to more effectively lead people who are different from you. *Flex* offers a proactive strategy for managers to navigate and leverage diversity effectively.

Webinar: *How to Lead Yourself, Your People and Your Organization for Extraordinary Results* by Jacqueline Carter. In this *Soundview Live* webinar, Jacqueline Carter offers a radical yet practical solution: To solve the leadership crisis, organizations need to put people at the center of their strategy. They need to develop managers and executives who lead with three core mental qualities: mindfulness, selflessness and compassion.

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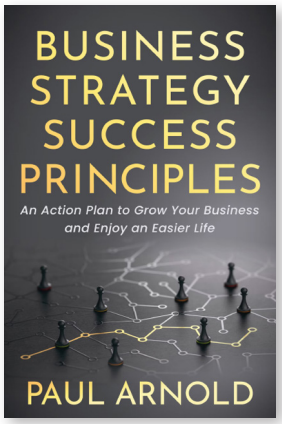
Business Strategy Success Principles

Paul Arnold

soundview
Executive Book Summaries®

Business Strategy Success Principles

An Action Plan to Grow Your Business and Enjoy an Easier Life



by **Paul Arnold**

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THE SUMMARY IN BRIEF

After reading this book, business owners will understand how to plan, improve and grow a successful business faster by focusing on what's important, and entrepreneurs will learn how to improve their business strategy. By working smarter and not harder, motivated individuals can increase their business revenue and free up their time to enjoy an easier life.

Successful networking business owner, Paul Arnold, wrote ***Business Strategy Success Principles: An Action Plan to Grow Your Business and Enjoy an Easier Life*** to teach entrepreneurs and small business owners how to operate focused, strategic, and efficient businesses by applying 20 essential principles. The first four parts of this guide include fundamental strategies for new or experienced business owners, while the last three parts are intended for established business owners looking to implement new strategies in order to take their businesses to a new level of success.

IN THIS SUMMARY, YOU WILL LEARN:

- How to plan, improve, and grow a successful business faster.
- How to improve your business strategy.
- How to work smarter and not harder.
- How to increase business revenue and free up time to enjoy an easier life.
- How to operate focused, strategic, and efficient businesses.

Introduction

Launching a new business and finding success can be a difficult task. As entrepreneurs, we often reach a point where we feel stuck. Our business becomes stagnant; we lose motivation and cannot grow our business as fast as we would like. This guide will help you understand how to grow your business faster by focusing on what is important. You will learn how to improve your business strategy to become unstoppable. By working smarter and not harder, you are able to grow your business revenue and free up time to enjoy an easier life.

Part 1: Your Plan

Should I? Do You Have A Solid Business?

The first step to improving your business is to understand why businesses fail and don't fall into one of these five traps:

1. No need in the market
2. Not enough capital
3. Not the right team
4. Competition
5. Price

Understanding the top reasons businesses fail can help you learn valuable lessons to position you and your business for a greater likelihood of success.

Why Do This? Plan Your Destination

Your mission statement defines your business, your business goals, and strategies to achieve objectives. You want to define what the ultimate goal is that you want to achieve.

Your vision statement describes the desired future position of your company. Your vision is the ultimate goal of what your business will accomplish. It can be combined with a mission to state the business purpose, goals, and values.

Your business plan helps you stay focused in accordance with your mission. At least once a year, revisit your business plan and determine if your business has changed or if it is time to change and adapt to the market.

Who? Know Who You Want

The first step for your value-adding business is to create or update your business plan. You need to examine and understand your ideal client. Create a picture of the person most likely to purchase your product or service. The business plan is an exercise to clearly define your product and your target market. You want to define where you will market your product or service. The more specific you can be in identifying your target market, the more successful you will be.

What If? Know Your Business

What makes you different? What makes your business different? SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. If you can invest a lot of time and thought into a SWOT analysis before you market and grow your business, it will save you a lot of grief later.

Be Smart And Scale Plan Your Business

You need to scale your business by examining where you are today and understanding where you want to get to. Start by focusing on small, measurable goals. Make sure your goals are SMART. SMART stands for Specific, Measurable, Achievable, Relevant, and Time-specific. If you are not ready to scale your business, then wait longer until you can fulfill your orders. While it is important to take advantage of opportunity, your brand and reputation will suffer if you are not positioned for success and don't scale properly.

How Much? Know Your Numbers

Once you know where you are at now, then you need to know where you want to be next in one, five, ten, and twenty years. Forecasting your business revenue is important so that you can develop your operational and staffing plans to help make your business a success. Including your budget and projections in your business plan will help you avoid expenses in the future. Incorporating aggressive projections can be inspiring as you see what that would do for the bottom line of your company.

Part 2: Your Brand

Who Are You? Your Brand Is Everything

One of the most important factors of marketing your business is the K-L-T factor of your product or service. Is your product or service something that your customers can know, like, and trust? If you cannot achieve all of these three fundamental pillars, you will have difficulty marketing your product or service. It is critical that your product or service brand is tuned into the important frequency of WII-FM: What's In It For Me! If nothing ben-

efits me directly, I am not likely to spend my hard-earned money to purchase your product or service.

Where Are You Online? Improve Your Brand

Brand is everything. Revisit your marketing material, logo, and brand to see if it can be improved. Your brand should be unique and reflect the quality and strength of your business to your potential customers and clients. People cannot buy a product or service if they don't know about it. Review your SEO, i.e., search engine optimization. You want to improve the search results that direct traffic to your website. You may also consider creating a click funnel to create familiarity with your brand. Make your brand relevant and current. Check your social media presence for consistency and professionalism.

Part 3: Your Purpose

Your Why What Is Your Purpose?

Your current and future state of being is manifested in your head and will be determined by your thoughts, feelings, and desires for your future life. Your mindset is critical to determine your success in life. By seeking your passions, you tell the universe to attract them into your life. If you fall off the rails from your desired goal, change the direction of your life to get yourself back on track.

Your Vision Creating Your Vision Board For Your Personal "Why"

A vision board is a collection of images and words that inspire you; it is a tangible inspiration for where you are going. Illustrate your goals and dreams as a visual picture. It includes statements with the images as valuable affirmations of your goal. Your objective is to manifest a tangible representation of where you are going in life.

Part 4: Your Communication

Know Your Customer Strategic Sales

We can break the general population into four main distinct personality types. By understanding the four personality types, you can use the appropriate marketing strategy and communication to appeal to these individuals. By including elements that attract all four personality types, you increase your sales opportunities.

What Do You Do And Why Should I Care? Build Relationships

As a sole entrepreneur starting to market your own business, you should be able to demonstrate your value proposition in a short and concise manner. At this point, you should have the information you need to create your one-minute presentation (OMP.). You not only want to communicate the essence of your business in solving a problem but you also need to build rapport and trust with your ideal prospective client by using some specific relationship-building techniques.

Part 5: Your People

Dream Team Build Your Team

One of the greatest challenges successful business owners face is time management. Once your business takes off, it becomes more difficult to manage all the sales, admin, marketing, and accounting. By building the right team, you can delegate tasks to people better at doing certain things then you are who also provide great ideas to improve your business.

Right Surroundings Improve Your Network

You are like the five people you spend the most time with. If you want to improve your business and make more money, why not hang out with people who are already achieving that? Try to find a business coach or accountability partner. Find a millionaire mentor who has already achieved success in their business and is living a comfortable life. Choose your mentors wisely; evaluate the alignment of their skills with what you need to improve on to achieve greater success in your business.

Part 6: Your Pivot

Change Direction Six Steps To Pivot And Remain Profitable

What I would like to share with you next is how most successful Fortune 500 companies successfully deal with change and evolution—the six steps they use to stay profitable and maneuver in a new direction while minimizing risk:

1. Plan the framework for execution
2. Outreach and collaboration with key players
3. Key elements and strategy matrix

4. Current and future states and risk
5. Monitor and take action
6. Evaluate, assess, and explore

Part 7: Your Strategy

Get Rich Make More Money

Focus on that which is generating the most revenue for your business. On the flip side, stop wasting time on activities not generating revenue where you feel you are spinning your wheels. Take time to identify the three most important revenue-generating activities for your business and focus exclusively on them. By thinking outside the box, you will differentiate yourself from your competition and have unlimited success opportunities. By identifying your niche target market and ideal client, you can focus your sales and marketing activities for your perfect client.

Take It To The Next Level Raise The Bar

If you can acquire larger customers, you can work smarter, not harder. Once you have identified the big fish, who will change your life and your business, you can develop a specific marketing strategy geared toward this potential client. The more specific you can be with your target market, the better. If you can do business with a high-quality business owner, it opens the door to more opportunity. Improve your network to create the dream business you desire in life.

Zen Business Keep It Simple

It is now time to apply decluttering to your business. Look at all the projects and organizations you are involved with and reevaluate the effectiveness they are having in your business.

Pick the three most profitable marketing and sales strategies you have in your business and focus on them.Start focusing your business on either those clients who are profitable to you or those clients who you want to spend your valuable time with. Spend your time with those who are going to help your mindset and your business become better.

Agree To Succeed Say "Yes" To Opportunity

Try something that feels uncomfortable to grow. The things you are uncomfortable with are the things that will take you and your business to the next level. Trust your gut. If it is something that you feel may open a new door, make a new connection, or create a new opportunity, then why not say "yes."

Live The Dream Have Fun

Do the work that you enjoy. Activities you don't like to do may be fun and enjoyable for someone else. We need to be honest with ourselves and understand our strengths and weaknesses. You want to do that which you are good at and assign the other tasks to someone else, such as a virtual assistant. If you can get to where you are having fun in your dream business, then you are at the ideal place.

Conclusion

It is now time to work more on your inspiration by protecting your mental health. So, listen up, Superstar, you can do this! Get your business unstuck and launch it for success! This higher level of vibration is where you can think and believe; be the successful entrepreneur you are destined to become! Own your truth and live your dream!



Paul Arnold has worked for over thirteen years in retail sales in a financial services role. In addition to advocating for small businesses, Arnold owns Business Club, which supports small business owners with mindset, and runs online educational and networking events including Adapt and Overcome Innovation & Change Strategy Summit. As a certified financial planner, business analyst and scrum master, Paul Arnold's passion for small business entrepreneurship and mindset motivated Paul to write his first book Business Strategy Success Principles.

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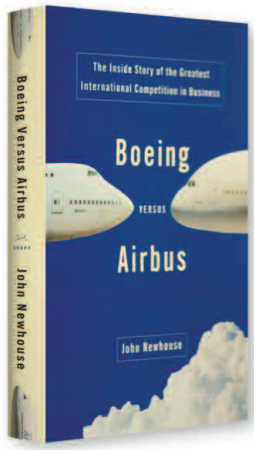
Titans of the Sky

The World's Two Largest Airplane Manufacturers Battle for Market Dominance

Review by Stephen Wolter

There probably aren't many journalists who understand the aircraft manufacturing industry better than John Newhouse does. Twenty-five years ago his book *The Sporty Game* examined the high-stakes business environment that exists in the manufacturing and selling of large commercial aircraft, commonly referred to as LCAs. A quarter of a century later, that book is considered a classic about the airplane business.

Now, in *Boeing Versus Airbus*, Newhouse focuses on the intense competition between the world's two largest manufacturers of passenger airplanes. He says the business of selling LCAs is an unsteady one at best and that predicting long-term winners in the industry is difficult, especially when fortunes seemingly change overnight.



BOEING VERSUS AIRBUS
by John Newhouse
Published by Knopf, Copyright © 2007, 254 pages, $26.95, ISBN 1-4000-4336-0

The Big Two Emerge

In the prologue and first two chapters of *Boeing Versus Airbus*, Newhouse provides a brief history of how the LCA industry evolved over the last three decades, leading to the current situation in which just two manufacturers compete with each other.

During the 1970s and early 1980s, the business of commercial airplane manufacturing was divided among four companies, three of which were located in the United States: the Boeing Co., Lockheed Aircraft Corp. and McDonnell Douglas Corp. Of these three established companies, Boeing reigned as the market-share champion.

At the same time, on the other side of the Atlantic Ocean, a much smaller and relative newcomer to the industry was starting to make its mark. European-owned Airbus Industrie entered the airplane sweepstakes with the A300, while Lockheed and McDonnell Douglas were instead developing a pair of ill-conceived and almost identical wide-body airplanes. But when airlines showed a preference for the A300, Airbus could no longer be ignored by the big boys. After more than 35 years of successful production, Airbus announced in March 2006 that it would gradually phase out the A300 (as well as the A310) final assembly in response to market demand for its newer aircraft.

Airbus' Curious Makeup

To understand Airbus is to understand its unusual corporate makeup. Airbus is owned by a publicly traded corporation known as EADS — the European Aeronautic Defense and Space Co. Newhouse isn't shy about calling EADS a "curious and badly flawed structure." Curious indeed.

Initially, Airbus began as a consortium of four European national aircraft corporations, with representation from Britain, France, Germany and Spain. In 2000, three of the four partners joined in a united commercial enterprise and became part of EADS, which was based in Paris.

Today, about 22 percent of EADS is owned by DaimlerChrysler. The Spanish and French governments also own a part of EADS. British Aerospace — now BAE Systems — is not part of EADS, but it owns 20 percent of Airbus.

It gets even more complicated — or flawed — considering that although EADS owns Airbus, nearly 80 percent of EADS's revenue comes from this one subsidiary. And while EADS has two co-chairmen, one French and one German, their oversight of Airbus is minimal. Newhouse describes disgruntled Airbus staffers who wonder why EADS is even necessary to the aircraft manufacturer, as Airbus acts mostly as an independent company.

At the start of the 1990s, Airbus held only 15 percent of

the market, compared to Boeing's whopping 62 percent. But the '90s were a decade of change, and by century's end, it was Airbus who would be the new industry leader. McDonnell Douglas and Lockheed were no longer players, and Boeing, through a number of management changes that affected its corporate culture, made a series of mistakes that cost the company its spot as the world's top commercial airplane manufacturer.

But Airbus' reign as No. 1 was short-lived. Almost as quickly as it made it to the top of the hill, the company faltered, and just within the last two years, Boeing has repositioned itself as the industry's primary force. Newhouse predicts that for now, Airbus will not be able to compete with Boeing unless the European manufacturer sheds the unwieldy managerial structure that currently intertwines it with EADS.

Rivalry Stories

After the initial two chapters, it becomes apparent that the book's structure lacks a single narrative arc. Instead, each individual chapter resembles a self-contained story that addresses a particular aspect of the Boeing/Airbus rivalry. Newhouse even abandons a linear chronology, choosing instead to shift between the present and the past, depending on the topic at hand. Some readers may find this method of storytelling too jarring for their tastes, but anyone with more than a passing interest in the aviation industry should not be dissuaded by Newhouse's decision to forsake a straight chronological history. His book sheds a great deal of light on an industry that is complex, risky and gigantic in its economic impact.

"Airbus' reign as No. 1 was short-lived. Almost as quickly as it made it to the top of the hill, the company faltered, and just within the last two years, Boeing has repositioned itself as the industry's primary force."

The first rivalry Newhouse describes concerns the back-and-forth argument the two companies have engaged in over the issue of government subsidies — an argument that has waxed and waned for more than 15 years. Both Presidents George H.W. Bush and Bill Clinton took up the issue of subsidies on Boeing's behalf in the early 1990s. Boeing, along with the then-still-solvent McDonnell Douglas, claimed that Airbus operated with an unfair advantage that came in the guise of hefty European government subsidies.

In 1992, a deal between the United States and the European Union was reached that limited Airbus' government aid to no more than 33 percent of the development costs of any new airplane. Boeing's leadership, according to Newhouse, wanted a lower percentage, but privately accepted the agreement as progress toward a level playing field.

In 2004, however, Boeing decided to make subsidies an issue again. Picking a fight over subsidies at this particular time puzzled many within Boeing's management. Newhouse describes several theories as to why Boeing would want to revisit an issue that had seemingly been laid to rest more than a decade before. One theory is that by having to defend its subsidies, Airbus' attention would be diverted from development efforts of a plane that could compete with Boeing's new 787, due for release in 2008.

Another theory is that Boeing believed Airbus would be severely weakened if government subsidies were reduced, something Airbus could ill afford as it was heavily involved with its own major development project, that of the new A380 Superjumbo, soon to be the world's largest passenger airplane.

But Henri Courpron, who at the time was president and CEO of Airbus North America, believed that Boeing's intent had nothing to do with positioning for industry dominance, or with trying to gain an advantage in the head-to-head airplane development projects the two companies were concurrently engaged in. Rather, he saw Boeing's move to challenge Airbus' subsidies as politics, pure and simple. Courpron believed Boeing was attempting to win political sympathy as it steadily lost market share to Airbus.

Whatever the reasons, Newhouse views Boeing's attempts to cut Airbus' subsidies as a mistake on the part of Boeing CEO Harry Stonecipher. For one thing, opening a debate on Airbus subsidies encouraged Airbus to make counterclaims that Boeing often benefited from technology developed by NASA. While not packaged in the form of a direct government handout, the technology was nevertheless a benefit.

As the debate over subsidies continued, a weariness seemed to settle in on both companies. By the time Newhouse's book went to press, subsidies had become an issue between government bodies, with no resolution in sight, or as Newhouse puts it, "not much was happening other than talks about talks." One Airbus executive privately told Newhouse he hoped that some sort of deal could be made between the two companies, so that they could just get on with the business of making airplanes.

Building the Planes

The two companies manufacture products that are physically enormous and technologically complex. Newhouse provides details and histories about the numerous planes Boeing and Airbus have built over the years, but thankfully his technical descriptions of individual planes are never

such as to be incomprehensible to the layperson. Instead, he focuses on the economic significance each plane has on its respective company, and what market niche the plane is intended to fill.

In the early 21st century, the two planes that consumed the bulk of development were the Boeing 787 and the Airbus A380. It is the A380 that has perhaps caused the most controversy in the industry within the last decade — not because Airbus has created an inferior plane, but because it may have overestimated the market demand for a plane that will carry 550 passengers.

The VLA Market

The idea of building a new, very large airplane, or VLA as they are known, was discussed in the early 1990s by both companies. Airbus, having established a strong position in the single-aisle market, now considered moving into VLA territory. The company was under the impression that Boeing was making its greatest profit from the jumbo 747, Boeing's crown jewel for almost 40 years. But Newhouse writes that Airbus was wrong, and that in fact the 767-300, a midsize plane, was Boeing's most profitable aircraft. Nevertheless, plans to develop a new superjumbo plane at Airbus advanced, and as it did, doubts among the industry's major players grew about whether or not the airlines really needed or wanted this plane.

Meanwhile, Boeing devoted its energy to the new 787, nicknamed the Dreamliner. Rather than trying to improve on its own VLA — the durable 747 — Boeing developed the 787, a midsize plane intended to fly long distances, but one that will avoid landing in hub airports. It is clear that Newhouse believes Boeing's investment may turn out to be the big winner.

The Airbus A380 will be able to carry twice as many passengers as the 787 — more than any plane in history — but it is designed to land at hub airports, where most passengers will be forced to change planes. Newhouse believes the industry may be ready for a new type of air travel, with ticket buyers welcoming the promise of fewer hassles — such as missed connecting flights and lost luggage—that the 787 will bring.

Still, Newhouse reminds the reader that longtime industry watchers remember when the same criticisms currently aimed at the A380 — lengthy turnaround times, time-consuming loading procedures, lack of airports that can handle such a large plane — were also directed at the 747 before it took to the skies. Yet the 747 changed modern air travel, according to Newhouse, in part by making it available to more people and helping to lower ticket prices.

The A380, which recently made its first flight to the United States, has nevertheless caused Airbus a great deal of worry. Last summer, the company announced a six- to seven-month delay in the delivery schedule for the plane, the second delay in as many years. Airbus has had to pay tens of millions of dollars in penalties for these delays, but it still contends that the market will support its new superjumbo.

Leadership Ups and Downs

Although Newhouse does not identify a dominant figure for either company — no Jack Welch, Lee Iacocca or Bill Gates — he devotes a lot of ink to creating portraits of the leaders of the two airplane manufacturers and showing how they affect their corporate cultures. Throughout the respective histories of Boeing and Airbus, Newhouse finds the mindsets at both companies swinging back and forth like a pendulum: both Boeing and Airbus alternate between aggressiveness and complacency, caution and arrogance.

Much of one chapter is devoted to the tale of how Boeing absorbed its former rival McDonnell Douglas in 1997, when Boeing was reeling from production problems. As Newhouse writes, Boeing lost money in 1997 even though it was a peak year for its airplane sales and as it was winning the battle for market share with Airbus.

At Boeing's helm during this time were CEO Philip Condit and President Ron Woodard, both of whom assumed their leadership roles in the 1990s. Although these two executives may have been as competent as any senior managers in Boeing's history, according to Newhouse, both caused the company the most damage, in part through the decision to pursue a merger with McDonnell Douglas.

That merger was viewed as a disaster by many within Boeing's commercial division who feared an unhealthy influence from the new acquisition. And sure enough, Boeing people were alienated almost immediately after the deal was completed, thanks to Harry Stonecipher, the McDonnell Douglas CEO during the merger (and later, the Boeing CEO who renewed the subsidies battle with Airbus). McDonnell Douglas had manufactured the underwhelming DC-10 wide-body, among other commercial products, but was mainly known for its work on military aircraft.

According to Newhouse, in his new role as a Boeing executive, Stonecipher was viewed

"Throughout the respective histories of Boeing and Airbus, Newhouse finds the mindsets at both companies swinging back and forth like a pendulum: both Boeing and Airbus alternate between aggressiveness and complacency, caution and arrogance."

by longtime Boeing employees as someone "who made no distinction between Coca-Cola or soap and Boeing's bread-and-butter product." That bread-and-butter product, of course, was the commercial jet airliner, but Stonecipher, blunt and impatient, tried to change the corporation's culture by shifting the company toward military aircraft production.

The whole story of the merger and its resulting revolving-door leadership makes up the portion of the book that most resembles a corporate soap opera. Stonecipher, who retired in 2002, was brought back 15 months later as CEO to guide the company after Condit was fired. But in early 2005, Stonecipher himself was forced out because of an "improper relationship" with a Boeing female executive. Although Newhouse puts Stonecipher in the category of a Jack Welch — in terms of management style — it appears his lasting notoriety will be limited to the airplane industry.

As for Airbus, its leaders assume more of a faceless role in Newhouse's narrative. Yes, there are key figures such as Jean Pierson, who retired as Airbus CEO in 1998 after 13 years of leading the company, and who remains legendary in the business. But for the most part, the Airbus executives take second billing to the company as a whole, with its strange corporate structure and the planes it manufactures. The A380, the plane that will determine so much of Airbus' future turns out to be a more dominant character in the story than most of the people.

What's most intriguing in Newhouse's description of the leadership at Boeing and Airbus is how each company's attitude ebbs and flows with its respective fortune. "Arrogance has changed camps now," Pierson tells Newhouse. The former Airbus CEO is referring to how his company took its newfound leadership in the early 21st century for granted. And Courpron echoes these sentiments when he says, "We failed to manage being No. 1."

Regarding the Boeing leadership of today, one anonymous executive working for a Boeing supplier tells Newhouse, "They don't know what they don't know. And there's no passion. They would be just as much at home with Procter & Gamble making soap."

No matter who's on top of this ever-changing, always-intense competition, it's almost certain that the leadership of these two companies will be second-guessed, criticized, despised and occasionally even praised. Both Boeing and Airbus are simply too enormous to escape from the strong opinions of the industry watchers. And with businesses as big as these two, *everyone* is watching.

The Continuing Competition

Newhouse's book is not without its flaws. As mentioned earlier, his decision to leap back and forth between the present and the past can be disconcerting. You may find yourself flipping to previously read pages in an effort to keep track of who's who at the two companies. And an early chapter devoted primarily to the airline industry (as opposed to airplane manufacturers), though interesting in itself, has much less to do with Boeing and Airbus than the rest of the book does. Still, there's no denying that Newhouse knows his stuff when it comes to the aircraft industry, and his book conveys a tone of authority throughout.

As for the continuing competition between the two rivals, Newhouse sees some potential dangers as Boeing increases its outsourcing of manufacturing to Asia. He wonders if Boeing can continue to fulfill responsibilities to its customers if it loses touch, over a period of years, with the methods and procedures that go into making an airplane.

As for Airbus, Newhouse believes its core problem goes beyond whether it will be able to compete with Boeing's 787, or whether the A380 will flop, and hinges on whether or not the company will be able to break free of its confusing corporate structure, with too many figures in authority in too many different places. If it can, Newhouse predicts Airbus will one day recover from its current downturn, proving a worthy opponent for Boeing. And this, Newhouse writes, will serve only to help airlines, engine makers, suppliers and passengers, all of whom benefit when these two companies are strong and competitive. ■

The author: John Newhouse is the author of eight previous books, including *Cold Dawn* and *Europe Adrift*. His most recent book, *Imperial America: The Bush Assault on the World Order*, was published in 2003. During the 1980s and early 1990s, he wrote about foreign policy for *The New Yorker*. Newhouse has served as assistant director of the U.S. Arms Control and Disarmament Agency, and later served as senior policy advisor for European Affairs in the U.S. State Department during the second half of the Clinton administration. Newhouse lives in Washington, D.C.

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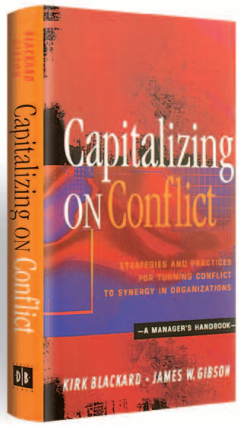
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Capitalizing On Conflict

Kirk Blackard and James W. Gibson

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FILE: HANDS-ON MANAGEMENT



Kirk Blackard and
James W. Gibson

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Strategies and Practices for Turning Conflict To Synergy in Organizations

CAPITALIZING ON CONFLICT

THE SUMMARY IN BRIEF

Are you looking to enhance your organization's creativity, improve decision-making, foster learning, and elevate the performance of your people and systems? In short, do you want to optimize performance? If you do, you must first find a way to create an environment that minimizes workplace conflict and integrates resolution strategies into management systems. Only by preventing or minimizing, bringing to the surface, and resolving conflict can you unleash the full power of the organization. This summary will show you how your company can create a comprehensive, organization-wide effort to resolve specific conflict events with proven strategies and practical tools.

What You'll Learn In This Summary

To manage conflict, you must:

✓ **Recognize** that conflict is inevitable, and that there are ways to minimize its impact.

✓ **Create and maintain a trusting environment** in which all the parties involved in a conflict have the information they need and believe conflict resolutions can be win-win solutions.

✓ **Avoid policy-driven conflict** by creating policies that are fair, necessary and understood by those who must follow them.

✓ **Hire and keep the right work force** by balancing your organization's needs with those of employees so that you have the right size work force that is full of the right people for the job.

✓ **Identify and surface conflict** so that it can be effectively dealt with.

✓ **Understand the difference between disagreements and conflicts** so that more problems can be resolved earlier and easier.

✓ **Develop an alternative dispute resolution system** that is right for your organization.

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Managing Conflict

Managing workplace conflict to optimize organizational performance is not easy. Conflict is ephemeral and dynamic, and ad hoc actions and imposed solutions won't do the job. They might settle the immediate dispute, but they won't do anything to minimize future conflict. Optimizing organizational performance requires more. Conflict is inevitable, and managers must plan for it.

Types of Conflict

There are two types of workplace conflict. They are:

● **Substantive or Cognitive Conflict:** This involves interpretation of company strategy, disagreements over the use of resources, and what policies should be implemented. Conflicts involving substantive issues can create productive synergy, producing a whole that is better than the sum of its parts as employees work together to solve problems or exploit opportunities they could not handle as individuals.

Unresolved substantive disagreement often escalates, leading to more conflict and organizational paralysis or warfare among factions that support differing approaches to doing business.

● **Personal Conflict:** Often called affective conflict, this form revolves around personal relationships. Typical conflicts arise from different belief systems, views on social issues, and personal concerns. Personal discord can have two sources. It can arise when functional strife is not resolved or is resolved in a way that is perceived as unfair. Personal discord can also arise from the personalities of the people in the organization. People are not the same, and their differences can cause conflict. Race, gender, religion, ethnic background as well as stress and other environmental factors can lead to conflict. In some cases, personal strife can erupt into personal warfare. For example, what started as a dispute over a pay increase escalates into a lawsuit for constructive discharge.

What Causes Counter-Productive Conflict?

To get to the heart of conflict, you must examine the entire system. For example, work assignment processes, pay policies, retirement programs, and grievance procedures are all subsystems of the larger system. Each has its own purpose. But each also affects other parts. Pay policies affect retirement income, and work assignment policies affect pay. Feedback loops appear; changes in one part of the system influence another and loop back to the original. This happens, for example, when management chooses to address high absenteeism by assigning more overtime. The increase in overtime can loop back to make absenteeism worse because employees are overworked or can afford to be absent. ■

What Is Workplace Conflict?

Workplace conflict is a dynamic process that reflects a difference or incompatibility among two or more parties. Examples include:

- ✓ **a supervisor and a worker's different perspectives on the worker's performance.**
- ✓ **a group of managers who have a heated argument about budget issues.**
- ✓ **a co-worker who believes another worker is harassing her.**
- ✓ **a union and an employer locked in a bitter labor dispute.**

Some conflict is productive and necessary. Properly managed, conflict can lead to constructive exchanges of ideas, improved decision-making, and personal growth. But conflict's darker side can lead to low morale, reduced productivity, excessive turnover, and legal costs.

For more theories on the causes of conflict, go to: http://my.summary.com

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Three Causes of Conflict

The proximate cause is the direct cause of an event. It is the most likely immediate explanation of a conflict. It usually appears among the people involved and is the obvious trigger. It may, however, be a manifestation of a more basic problem elsewhere in the organization. For example, if two managers refuse to communicate or cooperate in any meaningful way, the proximate cause might be that they don't like each other and have a personality conflict.

Contributing causes are factors or conditions that surround or contribute to a conflict. Contributing causes can be conditions that set the climate in the organization or intermediate causes in a sequence of events from the root cause to the proximate cause. A contributing cause to the managers' inability to cooperate might be that they have offices in different cities, and the company doesn't have an effective communication system between branch offices.

The root cause is the most basic reason for a conflict. If the root cause of a conflict is eliminated, it can prevent the conflict from occurring. The root cause of the managers' conflict is that the company has a zero-sum bonus program, according to which the offices compete against each other, and if one manager wins, the other loses. It might not be in their financial interest to cooperate.

Management's Role

Managing conflict can be a little like herding cats. If you focus on one, others break out. The cats seem more influenced by things that you don't understand than by those that you do. You try something, and it does more harm than good. Fixing one problem causes another.

Effective conflict management is more than just solving problems. It is a complex management undertaking that requires holistic and systematic thinking. In fact, one important management paradox is that resolving conflict often does more harm than good. Aggressive managers might find it difficult to allow any counterproductive situation to exist without their intervention. They want to fix whatever is broken.

In many cases when the conflict is between two employees, managers who intervene may solve the immediate problem, but create an entirely different one. The workers might decide that they can't be trusted to resolve their own problems, and lose confidence, and an escalating cycle of dependence ensues. The manager will find himself or herself having to resolve more and more conflicts as the workers conclude they can't resolve them without help.

When should management intervene? It should intervene when management itself is a party to the conflict, when the conflict is between workers who can't or won't resolve it, and when circumstances make it clear that resolution without management intervention is unlikely. This does not mean that management should go boldly in and impose a solution. The workers who are part of the problem must help resolve it. Management must also consider the system implications and all possible causes, rather than just the symptoms. Ultimately, the fastest way to resolve conflict is to go slow.

Managing Conflict Is More Than Resolving Conflict

Resolving a conflict is a reactive, backward-looking effort to address a particular event. Managing conflict, on the other hand, is a purposeful, holistic journey that considers both the past and the future and attempts to minimize conflict and its negative effects. Managing conflict requires that managers:

- **Clarify Expectations:** Most workers want to do a good job, but often don't know what management really expects.
- **Provide a Role Model:** Knowing what to do is one thing, and knowing how to do it is another. Employees may need to be taught how to do their jobs, and there is no greater teaching method than role modeling.

Management can't be expected to simply ignore workplace conflict and hope it will go away. Despite the risk that taking action will breed more or different conflict, there are actions that management can take to manage conflict effectively and limit its counterproductive effects. Managers must manage conflict using a

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Resolving Conflict Causes New Conflict

Much of the conflict between employees and management is about employee needs and expectations; how employees will be treated and how much they will be paid. When employee expectations aren't met, conflict often results. Paradoxically, employer actions that resolve these issues can cause more conflict.

Abraham Maslow's hierarchy of needs — ranging from lower-order existence, such as a wage employees can live on, to higher-order self-actualization needs, such as challenging work — helps explain this paradox. Meeting lower-order needs shifts the conflict to a higher-order need. As one need is satisfied, another need surfaces. It follows that in higher-performing organizations where lower-order needs have been resolved (that is, pay, benefits and working conditions exceed basic employee needs), conflicts rise to the next level.

Management's Role

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broad strategy that includes:

- Minimizing the overall level of counterproductive conflict.
- Causing suppressed conflict to come to the surface.
- Ensuring effective resolution of counterproductive conflict.
- Learning from dispute resolution and applying that learning to further minimize conflict.

Providing Dispute Resolution Processes

When the time comes for management to step into a conflict, it must provide a process that is designed to resolve that conflict. This process must correct negative behavior and provide a satisfactory solution that all parties can accept; provide a framework for preventing similar conflicts from surfacing later; let the parties work effectively together in the future; and be cost effective.

When management resolves conflict effectively, workers learn that the environment is safe to discuss conflicts in the open. If the company also provides ongoing training in appropriate conflict resolution for everyone, not just those who are involved in conflict, future conflicts will be more amenable to appropriate solutions. ■

Managing a Trusting Environment

Trust is the unwritten and usually unspoken contract that allows each of the parties to a transaction to believe in the honesty, integrity, reliability and justice of the others. Trust is demonstrated through the parties' behavior toward each other. When employees don't trust coworkers or management, they feel a need to protect themselves, and win all they can. Employers who don't trust workers will create rules for every contingency, and micromanage the work force. This leads to a work environment characterized by resistance to management initiatives, refusal to cooperate, unhealthy cooperation, and may even lead workers to use formal win-lose dispute resolution processes, such as lawsuits.

It may be obvious that a trusting environment is productive while a mistrusting environment is counterproductive, but what can management do to change the dynamics? To break a cycle of mistrust, management must become trustworthy. It can do so by articulating a set of core values that reflect high moral and ethical standards. These core values must serve as management's guiding principles in both word and action.

Creating a trusting environment also requires management to be consistently truthful with employees.

Types of Power

Power is the ability to make things happen. There are three types of power in the workplace. These are:

✓ **Coercive power:** This is the power to force another's cooperation without willing agreement. For example, management has the coercive power to force workers to perform their jobs according to the employer's directions and to discipline workers who don't comply.

✓ **Utility power:** This is the power to buy what it wants. Management controls material and financial resources, and can bestow rewards to influence behavior.

✓ **Collaborative power:** This is the power to use the hearts and minds of all parties to accomplish common goals. Employees don't have much coercive or utility power, but they do have significant collaborative power. They have the information, skills, knowledge and capacity to get things done and to work with others.

Management should only use coercion as a last resort. Use collaboration first, then utility power if collaboration fails. Collaboration builds trust two ways. First, collaboration tends to result in a decision that benefits all parties. Second, collaboration uses the traits that build trust: openness, sharing and respect.

Managers should not withhold important information or make getting information cumbersome. Willingly discuss all relevant, nonconfidential issues. Don't be afraid to say, "I don't know," if that is the truth. Management must also be willing to speak with one voice.

A trusting environment is one in which power is used fairly. All parties in the employment relationship — managers, supervisors and subordinates — have some degree of power. Management, of course, has the greatest power. This does not mean, however, that it should be exercised. ■

Avoiding Policy-Driven Conflict

Your company's employment policies probably cover a wide range of issues affecting the employer-employee relationship. Formal policies may appear in manuals, employee handbooks or labor contracts, while informal policies are reflected in the myths that abound in your organization. Policies are part of the glue that holds an organization together.

There are three types of policies. The first, allocation

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Avoiding Policy-Driven Conflict

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policies, guide resource distribution and rewards. Behavior policies establish the company's expectations for personal conduct and clarify what happens if those standards are ignored. Finally, mixed policies attempt to induce desired behavior indirectly. A policy that sets bonus levels based on production levels is a mixed policy: It allocates salary dollars and shapes behavior at the same time.

Policies can cause conflict. Instead of causing desired behavior, they can create workplace discord. One of the primary causes of policy conflict is a sense of loss of control that may be experienced by those who have to abide by the policies that are put into place. Although most workers understand that working for someone else means losing some control, they nevertheless want to keep as much freedom as possible. The more rigid the rules, the more loss of control workers feel.

Policies that are perceived as unfair also cause conflict. Policies that don't conform to generally accepted norms in comparable work environments are often viewed as unfair. For example, a policy that prohibits all personal use of e-mail may be outside the norm and will be seen as unfair. Behavioral policies that are punitive can cause conflict, especially if they aren't enforced evenly throughout the organization. Policies, such as pay for performance bonus programs, often cause conflict unless they are carefully structured to encourage healthy competition and avoid bias and manipulation. Policies that are applied selectively or which require a manager to make a judgment call as to whether the policy has been violated can lead to conflict.

Reducing Policy-Based Conflict

You cannot prevent all policy-based conflict. Instead, you must implement policies that respond to differing interests, avoid exacerbating differences, and facilitate effective resolution when conflicts emerge. To reduce potential conflict, you must:

- **Avoid Creating Unneeded Policies:** Most employees understand what behavior is acceptable in society and what is not. Spelling out the details will seem demeaning to those who would never do what is unacceptable, and won't do anything to mold the behavior of those few who can't or won't conform to accepted societal standards.
- **Derive Policies From Core Values.** Your organization's core values are guiding principles that drive behavior and decisions. Values tell managers and employees how they should act as they go about company business. Make policies consistent with core values.
- **Involve Employees in Policy Implementation.** Collaboration helps balance the competing interests that employees and employers have. When they are involved in the implementation of new policies, the parties understand each other's concerns better.
- **Provide Fair Administration.** Policies must be fairly enforced.
- **Provide for Dispute Resolution.** Inevitably, there will be conflict over company policies. If policies have a dispute resolution procedure built in, much of this conflict can be resolved early and quickly. ■

How to Effectively Introduce New Polices

If you plan to introduce a new workplace policy, you would do well to heed this advice: Let workers know about the policy before you put it into effect. For example, if you plan to implement a no-smoking policy, letting workers know well ahead of time allows smokers to adjust both physically and psychologically to the change. Smokers could modify their habit or even seek smoke cessation help well before the restrictions become reality.

Policy changes can be communicated:

- ✓ **Through small groups or one-on-one.**
- ✓ **Voice mail announcements.**
- ✓ **Via written announcements on the company's e-mail system or in memo form.**
- ✓ **Through training programs.**

Manage Change Effectively

People often see change as a confusing jungle, fraught with danger and conflict. Business as usual is more comfortable. To make change an effective tool rather than a source of conflict, organizations must understand the underlying processes that allow change to occur.

Change occurs when a **change driver** (a person or group) identifies the need for change, develops a vision of what can be, and uses initiative to make the vision reality. Change drivers can be managers or employees. The **sponsor** is the person or group with the power to make a change reality through allocation of necessary resources. **Implementors** are the individuals or groups who are responsible for putting change plans into action. **Targets** are the employees or groups who are expected to change. Their behavior determines whether the changes being implemented will stick or fade away.

Conflict typically emerges when a company is in the middle of changing. This is because the comfortable equilibrium of the old way of doing things has been disrupted

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Manage Change Effectively

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but hasn't yet been replaced by a new stability. Targets are the most likely source of conflict, as they strive to maintain the comfort of the status quo. You have two options for dealing with resistance: You can force change by using power and authority to overcome resistance or you can work with the targets to gain their support.

Causes of Resistance

Resistance exists in all workplaces. It may be passive, reflected in reduced productivity and low morale. Or it may be active, with workers refusing to comply, engaging in sabotage, or filing lawsuits. The best way to deal with resistance is to minimize its occurrence. To do so, managers must understand its causes.

One cause is substantive disagreement over a change. It occurs when employees believe their work life will be negatively impacted. There may be nothing you can do about substantive disagreements other than to explain why the change must be made. Resistance also occurs when workers misunderstand the facts. The remedy is to let workers share in as much information as possible.

To counter resistance, don't surprise workers. People need time to adjust to unwanted change. When feasible, give workers a role in formulating change. This can be done through informal discussions, formal surveys, focus groups or committee work. Make sure that supervisors explain why change is necessary and how the change will benefit the worker, division or company. ■

For a comparison of death and organizational change, go to: http://my.summary.com

Hiring and Maintaining The Right Work Force

In poker, you play the cards you are dealt. But in the workplace, management can deal itself the proper complement of employees who are right for the organization and for whom the organization is right. When this happens, conflict is minimized. When employees and the organization are not right for each other, conflict will take root and grow. To ensure a good fit, your organization must have an effective employment process and be willing to correct its inevitable mistakes by dismissing people when appropriate and necessary.

Management needs to hire the right number of the right type of employees in order to get an employee complement that minimizes conflict. This requires a strategy that accurately describes the number and type of employees needed and identifies tactics that let managers find and attract workers who meet those needs.

Having the wrong number of employees in an organization often causes conflict. If your company is overstaffed, workers who are not meaningfully occupied develop poor morale and bad work habits. They begin to feel insecure about their jobs. On the other extreme, if your company is understaffed, the pressure and excessive work hours needed to get the job done often cause supervisors to become dogmatic and overly demanding, and employees to become tired and stressed out.

Employment Strategy

A similar dynamic emerges if workers are either underqualified or overqualified for their jobs. Those overqualified feel undervalued and become frustrated, cynical and counterproductive. Those underqualified become frustrated by their inability to meet their employers' demands and rebel against what they see as unreasonable demands.

The answer is to use a strategic employment plan based on the work that needs to be done. Don't worry about just filling the job. Instead, think broadly about how to obtain the talent to do the work required. Consider current workload, predictable business cycles, business plans and anticipated attrition.

Sometimes the employment process fails in spite of

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Three Things You Must Include In Your Strategic Employment Plan

To serve as the blueprint for your company's hiring, your strategic employment plan must:

1. Maintain Staffing Flexibility. Staffing needs can be unpredictable. Dealing with uncertainty requires both careful management of the employee complement and the work to be done. The judicial use of temporary employees and outsourcing should be part of your strategic employment plan. Maintain a core group of permanent employees to accomplish the most predictable and stable work and use temps for less predictable work.

2. Maintain the Right Number of Employees. Organizations often hire too few or too many employees. When developing your plan, look for symptoms of over- or under-staffing and adjust accordingly.

3. Establish the Right Hiring Criteria. Develop up-to-date job descriptions that reflect what is being done and what needs to be done. Avoid narrowly defining job tasks. Look for broad qualifications. You may have to provide specific training, but well-rounded workers can adapt to changing needs.

Hiring and Maintaining the Right Work Force

(continued from page 6)

management's best efforts. When someone must be dismissed, the event is traumatic. Terminating employees is also costly to the organization, as it spends time and money justifying its decisions and perhaps defending its actions in court.

If you must dismiss for poor performance, don't do so spontaneously. Even in egregious cases, you can suspend the worker subject to a future, considered final decision. Allow the worker an opportunity to defend himself or herself. Make sure the punishment fits the situation, and is on par with how other workers have been treated in the past to avoid discrimination claims.

Let the employee leave with dignity if possible, by offering the opportunity to resign or to receive a severance package. There will be times when dismissal should be quick and decisive, such as in the case of a worker caught stealing trade secrets or other valuable assets. ■

For more on hiring and avoiding layoffs, go to:
http://my.summary.com

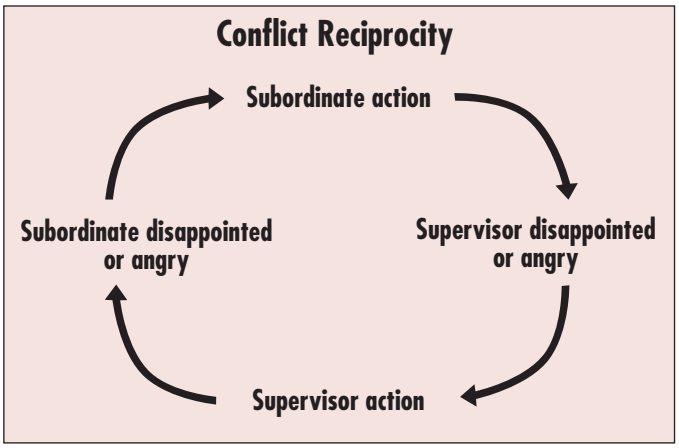
Fostering Appropriate Supervisor Behavior

Supervisors operate in a messy, systemic world in which their personal behavior affects employees and is affected by management systems. They have more exposure, influence, power and responsibility than any other members of the organization. Their behavior has a greater effect on the level and severity of workplace conflict than that of any other group.

Supervisors must learn to control their behavior to minimize conflict. They can do this by creating a mutual-gains climate. To create such an environment, they must consider the interests and needs of subordinates. Sometimes all that's needed is empathy. When supervisors really care, and demonstrate their appreciation, conflict is less likely. They must try to create a collegiate atmosphere in which workers feel safe and secure.

Supervisors who want to reduce conflict need to:

- **Handle rewards appropriately.** Although you may not have authority to handle all aspects of compensation, you can make sure that those aspects of pay and promotion you do have control over are administered fairly. Even saying "thanks" and "good job" convey a powerful message.
- **Communicate Effectively.** Conflict often results from discordance between what the communicator is saying and how it is being said. A supervisor who says she wants input but interrupts continually with her own views isn't communicating effectively. Communication requires that you listen as well as talk.



Understanding Reciprocity

Conflict has its basis in reciprocity, or how the parties react to each other. Negative reciprocity leads to a downward spiral while positive reciprocity leads to improved relationships and minimum conflict. Systems thinking helps explain reciprocity and how supervisors can use it to minimize conflict. Conflict is driven by circles of relationships called feedback loops that are reciprocal flows of influence that are both cause and effect. Supervisors and subordinates are part of the process and each of them influences and is influenced by what happens. Thus, each is at least partly responsible for the actions of the other. Each can cause conflict and becomes a player in a circular, continuous cycle.

Just as the cycle can escalate, so it can de-escalate conflict. A conflictive spiral can be reversed when one party acts counter to the negative influence being received. To reverse a cycle, you must act counter to the influence you are receiving and take action that the subordinate will respond to positively. This requires a leap of faith as you respond to belligerent actions with calm and reason. ■

Dealing With Conflict

Good supervisors, a trusting environment, effective policies, and positive management practices can substantially reduce conflict, but some will remain. Even if conflict isn't apparent, it may exist as suppressed conflict when two or more parties have a grievance but fail to acknowledge the problem.

Although not all conflict needs to be brought to the surface, much should. Often, what is required is that management provide a safe opportunity to talk about concerns. This can include maintaining frequent contact with subordinates, having an open-door policy, and managing by walking around. Managers can also elicit information about suppressed conflict through the use of employee surveys, focus groups, virtual or physical suggestion boxes, an ombudsman and 360-degree perfor-

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Dealing With Conflict

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mance feedback assessment programs.

Engaging Conflict

Once conflict has surfaced, managers must make a decision. Your response to conflict among employees and between employees and management should differ.

In employee-employee conflict, neither the company nor its management is involved. Instead, the conflict is between co-workers or workers who aren't in a supervisory relationship. The conflict may be personal or work-related. Before you intervene as a manager, you must weigh the costs and risks. Employees often do better if they solve their own problems, and intervention takes time and money. Management should stay out of most purely personal conflict, but may need to intervene when the dispute is job-related.

If management does intervene, it is usually most effective to coach the parties on an appropriate solution rather than imposing one. Only after it becomes apparent that the parties cannot resolve the conflict should managers impose a solution.

If the conflict is between an employee and management, different rules apply. Its basis is in actions and positions taken by management against employees or by employees against management.

Management's role in this type of dispute is to represent the best interests of the organization, and all its workers, regardless of whether its actions will perpetuate or escalate conflict in the short term. For example, management may elect to fire a worker who keeps violating company policies, even if that will almost certainly escalate the conflict. Management's role includes playing investigator, decision-maker, implementor and advocate for the company.

Conflict Resolution Approaches

How a conflict is resolved depends largely on what state the conflict has reached. A disagreement is a state of dissatisfaction. A dispute goes further, as the party contemplates or takes more aggressive action. When differences have moved from being disagreements to becoming disputes, the likely resolution will change.

At the disagreement stage, resolution will likely be by agreement, and be the result of an informal process emphasizing collaboration, focusing on both parties' interests, and be negotiated by the parties to their mutual benefit. Once the matter becomes a dispute, resolution will likely be by settlement in a more formal setting, perhaps involving coercion; focus on positions and rights; and be a compromise or a win-lose solution. Often the resolution requires a third party, like a judge or an arbitrator.

When You Should Intervene

Management should intervene when:

- ✓ The conflict is one in which management has a legitimate interest, such as department budget conflict.
- ✓ The conflict has negative effects on the organization, such as when a personal conflict results in arguments during work, disrupting production.
- ✓ The conflict presents a potential risk to the organization, such as a lover's quarrel that can become a sexual harassment case.
- ✓ There is a power disparity among the parties, such as if there is a personal conflict between a supervisor and a subordinate unrelated to work.
- ✓ There is a request from the parties that management intervene.

To enhance the likelihood of resolving disagreements in ways that minimize future conflict, organizations must use a collaborative, holistic process that:

- **Describes the conflict properly.** Focus on the cause rather than on the symptoms. Understanding the underlying reason may lead to a better solution.
- **Integrates the right people.** If the dispute involves a company policy, those who are in charge of the policy and understand it should be involved in the resolution.
- **Takes a systems view.** Apparent causes may be the tip of the iceberg. Address underlying problems. Separate the facts from the underlying systemic causes.

Dispute Resolution Options

There are alternatives to traditional dispute resolution mechanisms. Alternative Dispute Resolution, or ADR, is an umbrella term that covers a wide range of non-litigious options. These include:

- **Open-Door Policy,** often the first and least formal step in a dispute resolution system. It emphasizes early resolution.
- **ADR Policy**, which establishes dispute resolution rules, provides due process, and often includes protections such as the right to access to evidence, to ask questions, and to help choose the independent decision-maker.
- **Facilitation,** which helps people resolve disputes in an informal setting.

ADR can reduce litigation costs, minimize wasted time and effort, build trust, and otherwise reduce conflict. If an organization chooses to use ADR, it must be sure to create a fair system that doesn't favor management. A comprehensive conflict management system takes time, money and commitment to create and use. Companies that need a more formal conflict resolution method may find that the time, money and effort is well spent once the system is in use. ■

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Change (the) Management

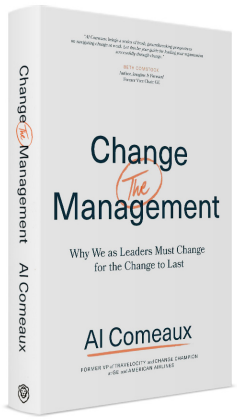
Al Comeaux

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Change (the) Management

Why We as Leaders Must Change for the Change to Last

by **Al Comeaux**



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THE SUMMARY IN BRIEF

Despite being perfectly adept leaders, we continue to sign up for change efforts we know are doomed to fail. Given how much money and work goes into these efforts, that failure rate is a terrible shame. Resources are wasted, organizations lose focus, people's lives are upended, and the result is that people and organizations have little to show for their efforts.

In ***Change the Management***, Al Comeaux outlines the behaviors, mindsets, and outdated approaches to change that managers and leaders have and the way they derail lasting change in their teams and organizations. Then, he outlines exactly how leaders can transform their approach to change to foster buy-in from team members, become allies of change, fully align on the problem, and listen to their teams while modeling changes themselves. Leaders will be equipped with a toolset for successfully managing change in their organizations— and a detailed list of habits and behaviors to avoid that can stand directly in the way of real and lasting change.

IN THIS SUMMARY, YOU WILL LEARN:

- Six enemies of change that stand in the way of lasting transformation.
- Four methods for becoming allies of change.
- How to pull employees than push them towards change.
- How to model change in your organization to inspire long-lasting emotional connection and long-term impact.

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Introduction

Successful changes in an organization are anything but easy. But there is a path to succeeding at change. Behavioral change requires emotional buy-in from those being asked to change their behaviors. Given the growing body of science pointing to the importance of emotion in decision-making—even in rational business decision-making—it's become clear that the intellectual arguments will only drive so much change, and only for so long.

For change management to work and last—for the energy to be there among those going through the change—we must focus on both the intellectual dimension and the emotional dimension: we must be both smart and have heart.

This is especially true when addressing behavioral change. The reality is that if we want successful, lasting change, we should not try to get people to change their behaviors. Instead, we must get people to want to change their behaviors. The former yields mere compliance; it'll last a while, but usually not for long. The latter is contagious, energy-inducing, and long-lasting. And the difference is monumental.

The best way to drive a desire for behavior change is for employees to understand the what and why of the change, and to see examples of the change itself from certain behaviors by leaders: modeling, listening, asking people to join, and pulling people to change through emotional connection.

This is Not a "They" Problem

We often think our challenges for change programs are 'they' problems, such as problems with middle management or front-line employees. But when it comes to assessing the biggest challenges to change, we need to look at ourselves first. Often, we are the enemies of change—even when we don't realize it. We take every opportunity—whether conscious or unconscious—to get in the way of change.

We're also enemies of change when we think the organizations where we work, the projects we work on, the people who work for us, and the positions we hold make the change a 'they' thing, not a 'we' thing.

Often, we miss the need for change in the first place because of the successes we've had in the past. We try shortcuts that can do more harm than good. Our beliefs are rooted in the 1970s, and we don't realize how outdated they are. We need to change if we want anyone else to change.

The good news? We can, as long as we're willing to overcome the six enemies of effective change.

Enemy #1: Our Own Cognitive Dissonance

Cognitive dissonance is what happens when we're forced to confront our own deeply held beliefs and attitudes. It's the psychological discomfort we get when a value or deeply held belief we hold comes into question. In life, we all try to avoid cognitive dissonance by avoiding discussions about things we might disagree on. In business, as leaders, the more success we have, the stronger the belief that our way of doing things is the universal right way.

We experience cognitive dissonance when we learn we have to get our hands dirty and get personally involved in a change effort. Our people experience cognitive dissonance when they find out that the way we've always done this is not the way we'll do it anymore.

To succeed with change, we have to become aware of our own cognitive dissonance and also be thoughtful and mindful of other people's cognitive dissonance and what they'll have to go through to overcome it. We have to give them someone to follow.

Enemy #2: Our Outdated Ideas About Communications

Outdated ideas about communication are another major enemy of change. We need lots of traditional communication platforms—emails, town halls, focus groups, you name it—and these communications should be 'dripping from the walls.' However, traditional communications are only 10% of the equation. Today, with the advent of new media, people have many more ways to get their information than they did fifty years ago. Communication is now 90% action and 10% words.

Our people—with their cognitive dissonance and access to all kinds of information—are naturally looking for inconsistencies in our 'say:do" ratio because these are potential signs that the change isn't serious. So, what we say and do must always be aligned—especially during change periods. The best way to show we're serious about change is to communicate that seriousness by modeling the change ourselves.

Enemy #3: We Let Inertia Get in the Way

Inertia is an enemy of change. The idea of intertia is based on physics—an object at rest wants to stay at rest unless acted on by an outside force. Overcoming the inertia of

our organizations can be a major challenge. They tend to want to stay the same, maintaining the status quo. It's not that we're lazy, we just allow a range of factors to hold back change. We let 'other stuff,' like the work that's constantly demanding our attention, get in the way of our long-term vision that can help affect real change. New data can distract us, making us uncertain and causing us to drag our feet. A lack of momentum, a lack of urgency, and complacency can all contribute to inertia.

When we aren't clear and aligned about the change and the end-state, the effort can twist in many directions, exhausting our people. The inability for people to digest what's involved in the change can also slow us down. Energy slumps happen along the way, which is why it's important for us to work on the issues that cause our personal inertia, as well as working to eliminate inertia at the organization level.

Enemy #4: Our Belief in Change by Decree

Change by decree is not in line with real values. When we simply tell everyone what the change will be with little room for debate or input, the change is cheap. It won't get people to want to change, which means the change won't be lasting. Ironically, sometimes we have to make changes by decree, such as with acquisitions.

In these cases, we subsequently reach people on an emotional level and get buy-in at many levels on as many aspects as possible related to the post-announcement changes that will come as a result.

Leaders must authentically help others feel ownership of the change. Our people should have a hand in creating the change if we want them to support the change. Our changes must be in alignment with our organization's core values. Core values become a must for organizations of all stripes, and—given that no organizations' values include 'Do as the leader says"—change by decree is never congruent with our values.

Enemy #5: We Live in the Weeds

Getting stuck in the weeds is an enemy of change. As leaders, we need to ensure the trains are running and headed in the right direction, but we don't need to know every aspect of how the trains run. We need to track milestones, understand what things are going wrong and right. Our efforts must be SMART (Specific, Measurable, Achievable, Relevant, and Timely).

But many of our directional outcomes are dependent on whether our people want to change. This requires reaching people emotionally, not just rationally, from the start. Great outcomes come from great inputs, so we need to focus on the right inputs. If we don't reach people on an emotional level, our people will certainly decide on their own how to fill the emotional part of the decisions they must make.

Modeling change is a very good way to reach people on an emotional level and gives them a model to follow through the change.

Enemy #6: How We View People

If we fail to understand our people and what to do with them, they can be an enemy of change. Some people are ready for change before we are. We should get them to help us. Others are too burdened by current processes to switch to new ones. We need to help them with the transition, including by modeling the change behaviors we want to see.

Some team members struggle with ambiguity. We need to help them by setting a clear vision, showing them the way, and patiently answering their questions—as long as we can.

Some people lack confidence. Building confidence in people is important and laudable, but we must also keep an eye on where our time investments are best made. Finally, some people act duplicitously. No matter what job they have, they need to be fired, or they will continue to undermine the change you want to see in your organization.

Reorientation: We Pull. We Don't Push.

To succeed at change, we must pull people through the change, not push them. Pushing is about pushing our ideas onto people, telling them to change. Pulling is about inspiring people to follow us, building infectiousness with what we're doing, engaging people's emotions and touching people's feelings. Pulling is more likely to help people feel ownership of the change; it feels like it's their idea.

The pull mindset leads us to model the change and let our people take it from there, rather than micromanaging how our direction is executed. It can be hard for us to overcome the idea that a boss is the person who tells people what to do. We have to reorient and instead inspire people to do what's needed.

We Align on the Problem

Every member of leadership must know and give the same explanation for why change is necessary. Any distance

between explanations of this 'why' can crush a change initiative. Executives need to explain the same why every time. Yet distance between executives on this is almost universal, unless they work to get it right

Change will impact groups differently, so leaders need room to explain the specifics to their individual work groups. It can't come at the cost of improvising the overall reason for change. Speak in unison when addressing the why for change, and speak in harmony when addressing things from our work groups' angles, always returning to the original 'why' as often as possible.

We Listen

Once we agree on the reason for the change and how we'll tell our organization's story, we must involve our people in the change if we can. Organizations that include their people in change planning are much more likely to be successful than those that have top-down change management approaches.

Listening is critical to change. Although it can be messy, organizations that involve and listen to their people can get surprisingly positive results.

We must also develop a change context that ties into our reason for the change, incorporates our values, and informs how we model the change appropriately. This process ensures our change is not out of line with our values.

What's most important—what will matter most a year from now, long after we've announced the change—is that the outcome was right and fair and not naïve, and that we authentically searched for the right way to bring forth the best change possible.

We Model the Change

Once we have the reason for change down pat, and we know the context for the change based on the reason plus our values, and once we know what the changes will be, it's time to determine how we can model the change. We use the change context to inform how we'll model the change.

If our change context is 'giving it up for the customer' and we're cutting costs, this informs us that we need to give up things as well. Modeling change can come in many forms, including simply supporting a change happening lower in the organization.

But our actions—and our modeling—can look contrived if they're not authentic, if our actions are uncharacteristic of what we actually do. That makes change management an everyday part of our jobs as leaders.



Al Comeaux, a former executive at Travelocity, GE and American Airlines, is a decorated corporate pioneer and global authority on change from inside organizations. His career championing change as a senior leader at uber-disruptive dot-coms as well as established, world-renowned companies—and his 20-year journey researching why so many change efforts fail and what's needed for success—make him one of the world's most forward thinkers on what leaders must do—and how they must think—to succeed at change. In 2019, Al founded Primed for Change, a disruptive new project created to prepare leaders to take organizations successfully through change.

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Chief Culture Officer

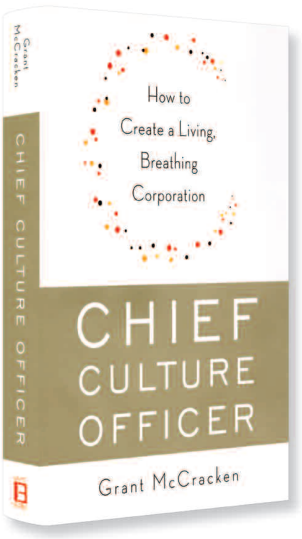
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Management: Strategies

Chief Culture Officer

How to Create a Living, Breathing Corporation



by Grant McCracken

THE SUMMARY IN BRIEF

Levi Strauss & Co., the jeans and apparel maker, missed out on the hip-hop trend. They didn't realize that those kids in baggy jeans represented a whole new — and lucrative — market opportunity, one they could have seen coming if they had been paying attention to the shape of American culture.

Levi Strauss isn't alone. Too many corporations outsource their understanding of culture to trend hunters, cool watchers, marketing experts, consulting firms and, sometimes, teenage interns. The cost to Levi Strauss was $1 billion. The cost to the rest of corporate America is immeasurable.

The lesson? The American corporation needs a new professional. It needs a Chief Culture Officer (CCO).

In *Chief Culture Officer*, Grant McCracken, an anthropologist who does training at some of the world's biggest companies, argues that the CCO would keep a finger on the pulse of contemporary cultural trends while developing a systematic understanding of the deep waves of culture in America and the world. The CCO's professionalism would allow the corporation to see coming changes, even when they only exist as the weakest of signals.

Bursting with insight and character, *Chief Culture Officer* is sure to expand your horizons — and your business.

IN THIS SUMMARY, YOU WILL LEARN:

- How to market, invent, sell or simply invest in companies that make stuff.
- Why companies get blindsided by cultural factors hidden in plain view.
- Why businesses need to bring cultural expertise into their executive suite.
- How to run a successful business in the early 21st century.

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THE COMPLETE SUMMARY: **CHIEF CULTURE OFFICER**

by Grant McCracken

The author: Grant McCracken is a research affiliate at C3 at MIT. He earned his Ph.D. in anthropology at the University of Chicago and was the founding director of the Institute of Contemporary Culture. He has taught at Cambridge University, McGill University and the Harvard Business School.

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Introduction

Levi Strauss, the jeans and apparel maker, misses hip-hop. The penalty: $1 billion.

Quaker pays too much for Snapple. The penalty: $1.4 billion.

Facebook claims 7 billion photos as its own. Embarrassment and recantation follow.

These corporations, like most, were bad at reading culture, bad at staying in touch with culture and bad at working with culture. And it cost them dearly.

By "culture," we don't mean corporate culture. And we don't mean "high culture," the world of refined taste. By culture, we mean the world outside the corporation, the body of ideas, emotions and activities that make up the life of the consumer.

It's not that the corporation hasn't *tried* to take account of culture. It's resorted to the advertising agency, designer, consultant, cool-hunter and guru. Worst case, someone says, "Let's see what the intern thinks." (Now a million-dollar decision rests on a 20-year-old.) But culture is too important to be left to an outsider (or a 20-year-old). When there's $1.4 billion at stake, it needs a Chief Culture Officer (CCO).

The corporation has learned many things in the past 100 years. It has mastered most of the mysteries of organizational behavior, operations management, human resources, communication, marketing and finance. Until it masters culture, it makes the world needlessly mysterious and it multiplies risk.

Why Culture Matters

Culture matters for reasons good and bad. First, it is the place to discover advantage, opportunity and innovation. The Four Seasons, Patagonia, Starbucks, Nike, Red Bull, Target, Method Soap — each is a culture play. Each found value in culture. Each *extracted* value from culture.

Second, culture is the breeding ground for cataclysmic change, a North Sea out of which commotion constantly storms. Without a working knowledge of culture, the corporation lives in a perpetual state of surprise, waiting for the next big storm to hit. Without a CCO, the corporation has no way to perform this crucial piece of threat assessment.

Getting Past Guru: Being Steve Jobs

People talk about Steve Jobs as if he were one of a kind. Clearly, he is a remarkable man. When we look at what he's done for Apple, cell phones, digital content, the art of design ... well, he has earned our admiration.

But when it comes to helping Apple navigate culture, Jobs may be less indispensable than we think. With a more systematic approach to culture, many could do what Jobs has done. Let's not be blinded by the "cult of personality." It's good for Jobs. It's good for Apple. It's not so good for the rest of us. We have made ourselves guru-dependent.

Many companies depend on a guru: Apple on Jobs, Virgin on Richard Branson, CBS on Les Moonves, Omnimedia on Martha Stewart, Bad Boy Entertainment on Sean Combs.

Steve Jobs

Steve Jobs' parents sacrificed heroically to send him to Reed College, a small liberal arts school in Portland,

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Ore. But he wasn't happy. He couldn't see the point of his studies and, after six months, he dropped out.

Jobs didn't leave Portland and he didn't leave Reed. He stayed on campus as an unregistered student, walking, thinking, noticing. One of the things he noticed was that campus posters were particularly beautiful. A little investigation told him that Reed had a good calligraphy department, and Jobs decided to take a class, his only class. He promptly fell in love with the art form. "It was beautiful, historical, artistically subtle in a way that science can't capture, and I found it fascinating," he said.

When Jobs designed the first Macintosh computer, 10 years later, his Reed training came back to him. And the rest, as they say, is history. Without his calligraphy course, Jobs says, "the Mac would have never had multiple typefaces or proportionally spaced fonts." And, he says, "It's likely that no personal computer would have them. If I had never dropped out, I would have never dropped in on this calligraphy class and personal computers might not have the wonderful typography that they do."

Thanks to Jobs and that course, Apple was unique in the tech space. It cared about beauty. And this gave it a strong connection to the creative community, which, in turn, supplied the corporation with a passionate supportive base. Apple enthusiasts were so dedicated to the brand they helped fund each new Apple experiment, embracing, without much complaint, even the odd Apple failure. Jobs had found a way to connect to the creative community. He had found a way to read culture and speak to it.

Jobs wasn't a CCO, but he certainly acted like one. The lesson: Connect to our culture and we will follow you anywhere. And Apple is now so spectacularly in touch with parts of our culture, it seems almost in control of it.

Someone can act as a CCO not because he or she has studied contemporary culture, but because he or she comes from that culture. Eventually, every CCO has to know about the whole of culture, not just the part of it he or she knows from personal experience. Standards, knowledge, continual learning, the ability to process massive bodies of data and possibility, the ability to spot the crucial development in a perfect storm of possibilities — this, and not intuition, is the work of the CCO. ●

Stealth CCOs

The CCO doesn't yet exist, but there are people who act like CCOs and we can learn from them.

Dan Wieden for Nike

Two Rules of the CCO

The first rule of the CCO is: Talk to anyone who will talk to you.

The second rule of the CCO is: Figure out the thing that makes a person interesting. Usually people don't mind the grilling. After all, we are asking them to talk about themselves. The trick is to find the thing they know best that we know least. And then the trick is to find out what this means to them, how it looks to them and how it feels for them. If there's lots of "found art" out there, there's lots of found anthropology, too. Be opportunistic. Seize every opportunity.

By the mid-1980s, the running boom was giving way to a fitness craze, and Phil Knight, founder of Nike, wanted his company to take part. Knight didn't much believe in advertising, but competition with Reebok was fierce and he had begun to work with a small shop in Portland, Ore. called Wieden + Kennedy. Dan Wieden, Portland native and second-generation ad man, proved to be an essential asset.

It was Wieden who coined the slogan "Just do it" in 1988. Most slogans are about the brand ("Coke is it."). But "Just do it" was imperative, impatient, presumptuous and, well, a little rude. This was not the sort of thing consumers had heard before.

Acting as unofficial CCO, Wieden had looked into the life of the consumer. He saw someone struggling to get off the couch into fitness, someone suffering aches and pains, someone tempted by excuses. In "Just do it" Wieden found the three words that allowed Nike to intervene. Acting as unofficial CCO, Wieden had found a way to help Nike ride the fitness wave.

A. G. Lafley for P&G

When A. G. Lafley became the CEO of Procter & Gamble (P&G) in 2000, the company was a powerhouse.

But the new CEO was not happy. Lafley believed his company was a little slow, insular and self-congratulatory. He wanted to reinvent P&G for the 21st century. "Speed and agility," he said, "matter more than heft."

And this is why Lafley made a pilgrimage to Venezuela. He climbed a steep set of concrete stairs to a cramped apartment to interview homemaker Maria Yolanda Rios. As the *Wall Street Journal* reported, "For an hour, Mr. Lafley sat in the corner of Mrs. Rios' kitchen, where bright yellow paint peeled off the wall, and listened to the young mother. [Rios produced] 31 bottles of cream, lotion, shampoo and perfume and

placed them on the embroidered tablecloth. She has two lotions for her feet, one for her body, one for her hands and another for her face. 'It's her entertainment,' Mr. Lafley said."

It was a telling moment for American capitalism. Lafley was saying, in effect, "These creams and lotions are not what we say they are. They're whatever Mrs. Rios says they are. If she treats them as 'entertainment,' we must treat them as entertainment. Let's stop listening for what we want to hear." The most powerful man in this powerful company was saying, "It's not about us. It's about her."

Lafley insisted the corporation take the larger view. In his book, *The Game Changer*, Lafley wrote, "P&G needed to look at consumers more broadly. It tended to narrow in on only one aspect of the consumer — for example, their mouth for oral-care products, their hair for shampoo, their loads of dirty clothes and their washing machines for laundry detergents."

Lafley disliked the way this approach "extracted" the consumer out of his or her life, focusing P&G on what was important to the company, not the consumer. Lafley said, in effect, *See the whole person*.

This is the role of CCO, to dolly back far enough to see the consumer in his or her life, in his or her culture.

Actually, CCOs move in two directions. They go *inward* toward the consumer more than anyone else in the C-suite. They come to know what these lives feel like to live. But CCOs also move *outward* to capture the bigger picture. ●

Culture Fast and Slow

Homeyness is slow culture. It consists of a set of rules. It specifies our choice of colors, materials, furniture, decorative objects, arrangement, interior design and exterior characteristics. It is the way we take an ordinary space and give it extraordinary powers. It shows us how to turn a house into a home. It is an enduring, deep-seated aspect of our culture.

As a part of slow culture, homeyness is everywhere in our midst and, apparently, everywhere invisible. It shapes Americans' lives but stays below the radar of American experts.

Pity the CCO who ignores it. It is often homeyness that helps decide whether consumers will embrace a new product, how they will use it, what they will use it for and whether this proves a "keeper" for any given American household.

The Challenge of Fast Culture

Fast culture gets the lion's share of our attention. It is so much more visible, vivid, obvious and, yes, fashionable. Slow culture plays the country cousin, less interesting, less fashionable. It is punished with neglect. Think of it this way: Fast culture is like all the boats on the surface of the Pacific. We can spot them, number them, track them. Slow culture is everything beneath the surface: less well charted, much less visible. Slow culture is the lesser known half of the CCO competence. But it is equally important.

Fast culture is now the great challenge for the C-suite. Every corporation is like a fishing boat, pitching on high seas, wave after wave crashing through the wheelhouse. Circuit City, recently deceased, failed to take advantage of the "Geek Squad" trend that helped lift competitor Best Buy to greatness. A couple of years before, Best Buy had purchased Musicland, just as kids were using peer-to-peer file-sharing technologies to download their music from the Web. Some responded, others fell. Some advertising agencies grasped what TiVo meant for their business model; others will never catch up.

Fast culture has many origins and the CCO must monitor them all. New cultural developments can come from the worlds of cuisine, sports, music, fashion, moviemaking, websites and new media. Chefs, point guards, engineers, indie bands, Hollywood producers, bloggers, new presidents — any of these can prove a decisive influence. It's a lot to monitor. To make matters trickier still, we can't merely monitor the most famous of these players. The new technologies make it possible for obscure players to punt their influence in from the margin. And all of a sudden, too. (Take a bow, Jimmy Wales, founder of Wikipedia, Craig Newmark, founder of Craigslist, and Arianna Huffington, founder of the *Huffington Post*.)

Fast culture can open up "blue oceans" of opportunity. It can deliver "game-changing" developments. But it also delivers blindside hits. The CCO who can manage fast culture can earn his or her income for the year by lunchtime … every day. ●

Status and Cool

The status convergence and the cool convergence are central for the CCO. They are now foundational parts of our culture, and the great yin and yang of the Western tradition. Both have passed from absolute currency, but they remain active and formative. It's the CCO's job to figure out how they work, and the framework they provide for our understanding of fast and slow culture. Without this framework,

we're chasing trends.

• **Status Culture.** Why do people never live in the living room? They lavish time and money on this room. Then they seal the room away.

The answer is that the living room represents a status message we want to make but don't want to live. And that's the problem. In a room like this, we're obliged to stay "on our best behavior." How very tedious. We would much prefer to be in the kitchen, where we can "just be ourselves."

Almost no one these days tries to pass as a member of a group more exalted than their own. This fiction (or "status counterfeiting") was common in the 1950s, but these days, it does not interest us at all. For most people, self-presentation is like yard work: We do enough of it to keep the place looking respectable. The idea of devoting much of our concern, most of our income and all of our aspiration to great status performances is over, the ideological antique of another age.

• **Cool Culture.** Cool culture is a much newer cultural force than status. It rose as an attack on status. Cool holds status to be an anxious, craven act of conformity, a needy clinging to convention. Cool scorns status as clueless and dopey. It prefers a more thoughtful self-assembly, intelligent choice in music, clothing and attitude that shows one's autonomy and distance from the group. If status is about standing, cool is about standing free.

By the end of the 20th century, the results were in. The winner was obvious. And the victor was … compromise. For all their intense conflict, the avant-garde and the middle class had achieved a glorious rapprochement. They had fought so long and hard, they now were one. The middle-class world was shot through with avant-garde liberties, encompassing a new latitude of personal expression and a new order of creativity. And the avant-garde discovered that certain kinds of social order, self-discipline and instrumentality were, when all was said and done, obligatory. You couldn't live without them.

Both parties won and lost. The status code would never be the same. Its "anchors" had been permanently loosened. Senior white males were losing their hegemony. Social regulations were in steep decline. Cool had come to accept compromises of its own. Some kinds of self-expression were not to be allowed. Cool also had to accept that personal liberty was probably not going to eliminate social differences or social sameness. A hipster regime was not going to happen.

Cool is an outsider's sensibility now completely internalized, built into every individual and our entire culture.

The larger outcome is clear. Neither cultural constellation will ever seize the day and return itself to its once glorious position. For we are a culture with a third term, a restless creativity. If once we were mainstream and avant-garde, now we are a great wilderness, with thousands of little experiments happening everywhere. Point, counterpoint is dead. The struggle between status and cool is over. We are now a culture overflowing with variety and noise. ●

Producers and Consumers

As the Internet became more robust and well distributed, the corporate world decided to put the world of branding online. Coca-Cola and General Motors wanted to be where the consumers were. But what happened there was a revelation. When corporations made traditional ads and sent them down the chute of a TV show, there really was no clear way of telling whether people liked or even watched them. Only sales figures served as a measure — a very distant and loose measure, to be sure. But with the Internet, you could tell. And when the first websites went up, the numbers came in.

There was a stunned silence in the marketing world. No one could quite believe it. The prevailing assumption had been well steeped in self-congratulation. Big corporations believed people loved them. After all, they had used our brand for years, right? We're part of their family, no? They're going to have to come to our website just to say hi? But no one came. No one cared.

Corporate America, welcome to the new consumer. Brands were discovering they could no longer treat this consumer in the old way, as a simpleton to be talked down to, shouted at, lectured, scolded, bamboozled and browbeaten. In the language of the seminal book *The Cluetrain Manifesto*, the consumer culture now had to be more like a conversation between equals.

Marketing vs. Bud Melman

Fan cultures are especially productive of new content. Consider the case of Bud Caddell. He works as a strategist for a New York-based digital think tank called Undercurrent. That's his day job. But Caddell so loves the TV show *Mad Men*, he decided to contribute to it. He invented a character called Bud Melman, a mailroom clerk at Sterling Cooper Advertising in 1962. And he began to Twitter messages ... in character ... from the mailroom ... from 1962. It's all a little confusing, but here it is in short form: a real person, Bud Caddell, has created a fictional person, Bud Melman, whom he has inserted in the fictional world built by a TV show, from

which he, Bud Caddell, really Twitters.

This is a devotional activity. It measures how much Caddell loves the show. And it multiplies the show, adding a character, a narrative stream and viewer interest. But it made the AMC network uncomfortable. AMC believed that Caddell was not adding, but taking. And it asked Caddell to cease and desist. Caddell's reply captures precisely why fan cultures matter:

Fan fiction. Brand hijacking. Copyright misuse. Sheer devotion. Call it what you will, but we call it the blurred line between content creators and content consumers, and it's not going away. We're your biggest fans, your die-hard proponents, and when your show gets cancelled, we'll be among the first to pass around the petition. Talk to us. Befriend us. Engage us. But please, don't treat us like criminals.

Marketing Is Changing

The world of marketing is changing at light speed. And this is another reason to hire a CCO. If the corporation is now going to talk to consumers, instead of shout or lie, it needs to know how to start and sustain the conversation. This means a nuanced knowledge of the consumer, the many different kinds of consumers out there, and the depths and facets of any individual consumer. It needs to proceed with a new order of intelligence.

As Steven Johnson says in *Everything Bad Is Good for You*, "For decades, we've worked under the assumption that mass culture follows a steadily declining path toward lowest-common-denominator standards, presumably because the 'masses' want dumb, simple pleasures and big media companies want to give the masses what they want. But in fact, the exact opposite is happening: The culture is getting more intellectually demanding, not less." To live in this culture, to profit in this new marketplace, a CCO is called for.

This may require a complete replacement of the marketing team. In the meantime, it will require the presence of the CCO, someone who knows the culture well enough to engage with it, to talk about it and to contribute to it. ●

Building a Secret Sneaker Store

I was standing in front of a convenience store, one of those places that looks like it's got three weeks to live, tops. In the window was a bottle of BBQ sauce and a couple rolls of Bounty, sun-bleached and dust-covered.

I opened the door and, sure enough, it was one of those sad little candy and cigarette operations. There was a guy sitting behind a counter, framed by lotto tickets. Two more guys were sitting on a ratty old sofa. They didn't look up.

But behind the Coke machine everything was perfect, clean and well lit. Racks and racks of sneakers. Shoes as far as the eye could see. A secret sneaker sanctum.

The secret sneaker sanctum is the new model of culture. It's how we do things now. Culture streams here in all directions. Behind a Coke machine in Boston.

Dispersive and Convergent

This is a world with lots of ricochet, lots of players, lots of churn. We've got art, commerce, design, professional sports, the steet, journalism, amateur sports, big business, tiny shops and consumers with felt-tip pens. The culture is both dispersive and convergent. It is fast and it is slow. It's about producers acting like consumers and consumers acting like producers. And, as usual, the corporation is the bewildered little brother, trying desperately to keep up.

Change now courses through our world on purpose. Every institution and many individuals are creating novelty as a matter of course. We have to add to this all the change that happens by accident. As change ricochets around the deck like so many cannons, other events are set in motion. Some of these are as cataclysmic as they are unforeseen. Nassim Nicholas Taleb calls these "black swans," events that are, in a sense, unimaginable, until, like a failure of the banking system, they are incontrovertible.

And this is why there has to be a CCO in place. Only a CCO has the weather maps to keep track of all this information. Only a CCO can know those players as groups and as individuals. Only a CCO can manage a market like this. ●

How-To

Noticing has been taken captive by the academic set. Post-modernists celebrate the *flaneur,* a person who strolls, saunters and loafs, noticing the city to which he or she goes. The idea of a flaneur is so prized, it has become a pose. It is played out in cafés, where we see moody young men scribbling in their Moleskin notebooks (the de rigueur brand of the moment) tormented by their genius and the need to commit illumination to paper. The cost of the pose is high. Some flaneurs are so busy posturing that they don't actually notice very much. And they are so very scrupulous about what they notice, they miss a great deal. Much of the urgent work of noticing goes undone.

Morgan Friedman

I much prefer the more sincere act of noticing that comes from a guy like Morgan Friedman. (No, not Morgan Freeman the American film actor) Morgan Friedman is a guy in his 30s who has created new standards for noticing. No posturing for Friedman, no sitting in a café hoping someone will mistake him for a tortured genius.

When Friedman spoke in New York City recently, he suggested that we actually talk to people. In one of his PowerPoint points, he exhorted us to "ask old people what the city was like when they were young.

"Old people are waiting for you. They spend their days on stoops and cafés doing nothing but remembering. They're the ones at the edge between different worlds connecting them together. Ask them what has changed in their everyday life the most since their childhood. Press them for details: 'The ice-man used to bring us ice once a week' or 'My husband couldn't afford my dowry!'"

While the flaneur is swanning about the city in reveries of self-exaltation, the Friedmanesque observer is running the city down, seizing the opportunity it gives for investigation. In the place of the PoMoPo (the postmodern pose), Friedman wants us to chat up an ancient neighbor despite the fact that he or she is badly dressed and, well, old. (The CCO is interested in everything, even the banal and unattractive.)

What a CCO Notices

There are two steps of noticing for the CCO. First, observe. Then, explain. Noticing is a matter of having nimble eyes and the ability to spot the telling or troublesome detail. Naturally, we want to be discreet about it. People do not like to be observed. But that's our job. The thing is not to stare. Keep the gaze moving. Periodically, it is useful to make the gaze go blank, and turn the gaze inward, to simulate distraction, absorption. But even after we have mastered the art of misdirection, someone will spot us.

The second step, explaining, could just as easily be called speculating. You are not looking for an exact rendering of what happened. Work up a rough sketch with no claims to veracity. This isn't inquiry. It's something more casual than an experiment. It's OK to be wrong. The thing is to engage. ●

Phatic Communication

Phatic communication is designed to show people how we feel. It doesn't have much informational content, but does have lots of emotional and social content. This type of communication helps sustain networks, which require a steady stream of small messages which are:

1. I exist.
2. I'm OK.
3. You exist.
4. You're OK.
5. The channel is open.
6. The network exists.
7. The network is active.
8. The network is flowing.

Philistines

You could be forgiven for thinking the case for culture is irresistible and that it's only a matter of time before every C-suite has a CCO. In fact, there are several parties who refuse or distort the idea of culture. I like to think of them as Philistines, the name traditionally given to enemies of culture.

Enemies in the C-Suite

On his retirement in February 2009, Robert Lutz was the vice chairman in charge of product development for General Motors (GM). Lutz was routinely referred to as the "design czar" at GM. And, indeed, it's clear he cared about design. He was responsible for the development of the Buick Enclave and the Chevy Malibu.

The trouble is, Lutz knew relatively little about the culture. What Lutz knew was cars, and what he liked about cars, by all accounts, was speed. A former pilot in the Marine Corps, he never got over his love of fast planes. In later life, he purchased and flew an Aero L-39 ex-Soviet jet fighter. And Lutz loved muscle cars.

But if we know anything about contemporary culture, it is that GM was out of step. The Japanese owned quality and used it to take away the sedan market. The Germans owned engineering and used it to take away the upper end of the boomer car market. Detroit struggled to improve on both counts, but it was clear that it would never catch up to Japanese quality or German luxury.

There was a competitive opportunity remaining, a place where Americans could beat the challengers. The real chance for Detroit was design, to make cars that vibrate with the cultural moment as deeply and profoundly as they had in the 1950s.

What Detroit needed was a man or woman in every

C-suite who understood what was happening in culture. It needed someone who understood what was happening in the minds of boomers (and why they were so deeply wedded to German cars), in youth culture (when the muscle car culture was back with new and strange differences and why cars like the funny, boxy little Scion were flourishing) and in the life, the heart and mind of the soccer mom (for many of whom the minivan felt like the end of everything — especially their youth and their joy). Detroit needed a senior executive who understood the consumer and the American feeling for mobility in every sense of the word.

And what they had was Lutz. He loved cars for his own deeply personal reasons. He loved muscle cars because they went fast. Lutz was worse than average as a "river captain." It's fairly safe to say that Lutz did not ever grasp the muscle car revival (the one portrayed by Hollywood in *The Fast and the Furious*). He must have revelled in the power and the glory and all that sound. Just as surely, he must have been mystified by the fact that it was being produced, in some cases, by tiny, winged Hondas. ●

Conclusion

Chris Hughes helped found Facebook and elect the 44th president of the United States, Barack Obama, both before he was 25 years old. As one of the three founders of Facebook, he had his own responsibilities. While Mark Zuckerberg and Dustin Moskovitz were writing code and building the infrastructure, Hughes was trying to figure out what Facebook was *for*. How would people use it? Hughes had CCO-like abilities to call upon. He emerged as the "official Facebook explainer: part anthropologist, part customer-service rep, part media spokesperson."

Hughes didn't think Facebook users wanted a virtual Rolodex. (This seemed to be the LinkedIn idea.) He believed the big idea here, the killer app, was *sharing content*. People would use Facebook to distribute knowledge and photographs. And he was right, to the tune of 24 million photos a day. Without Hughes acting as unofficial CCO, Facebook might be yet another online experiment. Certainly, if Hughes were still at Facebook, it would never have declared itself the owner of all the content on the network. The idea was to *share* content, not give it to Facebook.

Hughes helped build My.BarackObama.com (MyBO), a website that put enthusiasts in touch with the campaign and the campaign in touch with them. The party fund-raiser wanted to use the network to raise cash. But here, too, Hughes had a better idea. He suggested supporters be deputized as spokespeople. He gave power to supporters on the ground and decentralized the campaign. It was daring, to be sure, but it made the campaign responsive to local conditions.

Hughes served both Facebook and the Obama campaign as a COO. He had a feeling for the moment, for the opportunity, and he drew these from his knowledge of who the "consumer" was and what he or she wanted.

The First-Generation's Responsibility

Acting as first-generation CCO is never easy. The first order of business is humility. Many people in the C-suite will not get what we do. They will think we mean "culture" with a capital C, as in high culture, museums, art and orchestras. Or they will think we mean "corporate culture." It will be up to us to explain what culture is, why it matters, what we do and how we create value.

We want to help someone in the C-suite solve a problem. We want to show how knowing about culture makes them more strategic and more tactical. We want to make ourselves indispensable, the person who really "gets" the problems that human resources (human capital) is wrestling with. We want to be at the right hand of the CEO when he or she looks into the middle future and asks, "OK, what's our best play?"

The corporation has been keeping culture at bay for a very long time. Our job is to manage its new spirit of openness. The best way to do this is to demonstrate the value of what we do, as when we supply critical intelligence, help answer the big question (what business are we in?), see the significance of shifting technologies, read sudden changes in consumer taste and preference, sift the perfect storm of the economy for opportunity and danger and perform pattern recognition now that pattern recognition is the first order of business.

In sum, we are the first generation and we have to act like one. ●

RECOMMENDED READING LIST

If you liked *Chief Culture Officer*, you'll also like:

1. ***Exploiting Chaos* by Jeremy Gutsche.** One of the best trend spotters in North America reveals that periods of uncertainty actually fuel opportunity, reshuffle the deck and change the rules of the game.
2. ***Multipliers* by Liz Wiseman and Greg McKeown.** The authors teach readers how to become multipliers of talent and people and how multiplying can have a resoundingly positive and profitable effect on their organizations.
3. ***Trade-Off* by Kevin Maney.** Maney shows how almost every decision consumers make involves a trade-off between fidelity and convenience — between the products we love and the products we need.

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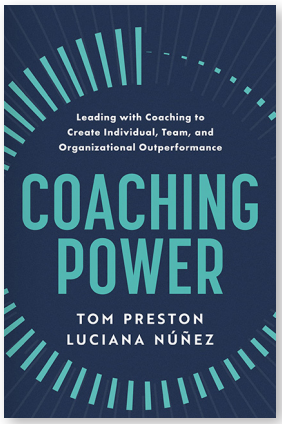
Coaching Power

Tom Preston, Luciana Nunez

Executive Book Summaries®

Coaching Power

Leading With Coaching to Create Individual, Team, and Organizational Outperformance



by **Tom Preston and Luciana Nunez**

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THE SUMMARY IN BRIEF

The ability to lead with coaching is now not a nice-to-have, it is an essential. Leaders today are navigating ever more complexity that comes from every angle. They are leading across five different generations, all of whom expect different forms of leadership. The commercial and organizational landscape is fast moving and unpredictable, yet they are expected to navigate it with a deep duty of care to customers, employees, the environment, and the regulatory framework, to name just a few of the stakeholders, and still make companies sustainable and profitable. How exactly are they supposed to do this?

In ***Coaching Power: Leading With Coaching to Create Individual, Team, and Organizational Outperformance***, Tom Preston and Luciana Núñez teach people that in order to do this, they need to adopt not just a new mindset or set of learned skills—they need to acquire a totally new way of being as leaders. Whether coaching an individual 1:1, a team, or a group of people, leaders have a responsibility not only to be great coaches to help the people they are working with, but also to help them to develop their own coaching skills to become ever better leaders. This book will equip you with the tools, frameworks, mindset, and way of being to do that, for yourself and for the people you lead and influence.

IN THIS EXECUTIVE BOOK SUMMARY:

- Navigate what it means to be a leader.
- Learn the fundamentals of coaching.
- Discover what makes high-performing teams.
- Uncover how to have the right and effective form of communication with team members.

Your Job As A Coach

The job of a coach today is someone who helps take one or more people from where they are to where they want to be, in life, in business, in their careers, or even in their level of happiness.

Coaching Is a Key Leadership Skill for the Future

The skills that the future will demand of leaders are much more attuned with some of the most fundamental coaching skills. These are: adaptability and flexibility, emotional intelligence, collaboration and team building, visionary leadership, and cultural competence.

Fundamentals First: Leadership in Combination with Coaching

The Fundamentals of Leading with Coaching

There are many views on what constitutes good leadership, so look at leadership through the lens of leadership in combination with coaching. These are defining success, involving others, staying invested, and avoiding the common pitfalls.

Anatomy of a Good Leader

Five characteristics that the best leaders have in common: ability to influence others, integrity, empathy, communication skills, and resilience.

What People Want from Work

Purpose and Authenticity: Leaders need to be able to honestly articulate the purpose of what an organization does in such a way as to be meaningful to the people who work in the organization and those who they serve.

Remuneration: Remuneration might have a higher weighting for people working in a bank than for those working in a green energy company. Many leaders have fallen into the trap that money is the most important and effective tool to deliver what people want from work.

Sense of Belonging: Most people want to learn, to develop, and to grow, personally and professionally. Teamwork, belonging, good relationships, fairness, and fun are all fairly basic human wants.

Flexibility: Post pandemic, people know that working flexibly is effective and liberating and can be effectively combined with being physically present with others.

Coaching Fundamentals

Listening: The truth is that real listening comes about through deep concentration. It requires people to empty their minds and focus on another person and what they are saying. When people are actively listening they are **CALM—in Curious. Active. Listening. Mode.**

Questioning: Asking good questions-Behind good questions is the supposition that the person being coached has the capacity to find solutions when asked the right questions and are then listened to carefully.

Suggestive questioning-As a leader, it is helpful to share their experience and wisdom.

Forward Momentum: How Coaching Can Take You from Reflection to Action

Forward momentum is essential to coaching, for three reasons:

1. It builds motivation
2. It helps overcome resistance
3. Develops adaptability

Check your biases at the door and beware of projection. Adopt a coaching mindset by having the right attitude and mindset as well as the belief that coaching really works.

The Magic of Storytelling: Emotional Leadership

Tricks from the Best

Great leaders never use a conventional communication structure or presentation structure. They also understand that they need to focus on the attitude or the behaviors needed to achieve success, that nobody champions change unless they fully understand the benefit of the change, and they describe how they will measure success.

The Emotional Leadership Flow

Lay out clearly what SUCCESS looks like. Set clear EXPECTATIONS. Give CONTEXT. Agree what are the BENEFITS. Specify how they will MEASURE success.

Beliefs and How They Influence Leadership Styles

Looking at Core Beliefs

It is only through starting to understand your own life story and how that has influenced your beliefs and values that you can start to coach...

Collaboration vs Competition- leaders who believe in collaboration are naturally adept at being team players, and they lead teams in a way that creates a visible sense of collective cohesion and alignment toward shared goals.

Scarcity vs. Abundance- these beliefs are typically shaped by the culture, values, and reality of a family and later as an individual in society around access to money, opportunities, and resources.

Safety vs. Danger- these beliefs are typically more subtle and nuanced than the previous two areas, and they are often a combination of psychological, emotional, and environmental factors.

How Your Life Story IS Your Life Until Challenged

Beliefs are created in two ways. The first is through something you experienced yourself. The second is a belief that gets transferred to you by someone of influence over you at a certain time.

Deconstructing Early Life Influences

One's early life influences their lives forever—until they audit it and decide, as adults, what they want to retain and what they want to let go. It is only through starting to understand your own life story and how that has influenced your beliefs and values that you can start to coach and help others to understand their beliefs and values and how they may help or hinder them.

Using Intuition as a Coach

In the business world there is often a tendency to value logic and reasoning over intuition. People now know that both are equally important.

Intuition can help build:

Emotional Perception- This is how people are capable of picking up on subtle signs such as body language, tone of voice, and facial expressions.

Empathy- Through intuition, leaders that want to be good coaches can sense the emotions underlying someone's words or actions.

Decision Making- Good coaches that understand intuition can help coaches unpack their decision-making criteria.

Social Skills- It helps individuals gauge the emotional climate of a situation and adapt their behavior accordingly.

One-to-One Coaching

Trilogy Questions: The Secret Sauce to Effective Thinking Partnerships

What do I want?

WHAT is going on, what does success look like, what have we done so far, what have we learned.

How will I get it?

HOW follows through with real ease, because a lot of the actions you identified during the previous stage.

Who needs to be involved/When is the outcome expected?

This is all about creating commitment and ownership for next steps in terms of WHO and WHEN.

Beware: "Why" Is a Four-Letter Word in Coaching

Avoid questions that start with "why" because it creates defensiveness and it puts the focus on the past.

The Art of Self-Determination: Deciding on My Way of Being

Beware the Overuse of Humility: As a coach, use authentic praise when it is due as a way to balance someone's humility with their confidence.

Over to You, Coach: People all know that the words they use

with other people matter, yet they rarely audit the words they use on themselves to check whether they are empowering and enabling or an extremely subtle form of self-sabotage.

The Power of Visualization

The Business of Sport: See It, Feel It

Sports coaches train athletes to visualize everything they do before they do it. They can use the same techniques in their day-to-day lives and their work.

Visualizing for Public Speaking: How to Tame Your Performance Anxiety

You can really help people overcome their fears with some good presentation coaching that uses visualization as a core tool. Follow these steps:

Step One: Content- Keep in mind what your audience wants to know, how you want them to respond to the presentation, and how you want them to feel about it.

Step Two: Practice, Practice- Once the script is written, it needs to be practiced over and over again.

Step Three: Visualize- Encourage the presenter to visualize the audience, to visualize their own confidence in their delivery, and to picture the audience showing their attention.

The Importance of Values in Leadership and Coaching

When it comes to coaching, values are of deep importance because a good coach needs to adapt their style and approach to what's important to their client.

Direction: Values provide a moral compass that helps individuals navigate life's challenges and make decisions consistent with their beliefs and principles.

Identity: Values define who individuals are and what they stand for, shaping their self-concept, purpose, and worldview.

Motivation: Values influence motivation and behavior by determining what individuals consider meaningful and worthwhile pursuits.

Personal Branding: Crafting Your Authentic Personal Brand

Having clarity on your personal leadership brand will help you make more meaningful connections with others by being your most authentic self, it will help you amplify your impact by focusing on what matters most to you, and it will help you pave the way to better career choices by defining what you want and what you bring as a leader.

Coaching Leaders to Develop Their Personal Brand Manifesto

Do: Take the time to get to know them, help them connect their values to their achievements, challenge them to be bold and make choices that represent what really matters to them, and encourage them to share with people they know and trust.

Don't: Worry about sounding "proper" or "polished", take shortcuts, and forget about connecting their achievements with the impact that was created in other people and the broader environment.

Redefining Impostor Syndrome

Impostor syndrome refers to a pattern of beliefs where an individual doubts their accomplishments and has a persistent fear of being exposed as a "fraud". When you coach people, eventually the topic of impostor syndrome will come up, and this perspective is that coaching is actually a great vehicle to turn it onto its head.

How do you do that? Acknowledge it. Listen to it. Provide evidence of the contrary. Make a plan and act accordingly.

The regular practice of channeling your self-doubts into fuel for self-improvement will help you:

Embrace Challenges, cultivate persistence, learn from feedback, adapt strategies, and celebrate progress.

The Gray Zones: Coaching, Consulting, Mentoring, and Advice

Coaching is a structured process in which the coach guides a client through a series of questions, and the client finds their own authentic answers.

Mentoring is usually a relationship between someone more experienced and someone less experienced, where the more senior person openly shares knowledge often from a similar career path.

Consulting is a profession in which an expert is engaged in

High-performing coaching teams fully take and accept accountability and ownership for actions that need to be implemented.

helping a client solve complex problems and challenges for which the consultant provides specialized knowledge.

Advising is typically a one-off action, and it can take place in a variety of formats: from peer advice from colleagues or friends in a specific situation, to a mentor providing perspective.

Coaching Teams

Common Traits of High-Performing Teams

- They share a clear vision of collective success.
- They actively foster trust as a performance enabler.
- They are courageous, while remaining respectful.
- They are aligned and act as one.
- They fully take and accept accountability and ownership for actions that need to be implemented.
- They have shared and codified behaviors that support their definition of collective success.

Coaching Your Team

Laying Down the Foundations- the whole team will get behind the importance of "soft" topics that are so important to their ability to deliver on the hard outcomes that will be required of them.

Determining the Team's Strategic Priorities- Once you have laid the foundations with the team, you can then move into working on the future-driven strategic house.

Strategic Thinking

Building Your Strategic House

The Roof of the House: Team Collective Success => The What: This is the purpose of the team within the business.

The Pillars of the Strategic House => The How: Once your vision and goals are established, it's key to get into execution.

Aligning the Main Goals, Key Initiatives, and Capabilities

- Main goal: What does success look like for this strategic pillar?
- Key initiatives: What are the three to five core drivers and deliverables that will get you there?
- Capabilities: What are the mission-critical organizational capabilities that will enable your team and organization to deliver these goals and initiatives?

Stakeholder Influencing

Developing a Stakeholder Map

Hierarchical Stakeholders- Stakeholders above, in differing levels of seniority, those equal to, those below, also in different levels of seniority.

Enterprise-Wide Stakeholders- People or teams across an organization who have any form of interdependency with a team or individual.

Career Influence Stakeholders- Who can influence promotions or who can put people at risk of redundancy.

Client and Target Client Stakeholders- Quite well thought out at the time of the year when budgets are prepared.

Partner and Supplier Stakeholders- For some organizations external stakeholders can be as important to engage with as internal.

Crisis Stakeholder Mapping- Time to think through all those who may be touched by a crisis.

Life Stakeholders- It is also worth thinking about those beyond work that matter to an individual.

The Power of Safe Feedback

Courageous Conversations

Check Your Intent: Really investigate whether the intent is to help, enable, and open them up to possibility.

One-to-One Courageous Conversations: Start by telling

someone what they are really good at. Move onto what you think that they would benefit from doing more of then what you think that they would benefit from by doing less of. Finally, think of anything that they should start doing that they are not doing and what they should stop doing that is unhelpful.

Courageous Conversations in Team Settings: Give the teams unfinished sentences to facilitate their individual one-to-one conversations.

Coaching for Empowerment

Practicing Empowerment: Empowerment Is Not a One Size Fits All Approach: Good leaders know how to do gradual empowerment, adapting the ask and the task to the person and the context, based on their skill and will.

Structuring an Empowerment Conversation:

Step 1: What Does Success Look Like?

Step 2: What Do You Need from Me, and What Do I Need from You?

Step 3: What and Who Do You Need to Know to Be Successful?

Step 4: What's in it for You and Us?

Step 5: How Will We Measure Success?

Great Team Meetings in Any Environment

Here are a few best practices that can help you create an edge to your meetings:

- Be prepared
- Invite the right people
- Focus on co-creation, discussions, decisions, and problem-solving
- Take the time to check in and set the tone
- Make sure the WHAT is clear
- Give a voice to everyone
- Practice C.A.L.M. active listening
- Empower your team
- Gather live feedback
- Follow through

When to Get the Pros In: Hiring External Executive Coaches

External 1:1 Executive Coaching: To Have or Not to Have: Overall, it is recommended for leaders to consider engaging with an external Executive Coach as they near the top leadership levels in their organization.

External Team Coaching: To Do or Not to Do: Generally, for senior or newly constituted teams it is well worth exploring external team coaches that can then be paired with the leaders adopting a coaching leadership style day-to-day.

Keep It in the Family: Ultra High Net Worth Family Coaching: The one time it is suggested only considering the use of an external Executive Coach is for the purpose of coaching Ultra High Net Worth (UHNW) families and within their operating businesses.

Want to Build a Coaching Culture?

Preparation

Picking a few focus points that perhaps are not yet fully formed ways of working that would greatly improve the performance and happiness of an organization is an important place to start.

Formation: The Combination of Training and Practice

In order to instill a coaching culture, there are two phases that need to be formed—coaching skills training and coaching skills practice. Once people are trained in the coaching basics to be adopted, the approach to practice needs to be carefully considered.

A Look into the Future: What Leaders Need to Be Future-Fit

Emotional Intelligence (EI): Emotional intelligence (EI) is the ability to recognize, understand, manage, and influence one's own emotions and the emotions of others.

Digital Literacy and Technological Fluency: Understanding digital tools, data analytics, and AI will be crucial for making informed decisions in a tech-driven world.

Adaptability and Agility: As a leader-coach, you can help your team become more agile and adaptable through: Cultivating a growth mindset, improving decision-making

skills by building practice and muscle, strengthening trust and collaboration in your teams, and encouraging flexibility in their leadership style.

Cultural Competence: Future-fit leaders will need to develop: Self-awareness, openness, curiosity, and humility, knowledge of other cultures, cross-cultural communication skills, and adaptability.

Artificial Intelligence: The Single Most Powerful Force Shaping the Future

The Impact of AI in Business: There are five main areas that are believed will be deeply impacted by AI: Enhanced Decision-Making, Automation and Productivity, Talent Management and Reskilling, Personalization and Customer Experience, and Innovation and New Business Models.

Then What? The Impact of AI in Leadership: Hard skills like data processing will be automated. AI can augment and potentially replace many cognitive aspects of leadership like analyzing data and information.

Soft skills like adaptability will become mission-critical. Leaders will need to be humble about constantly learning from others, open to changing course when needed, able to articulate a clear vision, and deeply engaged with their environment.

The necessities to become an effective leader have developed over time. Recently, evidence supports that leadership will need the skills of coaches to develop and maintain efficient teams. These consist of adaptability and flexibility, emotional intelligence, collaboration and team building, visionary leadership, and cultural competence. People need to be clear on their definition of collective success at any given time, they need to empower people to respond with agility to the solutions they need to find every day, and they need to motivate and engage people while supporting them, providing them with both strategic and emotional leadership in a flexible style that is accessible to the types of people they lead.

Through ***Coaching Power,*** leaders are able to look at themselves and their roles and understand what their title truly means. By learning coaching techniques, people are able to empower their team through various methods and take their leadership to new levels. Furthermore, it helps reassure trust for future generations to thrive in the knowledge that the current issues with leadership are being taken care of today.





Tom Preston has been an Executive Coach for the past 22 years, having founded The Preston Associates, one of the world's leading boutique Executive Coaching firms. Tom has worked with some of the best leaders of commercial organizations across multiple sectors and geographies. Luciana Nunez is an Executive Coach with over 20+ years of international experience as a leader and CEO. Her journey offers her a firsthand understanding on the pressures, challenges, and exhilaration of leading in today's complex business world.

Coaching Power: Leading With Coaching to Create Individual, Team, and Organizational Outperformance by Tom Preston and Luciana Nunez. Copyright 2025 John Wiley & Sons, Inc. Summarized by permission of the Publisher, John Wiley & Sons, Inc. ISBN 978-1394293414. Summary published by Soundview Executive Book Summaries®. Copyright 2025 Soundview, Inc. All rights reserved. Reproduction in whole or in part is prohibited. For permissions and reprints, please contact service@summary.com. *4719*

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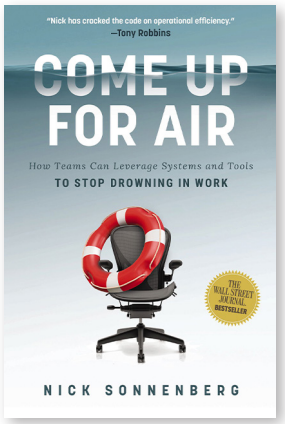
Come Up for Air

Nick Sonnenberg

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Executive Book Summaries®

Come Up for Air

How Teams Can Leverage Systems and Tools to Stop Drowning in Work



by **Nick Sonnenberg**

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THE SUMMARY IN BRIEF

How many times have you heard someone utter the phrase, "I'm drowning in work"? If you're like most people, it's a frighteningly common occurrence. You're busy and operating at max capacity, yet the flow of incoming work never lets up. You and your team are perpetually overwhelmed and working late nights and weekends become the normal way of operating. It doesn't have to be that way.

In ***Come Up for Air: How Teams Can Leverage Systems and Tools to Stop Drowning in Work,*** author Nick Sonnenberg shares his proven operational efficiency framework that will help you and your team understand how to work together efficiently by knowing when and how to use all of the amazing technology at your disposal. Eliminate thousands of seemingly small inefficiencies at work that add up over time to become major drains on everyone's productivity. It's all possible with the CPR Framework, which helps teams harness the power of new systems and tools to multiply their capabilities, operate efficiently, and embrace the future of work.

IN THIS SUMMARY, YOU WILL LEARN:

- The three domains of the CPR Framework
- How to organize and best use communication at work
- How to implement a four-domain planning process
- Storing resources to protect company knowledge

The CPR Framework

PROBLEM: Most teams are drowning in work because they're using yesterday's methods in today's fast-paced environment. Either they're unaware of modern tools or they lack knowledge around when and how to best use them, which holds them back from streamlining the way they work.

SOLUTION: Aligning as a team on when and how to use each available tool is the best way to remove roadblocks to get work done faster. This alignment can quickly create a more productive, less stressful, and more enjoyable work environment.

The CPR Framework focuses on eliminating the pain points most teams experience by optimizing the three operational areas foundational to every organization: Communication, Planning, and Resources.

Regardless of size or industry, all organizations need to *communicate* (with their team and with external people such as investors, customers, vendors, and partners); *plan* and manage the work that needs to get done; and document all of their proprietary *resources* and knowledge (such as standard operating procedures and processes) to ensure that the business continues to run like a well-oiled machine.

Efficiency in all three of these domains can be boosted with the use of tools. If teams don't know how to use the right tools, in the right ways at the right time, they'll be left drowning in work. Digital tools used in the right ways at the right times allows teams to come up for air. The overarching principle is that knowing when and how to use each type of tool is far more important than the tools themselves.

There are many highly functional tools within each of these categories that effectively do the same thing. The problem is that people are not using them correctly and teams are not aligned on when and how to use each. *This is the primary problem that the CPR Framework solves*.

Defining the tools within the CPR Framework

- Email Tools: used only for communication with people *outside of your organization*
- Internal Communication Tools: used for *communication internally* with team, not managing work (Slack, Microsoft Teams, etc)
- Work Management Tools: *used for getting work done* (Asana, ClickUp, Monday.com, Jira, etc)
- Knowledge Base Tools: used to store information and answers the questions: *Who, What, Where, When, and/or Why?* (Coda, SharePoint, Notion, Confluence, etc)
- Process Management Tools: used to document and optimize recurring processes within your organization, answering the question: *How?* (Process Street, Pipefy, SweetProcess, etc)

These foundational elements are crucial for anyone looking to embrace and implement the CPR Framework.

Part 1: Communication

Today, the value of communication networks is almost incomprehensible. But as technology increases, the number of interactions increases exponentially. This increases the value of the network, but it also creates a whole lot of noise and complexity.

We live at a time where it has never been easier, quicker, or cheaper to communicate with someone anywhere in the world whether that's via an email, text message, phone call, WhatsApp message, Zoom meeting, social media comment, or anything else. The problem is that as the number of interactions increases exponentially, *so does the time required to process them*. But technology itself is not the problem. The problem is that we're using it wrong. *And we have been for decades*. That ends now.

Principles of Efficient Communication

PROBLEM: With so many communication methods available, the modern workplace has become distracting and overwhelming. Messages can be hard to find or go unnoticed, affecting culture and making it difficult to move work along.

SOLUTION: By aligning when to use each type of communication method available to them, teams can limit distractions, reduce the Scavenger Hunt, and free up their time to get work done without all the headaches.

Teams often fail to understand the importance of organizing communication, and this is how the Scavenger Hunt starts. In the moment, we optimize the speed of transfer of information and go for the path of least resistance. But unfortunately, the few seconds saved in the short term end up costing us in the long term.

When you need to find a past message, you're now wondering if it was sent in an email, on Slack, or on a sticky note someone placed on your desk. You need a system for

An obvious productivity hack is to rely on asynchronous communication as much as possible whenever appropriate.

organizing communications at work.

Most organizations are set up in a "push" communication environment, where information is pushed out to you nonstop as a result of optimizing solely for speed. The barrage of incoming information is a distraction that takes teams out of their flow states and away from their most important work, creating one of the largest time sucks seen in companies.

Instead, you and your team need to be able to "pull" the information you need when you need it. When done correctly, you'll still be able to get information sent and off your plate, but it won't cause an immediate distraction to the person you're communicating with. This limits distractions and allows everyone to take back control of their workflow and decide when to communicate and when to focus on work.

A "pull" environment leverages the notion that some times of the day are more valuable than others. Peak times vary from person to person and each individual should focus on their most important work when their brains are at full horsepower. The benefits extend by aligning on when and how to best use asynchronous communication.

An obvious productivity hack is to rely on asynchronous communication as much as possible whenever appropriate. This allows you to reduce distractions, optimize time, and provide a way to easily retrieve information. Asynchronous communication can easily be misinterpreted or misunderstood.

If the communication is straightforward and simple, conducting it asynchronously is a win for everyone involved. But when it's not, it can cause further problems down the line, making it less efficient in the end.

Communication that requires tonality, context, or a personal touch should be conducted synchronously, in real time. Here are a few quick examples of situations when synchronous communication is typically better in a team environment:

- Providing lengthy feedback
- Brainstorming
- Situations that involve many questions or back-and-forth conversations
- Anytime you need to make sure everyone is on the same page
- Sensitive conversations like promotions or terminations

External vs Internal Communication

External communication is when you're communicating with anyone outside your organization, like a partner, vendor, agency, client, or potential new hire. Internal communication is, of course, when you're communicating with people inside your organization.

Separating these two types of communication into the right tool for the right job is crucial for both efficient communication and the retrieval of information. The rule is that email should be used for external communication only, while internal communication tools like Slack and Microsoft Teams should be used for internal communication. This separation is typically the fastest way to alleviate the Scavenger Hunt in most organizations.

Inbox Zero

We've already established that email should be the default method for external communication. But for all the amazing value email provides us, it is one of the most dreaded tools in the modern marketplace. There's an important concept that everyone must understand if they want to regain control of their inbox. Forget everything you've ever heard about email and replace it with this simple definition:

Email is just an external to-do list that others can add to.

Without the right restraints in place, other people can control your time through email. Inbox Zero is a method for managing your inbox that allows you to quickly and easily deal with every email that comes to your inbox.

Getting to Inbox Zero for the first time involves three key steps.

1. Cut out the noise: Use filtering options in your setting to divert unimportant emails from getting to your inbox in the first place.

2. Rip the band-aid off: This involves selecting all emails in your inbox that are older than thirty days and archiving them. By archiving them, they are not gone forever…you'll still be able to access them by using the search function.

3. The R.A.D. System: This is what you'll be using on a daily basis to maintain Inbox Zero. R.A.D. stands for Reply, Archive, or Defer, which are the three actions you can take when an email comes to your inbox.

- Reply: If it requires a reply, reply to it and then archive it. That email has been dealt with and no longer needs to be sitting in your inbox.
- Archive: If you've already responded or they don't warrant a response, archive them.
- Defer: If an email is not relevant now or you don't have time to deal with it immediately, snooze it to a time when you will be more available.

The goal is to always reply, archive, or defer until there is nothing left, or until just a few actionable emails remain, which you will deal with in the near future.

Part 2: Planning

Projects, whether you realize it or not, are a fundamental part of nearly all our lives. They create value out of thin air and make up a significant portion of our economy. But there's a problem. The unfortunate reality is that around 70 percent of projects in the workplace fail.

This happens because most organizations don't have a framework for deciding which ones to focus on and how to work through them in the most efficient and effective ways. There are four components that culminate in a planning framework that is flexible, efficient, and applicable to nearly any industry.

Efficient Meetings

PROBLEM: More often than not, meetings are ineffective, and, at times, completely unnecessary. They're one of the largest sources of inefficiency in organizations, preventing teams from getting their actual work done.

SOLUTION: The cost, frequency, and length of meetings can be reduced through simple techniques like asynchronous communication, agendas, prework, and more. The result is more time for important work and less time spent in unnecessary, unproductive meetings.

The biggest tip regarding meetings is to simply eliminate them. People tend to hop on a call or schedule a meeting every time a minor hiccup occurs and it needs to stop.

There are two ways that can happen:

- Deleting it or never scheduling it in the first place
- Conducting it asynchronously

The first is self-explanatory. The second, however, can be done in a variety of ways. You can cover what needs to be said in a few messages with your internal communication tool. Or maybe it can be covered with a task in your work management tool. The other way is to use video or audio recordings to hold what is effectively an asynchronous meeting.

If a meeting needs to be held, to brainstorm, solve complex problems, deal with sensitive issues, or build culture and rapport with the team, there are strategies you can use to make it shorter, more cost effective, and less painful:

- Keep it short
- Account for breaks between meetings
- Audit the attendees, considering who truly needs to be there
- Assign pre work to get everyone prepared
- Avoid round robin reporting
- Use an agenda
- Assign a moderator and a note taker
- Organize action items
- Track decisions made in the meeting

Making meetings more efficient is one of the quickest wins you can implement. The next components will focus on how to set up your work management tool in the best way possible, which is crucial for team productivity.

Principles of Efficient Work Management

PROBLEM: The information required to move work forward is often spread across multiple tools and places, which is inefficient and frustrating.

SOLUTION: Organizing all work-related information in one purpose-built tool gives everyone access to what they need to get work done, provides unparalleled visibility and transparency, and seamlessly organizes all the moving parts involved in tasks and projects.

Most knowledge workers juggle so many different re-

Most people don't know their true bandwidth because they've never taken into account how much time they spend in meetings and other activities within their role.

sponsibilities from day to day that it can be difficult to remember everything you're supposed to do and all the commitments you've made to your fellow team members. And when everyone has their own way of organizing their work, it only makes it more difficult.

Work management tools are key to facilitate all daily work, manage projects, and plan long-term initiatives. A work management tool is like a to-do list, but instead of a notepad it's an all-encompassing collaborative to-do list in the cloud for your entire team. When used properly, everyone knows what to work on and when.

At the highest level, a work management tool should be used for anything *actionable*. If you want to know something is going to get done, this is the best place to put it. Once work is in the tool itself, all relevant questions, updates, ideas, and thoughts related to that work should then be added to the relevant task, project, or portfolio within your work management tool.

A work management tool is optimized to retrieve work-related information. Anytime anyone needs to get work done, they can hop into this tool and find everything you need–whether that's a critical attachment or information from a team member's work that will help them move their work along.

As you begin using a work management tool with your team, keep in mind this core principle: if it's related to work that is being done or will be done, it goes in your work management tool. It goes in your work management tool if you:

- Have a question about a task
- Want to delegate something
- Have a status update about your work
- Want to capture the state of something
- Need any action of any kind to be taken
- Want to know that it's going to get done

To keep yourself and your team more productive within a work management tool, there are two things you and your team should be doing on a regular basis:

1. Respond to comments so you unblock your colleagues and tasks move along.
2. Organize your own tasks to stay on top of incoming work and keep your to-do list tidy.

Just by doing this, you and your team will get significant value from your work management tool.

Workloads and Capacities

PROBLEM: Most people don't know their true bandwidth because they've never taken into account how much time they spend in meetings and other activities within their role. This results in unrealistic estimates of how much time it takes to do new work and long hours to get everything done.

SOLUTION: Accounting for time spent in meetings and on administrative tasks in the key to calculating your true bandwidth. Once this calculation is done, people can assign themselves a realistic workload and still ensure the highest-priority work gets done.

Sprint planning is the process you'll use to prioritize everyone's time and ensure that progress is being made on those projects while also allocating the right amount of time for everything else. Simply put, the idea is for a team to agree to complete a certain amount of work within a short period of time called a "sprint." The team will work on what needs to happen to move the project forward and agree to complete the highest priority tasks during the upcoming sprint.

Most people assume that they have forty hours of bandwidth every week, but they don't account for time spent in meetings, admin tasks, recurring work essential to their role, and email. As a result, they bite off more than they can chew and at the end of the week, they haven't even come close to getting everything done and they feel underwater. This is the problem that sprint planning solves and it all revolves around a simple formula:

Bandwidth = Capacity - Admin - Meetings

- Bandwidth: time available for new work
- Capacity: the total time you're expected to work (say,

forty hours per week)

- Admin: time spent on administrative tasks and other responsibilities within your role
- Meetings: time spent in meetings

At the beginning of each sprint, which is typically done weekly, you take your *capacity*, then subtract the time you estimate spending on *admin* and *meetings* during the upcoming sprint. This will leave you with your remaining *bandwidth*, which is the amount of time you can dedicate toward new tasks. By adding an estimated number of hours to your tasks, you can then just assign yourself the highest-priority tasks until you've used all your remaining bandwidth. That way, you've given yourself a reasonable amount of new work to do, ensuring you won't be overloaded.

This might seem like an overly simple process, and it is. *The problem is that no one actually does it!* And it's the primary reason why so many people feel underwater at work. Sprint planning has the potential to drastically improve the way you and your team work from week to week and is perhaps the most effective way for teams to come up for air.

Goals and Planning

PROBLEM: Most organizations don't hit their goals. It's not because they aren't capable but because they don't have a system for aligning on what matters most, measuring their progress, and tying goals to the work needed to achieve them.

SOLUTION: Implementing a goal-setting system that enables a team to align on what matters most, track progress in real time, and clarify what success looks like is the key to making consistent progress toward achieving an organization's long-term mission.

Organizations need to have goals to push themselves forward, but more importantly, they need a plan for how to achieve them without taking the time to think through even the most basic questions surrounding them, like:

- How will we know we've achieved the goal?
- How and where are we going to measure our progress?
- What work needs to get done to achieve the goal?

Implementing a clear strategy for setting and achieving goals is one of the best leverage points in any business. Planning strategies improve both efficiency and effectiveness.

One system that works well is called Objectives and Key Results (OKRs.) It's a collaborative goal-setting framework that empowers teams and individuals to create challenging, ambitious goals with measurable results. OKRs provide clarity, focus, alignment, and accountability.

OKRs consist of two components: an objective and three to five key results. Objectives are large, qualitative goals that are then tied to several key results. Key results are quantitative measures that are used to define the success of the objective they're tied to. Measurability is what defines a key result. That is how you gain clarity on whether or not it has been achieved.

With OKRs, the idea is to visualize where you want to be a year from now and consider what needs to happen from quarter to quarter to feel like you've made meaningful progress. This is then put into practice by creating both annual and quarterly OKRs.

Here is an example:

Objective: Improve Financial Health

Key Result 1: increase profit from $10 to $40 million

Key Result 2: increase revenue from $50 to $100 million

Key Result 3: increase annual recurring revenue from $30 to $80 million

Key Result 4: increase LTV:CAC ratio from 1.5 to 2

This is an annual OKR, and you can see how it would make sense to break it down into four quarterly OKRs to make sure consistent progress is made throughout the year. OKRs serve as your north star.

They provide direction on priority, so that everyone at an organization understands what matters most in the given time frame.

Part 3: Resources

As an organization grows, it accumulates information and assets. How to do certain activities, who does what, policies, files, and documents all accumulate over time. This turns into intellectual property (IP) of the company itself. While you might think of IP only in relation to products and services, *the way people operate and how things work is just as important*. Really, IP includes all of the systems, processes, workflows, and assets it takes to run an organization. This "company knowledge" is a living, breathing part of an organization.

The problem is that company knowledge typically lives in

the minds of the people who work there, not the company itself. When they leave, the knowledge goes with them and can cause some serious problems. The R in CPR is all about setting up a system where that information isn't just floating around in people's brains but is strategically stored within the company itself.

In order to put this into practice, company knowledge must be separated into two categories: static and dynamic. Static knowledge consists of facts and information and consists of things like company vision and mission, core values, PTO policies, health care information, style guides, branding assets, client testimonials, and the like.

Dynamic knowledge is used to facilitate work. Things like how to run payroll, onboard a new hire, update metrics, and such. When documented properly, it allows anyone to complete a process regardless of training or experience.

Separating and documenting these two types of knowledge into a knowledge base and a process management tool is the best way to document a company's intellectual property.

The CPR Framework has the potential to change many lives and businesses. It gives you and your team the gift of time and makes you ready to embrace the future of work.



Nick Sonnenberg is an entrepreneur, WSJ Bestselling Author, Inc. columnist, and guest lecturer at Columbia University. He is the founder and CEO of Leverage, a leading operational efficiency consultancy that helps companies implement the CPR® Business Efficiency Membership, which consistently results in greater output, less stress, happier employees, and the potential to gain an extra full day per week in productivity per person. Nick and his team have worked with organizations of all sizes and across all industries, from high-growth startups to Fortune 10.

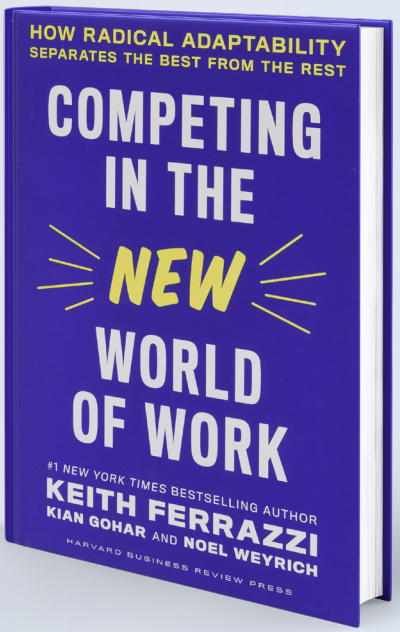
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Competing in the New World of Work

Keith Ferrazzi, Kian Gohar, Noel Weyrich

BOOK SNAPS™
Zooming In On Your Next Read



Competing in the New World of Work

By Keith Ferrazzi, Kian Gohar, Noel Weyrich

Keith Ferrazzi is the founder and chairman of Ferrazzi Greenlight, a management consulting and coaching company that works to transform many of the largest organizations and governments in the world.

Kian Gohar has coached the leadership teams of dozens of Fortune 500 companies. He is a sought-after public speaker on innovation and has been featured on CNBC, NPR, and Axios.

Noel Weyrich has coauthored and edited more than twenty business leadership books and personal memoirs. He divides his time between Philadelphia and New York.

Time to Redefine Success

Keith Ferrazzi, Kian Gohar, and Noel Weyrich are all part of a business think tank, Ferrazzi Greenlight, that teams up with several businesses across different niches to collaborate and co-create ideas for the "new world of work." This group includes business professionals and leaders across multiple niches and talents. Everything recorded in ***Competing in the New World of Work*** is based on the experimental findings within this group, including tracked percentages and market growth.

In many ways, the 2020 COVID-19 pandemic was the kickoff to the concept of working in new ways. Businesses were forced to pivot and make decisions at a moment's notice, which is proof that we can do better for our work environments and teams. The question becomes: Will we continue to do so or slide back into what we believe is comfortable?

The authors of *Competing in the New World of Work* argue that while all businesses have the capability to rise up to the co-creation needed for our future, many will fall back into the "old normal," becoming outdated, and eventually, cease to exist. This book works through the steps to adopting a radical adaptability mindset, building a resilient team, and focusing on an impactful purpose so businesses can not only exist in the future, but thrive to serve their clients and customers in creative and innovative ways.

Radical Adaptability

Keith and Kian, associates of Ferrazzi Greenlight, say, "Adaptation happens to be the one thing that human beings do better than any other animal on the planet. We're not the biggest, we're not the fastest, and we don't have the sharpest teeth or the strongest claws, yet we are the dominant species on earth, thanks to our extreme and relentless adaptability to change."

The reason why disruption (like the COVID-19 pandemic) has been so painful for businesses is because many leaders have failed to adapt their ways of working to the rapidly changing unique demands. However when we decide to take this disruption as an opportunity instead of a nuisance, businesses can actually thrive in the ever changing environments.

Companies responded with more intense collaboration and

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thorough communication. Team members spoke more freely and directly. Red tape was thrown aside to make way for necessary decision making. Doing so encouraged results to flow faster and better than ever before.

At Ferrazzi Greenlight, they launched what they thought would be a short-term research project, Go Forward to Work (GFTW). However, after recruiting several change agents from large companies who all wanted to change the narrative of day-to-day work, this proved to be a more fruitful project to encourage all businesses to concrete and co-elevate in the future.

Before 2020, many companies ignored the results of this project, falling back to what they knew "worked" because they didn't have the need to push forward otherwise. It wasn't until 2020 when every leader in business realized they had to wake up and pay attention. The future of work is now. It's time to adapt to it or get left behind. It's time to adopt radical adaptability.

"The essence of radical adaptability is that it is predictive, proactive, and progressive, very unlike the typical response to change, which is inherently reactive and conformist." It's both a coping mechanism and a transformational mechanism. It is what will bring the future of work to the now of work and allow businesses to grow with it.

Team Resilience

In order to work with radical adaptability, companies need a resilient team that will work well together, even through the rocky roads of disruption. The first step to building this team is to diversify its members and their roles within.

Most traditional teams lack essential collaborative behaviors that would allow them to become effective top-performing teams. Below are some statistics Ferrazzi Greenlight Research Institute found in these teams:

- 74% of team members avoid conflict by not speaking their minds.
- 72% of team members don't believe the team collaborates on the most important business issues.
- 71% of team members report gossip that deflate morale and obstruct honesty, preventing the team from working together as a single unit.

The vital thing missing from these teams? Inclusion. The most high performing company teams are those that work in a space where team members can show up authentically and offer their knowledge to cocreate solutions to the problems at hand. This creates accountability for each other as well as shared responsibility so the team as a whole can come to a creative solution together. "No one is successful until everyone is successful."

To determine how resilient your team culture is, there is a basic diagnostics test to run every monthly meeting: Is the team reaching all of their performance targets? Are team members able to be honest and open in their dialogue? When faced with challenges, are your team members able to build creative solutions together? Do your team members care for each other? Can they ask for help when they need it? Can they change direction and still maintain their goal? Can team members reflect with both gratitude and generosity? And does your team's mindset assume best intent?

If a team is able to co-elevate and commit to each member's growth through adversity, they become morally contracted to lift each other's wins and help when others are struggling.

So how do leaders support a resilient team to ensure that resilience? Keith Ferrazzi, Kian Gohar, and Noel Weyrich suggest the following tips:

- Frequent positive feedback reinforces collaborative teamwork.
- Share your own challenges to encourage teams to share their own fears and canvass solutions.
- Bring in an outside point of view or hire a coach for frank assessments.
- Listen carefully to your team. Show you care about their ideas and opinions.
- Enforce break times for a better work-life balance.
- Hire team members who will reinforce resilience.

Regardless if your company chooses to move forward with a 100% virtual set up or a hybrid of sorts, virtual and forward thinking work is here to stay. In a virtual scenario, the suggestions above should still take place more frequently and with a co creation and foresight in mind.

Future-Proof Your Business Model

Many (most) companies understand that in order to pivot through a collective trauma like the pandemic, adaptability is necessary. However, the question still remains as to how many businesses will continue to adapt post pandemic, and how many will revert back to the work of yester-year. *Competing in the New World of Work* provides a four-step pattern of business reinvention to advance any business in the future. This methodology is an effective way of leveraging your team's foresight and adaptability.

First, zoom out to envision your industry ten years from now. When doing so, ask yourself two questions: "What will our industry look like in ten years' time? And what kind of company do we need to become to succeed in that future?"

Secondly, identify the technologies that are poised for growth. Technology is constantly changing and updating its purpose, and even in industries that aren't traditionally technologically based, tech can be used to leverage certain systems and functions. You might find that you can offer a new service, a new customer experience, or leverage it for customer data. If you can identify at least two or three technologies that might disrupt your industry in the future, you can use them to your advantage

> **Building your communities will create a defense system for your business if anything else gets disrupted along the way."**

and benefit from them before they explode in popularity.

Next, experiment with zooming in. Look within the next six to twelve months and decide which technologies you could experiment with within that time. Make sure these work toward your zoom out (ten year) vision for the company. The goal here is to provide a proof of concept through experimentation, iteration, and deployment. However, it's short enough to not get in the way of any two or three year plans.

As always, plan to pivot. If the experimentations prove to not coincide with your long term vision, then pivot to a new zoom-in project or experiment. As you do so, you'll learn what works and will help cultivate a growth and learning mindset within your teams.

Lastly, create a communities of enthusiastic customers. Technology has the power to transform whole industries within a short amount of time. Therefore, it's critical to go beyond product, service, and tech, and straight to the consumer. Foster your communities. Understand their needs.

Building your communities will create a defense system for your business if anything else gets disrupted along the way. If you look at any successful business, they have had products that no longer exist, a service no longer needed, and tech that has gone extinct. At any point in time, these things can happen and you'll want a strong set of customer communities that will still be there when it happens, helping you withstand any uncertainty.

Business Purpose vs Mission

Perhaps the most important and profound suggestion the authors of *Competing in the New World of Work* give is to supercharge your purpose.

While a company purpose sounds similar to a company mission, it's very different. A mission is all about the how. How a company serves its customer, how it reaches its customer, how it provides for its customer. However, the purpose is all about the why. Etsy's purpose is to "keep commerce human." Johnson & Johnson's purpose is to "alleviate pain and suffering." Disney's purpose is "to use our imagination to bring happiness to millions"

The importance of having and focusing on purpose has never been more important than now. A purpose is what allows companies to shift from offering one product to another. It also encourages new services to grow into existence. As long as a company is still putting its purpose in the forefront and services its customers to meet that purpose, it can grow and change into whatever its customers need it to be.

This is how companies have withstood their disruptions and survived through decades of shifts and pivots with their strategy no matter how many disruptions they've experienced. "Change is happening so fast that there may be times when purpose is your company's single most reliable point of reference, your home port in a storm."

The New World of Work

In the New World of Work, we need to be conscious about how we are moving forward. Change is fast and we will need to adapt. Companies who choose to build their teams with adaptability in mind will be the businesses that will succeed for decades to come. The idea of "going back to normal" is the past. It's yester-year. It's extinct. And any company who falls back into that "comfort" area will find that it's not comfortable at all. It's a road to failure.

Pivoting may feel like a buzzword, but it's the reality of business of the future. Everything changes, from the teams we choose to have in our companies to the technologies available at our disposal. However, if we choose to keep our purpose in mind, business can continue to succeed as long as it changes to continuously meet that purpose, regardless if it still provides the same product or service.

The COVID-19 pandemic forced companies to pivot, change, and adapt quickly. Businesses cut through red tape. They stopped micromanaging. They build collaborative and diverse teams filled with minds from all areas of the business and outside the business. They encouraged their teams to work together to reach the same goals. And through it all, companies have thrived within these pivots.

As the global pandemic weakens and gets closer to an end, so many leaders in business argue that we need to "go back to normal." However, the old normal is not what today needs. It's also not what tomorrow demands. In order to continue moving forward with companies that will withstand the test of time, we need to continue to pivot and adapt.

Our customers demand it. Our society needs it. Radical adaptability, resilience, and foresight is the way of our future, our new world of work.

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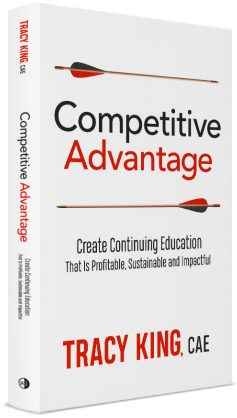
Competitive Advantage

Tracy King, CAE

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Competitive Advantage

Create Continuing Education That Is Profitable, Sustainable, and Impactful



by **Tracy King, CAE**

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THE SUMMARY IN BRIEF

Leaders within the professional association and continuing education industry are facing a turning point. As traditional formats for learning and common pricing models continue to fall, new competitors are streaming into the market and creating learning programs that are faster, cheaper, and poised to make larger companies irrelevant.

Throughout the chapters of ***Competitive Advantage***, Tracy King details the hidden internal and external forces that affect organizations, effective education strategies, the powerful foundations for future strategies, how to gain perspective on existing portfolios, and countless other lessons that leaders in the professional association industry will find absolutely essential.

IN THIS SUMMARY, YOU WILL LEARN:

- How internal and external factors can have unintended consequences within an organization.
- How to identify, build, and demonstrate your organization's educational value.
- How to design powerful learning experiences.
- How to make separate elements of your organization work together to turn strategies into action.

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Internal & External Forces

Many associations notice something not working in their learning portfolio and respond with a quick fix we hope will buy us time until we have the resources to dig in deeper and analyze the problem and potential solutions.

But because many programs are managed in siloed teams that don't always collaborate or coordinate, we assume that any issue we identify must originate within the program we know. But when we fail to acknowledge that our programs belong to a larger system of learning we offer to our constituents, our 'quick fix' could trigger a cascading failure. Meanwhile, constituents don't recognize the distinction between elements of your organization—they see a failure in one area as a failure overall.

Quick fixes won't solve pain points like insufficient budgets, struggles when managing emerging technologies, failure to confront market changes, or problems implementing innovative changes within your organization.

Your organization needs to identify the root causes of pain points, whether they're resulting from external factors or internal issues. External factors might include market forces, evolving trends like the freelance economy and generational shifts, and industry forces.

Within each challenge is the seed of a solution—the opportunity to transform challenges into advantages. Individuals and organizations that are interested in real fixes rather than quick bandages will discover that this leads them to their essential first step—identifying a new value proposition.

A New Value Proposition

Simply having a portfolio of learning options is not enough. For many industries, members are interested in a trusted source for earning continuing education credits—but they have more options to consider than ever. Professionals are asking—***Why you, why me, why now, why this?***

By asking yourself these exact questions, you can help identify your own value proposition. Most important is to recognize that adults don't want to just go to programs, they want to grow from programs. For your learning portfolio to truly matter, it must lead them to take action that then leads to improved performance. Your value proposition should be defined, not just vague. It should include ways to help your learners reach measurable goals— earning back an hour of their day, becoming more effective leaders, improving financial processes to mitigate risk, etc.

These aren't topics, they're results. Your learners don't want to know what you're going to discuss, they want to know what behaviors or circumstances they're going to be empowered to change as a result of having completed your course or lesson. This can all be summed up with one word— ***transformation***. Your new value proposition for continuing education is transformation. It deals with how your learning portfolio will help learners transform themselves, their lives, and their organizations.

The most important drivers for developing a profitable and sustainable business around your learning portfolio can be divided into three main segments— strategy, portfolio management, and learning design.

Strategy involves incorporating your organization's overall education objectives, the content domain you're dedicated to delivering on, and your plan for meeting those objectives with your education portfolio. An effective strategy encompasses all of your organization's education programs and seeks to position them correctly in the market.

Portfolio Management is all about building your learning portfolio around efficiencies in content development, deployment, and member experience. This should involve coordinating programs to develop learning pathways and aligning talent within your organization with the member experience you want to deliver consistently.

Finally, ***Learning Design*** addresses the critical drivers required to design transformational learning experiences. Producing transformational learning experiences incorporates the best practices of instructional design, those that are most marketable and impactful.

Education Strategy

Where we're at with our work can heavily influence how we see our overall strategy, much like how viewing a natural landscape from different vantage points can dramatically influence our perception of that landscape. It's vital to coordinate our views from the 'trenches' of day-to-day tasks, slightly more elevated viewpoints that let us glimpse a bit of the past and future, and high-flying vistas where we can see our entire company, industry, and market.

In the 'vista view,' it's vital that you have a comprehensive education strategy for your association. Many associations simply create educational content without developing an overarching strategy that guides their decisions. This leads to inefficiencies,

failures, and poorly executed educational strategies.

Your strategy should be led by the following strategy drivers— market intelligence, strategic objectives, target audience, content priorities, program pricing, technology infrastructure, internal partnerships, external partnerships, resource allocation, and evaluation strategy.

For each of these drivers, you and your organization need to review how you rate yourself. Rate a driver as 'red' if you're not doing this at all, 'yellow' if you've taken a few steps towards accomplishing it but haven't mastered it, and 'green' if you're already gaining momentum and mastery at it.

If you rate your Strategic Objective driver as red or yellow, ask what next steps you'll commit to establishing this critical foundation for your organization. What opportunities for alignment with your strategic objectives do you notice that could produce some quick wins for your association? This is the first step to creating a truly effective education strategy.

Setting Your Strategic Foundation

Failing to develop an education strategy can lead to major ramifications, including lost profits, lost momentum lost interest, technology barriers, missed partnership opportunities, and misused resources. Even companies that are making steps toward developing a strategy make common key mistakes.

The first mistake is choosing objectives that aren't measurable. Ambiguous objectives mean you don't have to deliver any bad news about not measuring up, but it also means you're not really aiming for something specific. That results in actions that lack direction.

Another mistake is a sketchy implementation plan, which makes gaining any real traction very difficult. Lack of alignment is a similar issue. Priorities and resources must align, or your organization will be setting itself up for failure. This can also happen when you assign the wrong talent to implement certain tactics.

Finally, failure to follow through is a major issue that can derail your association's strategy. When change feels challenging, or members of your organization are loudly opposed to a new approach, it can derail your follow-through. Then it's easy to end up on a hamster wheel of sorts where your association only talks about change without ever making change.

But even more important than discussing the potential problems that come from failure to operate with a portfolio perspective, it's vital to understand the potential gains of operating within that perspective.

Portfolio Perspective

Just as creating an education strategy requires focus on key drivers by which you can rate your organization, portfolio management carries its own set of key drivers. These are your business plan (including product-level objectives, target audience, content priorities, program format, user experience expectations, budget, pricing structure, marketing goals, and success metrics), portfolio evaluation plan, program policies, learning environment, content calendar, learning pathways, education technology management, and customer service.

Rate all of these drivers within your organization using the same red, yellow, and green metrics we used earlier. From there, you have everything you need to begin strategically leveraging your learning portfolio.

Don't Feed the Silos

Regardless of all the institutional needs, strategies, curriculum, courses, learning designs, or technologies that make up our organizations, the potential of our associations to create meaningful learning and profitable operations doesn't come from any of them. They come from you— the people that make up your association. Allowing talent to become siloed can lead to major problems, and it's a result of not implementing a portfolio perspective. This can lead to persistent siloes, with teams that have their own agendas and act in their own best interests. These negatively impact organizational culture and the member experience. It can also lead to program competition rather than cooperativeness, creating mini-kingdoms where information is less likely to be shared and that experience turf wars, resource grabs, and lack of trust—all resulting in poor decision-making. You'll also experience piece-meal programs, hidden performance issues, inconsistent policies, and sustainability failure.

If you're in the red zone for any Portfolio Management Drivers, begin your efforts by thinking about the role each program in your portfolio will play to advance your strategic objectives. Then craft your portfolio evaluation plan.

Learning Design

Many associations hope for quality learning to happen by sheer luck, but the ability to ensure learning success by design is within the capability of your organization. When you apply instructional design to your learning opportunities, you create learning that offers the three Ms— mean-

ingful, memorable, and measurable.

Meaningful content is relevant. It solves a problem, increases skills, and is something that learners can use ***right now.*** When that content is truly memorable, presented as an experience rather than just information, it's able to create those meaningful effects rather than being forgotten as soon as learners walk out the door. Finally, great learning is designed to meet measurable objectives, so that learners can evaluate their progress over time.

Learning design drivers that you should use to rate your organization are instructional design, competency development, learning evaluation, design process, transformational learning tools, visual design, and SME development. Use these drivers to help create a qualified pipeline for your industry, help professionals upskill and retool to meet changing demands, amplify their professionalism in your industry, define the competencies that will distinguish high performers, and lead the way to a successful and satisfying career through mastery.

Paper Airplane Potential

If people leave a session or course and do nothing, we have failed. Simply presenting information is like placing a stack of paper on the table and asking people to make a paper airplane. Rather, you should be offering fold-by-fold experiences. You and your learners should prototype paper airplanes together, test how different folds result in different flight arcs, and then debrief. ***How could you use airplanes like this? What modifications might you make? When do you think you'll implement this new airplane-folding methodology within your context of practice?***

To maintain your competitive advantage, become the organization that not only provides paper and folding techniques, but offers pathways to folding mastery. Show the way. Be the way.

Pivot Pain

If the results from making changes within your organization are so essential and, in many cases, so obvious, why do so many associations fail to make those changes? Because change is uncomfortable. Pivoting can hurt, because it pushes us out of the routes we're familiar with and forces us to try something new. That brings risk, and with risk comes doubt.

But feeling uncomfortable or doubtful doesn't mean that a change isn't worthwhile. Both external and internal factors can lead to barriers against change, but only by overcoming these barriers can we master our education strategy, portfolio perspective, and learning design. If you want to beat the market to new and uncharted places, you have to step onto the rocket. And stepping on the rocket requires you and your association to sacrifice the familiar for the truly effective.

Strategy to Action

The way you do business in the continuing education market has been disrupted. Acknowledge and accept this. The way professionals develop their careers and access learning resources has changed. To meet these new conditions, you must disrupt the status quo.

Become the organization that sets its strategic goal sites and aligns resources to meet them— creating a runway to reliable profit. Become the organization that maximizes its entire learning portfolio to meet market needs while raising the bar on team collaboration and efficiencies, initiating practices that produce sustainability.

Become the organization dedicated to learning transformation that's vital to workforce development—driving measurable impact. Begin where you are. You've got this!



As Chief Learning Strategist & CEO of InspirEd, Tracy King leverages her more than 20 years in the industry consulting with organizations on education strategy and learning design. She advises associations on how to grow a reliably profitable and sustainable CE business that transforms learners. Tracy specializes in the intersection of learning science and technology. She's a thought leader, invited speaker, author, and DELP Scholar.

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Competitive Success

Arjan Singh

Executive Book Summaries®

Competitive Success

Building Winning Strategies with Corporate War Games



by **Arjan Singh**

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THE SUMMARY IN BRIEF

The speed at which markets evolve today impacts the future of your company and the only way to succeed in this fiercely competitive business landscape is to see it as a battlefield, build your weapons, and play to win.

The book ***Competitive Success: Building Winning Strategies with Corporate War Games*** helps businesses deploy the power of War Game workshops to succeed in today's competitive landscape. The pages within guide us to build data-driven strategies through war games, run competitive and strategic analyses, and ultimately create a detailed plan to make a substantial impact.

Having run over 200 successful war games for top Fortune 500 businesses, author Arjan Singh reveals how war gaming gives companies a solid competitive edge to stay ahead. From running comprehensive competitive analysis to scenario planning to detecting early warning systems in business, he offers readers a clear roadmap for businesses to build sustained resilience.

IN THIS EXECUTIVE BOOK SUMMARY:

- Learn how to build and deploy Corporate War Game workshops in business.
- Discover what it takes to achieve success in today's competitive business landscape.
- The strategy behind running competitive analysis to deliver a significant impact.

Introduction

Sure, in business, the battlefield isn't along a front and the stakes aren't life or death, as it is in war. The battlefield in my war game is the competitive marketplace and the stakes are winning. Money, power, and fame are certainly drivers, but a large part of success is the feeling of satisfaction and self-confidence that results from beating the competition and coming out on top. By war gaming, you open your mind to the fact that anything can happen.

You don't want to find out that your strategies are going to get trumped by the competition and you lose millions of dollars. Winning is the whole premise of doing a war game. This book can help you win. If you want to win, keep reading.

Chapter 1: What Is a War Game?

War games are a powerful business tool that can accomplish a lot in a relatively short time, but they need to be aligned to key business challenges to be valuable. War games for business purposes are enlightening and engaging analytical exercises that can lead to truly creative solutions. War games are structured role-playing workshops used to generate insights to help develop and refine strategy. A variety of wargaming workshops are designed to simulate different future competitive environments, but we will focus on the three main types in this book:

- Tactical War Game: How to compete in a specific market against known competitors.
- Operational War Game: Where to compete in a changing market with an uncertain set of competitors.
- Strategic War Game: How the market is likely to evolve with uncertainty around market structure and competitors.
- War games have four main benefits in a business environment because they:
- Create an environment where participants can openly discuss their company's assumptions around the competitive environment and align with their own assumptions.
- Help engage various stakeholders in the decision-making process to collectively achieve buy-in, identify gaps in market knowledge and create a defensible business strategy.
- Highlight the assumptions that market players have about the competition, the market, and themselves, as well as highlight the key differences between the company's and others' assumptions.
- Help assess and anticipate potential changes in markets so that a company can predict what other key players are likely to do.

Chapter 2: Building Winning Strategies

Your market is your war. Your winning aspiration is a goal statement that briefly describes how you'll win your war. It includes your organization's desire, future state, business model, and market. The definition of winning is different for every company. It's based on each company's realities, structure, resources, culture, and history. Once you define your market in the broadest terms possible, you can set your winning aspiration for the war. Winning can be two things:

- It can be aspirational, i.e., where you want to end up. If you're not there, then how do you get there? Are you doing the right kind of activities to bridge the gap between where you are right now and where your aspirations lie?
- Or it could be positional, i.e., holding your top spot. If you're already winning, then how do you continue to maintain your leadership in this space, and continue to be successful?

Calculate your planning horizon. Your planning horizon is how long you're going to engage in the war, or just the next battle. Growth is a huge driver for companies. But there's a big difference between organic and exponential growth. Organic growth can be said as follows: Let's just book the next deal, then the next, and the next, and then we'll kind of go from there. But if you want exponential growth and to have a deliberate vision for the future, then determining your planning horizons (short-and long-term) will help you.

Chapter 3: Core Attributes for Competitive Success

Over my years of consulting, I've noticed a pattern with successful companies that have the right winning characteristics. I call these the ten attributes for competitive success, which you can apply to any industry. These ten characteristics in their entirety make the difference between a mediocre company and a profitable, healthy enterprise. War gaming will help any company or individual attain all of these:

- Embracing and Learning from Failure.

Just because leadership is thinking about the marketplace in a particular way doesn't mean that the competition is thinking of it that way, too.

- Making Quicker Decisions and Fast Execution.
- Thinking Globally, Acting Locally.
- Defining Your Business and Setting Goals.
- Offering a Unique Value Proposition.
- Banking On A Solid Reputation and Ethics.
- Focusing On Customers.
- Learning From the Competition.
- Maximizing Skill Sets and Playing As a Team.
- Innovating to Win.

Chapter 4: How is War Gaming Better Than Traditional Planning?

In war gaming, you start with divergent thinking, create choices, and ultimately you converge. This allows for creative thinking and speculation into all the possibilities. Traditional planning is a very linear process to go through. It doesn't encourage diversity of thought and exploration of all the different opportunities that exist. With traditional planning, leadership starts with assumptions baked in (called historical context) and starts planning as if the status quo will carry on, undisrupted.

Just because leadership is thinking about the marketplace in a particular way doesn't mean that the competition is thinking of it that way, too. Since there is no safe forum for challenging assumptions in traditional planning, leadership ends up being carried away by groupthink. Yet they confirm one another's bias and carry on.

War gaming helps leadership to really challenge confirmation bias. Are you asking divergent questions in the right way, with the aim of narrowing down your choices, or are your choices already narrow? And is your perspective from the outside-in, as if from the competition, or is this just internal thinking, based on the status quo? Are you ready to plan your war game? In the short next chapter, I will walk you through the process of narrowing down your war game to a single core issue.

Chapter 5: How Do I Get Started?

The war game process can be divided into 3 distinct phases: planning, conducting, and reporting. The pre-gaming phase defines the objectives for the game, identifies the companies that will be represented, prepares a Briefing Book, selects and invites attendees, and determines the logistics for the war game.

A war game can be conducted over a day or more depending on objectives and the time available. It can be in person or virtual. War games are concluded with the delivery of a final report, or your Playbook a few days after the event. The Playbook outlines the details of the war game, the insights generated, and the recommendations from the event. This report is circulated to key stakeholders and is used as a guiding document for implementing the proposed actions in business planning that came out of the war game. Each war game must be customized depending on the issues being addressed and the desired outcomes, the companies being represented, and its final schedule.

The first step in planning a war game is to define the key business issues to address and the core objectives of the game. You can start this process by engaging with stakeholders from different departments to formulate the issues to consider and to determine the level of current understanding of these issues.

Your issues can be either long-term/strategic or short-term/tactical. Strategic issues involve changes in your competitive environment, such as regulatory or marketplace. If there is a particular competitor that's eating your lunch by winning a lot of different contracts, or you're planning an upcoming product launch, or anticipate a loss of exclusivity, this is an opportunity to tactically war game from a short-term perspective.

Chapter 6: Identifying Your War Game Objectives

Now we will begin creating your Briefing Book, which you'll use for your war game, distributing copies to each of your teams. The Briefing Book contains information that you'll input by working through each chapter up to chapter 10. At

that point, we get into the war game itself.

War gaming gives insight into three foundational issues:

- How to win (tactical war gaming): When you have a strategy but need to test it.
- Where to play (operational war gaming): When you can see a change on the horizon but aren't sure how to respond.
- What the game will be (strategic war gaming): When you have a lot of competitors, disruptions are coming, and you don't know what your operating environment's going to look.

To know if you're ready, you need to ask yourself these four questions:

- How confident are you in your current strategy? If you feel that your company lacks the confidence to take risks and innovate, and you really want to have a culture where it's OK to make mistakes, then make your mistakes and try things out in a war game environment.
- Can you think strategically and make realistic assumptions? Those two skills are complementary. For strategy, you need to be able to think from a 30,000-foot point of view, or more holistically. This helps you make assumptions based on the overall reality of your industry.
- Can you challenge your assumptions? Can you think strategically and challenge your company's assumptions?
- Are you prepared for change? You also need to be prepared to make changes to your plan based on the results of the simulation.

Chapter 7: Assessing The Field of Battle

To determine where your next battle will occur, you can look at two kinds of risks: event risk and trend risk. Event risks are black-swan events, like a global pandemic or an environmental disaster. These are the uncertainties. Trend risk is based upon the knowns or the events that are happening to an industry, in general, e.g., the US population is aging, and the demographics are changing. For this type of war game, you stress test your strategy by war gaming it.

Map your battlefield. The key drivers are what's pushing the trends along in any given industry. It's not enough to know what the trends are - you also need to know what is behind the trends so you can anticipate different solutions. What are the key drivers of your industry? Which one do you want to focus on right now? Where do you want to do your battle? Because you cannot fight every battle all at once. You don't have the resources. Check inventory before the battle. Having financial resources is one thing, but having the right skill sets is another. Finally, weigh the odds. To know what's at stake on your battlefield, you must look deeper than the surface.

Chapter 8: Understanding the Key Competitors

Understanding your competitors and their perspectives is key to advancing your business forward. Start with sizing up your existing competition. Your competitor's toolkit is their capabilities, weaknesses, and assumptions. What does the competition think about the market? What do they think about themselves? And most importantly, what do they think about your company? The best strategy for any battle is to respect your competition, even if they're small because winning isn't about having the most resources; it's about resourcefulness.

Uncover new competitors and outside forces and identify your current and prospective customers. Finally, take an offensive stance. You don't want to be in a position where you're waiting for things to happen in the market, and then you'll act. This is a reactive or defensive strategy. From an offensive perspective, if you proactively identify actions that your competition is likely to take, you can preemptively strike.

Chapter 9: Analyzing Previous Battles

It's important to examine past battles with your competition and make intentional, strategic choices for the future.

Strategy is done in two different parts: formulation, which is the future, goal-oriented thinking about where you want to be in the future, and execution, which is how you're going to get there. A disconnect between formulation and execution indicates that all you really have are ideas. A lot of companies fail because of this, especially startups.

When you look at past battles, analyzing and reflecting, avoid making snap decisions about what went wrong or right. You might have tried something six years ago and it didn't work out, but that doesn't mean that the same would necessarily hold true today. Laying out the assumptions and ask: What really happened? Why did it happen? What were

When you look at past battles, analyzing and reflecting, avoid making snap decisions about what went wrong or right.

the conditions that enabled that situation and are things different right now?

Document your organizational memory. When you regularly war game for your strategic planning, you have Playbooks that you can refer to. The key is to reflect and war game new strategies as often as possible.

Reflect on your value proposition and your customers. For external reflection, ask yourself: In our previous battles, who connected with our customers more effectively? Could we have helped our customers gain satisfaction or a solution better than the competition? For internal reflection, ask yourself: If we failed our customer in some way, or proved successful, was this due to internal operations rather than comparing ourselves to the competition? Maybe your customer service lines are horrible, there was no follow-through, or you didn't have the right answer. Be intentional in your reflection and reflect on what other companies did as well.

Chapter 10: Gathering Intelligence

Competitive intelligence is where you look behind the surface, or under the competition's skin to understand the bones of their operation. Remember, with competitive intelligence, you must dig deeper.

- The first question you ask your team is, what are we interested in, whether it's an established competitor, emerging competitors, or other entities? Is our interest longer or shorter term?
- The second question you ask is the following: What do we need to know about them? What information is crucial?
- To legally and ethically gather competitive intelligence, rely on:
- Open sources. This is where search engines, like Google, are a great starting point. But you don't stop there at the easily available information.
- Primary research. You need to think outside the box, here. Follow the flow of information. Put the story together with multiple data sets. The most valuable, and the most complicated part.

There are two forms of competitive intelligence: Tactical and Strategic. Tactical intelligence answers questions such as: What are we selling? Whom are we selling it to? How is the competition going to attack us? How do we compete today? What's the competition's product? What's their price? How are they promoting it? What's their distribution? It's about here-and-now business for the short term. Sales and marketing rely heavily on tactical intelligence.

Strategic intelligence is much more future-oriented and answers questions such as: What will the macro environment look like, and how do we prepare for the future? What are the core dynamics of the industry? How is the industry changing? How is the operating environment changing? Which type of intelligence you gather depends on your company's time horizon.

This is the difference between interesting and actionable intelligence. Determining whether intelligence is just interesting or actionable is where the filtration comes in. Private companies generally release a lot less information, but you can still find clues in press releases, trade shows they attend, podcasts, blogs, social media, and other marketing copy. From there, you can gain an understanding of how they're thinking about the market. For private and public companies, you can also try patent analysis, which you can look up on the United States Patent and Trade Office (USPTO) website or find global patents in your search. Finally, put the pieces together by using multiple data sets.

Chapter 11: Assessing Troop Strength

At this point, you're about to move into your war game and will need to think about what resources you have at your disposal. Resources are straightforward: capital, capabilities, infrastructure, or a combination of these three. The softer part of your resources is fundamental to your war game: Do you have the morale to execute your strategy?

Your capabilities are the toolkit of your organization. Your

toolkit differentiates you in terms of how you use the same raw materials your competition has access to in novel ways. Here are a few ways to look at capabilities, but to get you thinking:

- SWOT analysis: strengths, weaknesses, opportunities, and threats.
- Four corners analysis: What is a company currently capable of, what are they currently thinking and doing, and what are they likely to do in the
- Value chain analysis: How your company creates value and understanding the core components of that.
- Business model canvas: What your core value proposition is, how you go to market, connect with customers, and run operations in terms of your systems and processes.

Break your resources down into five categories:

- Financial (how much capital on hand)
- Physical (retail locations, warehouses, and equipment)
- Intellectual (patents and trademarks)
- Human (troops, morale, and skill sets)
- Digital (technology, data, and underlying infrastructure)

Now, line up and survey your troops: Is your team capable or incapable of doing this war game? Going into any battle, you're going to have weaknesses and strengths. Your challenge is to figure out how this informs your strategy. Get a feel for overall company morale. As you organize your teams, you want to balance negative personalities with more positive types.

Now it's time to organize your key stakeholders into teams for your war game, considering morale and skill sets. You will make sure your teams are cross-functional, with balanced personalities as well as balanced seniority. This ensures that there's diversity of thought and that everyone contributes. Every team should be comprised of the following roles:

- Team Lead. The team leader should not be someone who's in a leadership position in the company, because they tend to dominate the conversations.
- Notetaker. This person is the team player responsible for writing down the ideas that come up in the breakouts.
- Timekeeper. You need one within each team, to stay on track during breakouts.
- Team Presenter. For each round, the teams should appoint a different person to present their strategies to the other teams and judges, to give everyone a chance.

Now that your Briefing Book is done, you've taken stock of your resources, and thoughtfully organized your teams, it's time to start creating your Scenario Book by ideating scenarios and tactics for each round of your war game. You can find it in the appendix for this chapter's template or scan the QR.

Chapter 12: Deciding On Scenarios and Tactics

Scenarios explore a range of different future negative and positive options in terms of which way the industry, the marketplace, and the competitive environment could go. Best-case scenarios, of course, get a lot less attention, because nobody questions good news, and worst-case scenarios put everyone into defensive mode.

When most corporations ideate scenarios, everyone automatically thinks about the world ending. But sometimes scenarios could mean that the world is giving you a huge opportunity. The question for you is as follows: Are you and your company ready to capitalize on that?

Scenario planning fits into all three types of war games, but the types of scenarios that you would use differ for each:

- Tactical short-term scenarios help you figure out how to win, more specifically what will impede your ability to execute as you go to market.
- Operational short-to mid-term scenarios tend to be around more issues like your competition and your competitive environment.
- Strategic long-term scenarios are a future look at macroeconomic factors that will affect your competitive environment farther down the line.

For the purposes of war gaming, you go through this twenty-minute, three-step process and quickly build scenarios:

- Step 1: After a few rounds of strategy ask your teams: Based on the external insights that you've generated so far, what would be the most disruptive event in this marketplace? What would be disruptive to our company? What would be disruptive to the other teams? What would be disruptive to key stakeholders in that environment?
- Step 2: Give everyone a Post-it Note and a few minutes to fill it out, and then ask them to stick their notes

onto a wall. With twenty to forty people in the room, you very quickly see themes emerge in terms of what those potential disruptive scenarios might be.

- Step 3: Then you ask the participants to vote, choosing the top two to four disruptive things they see on the wall.

Chapter 13: Conducting the War Game

Running a war game is no easy task, but if done right, you can create a Playbook for a winning competitive strategy. Consider the logistics before entering your war game. Preparing for your war game is just as crucial as the game itself. You want to ensure everything goes smoothly, the teams have fun, and that the outputs generate big competitive wins for your company.

Make sure you have the room confirmed. On each table, have a couple of copies of the Briefing Book available for participants. Make sure you feed people, or you could get tired and hungry players who aren't good for much.

Depending on whether you want to run your war game low-tech or high-tech, this is some of the equipment you might need: Flip charts, Post-its, Pens, Notebooks, Templates (you can copy and use the templates in the appendix of this book), Projectors people can hook up to laptops, Wi-Fi depending on how connected you really want people to be.

A typical in-person war game is conducted over one or two days. Virtual war games are now also very popular as well as they save on travel costs and time. Virtual war games are generally broken into three-hour sessions over a few days to avoid screen fatigue for the participants.

Chapter 14: Moving From War Room to Real World

Competitive success does not stop at a war game, because the war game is basically just your locker room. You can't win the game unless you get out onto the field and put your strategies into play. Your Playbook, and what you do with it, is what differentiates your war game from an educational, interesting workshop to an actionable, winning competitive strategy.

Most companies, after doing a war game, realize that their winning aspiration has evolved. Revisit your winning aspiration. Pick and choose your battles. If the war game answered for you the "So what?" then after your war game, you and your team will answer the "Now what?"

Keep the momentum going with the next steps. Your next steps should be in terms of a timeline: What do you need to do within the next few months then in six months, and then in a year from now?

Conclusion

War gaming is an ongoing, lifelong process. For it to be successful, it can't just be a one-off. Integrate it into your company as part of your culture, with an open, humble, and curious mind, and you will build winning strategies that lead to competitive success. I hope that some of these stories have helped you as you embark on your war-gaming adventure.



Arjan Singh has advised 68 of Top 100 companies in the Fortune Global 500 list in building winning strategies and co-authored Best Practices in Managing Competitive Intelligence Research: For Pharmaceutical and Biotechnology Managers. With over twenty-six years of experience, Singh is an expert in helping companies develop data-driven strategies through war games, strategic and competitive analysis, scenario planning and building business early warning systems that deliver significant impact.

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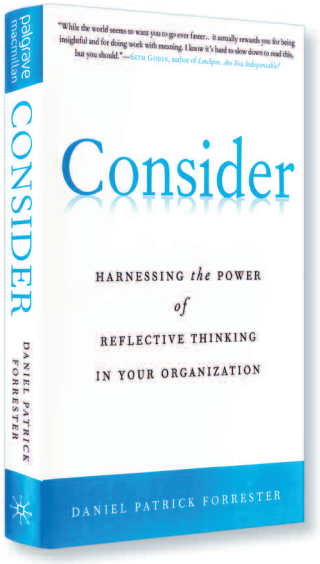
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Management

Consider

Harnessing the Power of Reflective Thinking in Your Organization



by Daniel Patrick Forrester

THE SUMMARY IN BRIEF

"Stop, think, and don't do something stupid!" This is the warning Dr. Robert Bea drills into his civil and environmental engineering students at the University of California in Berkeley. Bea wants to dramatize what he terms the inevitable "oh s---!" moments that present themselves — before an actual engineering calamity, like the Deepwater Horizon/BP disaster, happens.

There is an intangible and invisible marketplace within our lives today where the products traded are fourfold: attention, distraction, data and meaning. The stories and examples within *Consider* demonstrate that the best decisions, insights, ideas and outcomes result when we take sufficient time to think and reflect. While technology allows us to act and react more quickly than ever before, we are taking increasingly less time to consider our decisions before we make them.

Daniel Patrick Forrester supplies an arsenal of ideas and solutions that will help leaders solve the right problems. Including interviews with leaders such as General David Petraeus, attorney Brooksley Born, and global investor Kyle Bass, Forrester shows us that taking time and giving ourselves the mental space for reflection can mean the difference between total success and total failure.

IN THIS SUMMARY, YOU WILL LEARN:

- To replicate the behaviors of individuals who formally structure think time and reflection to solve both simple and complex problems.
- To ensure that technology encourages productivity without creating unwanted distractions that consume organizational think and reflection time.
- What it means to create an organizational culture where think time and reflection are part of daily routines.

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THE COMPLETE SUMMARY: **CONSIDER**

by Daniel Patrick Forrester

The author: Daniel Patrick Forrester is a management consultant with more than 15 years experience leading complex strategy and technology evolution engagements for senior executives at a variety of organizations.

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Introduction: The Space Between Data and Meaning

"Stop, think and don't do something stupid!" This is the warning Dr. Robert Bea drills into his civil and environmental engineering students at the University of California in Berkeley.

There is a hierarchy of communication we all practice, in which electronic and immediate data responses reign far above in-person and more time-intensive, dialogue-driven interaction. Organizations that prioritize think time and reflection benefit by ensuring that workers are focused on solving the right problems that matter to the mission and stability of the organization. Organizations that embed think time and reflection into processes and routines are more likely to generate new ideas, products, services and solutions.

Through more than 100 interviews, I have discovered dozens of ways for you to reclaim what immediacy has taken away: reflection.

It's only when we have context and perspective separated from the actual problem that a new idea can form that might solve it. When, inside your organization, evidence presents itself that it's best to take a step back and reconsider the problem, will you have the courage to force moments to stop, think and not do something stupid? Within the stories that follow you will discover that it can be done. ●

The Human Need for Think Time: Of Business, Interleaving and Oil Spills

Think time is the purposeful elevation of chunks of our work time forged within densely packed schedules. It forces the consideration of core significant impending decisions, outside of cursory overviews and immediate response.

Closely related, but requiring more discipline to achieve, is the state of reflection. Reflection is the deliberate act of stepping back from daily habits and routines (without looming and immediate deadline pressures), either alone or within small and sequestered groups. It's where meaning is derived through reconsideration of fundamental assumptions, the efficacy of past decisions and the consequences including the downside of future actions. It's where space is given for the "totally unexpected" to emerge.

Robert Shumsky, professor at the Tuck School at Dartmouth, believes that technology and automation rapidly force outcomes that may not be the most desirable. "In every company," he said, "I think there is a tendency to believe that if you're moving, if you're doing something immediate (or at least it looks like immediate), then you're doing the right thing." What Shumsky is referring to is an ingrained bias for action.

Admiral Thad Allen was chosen by President George W. Bush to be the new lead for the Katrina response following Michael Brown. He said, "When I went back to my room at night, I had quiet time. I was isolated and had time to reflect. I also used transit time as some down time when I could think uninterrupted." During one helicopter ride, Allen looked out over the devastation. He said, "I had the epiphany that I was dealing with the effect of a weapon of mass destruction used on the city of New Orleans, but without criminality. And up until that point, no one had stepped back and said we are dealing with a different animal here."

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Corbin Collins**, Contributing Editor

Through moments of think time and reflection, Allen reclassified a catastrophic event and reframed it within a new and more effective context.

In the final months of his role as commandant of the U.S. Coast Guard, Allen was yet again tapped to become the point person for the federal government for the unprecedented oil release happening 5,000 feet below the water's surface in the Gulf of Mexico. In this instance, Allen used his fleeting moments of reflection to help him frame descriptions of the aftermath of the Deepwater Horizon oil rig explosion.

What reflection and think time offer are specific and deliberate behaviors that allow for meaning to emerge from the vast supply of data that swirls around us. From dissent and debate to the wild and over-the-top, reflection supplies an arsenal of ideas and solutions to the right problems.

Forcing Think Time: Of Presidential Commutes, Personal Battle Rhythms, and Making Time to Wonder

Abraham Lincoln commuted back and forth between the White House and a cottage at the Soldiers' Home that he inhabited with his family. The Lincolns lived there "usually … from early summer to late autumn," as Lincoln scholar Matthew Pinsker reveals.

For Lincoln it represented a sanctuary. It buffered him from the world of being president. Lincoln purposely created a physical separation between his work and his home life.

General David Petraeus sits within a flow of data that dwarfs anything faced by Lincoln. On a daily basis, he immerses himself for nearly an hour-and-a-half in his "daily brief." The binders that sit on his desk contain reams of analysis, often compiled overnight, which he must consider.

The decisions made by Petraeus and other senior military leaders involve complex national security situations and often have life-and-death consequences. He said, "You have to put down time in. When I was in command in Iraq, I typically fenced an hour a day in the mornings. You'd use it in different ways; sometimes you would catch up on what you hadn't assimilated the previous day. Other times you would use it to think through something coming just over the horizon."

How many CEOs would consider taking up to two weeks away from their families and day-to-day operations and be alone in a cabin in the woods? Since the 1980s, Bill Gates, the former CEO of Microsoft, does just that. In the months before, Gates solicits ideas, papers and concepts from leaders around the company. He then goes off in the woods to read them, vet them and then take action on the ones he saw as having the highest potential. During the week, he bars all outside visitors.

The examples of forced think time within this chapter raise many questions and issues for leaders and managers to consider within their organizations and related to their own behavior:

Control. We can control how we structure the moments that arise and our responses. Like Lincoln, do we dedicate more time to reading and digesting information instead of generating content for others to consume?

Attention. We must come to a conclusion about the consequences of giving only partial attention to top initiatives. One might be that we can only think deeply about one matter at a time.

Hierarchies of communications. Leaders must ask themselves: What value do I place on language and texture that is only accompanied by its verbal expression versus the use of technology that allows for immediacy?

Asynchronous dialogues. Petraeus shows that having many ongoing conversations with people who can do some initial deep thinking for him does not absolve him of owning and mastering new content and ideas.

A meeting with oneself. It is clear that we treat time with our thoughts as a low-level priority. From holding the morning sacred to coming off the field and unplugging for even just an hour, think time can be forced and found.

Reflecting on messages delivered by technology. Lincoln wrote in longhand through multiple iterations before they were transmitted. All of us must ask ourselves: When was the last time I used the save button as I drafted an email?

Thinking Out Loud: Of Terminal Niceness, Intellectual Awkwardness and Real Dialogues

Today, we often enter meetings unprepared. Our time is fragmented and we don't force moments to reflect before we get into the room. We only have cursory conclusions with few meaningful alternatives. We are

often overly polite in discussions, as we are empathetic to other attendees who have also had very little time to think.

Joe Raelin of Northeastern University suggests that there are five levels within true "public reflection." If all are on display, the culture is capable of questioning without alienating and assumptions will routinely come up for reconsideration in the natural course:

Level I: Being. Refers to a deeper awareness of who we are, and our mental models and biases as we enter a dialogue. It creates a climate for reflection within the group and asks that we experience or describe situations, often without our own involvement in them, without inputting meaning.

Level II: Speaking. This involves a collective voice and collective meaning within the group. It attempts to characterize the state of the group at a given time. People in this mode will be observed asking: What social practices is the group engaging in right now? What is emerging in our collective consciousness?

Level III: Testing. An open-ended query directed toward the group as a whole that attempts to uncover new ways of thinking and behaving. One may ask the group to consider its own process or attempt to explore underlying assumptions previously taken for granted.

Level IV: Probing. People within the group make a direct inquiry, typically to one member at a time, to point out the facts, reasons, assumptions, inferences and possible consequences of a given suggestion or action. Probing may attempt to point out inconsistencies in members' reasoning patterns, perhaps helping them to uncover the assumptions.

Level V: Disclosing. Here, people stay within themselves and, at the same time, share their doubts or voice their passions. By disclosing, participants unveil their feelings at a given moment based on what has just transpired or they may present a story to reveal the depth of their experience.

A leader has responsibility for not only finding time to think and forge connections while alone, but to ensure that the organization embraces proven methods to allow dialogue to generate new ideas and explore the downside of a given strategy.

• When was the last time you participated in a moment of true "public reflection"? As the workload increases and distraction abounds, the rare moments of public reflection hold significant meaning.

• What is the supply chain of analysis feeding into the dialogues you and your team are attempting to have? As you read and learn are you simply snacking on content that you scan on the Internet or in a magazine?

• Iterative and deliberate discussions can create the atmosphere for divergent opinions and new ideas to emerge.

• The existence of "terminal niceness" within your organization is a likely sign that debate and dissent are long gone and groupthink is accepted. At the root of this behavior is a culture that can easily miss an innovation or market opportunity. ●

Promoting Think Time: Of Intellectual Freedom, Digital Books and Manly Refrigerators

In many ways, think time and reflection live at the core of what enables a business to thrive.

One celebrated technique employed within Google is the allocation of so-called 20-percent time to its engineers. The company encourages its engineers to spend 20 percent of their work time on "whatever they want." This benefit has been widely discussed as a core component of Google's innovation agenda.

Giving 20-percent time to employees is a powerful example of decentralized decision making. Engineers are trusted with making the decisions surrounding their involvement with maturing ideas that may have little to nothing to do with why Google hired them in the first place.

Whirlpool is a century-old company that made a clear decision to allocate think time in a quest to be more innovative. One key process promoted by innovation author and consultant Gary Hamel has had a profound effect on Whirlpool. It's given rise to differentiated products that would never have been born inside normal business operations. It involves challenging what are called the "orthodoxies" within the company. Orthodoxies are "the strongly held beliefs that Whirlpool has about itself. If they can overturn them or smash them, then we could see a new insight."

A project will only enter the company's innovation "pipeline" if it is screened against this very specific definition: the project must meet a consumer need and solve a problem; there must be nothing like it in the marketplace; the idea has to make money for Whirlpool.

There are many lessons to learn from these two examples, including:

1. Define the sandbox. Both Google and Whirlpool have defined innovation to various degrees. Whirlpool has been more explicit in that its innovation agenda must contribute to making money. You must take the time to define the edges of the sandbox.

2. Idea architecture versus autonomy. The autonomy that comes with allowing people to think about and work on what they want is compelling. Yet self-direction can cause individuals and smaller teams to flounder. Having some structure on top of autonomy helps ensure that there are guideposts and bumpers that gently guide money-making ideas into reality.

3. Language matters. The late Admiral Art Cebrowski once advised me, "You can't expect old language to carry new ideas." As you set out to interpret what think time can mean to your organization, ensure that it is described in new ways that convey what it is and is not. Make it distinct from the daily rhythm and language of the business.

4. Challenging orthodoxies. There must be "safe space" for people to express and offer ideas that get to the root of ingrained concepts the firm has about itself, its marketplace and even its consumer. It's only by granting people the time to step outside of the day-to-day that such a notion can even come into one's mind. ●

Taking a Step Back: From Abusing Email to Exceptional Organizations

Habits and routines rapidly form inside organizations. In the midst of the status quo, institutions rarely step back to re-examine assumptions and behaviors that are inevitably altering the trajectory of their company.

Can you imagine even one day at the office without email? The CEO of PBD, a small inventory management and shipping company, did just that. In 2006, Scott Dockter finally had enough of the barrage of email.

He thought to himself that, at least for one day a week (Friday), staff could get to know each other again and talk face-to-face when possible or connect via phone if they were in different cities. The only exception to the rule was for external email: if a client emailed someone inside the company on that Friday, then a PBD employee could respond.

Email use on Fridays dramatically dropped. In fact, email traffic on other days of the week began to decline as well. They calculated that prior to implementing the no-email rule, employees spent more than half of their workday simply reading and responding to email that was of no real value to serving clients.

Sister Mary Jean runs the SSM Health Care system. She learned about the nationwide, government-sponsored, Malcolm Baldrige National Quality Award Program. The program is led by Dr. Harry Hertz. Hertz says, "Baldrige is really an awareness and thinking tool. It provides a systems-level perspective to thinking and managing an enterprise and more importantly all of its inter-relationships."

The Baldrige process pushed SSM to consider many issues that get lost in the day-to-day operations. What does quality mean? How does the organization's strategy translate into actual implementation? The Baldrige process supplied SSM with a sustained period of introspection.

Employees are given authority for a moment of pause to reconsider what is about to happen for a patient or course of treatment. Sister Mary Jean said, "The person who stops the line is actually congratulated. If, in fact, either a manager or an administrative person does not support the person who stops the line, the manager or the administrative person will be fired."

Time for thinking will not arise unless leaders and managers take deliberate actions to drive new outcomes and models for working. Key areas for dialogue include:

1. Questioning email and putting it in context. Does your company even employ a basic set of policies for use?

2. Discuss responsiveness in your organization. While maintaining high levels of customer service, is it possible to imagine some rules set around response?

3. Openness to outside scrutiny. When was the last time you willingly opened up a function, let alone your whole business, to any level of outside scrutiny?

Let's Digitize Everything

Author Ken Auletta chronicled the day that the Google Books project was hatched and the CEO of the company, Eric Schmidt, first learned of the project. He writes, "Schmidt remembers the day in 2002 he walked into Larry Page's (Google co-founder) office and Page surprised him by showing off a book scanner he had built. It had been inspired by the great Library of Alexandria, erected around 300 B.C. to house all the world's scrolls. Page had used the equivalent of his 20-percent time to construct a machine that cut off the bindings of books and digitized the pages. 'What are you going to do with that, Larry?' Schmidt asked. 'We are going to scan all the books in the world,' Page said. For search to be truly comprehensive, he explained, it must include every book in the world."

4. Encourage system-wide thinking. The complexity of relationships and the translation of strategy to implementation require thinking holistically about the problem.

5. It's okay to "stop the line." When was the last time an employee was rewarded for "flagging" something she saw as likely to harm a desired outcome? ●

Too Big to Think? Of Cassandras and Cognitive Dissonance

In the dizzying run-up to the financial collapse, reflection was seldom to be found. There was a collective failure on behalf of thousands of very smart people, government regulators and millions of homeowners to step away from the lure, temptations and consequences of too-good-to-be-true real estate investing.

One of the most powerful barriers to think time is the rationalizing away of downside risks and unknowns presented in a globalized marketplace. Systematic failure to encourage debate, dissent and push back against poorly thought-out investment strategies nearly led to the catastrophic collapse of banks — along with everyone they do business with. Two atypical thinkers pondered the financial markets with all their increasing complexity and arrived at far different conclusions from the masses and Wall Street market makers.

Attorney Brooksley Born wondered about the emerging over-the-counter (OTC) derivatives market in the late 1990s and concluded that the unknown risks associated with their compounding use might one day have debilitating impacts on Wall Street and average taxpayers. The more she learned, the more she questioned what she was seeing and she issued warnings that no one wanted to hear.

Global investor Kyle Bass and his hedge fund team at Hayman Capital in Dallas immersed themselves in much of the same data as Wall Street's smartest people and reached very different conclusions about the downside risks of subprime mortgages. He concluded that the assumptions underlying the meteoric rise of these assets were deeply flawed. His structured analysis involved stepping away from the herd mentality through debate and dissent; this played a key role in making his investors hundreds of millions of dollars.

Examining their thinking habits and some similarities and approaches related to the near financial meltdown suggests several actions and questions for leaders and managers to consider inside their organizations:

1. Finding and studying cassandras. How would you attract a Bass or Born to join your company? Would you have the ability to detect their unique skills if they existed within your company?

2. Better managing of cognitive dissonance. This means acknowledging that there are viable alternatives to what you see as reality. How does your company formally question business as usual?

3. Learning from and detecting fraud. Fraud is a leading indicator of potential concern with an existing model. What does your company know about detecting fraud, both internally and on the outside?

4. Open-sourcing strategy, even in hostile environments. Seeking feedback with different points of view will ensure you are not rationalizing one direction at the cost of another. When was the last time you shared a contrarian view that was born out of healthy and balanced skepticism, and backed up by facts?

5. The power of doing other things. Our bodies decouple from the office, yet our unconscious minds continue to solve the problems that challenged us the previous day while at our job. How do firms encourage such detachment for improved problem-solving? ●

Rapid Contemplation: Rethinking War in the Middle of War

Once a war has begun, the military bias toward action and defeating an enemy is relentless. There is little time to think about fundamental concepts and foundational elements of a strategy — except if that strategy is failing. In 2005–06, as the Iraq war was being fought, reflection played a key role in turning the tide against a diffused, adaptive, and entrenched insurgency. Under the leadership of Marine Corps General James Mattis and U.S. Army General David Petraeus, a small and atypical group of war fighters and thinkers rewrote the doctrine of counterinsurgency in less than nine months.

The way the Army and Marines rethought counterinsurgency presents many lessons for other organizations to consider. First, there was a willingness to recognize a failing strategy and take top leadership off the battlefield to step back and rethink the approach. Second, structure and methods of the sessions for vetting the new ideas offer novel ways for attacking complex problems — even when time is against you. Finally, when reflection becomes habit we see evidence of a learning organization.

The rebuilding of the U.S. Army/Marine Corps Counterinsurgency (COIN) Field Manual, published in

multiple drafts from 2005 to 2007, stands out as an example of the power of reflection in the midst of unrelenting action. Both Petraeus and Mattis agreed that while in theater in Iraq, it would've been impossible to rethink the manual. Taking these top soldiers off the battlefield to think and recast policy and strategy runs counter to what so many institutions would do under the strain and uncertainty of challenging times.

The creation and rollout of the COIN manual demonstrate agility and resourcefulness while rethinking a failing strategy. Several insights are revealed:

1. Recognition of failing strategies that require new thinking and energy. Managers and leaders often perceived admitting to failure as a sign of weakness; yet doing so can give rise to resetting a problem through new dialogues.

2. Use history as a guide, not the only reality. Who in your company represents the reflective thinker capable of framing the challenges of your organization in a historic lens?

3. Engaged and dedicated senior executives turn moments of reflection into powerful cases for change. What is the last document or strategy you can point to as a "product of reflection" built with all parts of the organization and senior-level involvement?

4. Meta-dialogues help build trust among problem solvers. When things go wrong and new thinking is required, how would you engage outsiders as Petraeus did?

5. Finding evidence of a "learning organization" capable of adapting. What is the evidence your organization is learning and adapting?

6. Management through paradoxes. Paradoxical problem-solving frames balanced views into difficult problems. It consistently pushes people out of their intellectual comfort zones.

7. Atypical players invited to atypical tables. Embracing diverse perspectives during reflective dialogues ensures that strategies are not born inside an echo chamber. ●

Music at a Subway Station

Writer Gene Weingarten of *The Washington Post* wondered what would happen if a very talented violinist playing a 300-year-old, priceless Stradivarius were to don a baseball cap and play in the D.C. subway. Would people stop? Or are we all just too busy to even notice? Weingarten convinced Grammy award-winning violinist Joshua Bell to do just that. Bell played complex pieces by Bach and Beethoven. In summarizing the results of this unique experiment, Weingarten wrote: "In the three-quarters of an hour that Joshua Bell played, seven people stopped what they were doing to hang around and take in the performance, at least for a minute. Twenty-seven gave money, most of them on the run — for a total of $32 and change. That leaves the 1,070 people who hurried by, oblivious, many only 3 feet away, few even turning to look."

It's become the most watched video ever on the *Washington Post's* website — more than 1.8 million views. Weingarten had his own conclusion: "If we can't take the time out of our lives to stay a moment and listen to one of the best musicians on earth play some of the best music ever written; if the surge of modern life so overpowers us that we are deaf and blind to something like that — then what else are we missing?"

Outside the Day-to-Day: From Radical Sabbaticals To Unleashing Reflective Capacity

Sabbaticals and time away from the day-to-day routine are evolving. Such time away reinforces meaningful distinctions between home and work that are now permanently intertwined. Think time and reflection can become a benefit given back to employees for their own use or structured to hatch an idea important to them.

The economic reset has forced millions into moments of involuntary time off, thousands of hours of think time that has likely altered the employee's time horizons for retirement and also the overall work ethic. What new models of work time and down time can be developed to address the human side of the economic reset? How many of these people need real time away from the company to simply recapture a meaningful distinction between home and work? How many have envisioned new ideas for companies they want to start?

Sabbaticals are a benefit that, at first glance, implies just costs. Yet, the benefits to the employee and within the company can be significant. At McDonald's, the sabbatical policy allows loyal and hard-working employees to use time outside the firm to pursue what they want — and in the process they think in a new way about their relationship to the company.

Taking a sabbatical implies much more than time off for an employee. The structure of that time matters. Within weeks and months, employees can be exposed to new places and experiences that disrupt the patterns of

thinking that have built up within the frenzy of day-to-day activities.

Time away from the company can also be powerfully directed at creating new ideas that can positively alter the company's cash flows. This time away from the daily routine represents the atypical application of the "no-break" and "always-on" mindset. ●

Reflection and Extreme Situations: From Commander's Intent to Finding the Middle Ground

Reflection is often thought of as a luxury afforded only under circumstances where time is plentiful and immediacy is at bay. Yet, I have discovered it exists inside situations and settings involving crisis, conflict and entrenched parties.

Within the chaos of war, generals spend a significant portion of their time expressing what is called "Commander's Intent." It's really a thinking tool born after long hours of the commander's reflection time. General Mattis succinctly defined Commander's Intent as, "helping subordinates to understand the larger context of their part of the action."

Commanders sequester themselves and draft communications in order to express their "intent" related to the actions and mission about to be undertaken. Within the chaos of a hostile apartment, the language and ideas presented will echo in the thinking of the soldiers so it constantly informs the many decisions they will make.

In March 2003, Mattis wrote, "You are part of the world's most feared and trusted force. Engage your brain before you engage your weapon … Demonstrate to the world there is 'No better friend, no worse enemy' than a U.S. Marine."

Petraeus's advice reveals that his intentions and guidance can and will take soldiers into situations for which there is no reference point. Self-direction and an individual's thinking will drive key outcomes. He says, "In the absence of guidance or orders, figure out what the orders should've been and execute them aggressively."

The use of Commander's Intent demonstrates that a leader's reflection time can translate into the immediate thinking of their subordinates — even within the chaos of war. When was the last time you created such a clear statement of the intention behind a strategy or project? ●

The Future of Think Time and Reflection: From Sovereign Debt to Subway Performances

Following are five guideposts to look for as you seek to discover reflection in your organization. These guideposts provide evidence that reflection is valued. You can use them to begin some critical conversations:

Guidepost 1: Technology Versus Human Capacity: One of the key villains stealing away time for thinking and reflection is technology. Organizations that question technology's role in the context of routine human behaviors reveal evidence of reflection.

Guidepost 2: Real or Masked Dialogues: Organizations that demonstrate the ability to engage in uninterrupted dialogues that are generative of new thinking will be the most lasting of the century.

Guidepost 3: Dedicating Time for Thinking: Organizations that offer and celebrate think time, both inside and outside the workday, will prove to be the most innovative. Instant decision making often remains a must; but addressing chronic problems and nurturing big ideas can't be done in an instant.

Guidepost 4: Leaders Who Walk the Walk: Building reflection into the habits of an organization will not happen if the senior-most executives don't lead from the front. When leaders force think time into their own routines, others imitate such behavior.

Guidepost 5: Cultures of Dissent and Deep Thinking: When discussion is stilted and cultures can't actually engage in constructive debate, fundamental assumptions are not questioned and the wrong problems get solved. Dissent doesn't indicate one is not a "team player"; it's more indicative of a mind that will not rationalize away dissonance.

Time for reflection is an open invitation to discover what awaits us. The choice is ours: to permanently raise and reward the importance of reflection or simply meander through our next 10,000 emails. The consequences of that choice are also ours. ●

RECOMMENDED READING LIST

If you liked *Consider*, you'll also like:

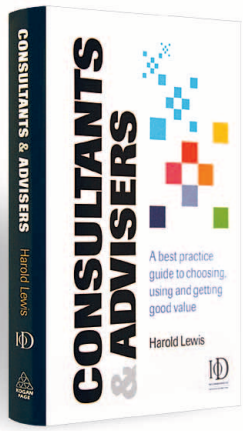
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Consultants & Adviser

Harold Lewis

SOUNDVIEW Executive Book Summaries®



By Harold Lewis

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A Best Practice Guide to Choosing, Using and Getting Good Value

CONSULTANTS & ADVISERS

THE SUMMARY IN BRIEF

Everyone in business will need the help of consultants, contractors or professional advisers at some time or other. In Consultants & Advisers, *independent consultant Harold Lewis presents an accessible resource for individuals, businesses and organizations on how to get the best value from the consultants they hire. This summary includes answers to many common questions about consultants and advisers, as well as examples of both good and bad practices. Throughout, Lewis provides a thorough examination of everything involved, from picking consultants to writing contracts to solving problems.*

This summary guides readers through the process of choosing and using consultants so they can secure the help they need and the results they intend. It helps readers avoid mistakes and pitfalls; save time, money and effort; and make the process of working with consultants really worthwhile. It also offers larger companies many lessons about where levels of risk are high, and how poor advice can cause financial loss.

After identifying the kinds of situations in which professional help might be necessary or useful, this summary discusses various ways to obtain help. It also indicates circumstances in which bringing in outside advisers might not be the best course of action.

In addition, this summary:

- ✓ ***Offers a profile of the consultancy and professional services sectors.***
- ✓ ***Describes the basis on which consultants work.***
- ✓ ***Offers insight into the way they view relationships with their clients.***
- ✓ ***Analyzes consultants' fees and expenses.***
- ✓ ***Describes how work specifications can be developed.***
- ✓ ***Offers steps that should be taken when selecting the right consultant.***
- ✓ ***Provides advice on contracting and negotiating with consultants.***
- ✓ ***Describes how to keep the work on track.***
- ✓ ***Offers the factors conducive to successful client-consultant relationships.***

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Why Would I Want to Use Consultants?

Every person in business will at some time need professional advice. To make a relationship with a consultant or adviser succeed, the key requirements are confidence, honesty and trust, based on a shared understanding of professionalism and the importance of businesslike delivery. To quote business guru Charles Handy, "If you trust people, they will surprise you. And they will surprise you positively if their interests coincide with your interests."

Business managers use consultants because of the expertise they offer, their independent viewpoint and the resources they provide. Expertise can be defined as specialist skills, deep experience, insight, awareness of best practices, research skills, and creativity. Independence can be defined as a detached viewpoint, impartiality, and unbiased analysis. Resources can be defined as cost effectiveness and cost savings.

First, you need to determine whether you are looking for a consultant or an employee. Choosing one of these options depends on what you will allow this individual to do. Are you comfortable with this person being able to delegate authority, working on one specific task, and taking care of his or her own tax records? If the answer is yes, then you are probably looking for a consultant. If the answer is no, then you are probably looking for an employee.

Alternatives to an External Consultant

Before you seek out a consultant, you need to figure out if your company can do the job itself without resorting to outside help. For example, your in-house staff might be able to handle the job with some additional training, or you might be able to use your company's own internal consultants, which would probably be cheaper. You could also consult a sister organization, a current business partner, a professional institution, a trade group or even the local chamber of commerce. Further, you might look at university and college departments, volunteer advisers, or even Internet discussion groups if you are seeking help.

Your choice not to use a formal outside consultancy process should be based on what you want to achieve, the price of getting it wrong, the urgency of the work, and the relative talent levels of the people who you would be asking to do the work.

When Not to Use Consultants

If you do not have a clear idea of what you want the consultants to accomplish, then you should probably not hire them. There are also a number of wrong reasons to hire consultants. These include: asking for a result that cannot be reached, using the pedigree of a consultant to give cover to an otherwise bad plan, asking consultants to assume risks that should be your own, and thinking that they can save you the trouble of defining policies and objectives. These are all recipes for disappointment.

Make sure that the people inside your company know the reason why you are bringing in outside consultants. Do this in person and not by way of e-mails. Be very clear that they know what the consultants are supposed to do and what help they will need from the company's staff. Don't let a situation develop where staffers are uncooperative with the consultants because they think their jobs are being threatened or outsourced. You have to get staff members to participate in this effort to make it work.

Making a Business Case

There are things you need to do in order to make a business case to bring in consultants. You need to outline in detail the following things: the scope and purpose of the work, the expected results, the proposed

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The author: Harold Lewis is an independent consultant with more than 30 years of professional experience. A graduate of the University of Oxford, he advises clients on the preparation of tender documents and the evaluation of tenders, and is a consultant and educator on communication skills in technical documentation, with particular emphasis on the clear explanation of complex technical issues.

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Why Would I Want to Use Consultants?

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contract basis, estimated costs, a timetable, the benefits derived, possible risks, proposed managerial arrangement, a clear assessment that outside help is needed and cannot be done in house, and an indication of how the consultants' work will be used. Management will then have to decide if the use of consultants is likely to result in a significant return on investment. ■

For additional information on some reasons for using consultants, go to: http://my.summary.com

How Do Consultants Operate?

According to data from 2002, there are more than 400,000 enterprises involved in consultancy and professional services work in the United Kingdom. Categories include civil, business, technical, management and financial. Though the size of a firm may not always be significant when selecting consultants, some businesses find that in general they get the best quality of response from firms that match their own size and scale of operations. However, the fact that a firm is small will not deter large organizations from using its services if it offers valuable expertise in a specialized field. And some corporate clients prefer to obtain their consultancy from seasoned individuals who have acquired a degree of eminence in their professions.

Professional Credentials

Anybody can set himself or herself up as a consultant. How do you determine if a person is really qualified to give you the help that you need? One way to determine expertise is to find out whether the person is a member of a professional organization or not. Professional associations, such as the American Bar Association, may demand that the person engage in several years of study and training before being admitted. Professional bodies may also place responsibilities and duties upon their membership. In short, using a person who is a member of a professional institution should mean that you have some proof of performance, conduct and professional training.

The process of gaining quality accreditation from a quality audit and certification company, such as Lloyd's Register Quality Assurance, requires a substantial investment of effort and time. But this kind of accreditation can open up doors for the consultant and serves as a great marketing opportunity. Keep in mind that no matter what the firm has accomplished, it is still capable of making mistakes. There may also be a whole host of competent consultants who can do the work who have never sought out accreditation.

Professional Indemnity Insurance

Many professional bodies require their members in business as consultants to hold professional indemnity insurance. Clients, in order to protect their interests and to defend against any legal claims that arise out of consultancy work, may require their consultants to be insured as well. Keep this in mind: If there is the slightest chance that the consultant's work can result in injury or death, make sure the appropriate insurance is in place.

Beware of consultants who use the tools of "relationship management" or "strategic account management." Many big management consultancies are very good at serving their own personal agenda by telling clients what they want to hear. Consultants will do everything from arranging impressive meets at their immaculate offices to getting a senior partner to step into a conference call in order to close the deal. There is nothing sinister about this, but you should be aware of this as a client. ■

What Do Consultants Charge?

The two kinds of consultant charges that you will encounter are **fixed prices** (related to a specific task or package of services) and **time charges**. Simply stated, the fixed price for a consultancy service is like the price of a meal at a restaurant. This is fine if the consultant is sure of what the price will be for his or her services. There is an art to this that can only be learned through trial and error. Time charges may be hourly, daily, weekly or monthly. Don't make this an open-ended agreement. You may also find it helpful to define how much time the consultant will be expected to spend on your account. Both fixed price contracts and time-based contracts may include award and incentive fees built into their terms. **Award fees** reward the consultant who meets or exceeds his or her target goals. Other charge options include **percentages**, **value-added**, **quantum**, **retainer** and **conditional** fees.

Fee Levels

No matter what fee basis is chosen, a number of factors will determine the amount your company will pay. Some of these factors are related to specific business conditions, and others are dependent on the services that are requested. Those factors include: competition between consultants, market value of the expertise desired, the consultant's business strategy, level of the consultant's costs, the urgency of the work, complexity of the task assigned, time of work, degree of commercial risk, the location of the work, and overheads.

The consultant fee simply expresses the fact that the firm needs not just to cover its own costs but also to make a profit. The fee usually includes payroll, salary or labor costs, overhead and profit.

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What Do Consultants Charge?

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In consultancy, a day normally means either seven, seven and a half, or eight hours of billable time, depending on one's business arrangements. Some consultants require their staff to charge either for a full day or a half-day. Time spent on the work usually includes: time spent on work as defined in a contract; time spent on data processing or surveys; meetings with the client; visits to work sites; time spent traveling in connection with the work; and preparation and production of deliverables, including reports, presentations and follow-up work as agreed to by the client. So, for example, a day charged by the consultant might include a two-hour meeting about the work, four hours preparing technical materials, and two hours of travel time between meetings.

Expenses

There are normally expenses that consultants incur on the job. The principle is that the consultant pays for these out of pocket and the client reimburses the consultant when the bill is paid. The main types of expenses for which you may have to reimburse consultants include: travel costs; parking charges; specific office expenses; equipment or supplies purchased or leased; costs of support services; communications, such as data transfer, cell phones, etc.; computing costs; courier services; and printing costs.

Consultants usually expect an advance before any work is started. Down payments help to discourage clients who are time wasters or who might be reluctant to pay for work they don't like. An advance payment of 25 percent is not uncommon. ■

How Should I Specify The Job to Be Done?

Don't approach a consultant until you have a very clear idea of what kind of work you want done, when you want it completed, and the results you want to achieve. The work specification accomplishes two goals: It helps you think about priorities and it helps limit the risk of getting results that you do not want. Be honest about your objectives and don't obscure your true motives.

Producing an effective work specification involves the following sequence of tasks: defining objectives, drawing up its scope and contents, gauging the practical demands of the work, setting a timetable for the work, identifying the right form of engagement, confirming your budget, determining what will be needed to succeed, deciding your critical requirements, assessing risks, taking measures to reduce risks, and putting the work specification on paper.

While clients are unlikely to be in a position to say *how* they want a particular task to be done, they must make it clear exactly *what* they want done. Project management software can help clients trace the critical path through the work and allow them to explore the outcomes of different options. The questions clients must ask themselves at this stage are:

- What are the options for structuring the work?
- What are the resource implications of these options?
- Which tasks will form the core of the work?
- Which tasks are most important for success?
- Can the work be fast-tracked?
- Are there external constraints on the way the work can be performed?
- What risks are associated with the work?

To answer these questions, focus on the following three factors:

1. Setting a Timetable. If you have enough information, try to estimate how much time should be needed to undertake the work. Decide how quickly you need results. Build in contingency margins to allow for possible delays.

2. Identifying the Right Form of Engagement. Most requirements can be met by a clearly defined engagement to undertake a specific piece of work. There are two other forms of engagement when a long-term consultant relationship is likely. The first is to set up a "call-off" contract. This puts in place a mechanism that can respond quickly to an unexpected need for assistance. The second form of engagement is to secure professional services through a retainer, for which a consultant agrees either to spend no less than a defined amount of time on your work or to be available as required.

3. Confirming Your Budget. Try to get a reliable idea

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How to Gauge the Practical Demands of the Work

Consultants sometimes complain that clients have no idea how much effort goes into the work. Consider the following points in order to ensure that your view of the work is sensible and practical:

✓ Do you know the resources that will be needed?

✓ If you need a team to do the work, how should the team be structured?

✓ What skills will be required from the consultants and from the people on your side managing them?

✓ Have you commissioned similar work before and did you learn from your mistakes?

✓ What assumptions are you making and are they valid?

✓ Where will the work be done and will new office space and equipment be needed?

✓ Will seasonal or other time factors need to be taken into account?

How Should I Specify the Job to Be Done?

(continued from page 4)

of how much the work should cost. How you use cost information depends on the significance that costs have on your decision. Make sure that the work you want done is covered by the funds that are available. You should also add 10 to 15 percent to your overall budget in order to prepare for things you cannot anticipate.

Determining Your Inputs and What Is Important

Clients have a very important role to play in the success of any project. The consultant may need logistical support in the case of a complex or large-scale assignment. Logistical support may include administrative and secretarial assistance, data processing, access to your office and staff, copying, scanning, printing, and possibly even lab and testing facilities.

Work that has to be done a certain way — for example, to meet legal obligations or health factors — must be spelled out precisely. There might be performance criteria on which a client cannot compromise. Make sure the work specification spells out these points in a way that leaves no doubt about specific demands.

Assessing and Controlling Risks

The possibility that something unwelcome will occur is one definition of risk. What needs to be addressed is how you can write safeguards into the work specification to minimize risks. Prevention and forethought are crucial. When you reach the stage of drawing up the contract, you may want consultants to accept either full or partial responsibility for risks. Most contracts involve a balance of risks between client and consultant.

The following are the most common risks that clients should try to avoid:

- Consultants may be late in starting the project.
- Technical problems may hold up the work's completion.
- Inputs due to be provided by the client or the consultants may arrive late.
- Outputs may not be delivered on time.

To manage these risks, make the start and completion dates explicit in the contract, set targets that are reachable, ensure that you are made aware early of any potential technical problems, stress the need for the right people at the right time, and make sure that the consultants receive on schedule the inputs that are due from you.

Costs may rise beyond the agreed price, and the budget may be spent at a rate that outpaces the work. These risks can be managed by making the consultants bear the risk of cost escalation, requiring accurate monitoring and reporting of the rate of spending, and underlining the need for transparency and openness in timekeeping and accounts.

Resource Deficiencies

Those who do the work may turn out to be inadequate. They may be poor at communicating their results or may be subject to competing work demands. The work could be handed to subcontractors who provide a variable level of performance. The work schedule may face delay if subcontractors aren't paid promptly. These risks can be managed by a properly written work specification that outlines the following: performance standards, knowledge of the people who the consultants will be hiring, competent replacements should the need arise, knowledge about all of the subcontractors the client will be using, information about the consultants' other clients, and a requirement within the contract for consultants to pay subcontractors on time.

Consultants may not deliver the right results, performance may fall below expected quality, or their technical findings may be questionable. These risks are managed by stating clearly what outputs you require, making performance goals mandatory for continued work on the project, and requiring an appropriately detailed technical justification for the consultants' recommendations and findings.

The work specification should include the scope of the work, the consultants' approach and method, a timetable, the deliverables and your inputs. The structure of the work specification should have clarity, balance, a logical progression, comprehensiveness and conciseness. ■

How Do I Select The Right People?

Experience is the best guide when it comes to choosing a consultant or adviser. Look for appropriate credentials and qualifications, but don't necessarily be impressed by strings of letters after people's names.

Identify at least three consultants to approach. When you talk to consultants, make sure that you identify the principals who can make business decisions. Tell them that you would like to give them an opportunity to do work for you, but make sure that they know there is no permanent commitment. Ask specifically for references and follow up on them so that you don't waste time with consultants who have a habit of disappointing their clients.

After you have contacted at least three consultants initially, a follow-up meeting should be arranged. That meeting should take place on their home ground. That way you can take a look at their organization. Does it appear well organized or is it a shambles? How do staffers look? Are they under stress or doing their jobs? Keep in mind that while you are sizing up the consultants, the consultants are sizing you up as well.

There are a number of pros and cons to using consul-

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Questions to Consider When Hiring Consultants

Here are some points to keep in mind when trying to determine if consultants are right for the job:

- ✓ Are they good listeners?
- ✓ Do they exhibit a common-sense, down-to-earth attitude?
- ✓ Do they seem as if they want to work for you?
- ✓ Have they done similar work?
- ✓ Can they prove that they can do the work that you've asked them to do?
- ✓ Can they say exactly who would be doing the work that you asked them to do?
- ✓ Would the work be done in house or would they be subcontracting?
- ✓ How do they charge for their work?
- ✓ Do they work for a competitor?
- ✓ How do they assure both quality and value?
- ✓ Are they properly insured for the work?
- ✓ Do you sense that these are people with whom you would be comfortable?
- ✓ Do you feel you can trust them?

Choosing consultants is a job to be done methodically and with careful thought.

How Do I Select the Right People?

(continued from page 5)

tants with whom you have already worked. On the plus side, you know the consultants and the kind of performance you can expect. On the down side, your current consultants may not be able to handle this new assignment, and a younger, hungrier firm may not only bring more to the table, but might offer better pricing. Several points to consider include: Who will give you the better value for your money? Does changing consultants offer practical benefits? And will the new relationship be better than what you currently have?

The best way to answer these questions may be to put the work out for competitive bidding from both current and new consultants.

Going Out to Tender

Keep in mind that inviting bids is much more complicated than getting quotations from two or three tradespeople. If the consultant is doing a job that could damage your business permanently, then you have to put in place a procedure that invites written offers in which consultants set out their approach, work plan, costs, resources and other information.

Writing a proposal is a more time-consuming task than sending in a quotation and can prove expensive for consultants. You, too, will have to spend time comparing different and complicated responses to your proposal. In some cases, for example technical bids, it may be beneficial to split the bidding into two stages. First, there should be a stage of pre-qualification when you narrow the field down to a short list of consultants. Then, there should be a tendering stage when you receive and evaluate submissions from the short-listed participants.

Consider the proposal to be a kind of proxy for the performance of the work. It is the closest that consultants get to providing you with a free sample. Give consultants a structure to follow for the proposal so you can have a consistent basis on which to evaluate their responses.

The proposal should include the following: information about the consultants, their company's experience and background, their understanding of your objectives, their delivery plan, the timetable in which they would undertake the work, their organization of the work, the price they propose and elements in their pricing, how they will resource the work, and details of any subcontractors they plan to use.

First, make it clear to whom the proposal should be delivered within the company. The format of the proposal should be specified, such as CD, DVD or USB media. Specify any limits you have on the proposal, such as length. Note how many copies you will need. There should also be a clear deadline.

A typical proposal structure includes an introductory section, the consultants' approach and methodology, a work plan and timetable, staffing, outputs and deliverables, team and contract experience, and price information. This kind of structure provides you with a checklist to help you understand if consultants have answered all of your questions. It also gives you a guide to specific items of information for which you are looking.

Contract-Related Information

Include the type of contract that you have in mind for the work. The contract should also give the consultant a clear idea as to when the actual work should be completed, the duration of the work, the criteria you plan to use in evaluating the proposals, whether a follow-up will be required, the date by which you will have reached a decision about the outcome of the tendering process, and how long you want the price information to remain valid.

There are two other points that need to be made clear. First, you accept no liability in the costs for preparing the proposal — except in certain fields such as advertising and marketing where the costs can be steep. Second, the information in the proposal is made solely for convenience and guidance. The second point is necessary because it protects you from legal claims down the line.

Should you tell your consultants what your budget is for the project? There are opposing views on that issue. Being told your budget will help consultants gauge the level of

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How Do I Select the Right People?

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effort they can realistically put into the work. It also encourages consultants to focus their proposals on the scale of the benefits they can offer. Finally, it will reduce the risk of receiving proposals that are either unhelpfully out of scale with the funds available for the work or so widely divergent in their costs as to defy comparability.

There are opposing arguments. Declaring your budget may deprive you of the opportunity to make cost savings. The budget figure might need to be revised once the work starts. Also, revealing your budget might encourage consultants to raise their costs up to the limit.

One way to approach this is to express your budget as a range within which the costs of the work are expected to fall. Another way is to indicate the length of time the job should take. Make it clear that this estimate of time is only put forward as guidance.

Once you have precisely written your work specification and you have a number of proposals in front of you, your first job is to look through all the proposals and check that the points that matter to you the most have been dealt with. A second opinion is useful, and involving three people allows at least the possibility of a majority view. There are times when you might want to engage a consultant specifically to help with the evaluation. Make sure that you choose someone who does not have a personal or business interest in the outcome of the selection process.

Compliance

In most industries, it is customary for evaluation procedures to start with a compliance check. The questions that this check asks include the following: Did the proposal arrive on time? Does the proposal contain all the information requested? Can the consultants fulfill all your requirements? Is the information set out in the required form? Are formal statements — for example, those on health, safety or environmental policies — included? Are other statements that were requested, such as proof of insurance or letters of commitment, included in the proposal?

Where information is missing, incomplete or set out in an incorrect format, you have a choice of either rejecting the proposal or giving the consultants an opportunity to correct their mistakes.

Evaluating Proposals

How do you choose between competing proposals that offer different advantages and benefits? The answer is to adopt a consistent and structured method of evaluation based on a defined set of criteria.

Price is usually the most important factor when determining a proposal's value. It is best practice not to award a contract based on price alone. Price should be viewed as part of a value-for-money assessment. Develop a realistic estimate of costs as part of the work specification.

Draw up a list of criteria you will use to judge the proposals. While price might be at the top of the list, other factors should include the practicality of the proposed work plan, the consultants' skills and experience, how much the proposal shows an understanding of your requirements, and the quality of the proposal. Weigh the importance of each of those factors. One way to judge value is to use the method used by consumer magazines when testing products. First, rate the proposals against qualitative criteria, ignoring price, to identify the proposal offering the closest match to your work specification. Then, bring price into the calculation to determine your "best buy."

Before finalizing your decision, you may want consultants to follow up their proposals with interviews or presentations. When you have chosen the consultants you want to use, ask them to confirm in writing that they are ready to do the work. Once the contract is signed (not before!), write to the consultants who were unsuccessful to thank them for their interest and perhaps explain why you were unable to accept their bid. If you are not satisfied with any of the proposals, you will have to start again. Analyze the reasons why you were dissatisfied. Perhaps the way you expressed your requirements made it difficult for consultants to make an effective bid. Put things right before going out to tender again. ■

What Should I Know About Engaging Consultants?

Have a contract or a letter of engagement in place before the work starts, and agree to this document as soon as practicable after deciding on a consultant. Put things in writing!

If you are asked to sign an agreement with the consultant, read it carefully. Watch out for advance payment plans, interest on invoices not paid on time, any statement that says that price and time estimates are to be regarded as informal calculations, limits on the consultants' liability for the work, automatic annual renewals of the agreement if no notice is given for when the contract will end, and statements that say nothing in the contract document is to modify the standard conditions set out in the agreement. Never sign an agreement that you cannot accept in full.

Types of Contracts

There are three principal options for consultancy contracts: a fixed price contract, a time-based contract, and a call-off or term contract. Payments on fixed price contracts are often made in installments as stages or tasks of the work program are completed. The time-based contract is the cost of the work plus the multiplier applied by the consultant and the agreed expenses. Time-based contracts

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What Should I Know About Engaging Consultants?

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are more appropriate in cases where there is uncertainty about the value of outputs — for example, research contracts. Call-off contracts are used in cases where a client is likely to require consultancy services on a fairly regular basis, such as a two or three year period.

Contracts follow a logical order: what the first party (the client) will do, what the second party (the consultants) will do, terms of payment, matters relating to the suspension or end of the contract, indemnities, and general matters related to performance. The contract should at least contain the following items: who the contract is between, when the contract should start and when it ends, the work to be performed, the person in your organization who authorizes the work, the outcomes of the contract, a timetable for when work will be completed, the agreed price for the work, expenses that are reimbursable, terms of payment for the work, and specific requirements that must be met if the work is to be accepted as satisfactory. ■

How Do I Keep Track of the Work?

Before the signing of the contract and the start of work, you will find it useful to have a further meeting with your consultants to confirm that the necessary arrangements are in place both on their side and on yours. Make clear to them exactly who will be responsible for giving them instructions and who they are to contact on day-to-day matters. Confirm who on their side will deal with any questions. Remind the consultants of the importance of keeping to schedule and delivering results on time.

Once the work is underway, keep a record of whatever discussions you have with the consultants. Keep in mind that *you* are in charge, not the consultants. Also, few consultancy assignments go exactly to plan. It is one of the penalties of working with people. Look at the results to judge whether you have received value for your money.

Monitoring Performance and Progress

Checking performance is critically important if the work involves a challenging delivery schedule or if it is the first time you have used the consultants. Keeping track of the work is largely a matter of maintaining an effective dialogue with your consultants. The basic questions that you need to be able to answer during the span of the contract include: Are the consultants doing what you asked them to do? Are they delivering on time and keeping to the budget? How good are the results they are achieving? Is the relationship working? Do their bills look reasonable?

Schedule regular progress meetings. At these meetings you should determine the status of the work to date, review the performance of tasks, identify consultant shortcomings, check how the work completed matches the budget spent, get early warning of problems, and learn what matters need your attention. Management reports are sometimes required during long contracts.

While deciding what reports you will need and when, consider the complexity of the assignment, your need for information, requirements for the consultants to maintain an audit trail, and the realities of the work timetable and related decision points.

Why Do Things Go Wrong?

If you suspect a problem, you need to be sure that things really are going wrong, and that the problem is not caused by the way you have chosen to work with the consultants. When things go wrong, there is very rarely a single cause. Even though you have taken precautions, difficulties may emerge, such as the following: You were imprecise in your work specifications, your time span was unrealistic, the consultants do not have complete information and resources, there is bad chemistry between your staff and the consultants, or there is inflexibility on both sides.

To put matters right, make sure that your staff and the consultants are working together. Promote an open working environment. Use regular progress meetings to recognize difficulties and problems. Establish an agreed procedure for resolving differences and concerns. Build a contingency plan to remedy problems. Learn from the experience by analyzing what went wrong.

When the assignment is completed, get a dated and signed final account statement from the consultants. For some organizations, the work may have to be signed off as completely satisfactory in order for final payment to be made. Some consultants want feedback on their work. If the consultants made mistakes, tell them how to improve. If the work has gone well, make a point of writing to the consultants and thanking them. ■

For additional information on one travel company's experience with a research consultancy, go to: http://my.summary.com

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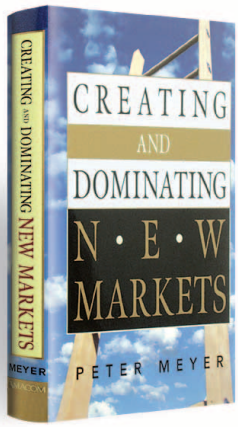
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Creating and Dominating New Markets

Peter Meyer

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Peter Meyer

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CREATING AND DOMINATING NEW MARKETS

THE SUMMARY IN BRIEF

All business owners dream of creating a new market and becoming the dominant player. The benefits of creating and dominating markets include having time to get it right, being able to make and survive mistakes, achieving greater stock value, and pricing to the market instead of competitive pressure.

New markets, such as those created by Amazon.com and Apple Computer, started with an idea for a market that did not exist before. In Creating and Dominating New Markets, *Peter Meyer offers a guide to owners and managers who want to plan, create and dominate markets but also reduce their risk.*

Within this summary are specific applications and ideas about how to create new markets instead of fighting for a place in established markets.

What You'll Learn In This Summary

✓ **The definition of a new market and where to find them.**

✓ **The most important resources you need to create and dominate new markets.** You'll need time, people and money.

✓ **The role of customers in creating new markets.** New markets are created when a company develops a solution to customers' problems.

✓ **What new markets are available to you.** You can choose one of four paths — involving combinations of new and existing customers and new and existing products — to lead you to a new market.

✓ **Different strategies to manage the risk.** Depending on how well a company understands the customers and products, it can significantly reduce the risk of failure in a new market.

✓ **How to dominate new markets once you have created them.** Credibility and involving the customer in product design can help you dominate a market.

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The Mystique and Challenges Of New Markets

New markets are exciting, profitable and forgiving. They provide the thrill of creating something no one has made before. They also lack the competitive pressure that reduces prices in mature markets. The perception that your company can consistently create new markets can also increase the price of your stock.

Dominance in one market can make other competitive markets more forgiving. Large margins and cash flow in a dominant market can provide support for doing battle in a highly competitive market. Being the only player in a market also allows you to make mistakes without losing market share to competitors.

New markets are new to everyone, not just to you. New markets should not be confused with line extensions, such as laundry detergent with added bleach, which only change markets, but do not create new ones.

The best way to create a new market is to look for a customer's problem, not a product. Markets start with a need. Combining that need with a product is how you create a new market.

Common Denominators of New Market Success

When you look at companies that have been successful at creating new markets, you will see some common key elements. The following principles will help you increase your chances of repeated success:

- **Customer-driven markets work better than vendor-driven markets.** Customers will buy what they want, not what you think they want. An online grocery delivery service seemed like a good idea; customers weren't interested.
- **Take the two lower risk paths to a new market: Develop a new product for a known market or take a known product into a new market.** See the article "What New Markets Are Available to You?" on Page 4 for a further discussion of the paths to new markets.
- **Be willing to ignore opportunities to avoid diluting efforts.** Not every opportunity is worth the chase — especially if it drains resources from other initiatives.
- **Start with cross-functional teams and leadership.** Creating new markets shouldn't be left to one function (marketing, for example). No single business function can produce new markets alone. ■

For a list of questions to help you uncover new markets, go to: http://my.summary.com

Balancing Resources and Opportunities

In order to create a new market you need three key resources to invest in opportunities: money, people and time.

It does not necessarily take a lot of money to create a new market. The cost depends on the problem you are solving and the audience that most intensely feels that problem. Consumer and pharmaceutical markets are very expensive, while business markets can be inexpensive.

People are even more important than money. Remember that people who excel at initiating markets have different skills than those who know how to improve existing markets. Improving existing markets involves improving details. For new markets, creativity and imagination are more important.

The Importance of Time

Time is the most important resource and greatest expense for creating new markets, and it should be measured by time to market acceptance. The sooner you reach market acceptance, the sooner you can reach market dominance, and the sooner you can move to the next new market.

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The author: Peter Meyer is a principal of The Meyer Group, a strategic consulting firm. Creator of the Meyer Index, Meyer writes for numerous business publications, including *The Wall Street Journal*, and is the author of *Warp-Speed Growth.*

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AOL Gets the Jump on Competitors

In 1993, AOL started to distribute its software on free disks through direct marketing. The company used magazine "out-serts," direct mail, and handouts at book and appliance stores. The plan was to make the software easy to install and to increase brand awareness. A 1 percent rate of response is usually good in direct marketing, but AOL was getting 10 percent. The only question was how long it would take AOL's competitors to respond.

Time was a critical resource for AOL because it protected its market lead. Every day, AOL expected a response from Prodigy or CompuServe, but they were slow to respond. "It was like a blessing from heaven every minute that went by and that didn't happen," said AOL's marketing director.

At the same time, AOL's new users were increasing at a rate that was almost too great to sustain. AOL could only handle a certain number of simultaneous users, and when the total number of users reached 274,000, the system would fail. Time ran out in February 1994, and the service began to fail. There was an uproar as people who were used to getting an immediate response from AOL couldn't get online. But, all the users that AOL had been signing up over the previous months, with the free disks, were not switching to its competitors. Still, that time buffer would mean nothing if it couldn't fix the problem of new members not being able to get online.

Balancing Resources and Opportunities

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Time can also be a barrier to competition. If you move swiftly to domination of new markets, other companies have to speed up to your pace to compete.

Know When to Say No

Experience will teach you to recognize failures, learn from them, and move ahead before wasting any more time, money or people on a market that will not work.

It is also critical to balance opportunity costs with resources. By using resources on one opportunity, they are unavailable for another. Instead of jumping from opportunity to opportunity and wasting resources, learn how to pick the right problem on which to expend your resources. ■

It's The Problem That Matters

You do not find new markets. You create them by finding the solution to a problem that people want resolved. In other words, a new market exists at the convergence of a **high level of perceived need** with **a solution that did not previously exist**.

The phrase "did not previously exist" is key. Many managers are trained to sort through pre-existing options for solutions. Managers who create markets look for completely new solutions.

A "high level of perceived need" is also key. Often, products are sold by focusing on the pain of a problem. Companies create pain, make an existing problem seem more painful, or find problems that are already painful to customers.

Eventually, customers will compare one pain with another. If another has priority, your product or service may lose out.

For example, slippery floors in grocery stores can lead to lawsuits from customers who fall and hurt themselves. These lawsuits are painful to the stores. One company developed a no-slip floor coating for grocery stores to eliminate the risk of lawsuits.

Grocery stores, however, did not perceive the pain of lawsuits to be worth the cost of the floor coating. They decided their money could be better spent elsewhere, and the floor coating product did not survive.

The best option is to determine the high priority problems or pain that already keep your customers awake at night. Those are where customers will invest scarce resources.

Choosing the Right Problem

There is always risk in solving problems. Frequently companies pick the wrong problems and their new markets fail.

You have three options to finding the right problem:

1. Anticipate future problems.

2. Create problems.

3. Ask customers about problems.

The most common approach to choosing the right problem is to **anticipate future problems**, that is, to anticipate what will likely hamper the success of your customers. This is appealing because managers are knowledgeable about the concerns of their clients.

In 1977, Chrysler predicted the need for a fuel-efficient van with the walk-through features of a regular van, but small enough to fit in a garage. The company started development of the minivan, despite the fact that there was no market for it, and it worked.

But often, as with the DeLorean, predicting a market before it becomes real produces failure. It is too risky.

Some companies choose to **create and control serious problems**, then provide the solution.

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It's The Problem That Matters

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When AT&T broke up in the 1980s, Pacific Bell continued to service the telephone line from outside houses to the central office for free, but started to charge for line service inside homes, causing a new problem for customers. Pacific Bell then created a market by proposing the solution of charging a small monthly fee for service on the inside line.

The risks in this strategy are that you may create competitors if the cost of entering the market is low, and customers may refuse to accept your solution to the problem and choose another solution.

The least risky way to choose the correct problem is to **find a problem**. Asking customers — or prospects, if the new market will involve new customers — is the best way to find serious problems that customers are willing to pay to solve. Consistently asking customers "What is the right question to solve?" will eventually uncover a natural focus to products development. The risks are that you might not know what to ask, and you might not like the answer.

Conducting informational interviews is an effective way to pursue this strategy. Do not limit yourself to known customers, especially if you want to develop a new market among new customers. Answers from customers who have chosen not to buy from you in the past can also be very useful.

When conducting information interviews, come prepared with several questions, but only ask two focused questions. Here are some samples of questions that you might choose:

- **What keeps you up at night?**
- **Why should your customers buy from you? Why do they buy from you?**
- **Why do you lose customers?**
- **Where is the next market that this company wants to enter?**
- **If you could wave a wand to solve any problem, which problem would it be?** ■

FedEx: Investing in the Wrong Problem

In 1984, FedEx tried to create a second market of instant document delivery by sending facsimile transmissions across the country for same-day delivery. Unfortunately for FedEx, the technology it had bought for this new market, fax machines, became available to its customers at very low cost. FedEx spent five years and more than $300 million to solve a problem that customers did not rate highly. If FedEx had been willing to accept that it had invested in the wrong problem earlier, the company would have avoided a great loss.

A Solution in Search of a Problem

Webvan is an excellent example of a company that tried to create a new market and dominate it, without addressing a problem that was significant to the customer. The founders identified a new niche — delivery of groceries ordered from the Web. They built the infrastructure, and in an informal survey, target customers indicated they were attracted to the service and valued it highly.

The company was very successful in taking care of the customers. Customers could decide when they wanted their groceries delivered. Webvan provided fresh meats, produce, and high-quality nonperishables. Drivers climbed stairs if it was necessary, and delivery was free if you bought a reasonable minimum. Prices were competitive and ordering was simple. Webvan was treating its customers well, had no serious competition, and it had an excellent infrastructure. Webvan should have had a winning solution, but customers stayed away in droves, and by 2001 the company ran out of cash and closed.

Why? Webvan was a wonderful solution that did not have a problem. The solution made sense to the company, but its prospective customers didn't feel strongly that they had a problem to be solved.

For a chart showing top operational problems, go to: http://my.summary.com

What New Markets Are Available to You?

Working systematically to create and dominate new markets, you can consciously choose one of four paths:

Path 1. A new product to an unknown customer set.

Path 2. A new product to a known customer set.

Path 3. A known product to a known customer set.

Path 4. A known product to an unknown customer set.

Which path you choose will depend on the circumstances of your business, but understanding the path you are on will allow you to avoid distractions and increase your chances of success.

Different Paths, Different Risks

Creating and dominating new markets is easier when

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What New Markets Are Available to You?

(continued from page 4)

you start with either products or customers that you know (Paths 2 and 4), but not both (Path 3). Known products and known customers are difficult because you will rely too much on past experience and market knowledge instead of creating a new market. Knowing either products or customers, however, reduces risk because you have some knowledge and experience.

Here are the advantages and disadvantages of the four paths:

Path 1. New product, unknown customer set. The combination of new products and new customers is very exciting because it allows the most creativity. But the challenge of defining customers who have never existed for a product that has never existed makes this the hardest and riskiest strategy.

Mosaic/Netscape Communications succeeded when it created a new market for a Web browser at a time when most potential customers did not know what the Internet was. The company had to create a need for a Web browser and a new product.

One problem with having both unknown products and unknown customers is that you don't know which features to include in your product or service because you are not working on a specific, well-defined problem.

Path 2. New product, known customer set. Working with unknown products but known customers is a much easier strategy because you can go directly to the customers and ask which problems matter to them.

When Edwin Land developed the instant camera for his company, Polaroid, he had a specific customer group in mind: hobbyist photographers. When you know your customers and know what they want, the biggest risk is not being able to provide the product or service to solve their problem. In 1964, AT&T, which had nearly every home in the country in its records, defined customers for a new market of Picturephones. They were never able to make the technology work, and so were never able to create their new market, despite knowing the customers.

Path 3. Known product, known customer set. Managers believe creating a market with known customers and known products is an obvious strategy. Unfortunately this minimizes the risks too much and often ends in a line extension instead of a new market. When VaxGen spun off from Genentech to make a vaccine for HIV in 1995, they did so to get away from the parent company's experience and knowledge of treatments that sell and the customers that buy them. VaxGen did not want to mimic past successes to create a new market.



Path 4. Known product, unknown customer set. Unknown customers and known products is another way to reduce risk. It is not easier than creating a new product for known customers, but this route to building a new market is more likely to succeed.

In the 1980s and 1990s, analog cellular handsets were becoming obsolete in the United States and Europe. Many companies built digital handsets and infrastructure, which was a very expensive and extensive process. Motorola took its cellular phones to developing China where there were millions of unknown customers.

The risk of failure in creating and dominating new markets is directly proportional to your lack of knowledge about the products and markets you are addressing, as well as the tendency to let yourself be defined by your past knowledge. If you can overcome these two challenges and focus on solving the customer's problem, you will be ready to create a new market. You may fail more often than you succeed, but the successes will be well worth the effort. ■

The Role of the Customer

All new markets are risky. Even Cisco Systems Inc., which is known for reading customers and being a market creator and leader many times over for its Internet infrastructure products, has failed. In 2001, the company discontinued an optical router because the market was growing too slowly, and ultimately had to write off nearly half a billion dollars. What appeals to the inventor does not necessarily appeal to the market.

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The Role of the Customer

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When looking for how to make products appeal to the market there are three strategies:

1. **Shaping the market.**
2. **Predicting the market.**
3. **Asking your customers to help.**

Shaping and Predicting Markets

Shaping the market involves positioning the product so that customers view the need for the product the same way you do. The problem is that your company is usually not the only party positioning and shaping the market. There will be competition in positioning because anyone can try to affect the market, and usually the winner is chosen on the merits of the positioning, not of the product. In addition, customers are seldom willing to let you lead them with positioning.

Another strategy is to **predict the market**, as many companies did in the late 1990s and early 2000s when they anticipated a market for Web-enabled telephones. Companies created cell phones that navigated the Web and sent e-mail. But no one wanted to use their cell phones for surfing the Internet.

Predicting markets is risky not only because no market may develop, but because your timing may be off. Correctly predicting a market at the wrong time is just as bad as predicting the wrong market.

Bring in Your Customers (or Prospects)

The best strategy is to involve customers in creating new markets.

Some visionaries at companies, such as Microsoft and Wal-Mart, have developed ideas for new markets and succeeded without involving the customer. Many people have tried to emulate them, but most have failed because starting with a vision is an extraordinarily high-risk strategy for creating new markets.

Asking customers for help, however, can be difficult because customers do not always know what they want in a new market.

When America Online (AOL) asked people if they needed an online service, customers said no. When customers were offered the opportunity to join an informal group of people to chat, or to have a way to send quick notes to family and friends without having to buy stamps and mail letters, they responded positively. Consumers didn't care about the product. They cared about the effects that the online services could provide. You cannot rely on customers to tell you what product they might buy, but you can rely on them to explain their problems and the solutions for which they are willing to pay.

Funding the New Market Effort

Creating and dominating new markets cost money, time and people. It is important to consider how to generate enough resources to subsidize a new market. One idea is to use an opportunity database that allows you to market more cost- and time-effectively to prospects.

An opportunity database can help fund new efforts by changing how you focus on prospective customers and helping your sales team call on the best prospects first, while avoiding prospects who will not be good customers.

Traditionally, prospects come in randomly, as demand-generation programs, such as advertising, trade shows and direct mail, uncover them. Building an opportunity database is a more systematic approach to prospecting.

First, the database of your customers is mined to identify key common denominators that impact their purchasing decisions. Next, you build a database of prospects that includes all likely prospects in a universe. Based on the research into your own customers, you assign each prospect points according to the value of the opportunity.

The opportunity database allows you to identify prospective customers with the most intense needs — the ones who are most likely to buy and are less price sensitive. By selling more and discounting less to the best prospects and customers, the increased profit can be used to create and dominate your new market without stealing from the current one.

Three Steps

There are three steps to letting customers help build new markets:

1. Make sure that your business understands the problem as the customer sees it. Ask customers about the problems they have, not about products.

2. Find out how prospective customers define success for solving the problem, even if they do not understand the issue itself. As you survey potential customers, common themes will begin to develop about how the problem's solutions are viewed.

3. Quickly bring a product to market that clearly addresses those success criteria effectively. Being first to market is not enough. First to market acceptance is the goal.

Involving the customer increases the cost in time, people and money of entering a new market. It also requires discussing problems without solving them or trying to sell products. But the benefit is the ability to get to market acceptance more quickly. ■

Building and Dominating Markets Through Involvement

After creating a market, your company will not necessarily dominate it. Perrier, the pioneer of bottled water, does not dominate that market.

Pitfalls that can occur after building a market include the good chance that your product will not be 100 percent what your customers want; they might decide they want something else. There is also the possibility that customers will stay loyal to themselves and their needs; not loyal to you as you improve and change the product.

Personal Involvement

One way to avoid these pitfalls is to provide ways for customers to become personally involved in the product, making them active partners in building the market and allowing you to reduce risk.

Having customers involved in defining their own experience is a common denominator among many companies who create and dominate markets. If users can easily adapt products to individual needs that the supplier never considered, even when the supplier uses a sophisticated technology, the customers make the product more meaningful to themselves.

Some products, like LEGO bricks, do not even need technology. Everyone who plays with the plastic bricks and puts them together in his or her own way is self-tailoring the experience.

Start at the Design Phase

Building involvement into products should happen when you start designing products for new markets. Begin by accepting a wider definition of the word product that includes everything that customers experience in their relationship with you and your business, including advertising, handling complaints, and offering support. All of these parts of the product can be tailored to the individual needs of customers.

Involving customers is less expensive in time, people and money if it is built in from the beginning. No matter what your product is, position it to be customer involving. Users will find applications that you never considered that could give you increased sales or create another new market. ■

The Role of Information Technology

Information technology (IT) does not build markets, but it can play a role in creating and dominating new markets by helping to solve the customer's problem.

Customers Don't Always Want More Technology

Even though technology allows you to involve the customer, do not confuse technology with the effect that customers want. The early Palm Pilots were far simpler than the technologically sophisticated Apple Newton, but Palm was able to create the market. Invest in features your customers will use, not in features you think they should have. Do not create a product that is so complicated to install or use the first time that the customer never gets a chance to use it. A key difference between AOL and Prodigy in the 1990s was AOL's focus on a "brainless" installation. People and businesses do not buy what they cannot use, and there is no point in stifling a promising new market because only technically adept people can participate.

Technology as Solution

When Sony made the personal radio, it identified a potential gap between what consumers could have and what they wanted. That potential became a market when Sony used the technology of transistors, which already existed, to create a product to fill that gap. A successful company starts with the potential and applies the appropriate technology, not vice versa.

As you look at technological innovations, do not make the mistake of forgetting the problems your customers are trying to solve. If they can be solved without the latest technology, forget about technology.

For instance, Wal-Mart chose to shut down its Web site two years in a row as it entered its most profitable season, Christmas. Why? Wal-Mart wanted to invest in technology that expanded retail locations and put more merchandise on the shelves instead.

In some cases, you may need technology to help solve customer problems, but not necessarily the newest and fanciest technology available. Focusing on the trendiest technologies may get you funding today, but when trends change, you may get left behind. Choosing comfortable technologies instead can decrease the risk to your plan by letting you save time and money using what you know.

The bottom line is that the key to new markets is solving a problem that customers have, not the technology that is used.

Other Ways Technology Can Help

In addition to solving customer problems, technology can help support your market-creating efforts in other ways.

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The Role of Information Technology

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For example, IT can be a tool for market creation when a company is expanding geographically. Woman's Hospital in Baton Rouge, La., is using technology to provide fetal monitoring services in remote areas of the state, so that it can provide the service to more women.

IT can also help with market creation by identifying new markets within existing customers. Cisco Systems was already winning eight out of ten sales from the IT functions in its corporate customers. To grow the business, it needed a product that would attract sales from other departments in those corporations.

Cisco developed a software called Metro that enables executives and managers to do all expense reports online. This product helped Cisco reach a new customer base within its corporate customers: general business managers. ■

Using Credibility

New markets must be based on believable and convincing ideas to attract potential customers. There are many ways to add credibility to your new market effort. Some effective methods may seem counterintuitive.

Viral marketing conserves resources because it requires little cost, replicates itself with no effort by the sponsor, and works automatically. As with Napster Inc. or the fax machine, viral marketing creates a situation where the product is so attractive that not only do people want to have it; they want others to have it. The problem with this kind of marketing is that you might lose control of the marketing effort.

Another way to add credibility to your new market effort is to **choose the right customers**, particularly the first customers.

If your first customers are respected in the industry, others will want your product as well. Centric Software Inc. has been creating a market for collaborative manufacturing and supply software for automobile and airframe manufacturers. Having Volvo and United Airlines as initial clients is more useful to them than Hyundai or a third-world airline carrier.

The same is true of investors. If you are supported by risky companies, prospective customers may view your ideas and business as risky.

Production trials are another method to achieve credibility. Even influential customers don't add credibility if they buy out of curiosity, but never use the product.

Laboratory-style trials are usually conducted outside the normal production process. With production trials, the product test is conducted with the users and process that will benefit from them. They allow the vendor to test the product in the real world, and allow the customer to see that it works. Production trials cost a lot of time and money, but a successful trial can significantly reduce time to market acceptance.

Ironically, creating and dominating a market can leave you with no competitors to validate your work or make your company seem more real. However, many users, great investors or influential customers can overcome the need for competitors, so it is not necessary to invite them into your new market. ■

What's Next?

Whether your company is growing rapidly or dealing with belt-tightening and disruption, it is still able to create and dominate new markets. Changes in demographics, growth, recession and dislocation can all increase your chances for success.

Demographics. Always assume that your client base is shifting, especially as the demographics of the market at large are shifting. Nontraditional families are multiplying, baby boomers are aging, and abroad, war and the spread of HIV are crippling economies. All of these changes can create opportunities for new markets as populations develop new needs.

Growth. Many people are overwhelmed by the perception that everyone is creating new markets in a growth period and that there are none left. However, most companies competing to produce the next best thing are product-focused. By focusing on the problems of potential customers instead of products, you will have much less competition. Stick close to customers and work to discover solutions to their two or three top needs.

Recession. Recessions provide opportunity, because there is so much pain. Problems that were not critical during the good times are suddenly more important. Resolving pain is a good place to start creating and dominating new markets.

Dislocation. Dislocation, disruption and consolidation also provide opportunities for new markets. As businesses grow and move, they have new needs. As old technologies are replaced by new ones — though the average level of service stays the same — new opportunities can open up during the transition. Although messaging needs remained constant, a new market for e-mail products was created (at the expense of the old fax technology).

The Bottom Line: Lead With Problems

Though it is still possible to create new markets during periods of recession, rapid growth and disruption, they all amplify the fundamental error of building your new market strategy on a product. If you lead with problems instead of products in all economic climates, you can be assured of plenty of opportunity. ■

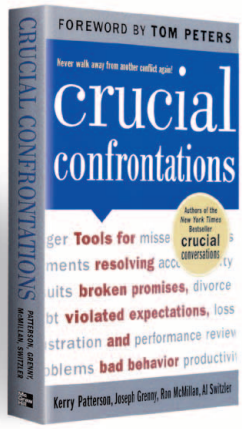
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Crucial Confrontations

Kerry Patterson, Joseph Grenny, Ron McMillan, and Al Switzler

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FILE: LEADERSHIP



Tools for Resolving Broken Promises, Violated Expectations, and Bad Behavior

CRUCIAL CONFRONTATIONS

By Kerry Patterson, Joseph Grenny, Ron McMillan, and Al Switzler

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THE SUMMARY IN BRIEF

Behind the problems that regularly plague families, teams and organizations are individuals who either can't or won't deal with failed promises. The reason is that they're afraid to talk face to face about difficult but important issues — and as their fear of confrontation prevents them from resolving these issues, simple problems grow into chronic problems.

By learning how to deal with challenging confrontations, you'll learn to avoid the typical, but unconstructive, response of slipping either into awkward silence or embarrassing violence.

Mastering crucial confrontations requires a skill set. In Crucial Confrontations, *consultant Kerry Patterson and executive coach Joseph Grenny join forces with their fellow researchers and trainers Ron McMillan and Al Switzler to help others develop the skills it takes to resolve the most pressing problems, including quality violations, safety infractions, cost-cutting mistakes, and medical errors. The authors write that their research shows that most organizations are losing between 20 and 80 percent of their potential performance because they have not mastered crucial confrontations.*

The skills for mastering crucial confrontations can be learned; the authors of Crucial Confrontations *show you how.*

What You'll Learn In This Summary

- ✓ How to master your emotions.
- ✓ How to describe problems in ways that don't cause defensiveness.
- ✓ How to motivate others without using threats.
- ✓ How to deal with violated expectations without harming relationships.
- ✓ How to talk to your direct reports face to face when they don't live up to a commitment.
- ✓ How to help others want to take action.

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What's a Crucial Confrontation?

Sarah, the head nurse at the Pine Valley Medical Center in northwestern Washington, stands frozen as doctors discuss the treatment of an elderly patient. Years of experience have taught Sarah two things: One, the patient probably needed an immediate and large dose of antibiotics, and two, even though the doctors were discussing a treatment that *didn't* involve antibiotics, Sarah would keep her mouth shut.

Years earlier, fresh out of college, Sarah had cheerfully disagreed with the three doctors she had been assisting. They stopped dead in their tracks and looked at her as if she were a cockroach on a wedding cake. In one poignant moment that was forever burned into her psyche, the rules had been made clear to Sarah: Don't disagree with a physician — ever. Now, nearly two decades and hundreds of confirming incidents later, she stands by wondering: Will the doctors do what I believe they should do, or will they come to the same conclusion too late? She *doesn't* wonder if she should speak up. Sarah's expectations weren't met, and in response she has resorted to silence.

Silence and Violence

Staring into the face of a possible disaster, some people are caught in agonizing silence. Rather than speak directly and frankly about the problem at hand, they drop hints, change the subject, or actually withdraw from the interaction altogether. Fear drives them to various forms of silence and their point of view is never heard — except maybe as gossip or rumor.

Others break away from their tortured inaction only to slip into violence. Frightened at the thought of not being heard, they try to force their ideas on others. They cut people off, overstate arguments, attack ideas, employ harsh debate tactics, and eventually resort to insults and threats. Fear drives them to do violence to the discussion and their ideas are often resisted.

We all face crucial confrontations. We set clear expectations, but the other person doesn't live up to them — we feel disappointed. Lawyers call these incidents breaches of contract. What do you do when someone disappoints you? You could choose violence, or you could opt for another choice, like Sarah, and choose silence. But there is a method that falls somewhere between the polar worlds of fight and flight. Mastering crucial confrontations allows you to deal with failed promises, disappointments and other performance gaps.

Unless you step up to and master crucial confrontations, nothing will get better. It will be a skill set, not a policy, that will enable you to solve pressing problems.

If you can't effectively confront violated expectations, you eventually experience massive personal, social and organizational consequences. If you can't deal with performance gaps, you'll either fight or take flight. Productivity will run at half of what it should.

If you learn how to hold people accountable in a way that solves problems without causing new ones, you can look forward to significant and lasting change.

When you confront, you hold someone accountable, face to face. When confrontations are handled correctly, both parties are candid, open, honest and respectful. As a result, problems are resolved and relationships benefit. Crucial confrontation skills offer the best chance to succeed — no matter the topic, person or circumstance.

Learn how to hold crucial confrontations and you'll never have to walk away from another conflict again. ■

For Additional Information on when being polite leads to tragedy, go to: http://my.summary.com

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PART ONE: WHAT TO DO *BEFORE* A CRUCIAL CONFRONTATION

Choose What and If

Problems that require a confrontation with another person often leave us with two questions: WHAT and IF. First, WHAT violation or violations do you actually address? How do you dismantle a bundle of problems into its component parts and choose the one you want to confront? Second, you have to decide IF you're actually going to say anything. Do you speak up and run the risk of causing new problems, or do you remain silent and run the risk of never solving the problem?

When problems come in complicated bundles, it's not always easy to know which problems you should address. You have to identify and deal with the right problem or it will never go away.

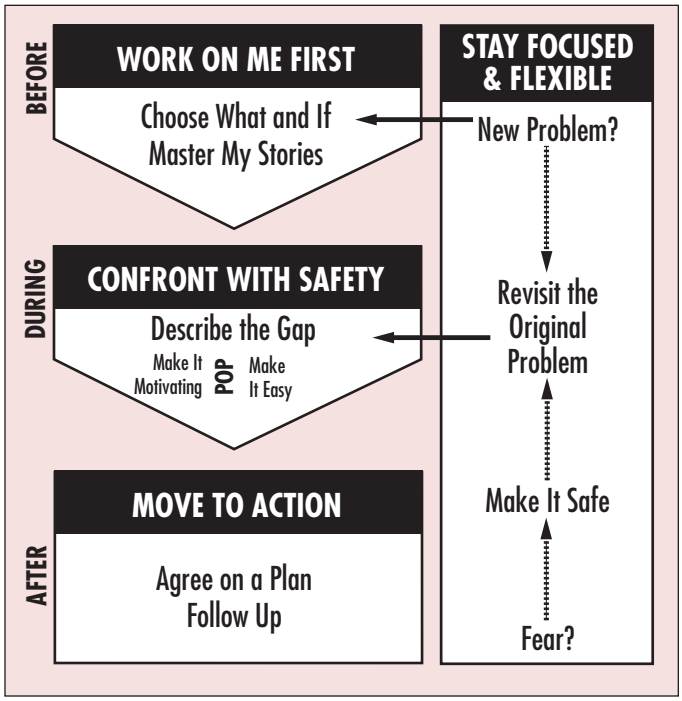
Learning how to get at the gist of an infraction requires time and practice. Feeling pressured by time constraints and hyped up by emotions, most people miss the real deal. The ability to reduce an infraction to its bare essence takes patience, a sense of proportion, and precision. First, you have to unbundle the problem. Second, you have to decide what has you bothered the most. If not, you'll either end up going after the wrong target or too many targets. Finally, you have to be concise. You have to distill the issue to a single sentence. Lengthy problem descriptions only obfuscate the real issue. If you can't reduce a violation to a clear sentence *before* you talk, the issue almost never becomes more understandable and focused as a conversation unfolds.

Think CPR

To help hit the right target, use the acronym "CPR." The first time a problem comes up, talk about the *Content*, what just happened: "You drank too much at the luncheon, became inebriated, started talking too loud, made fun of our clients, and embarrassed the company." The content of a problem typically deals with a single event.

The next time the problem occurs, talk *Pattern*, what has been happening over time. "This is the second time this has occurred. You agreed it wouldn't happen again, and I'm concerned that I can't count on you to keep a promise." Pattern issues acknowledge that problems have histories and that histories make a difference.

As the problem continues, talk about *Relationship*, what's happening to *us*. Relationship concerns are far bigger than either the content or the pattern. The issue is *not* that others have disappointed you repeatedly; it's that the string of disappointments has caused you to lose trust in them. You doubt their competency, you don't respect or trust their promises, and it's affecting how you treat one another. "This is starting to put a strain on how we work together. I feel like I have to nag you to keep



you in line, and I don't like doing that. I guess my fear is that I can't trust you to keep the agreements you make."

If your real concern is around the *relationship* and you discuss only the pattern of behavior, you're likely to be dissatisfied with the outcome, and you'll have the same conversation again later.

To understand the various kinds of content, pattern and relationship issues that can pop up during crucial confrontations, consider these three dimensions: consequences, intents and wants. Each provides a distinct method for first unbundling and then prioritizing complex problems.

Unbundling

- **Consequences.** Problems are almost never contained in the behavior of the offender. They're much more likely to be contained in what happens afterward. The problem lies in the consequences. When you want to clarify the issue you need to confront, stop and ask yourself, What are the consequences of this problem to me? To our relationship? To the task? To the stakeholder? Analyzing the consequences helps you determine what is most important to discuss.

- **Intentions.** A fellow you work with cheerfully agreed to format a report you created, and then, instead of giving it to you, he handed it directly to your boss. You believe that his intentions were selfish (he was trying to take credit). You've drawn this conclusion as the result of mounting evidence. You've examined the problem, weighed the particulars, and are starting to believe the person's intentions

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Choose What and If

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are indeed bad. When this happens, the behavior isn't the problem, at least not the big one. What came before the person acted is the problem, at least in your mind. Intentions are the issue you ought to discuss.

- **Wants.** As you begin to unravel a bundle of problems, the list of component parts can grow so large you may not know where to begin. The best tool for choosing from the host of possible problems is to ask what you really want and don't want. And since you're talking to another person, you ought to ask what you want for *yourself*, for the *other person*, and for the *relationship*. If you don't think about all three of these essential aspects, one may take a back seat and you won't solve your most important problem.

The 'If' Question

Just because you've identified the problem you'd like to discuss doesn't mean you should actually discuss it. Sometimes it's better to consider the consequences before deciding whether to bring the issue up.

In organizations, there are reports, goals, performance indicators, quality scorecards, budget variances, and other metrics that clearly show a difference between what was expected and what was delivered. These failed promises represent clear opportunities to have crucial confrontations.

But what if the problems are ambiguous or discussing them could get you into trouble? How do you know if you're *not* speaking up when you *should*? More often than not, going to silence is the prominent issue in most families and companies. Ask the following four questions to diagnose whether you're clamming up when you should be speaking up:

- **Am I acting out my concerns?** You can't hide your real emotions. When you've gone silent, but your body keeps sending out hostile signals or you're dropping hints or relying on sarcasm, you probably ought to speak up.
- **Is my conscience nagging me?** Pay attention to a nagging conscience — it may be indicating a confrontation that you need to step up to.
- **Am I choosing the certainty of silence over the risk of speaking up?** Don't confuse the question of whether the confrontation will be difficult with the question of whether you should deal with it.
- **Am I telling myself that I am helpless?** The problem is less often that others are *impossible* to approach than that we aren't sure *how* to approach them. Know what to say and how to say it.

Speaking Up When You Shouldn't

How do you know when you are speaking up when you *shouldn't*? There are times when it's better not to bring up a problem or at least not to do so until you've done some preparatory work. If you are going to speak up when others remain silent, if you are going to hold people to a standard that differs from that of the masses, send out a warning. Differentiate yourself from others. If you are going to differentiate yourself from your co-workers by holding people to a more rigid standard, don't be smug about it. Set expectations in a way that shows respect for people with different views. ■

Master My Stories

A person's behavior during the first few seconds of a crucial confrontation sets the tone for everything that follows. You have no more than a sentence or two to establish the climate. If you set the wrong tone or mood, it's hard to turn things around.

Imagine that you are part of an overworked, stressed-out management team that is having a meeting when it gets a call from final assembly telling you that the new software IT has just created is not working.

Within seconds, the entire management team is complaining about the unorthodox, selfish, weird software

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Fundamental Attribution Error

People aren't all that good at accurately attributing causality. We quickly jump to unflattering conclusions. The chief error we make is a simple one: We assume that people do what they do because of personality factors (mostly motivational) *alone*. Why did that woman steal from a co-worker? She's dishonest.

Human beings often employ what is known as a dispositional rather than a situational view of others. We argue that people act the way they do because of uncontrollable personality factors (their disposition) as opposed to doing what they do because of forces in their environment (the situation). We make this attribution error because when we look at others, we see their actions far more readily than we see the forces behind them.

People often enact behaviors they take no joy in because of social pressure, lack of other options, or any of a variety of forces beyond personal pleasure. For example, the woman stole because she needed money to buy medicine for her children.

Assuming that others do contrary things because it's in their makeup or they actually enjoy doing them and then ignoring any other potential motivational forces is a mistake. Psychologists classify this mistake as an attribution error. And because it happens so consistently across people, times and places, it is called the Fundamental Attribution Error.

Master My Stories

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testers. Then they arise as one and march toward the testing department. As the team hustles down the hallway, you learn that the software is supposed to be tested and retested before it is sent to final assembly. The managers are feeling morally superior and are about to create a nasty scene.

The managers rush in and catch the programmers checking out a "cool new Web site with a free game download" and then they snarl at the guilty testers, call them names, threaten them with discipline, and throw a group hissy fit. It takes days for the incident to settle down, and everyone ends up with egg on his or her face.

The Path to Action

As you step up to a crucial confrontation, take care that you don't establish a horrible climate by charging in half-informed and half-cocked. It is never good to abuse, insult or threaten others. To avoid these costly mistakes, you need to work on your own thoughts, feelings and stories.

Understanding the path to action (see illustration above right) will help.

When we see or hear someone do something, we immediately tell ourselves a story about what we saw and heard. The fundamental attribution error (see sidebar on previous page) will often lead us to tell a negative story — in other words, assign a negative motivation to

The Path to Action Model



what we saw or heard. This negative story leads to negative feelings, which in turn guide the way we act in response to the original action.

Effective problem solvers observe an infraction and then tell themselves a more complete and accurate story. Instead of asking, "What's the matter with that person?" they ask, "Why would a reasonable, rational and decent person do that?" By doing this, they ensure that they are confronting a human and not a villain. Humanizing questions help you adopt a situational as well as a dispositional view of humans, thus avoiding the fundamental attribution error.

We must work on our first thought, our first look, and the tone that follows. We must learn to fight the natural tendency to assume the worst of others and engender genuine curiosity to ensure that our first words and deeds create a healthy climate for ourselves and others. When we *tell the rest of the story*, we do just that. ■

For Additional Information on the Six Sources of Influence, go to: http://my.summary.com

PART TWO: WHAT TO DO *DURING* A CRUCIAL CONFRONTATION

Describe the Gap

You've picked out a problem, decided to say something, and considered the possible influences behind it; now you are about to take action. Remember: Almost nobody should believe that he or she has been groomed to solve touchy and complicated interpersonal problems.

A gap is the difference between what you expected and what actually happened. Gaps include missed commitments, disappointed expectations, and bad behavior. A gap is something that is hard or even risky to discuss.

One bad way to begin is sandwiching. To soften a violent blow, you first say something complimentary, next you bring up the problem, and then you close off with something complimentary. "Hey Bob, good-looking briefcase. By the way, do you know anything about the ten grand missing from our retirement fund? Love the haircut."

Don't 'Sandwich'

Most people despise this type of indirectness. It is dishonest, manipulative and insulting. Don't sandwich, play charades, pass the buck, or play "read my mind." Skilled problem solvers carefully describe the gap. They:

- **Start With Safety.** When others feel unsafe, you can't talk about anything. If you can create safety, you can talk with almost anyone about almost anything — even failed promises. If you maintain a safe climate, others will hear and consider what you are saying. Maintain mutual respect and mutual purpose.

If you anticipate how others might assume the worst about what you have to say, use *contrasting*. Predict their erroneous conclusion, explain that their assumption is what you *don't* mean, then explain what you *do* mean. Discuss problems in private, one on one, face to face.

- **Share Your Path.** Gather the facts. Describe what the person did and the result. Share your story, too. Trade "You said" for "I thought we agreed." Swap "It's clear" for "I was wondering if." If you start to share your story and the other person becomes defensive — take away his or her fear. Step out of the content and restore safety.
- **End With a Question.** To close your opening paragraph, end with a simple diagnostic question: What happened? Make this an honest inquiry, not a veiled threat or an accusation such as: "What's *wrong* with you!" Your goal should be to hear the other person's point of view. Listen carefully as the other person answers the question.

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Describe the Gap

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Your direct report fails to show up at an important meeting and you don't think he missed it on purpose. You have no story. You invite him into your office, safely describe the gap, and end with a question.

"Chris, I noticed that you missed the meeting you had agreed to attend. I was wondering what happened. Did you run into a problem of some kind?"

You take the other person to a private setting, describe the facts (what was expected versus what was observed), and end with a question. And now you are listening to diagnose the underlying cause. By describing the gap, you have started on the right foot and are now ready to diagnose what's causing the problem. ■

Make It Motivating

Myra, an employee who works for you, failed to complete an important quality check. You observed the gap, decided to deal with it, and tried to determine the right problem to discuss. Since this was the first infraction, you've decided to talk about the content: She didn't complete the quality check. You admire Myra, and so it is easy to impute good motive. Now you describe the gap. After your brief and effective problem description, Myra responds.

How Myra responds to your description of the gap will determine what you do next. She determines your path, not you. You'll learn where you're going by diagnosing the underlying cause of the problem. Is it a matter of motivation, ability or both?

Knowing how to bring to the surface and resolve underlying causes requires a great deal of skill. If you miss a single ability barrier, the other person won't be able to cooperate. If you misinterpret the underlying motivational block, you'll be pushing the wrong buttons.

When the other person isn't motivated, we must make it motivating. Here are four things to keep in mind:

- **Consequences motivate.** Motivation isn't something you do to someone. People already want to do things. They're motivated by the consequences they anticipate. And since any action leads to a variety of consequences, people act on the basis of the overall consequence bundle.
- **Explore natural consequences.** Begin by explaining natural consequences. Within a business context, this typically includes what's happening to stakeholders. Stakeholders include other employees, customers, share owners, communities, and regulatory agencies.
- **Match methods to circumstances.** How you choose to talk about consequences depends on the circumstances you're facing. When people simply want to know, explain both what needs to be done and why. When dealing with someone who is pushing back, resist the temptation to jump to power. Search for consequences that matter to the other person.
- **Finish well.** Finally, wrap up the conversation by determining who does what and by when. Then set a follow-up time. ■

Make It Easy

Kyle, a political analyst who works for you, was supposed to write a position paper for an upcoming debate and get it to you by noon, but he didn't. You call him in for a private discussion and describe the gap. He lets you know that he really wanted to do what he promised and says it wasn't his fault that he didn't. The specialist who conducts the statistical analysis was hospitalized with a burst appendix, and she's the only one who understands the data.

In any case, Kyle was prevented from doing what he agreed to do. And then he did exactly the right thing. He immediately called to let you know about the problem, but you were in a meeting across town. He left a message on your voice mail and then tried to track you down. In short, he wasn't *able* to meet his commitment and did his best to let you know. This was definitely not a motivation problem. Kyle needs help removing the barriers he's facing, not a kick in the pants.

You have carefully described the gap and are listening to see if the problem is due to motivation or ability. If the other person is facing ability barriers, it is your job to make it easy. Do this by making impossible tasks possible and nasty tasks less nasty.

Jointly Explore Root Causes

Resourceful problem solvers don't remove barriers all by themselves. They involve others and jointly explore root causes. You should do the same. Take care to avoid jumping in with your own solutions. Empower others by allowing them to take part in diagnosing the real causes and coming up with workable solutions. Ask others for their ideas. Remember the all-important question: "What do you think it'll take to fix this?"

Stimulate the Brainstorming Process

Sometimes the other person won't be able to identify all of the causes of the ability barriers. Jointly explore the underlying forces — include self (they don't have the skills or knowledge), others (friends, family or coworkers are withholding information or material) and things (the world around them is structured poorly). When necessary, stimulate the brainstorming process by offering your own view of what some of the barriers might be.

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Make It Easy

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Once you have finished identifying and removing ability barriers, "*pop* the question." Check to see if the other person is willing to do what's required once you've taken steps to enable them. Just because they *can* do something, doesn't mean they are willing. ■

Stay Focused and Flexible

You are talking to an employee about missing a deadline and he becomes insubordinate. Your head accountant clams up when you ask her why the end-of-month reports aren't ready. Then she gets angry. What do you do when the person you are confronting strays from the point, screams or sulks?

When new problems emerge, remain flexible enough to deal with them — without getting sidetracked. Each time you step up to a new problem, it should be by choice not by accident. Choose, don't meander.

Example: People Feel Unsafe

When people feel unsafe, honest dialogue comes to a screeching halt. Fear and the resulting silence or violence are the emergent problems. Step out of the conversation, create safety, and then return. Point to your shared purpose. Assure the other person that you care about what he or she cares about. Apologize when necessary.

When people don't deliver on a promise because "something came up," deal with it. Companies that continually allow things to come up without dealing with the breach of promise don't survive very long. Things do come up. You have to be strong and flexible. You have to be able to bend but not break. At the heart of every workable accountability system is the sentence: "If something comes up, let me know as soon as you can." If mistrust becomes a new problem, there must be consequences.

Sometimes a worse problem comes up in the middle of a crucial confrontation. For instance, you're the only female member of a team and you are talking to a co-worker about the fact that he is not performing agreed-upon tasks. During the conversation, he leans too close to you and leers at your body. You try to address the issue with a casual remark, but he says, "Forceful women are a bit of a turn-on."

To deal with this tricky problem, start by announcing the change in topic. "I'd like to talk about what just happened." Next, pick the problem you want to discuss, take charge of your feelings, tell a more accurate story, then describe the gap. "You just made reference to your 'turn-ons,' you moved so close to me that I felt uncomfortable, and your eyes were moving up and down my body. What's going on here?"

When a worse problem emerges, step out of the original problem, leave a bookmark so you'll know where to return, and then start over with the new problem. Once you've dealt with the emergent problem, return to the original issue.

When others become upset, retrace their Path to Action to the original source. Talking about the facts helps dissipate the emotions and takes you to the place where you can resolve the problem. ■

PART THREE: WHAT TO DO *AFTER* A CRUCIAL CONFRONTATION

Agree on a Plan and Follow Up

During a formal review discussion, Barb said to Johnson, her direct report, "During the next quarter I want you to use more creativity. You know, come up with more ideas on your own."

In an effort to be more creative, Johnson did indeed come up with more ideas on his own, just as he was asked to. He also implemented many of his ideas without involving Barb or anyone else. He interpreted the request to be more creative as permission to do pretty much whatever he pleased.

When Barb eventually learned that Johnson had changed the company's entire inventory system and hadn't given her so much as a heads-up, she blew a gasket and told him that he had gone well beyond his authority. He responded by arguing that he was just trying to be more creative and now she was taking him to task for doing what she had asked him to do all along.

The assignment included who was going to do what by when, but the details about the *what* were not clear. She told him to be creative, but that term is far too subjective — an accident waiting to happen.

We create these problems all the time. We finish a perfectly good crucial confrontation and then make sketchy plans that are peppered with vague, unspoken and unshared assumptions.

A complete plan, in contrast, assumes nothing. It leaves no detail to chance. It sets clear and measurable expectations. It builds commitment and increases the likelihood that we'll achieve the desired results. It also enables both parties better to have the next discussion — for accountability, for problem solving, or for praise.

The Solution

The key to making a complete and clear plan, free from all assumptions (and thus improving accountability), is to make sure to include four key components:

- **Who.** Someone's name must be attached to each

(continued on page 8)

Agree on a Plan and Follow Up

(continued from page 7)

task. If a task requires many hands, each person needs to know what his or her part of the assignment is.

- **What.** Barb needed to provide a detailed description of the exact behaviors she was looking for. When you are deciding exactly what to do, don't take the *what* for granted. Ask if everyone has the same characteristics in mind. Clarify details in advance.
- **By When.** Be specific. If you need it before 5 p.m. on Friday, say so.
- **Follow-Up.** Decide when and how you will follow up on what is supposed to happen. When choosing the frequency and type of follow-up, ask these questions: How risky or crucial is the project or needed result? How well has this person performed in the past? How experienced is this person in this area? The two most common methods for checking on progress include scheduled and critical event follow-up times.

Do a *checkup* when you are giving the assignment and are nervous or have questions. You are in charge of the checkup. Use a *checkback* when the task is routine and has been assigned to someone who is experienced and productive. That person checks back. ■

The 'Yeah-Buts'

Many people say, "Yeah, but my situation is *really* tough. These skills will never work for me." These are not belligerent naysayers. They raise the "yeah buts" because they are trying to imagine how the skills of crucial confrontations apply to their world. Here are some of the "yeah buts" of highly reflective people:

1. "Yeah, but I'm nervous about stepping up to my boss and openly confronting her. I could pay dearly."

Solution: If the boss is authoritarian to the core, you need to choose between coping and cutting out. Ninety percent of your boss' defensiveness is avoidable. Help the boss feel safe. Don't become self-absorbed in reaction to his or her selfishness. Use more empathy. Step away from yourself and consider how the problem behavior is affecting *the other person* as well as how it's affecting *you*.

2. "Yeah, but the people I work with are perfectly comfortable violating standards. I don't want to say anything because I don't want to be the odd person out."

Solution: Acknowledge competing motivations. Humanize those who might be leaning in the wrong direction. Say, "I know it's inconvenient to suit up for quick and unobtrusive exams." Then eliminate a possible misunderstanding with a contrasting statement: "I don't want this to come off as an accusation; it's an honest question. Aren't we supposed to (fill in the blank), or are there circumstances I'm unaware of?"

3. "Yeah, but my spouse never wants to talk about anything. He tells me not to worry or not now."

Solution: This pattern is killing the relationship. Talk about the pattern. Acknowledge any complaints the other person may have about what you may be doing to drive him or her to silence. Frame the conversation as an opportunity to solve problems *the other person* cares about. Acknowledge some of the things you've done that might be contributing to the problem. This creates safety. Let the other person pick when you will talk. Try to resolve the issue. Don't try to "fix" the other person.

4. "Yeah, but what do you do when you don't actually see the problem? How do you handle hearsay?"

Solution: Master your own story. Refuse to accept other people's gossip as fact until you gather firsthand information. Observe the problem on your own. Then you can describe the problem in detail.

5. "Yeah, but what if the feedback you want to give could crush the other person?"

Solution: Begin having crucial confrontations about single areas that could use some improvement. Praise the person's willingness, then explain that there is one thing you'd like to see improve. Provide clear, direct and detailed feedback in that area alone. Once the person has improved in that area, pick another problem and work on it. Over time, if the person hasn't been able to improve, you will have earned the right to have the larger relationship conversation.

6. Yeah, but what if a person is totally out of line most of the time but threatens to file a grievance if you confront her, and she could win?"

Solution: Resolve to hold the employee accountable. Meet with human resources and jointly develop a plan. Inform the employee that the action he or she has selected isn't acceptable and will no longer be tolerated. Assure the person that your goal is for him or her to succeed. Describe the relevant natural consequences of the employee's current behavior. Document the discussion. Confront the first infraction immediately and then start down the path of discipline. Don't be held hostage.

7. Yeah, but we're making a break with the past. How do you change the rules in the middle of the game?"

Solution: Confront the past. Without singling anyone out, outline for people the natural consequences of how things have been. Illuminate your general vision of how things are going to be in the future with specific, identifiable and replicable actions. Clarify do's and don'ts. Only after you've clarified your new expectation do you have the right (and responsibility) to begin having crucial confrontations with those who violate the new standards. ■

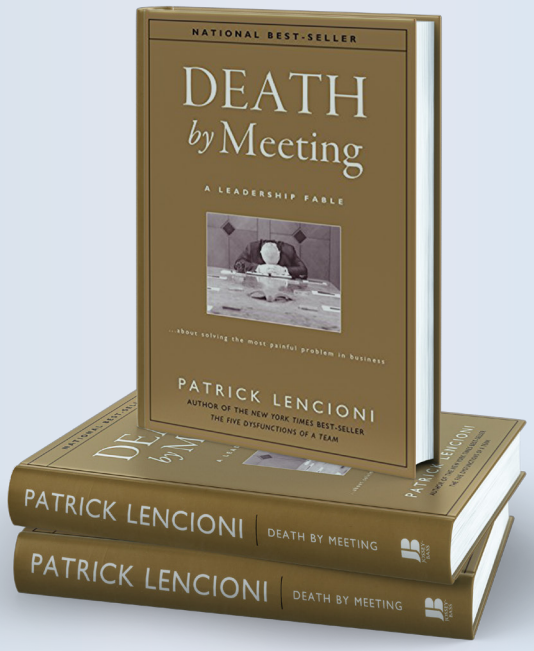
For Additional Information on the "yeah buts," go to: http://my.summary.com

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Death By Meeting

Patrick Lencioni

BOOK SNAPS™
Zooming In On Your Next Read



Death By Meeting

By Patrick Lencioni

Patrick Lencioni is founder and president of The Table Group, a firm dedicated to helping leaders improve their organizations' health since 1997. His principles have been embraced by leaders around the world and adopted by organizations of virtually every kind including multinational corporations, entrepreneurial ventures, professional sports teams, the military, non-profits, schools, and churches.Lencioni is the author of ten business books with over three million copies sold worldwide. His work has appeared in the Wall Street Journal, Harvard Business Review, Fortune, Bloomberg Businessweek, and USA Today.

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How to Solve Painful Problems in Business

It's a phrase that has been thrown around office buildings for years. "Death by meeting" refers to the lamentation of having to come together to share, discuss, or work on a problem too frequently for the team member's taste. Author Patrick Lencioni used to hear complaints about meetings and find that phrase "understandable and even humorous." Over time, though, he changed his tune. He saw this attitude as "a sad comment on the state of our business culture."

Those who are leaders or managers of organizations "are not paid for doing anything exceedingly tangible or physical, like delivering babies or kicking field goals or doing stand-up comedy." Meetings are where the work is done. In a sense they are the stage, field, or operating room of managers and leaders. Despite this, "most of us hate them." But meetings are essential to the running of an organization. They are critical to decision-making, innovation, feedback, and progress. We need meetings to make good decisions and to lead organizations successfully. Meetings themselves are not the problem.

In ***Death by Meeting: A Leadership Fable About Solving the Most Painful Problems in Business,*** Patrick Lencioni lays out a "contrarian, non-traditional view of meetings" to take "what is now painful and tedious" and transform it "into something productive, compelling, and even energizing." On top of that, organizations that follow Lencioni's guidelines will no longer be wasting "time, energy, and enthusiasm lamenting the drudgery of meetings" like their competitors and will thus gain a competitive edge. Presented in parts as a fable and as direct guidance, Death by Meeting is a path for any manager or leader to find more effective ways to meet with staff and "restore some of the passion" that is sorely missing from these encounters.

The Fable

Casey McDaniel was a modestly successful pro golfer turned entrepreneur with the successful launch of Yip Software, which created lifelike sports video games aimed at adult athletes. Ten years into the company's history, outsiders would observe that the company, who regularly eked out a profit and threw an annual company picnic, could have been far more success-

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ful under the leadership of "a more focused and disciplined" person. Staff were "merely satisfied," not thrilled to be part of the Yip team. A major part of the problem was how leadership managed weekly staff meetings. They were "lethargic, unfocused, and passionless."

Eventually, the culture of the entire company began to "mirror those meetings." A "subtle mediocrity pervaded the organization." A new executive surveyed staff and found that morale was low. Lower than anyone realized. This unnerved the other executives and they began searching for answers. CEO Casey landed on a solution. He announced that he was taking the company public so that employees could reap the financial rewards he assumed they were seeking. Unfortunately, he would live to regret this decision.

During the process leading up to the initial public offering, Casey received a call from a leading video game company interested in acquiring Yip. Casey figured this would be a way to get "the best of both worlds." The company's staff would get the financial gains they deserved and he would not submit himself to the whims of a board of directors or the public. Casey offered it to them under three conditions: he would continue to run his company autonomously, he would retain his entire management team, and he would be allowed to keep the Yip name as a separate, wholesome, sports-oriented brand." To his surprise, the acquiring company agreed.

A rep from the parent company's executive team visited the Yip office to observe a staff meeting. Needless to say, he was totally unimpressed with what he saw. Casey received the news that this person would be attending meetings for the next several months, though the purpose was not yet explained. Around the same time, Casey's longtime assistant put in her notice as she was heading to bed rest with a complicated pregnancy.

Casey hired the son of a family friend who was taking a break after finishing grad school to fill in and in doing so, caused an inadvertent turning point. The new assistant was named Will and he was described by all who knew him as "intensely magnetic." He was overly qualified for the job and Casey encouraged him to step up and get involved outside of typical admin duties. Casey had no idea how that suggestion would change everything in the coming months.

After attending a few weekly meetings that were unproductive, boring, and pointless, Will got to thinking that the meetings were the root of Yip's problems. He presented a theory to the executives that meetings are boring when they lack conflict. He suggested that the Yip executives seemed to avoid "crucial conversations" just as they were beginning to get good. They presented dry, straightforward information, often reading directly from a report or data set, and no one was ever compelled to submit a question or challenge a position.

Instead, they should be mining each other's opinions to find where they differ and airing them all out. It should be a "passionate, unfiltered, messy, provocative discussion" that does not necessarily end in consensus. After all, reaching true consensus is highly unlikely. Instead, the leader should make a sound decision after someone has made a compelling enough argument to convince the leader to go with their solution. Once that decision is made, the entire team should rally around it, no exceptions.

Will also suggested a new model for meetings. He said that a once weekly, one-size-fits-all meeting was the wrong way to organize the executive team's time. To the initial chagrin of all involved, Will proffered that having more meetings that were more deliberately planned and executed would make way more sense. From daily five minute check-ins to quarterly off-site reviews, Will laid out a plan to totally revamp Yip's meeting culture and organization. After a bit of a rocky start, the team got into a flow with the new meeting model. Revenues grew, decisions were clear, and the company progressed forward and intact. The Model, as Lencioni calls it, can be implemented in any organization to make meetings meaningful.

Problem #1: Lack of Drama

Lencioni asserts that "meetings are not inherently boring." On the contrary, they should be exciting, and productive, and meaningful. After all, they bring together a group of diverse people to solve problems and create solutions that are directly tied to how they make a living. The stakes are actually quite high and the work being conducted in these sessions is entirely relevant to each participant. It is a perfect scenario for a lively exchange where individuals state their case and reach a conclusion. But instead, they are often tedious, boring, and unproductive. One of the reasons they fall so short of their potential is that most of our meetings lack drama or conflict.

The author draws a connection between movies and meetings. He points out that both are about two hours long yet if asked which they would prefer to do for two hours, most people would jump at the movie and run away from the meeting. Why? "Because screenwriters and directors figured out long ago that if you avoid nurturing conflict in your story, no one will want to watch your movie. And they also figured out that it is during the first ten minutes that they must use drama to hook their viewers, so they are willing to stay engaged for another two hours." We must hook our meeting participants and find ways to inject drama in order to make meetings effective.

Meeting participants need to be "jolted" right from the get go when a meeting is commenced. The leader of the meeting has to set up what is at stake and make it compelling. The leader may need to "illustrate the dangers of making a bad decision," for example or "highlight a competitive threat that is looming." Staff are not expecting a stage set drama "but they're certainly looking for a reason to care." It's the leader's responsibility to give them that reason.

Once the scene is appropriately set, the leader of the meeting must actively look for opportunities to do what Lencioni calls "mining for conflict." When a team of smart people are gathered together to hammer out issues that really matter, it is completely normal and natural for there to be disagreement. In fact, the resolution of those disagreements is what leads to better decision making and "what makes a meeting productive, engaging, even

> In the absence of conflict, resolution is often never found, which can later impact team productivity

fun." In the absence of conflict, resolution is often never found, which can later impact team productivity negatively.

A leader has to actively look for "any important issues about which team members do not agree" and then ensure that the disagreement is hashed out, even if it makes the leader "temporarily unpopular." Over time, team members will become more comfortable confronting issues and working them out. The result will be far better than pretending the problem does not exist. Lencioni says, "I believe far more suffering is caused by failing to deal with an issue directly–and whispering about it in the hallways–than by putting it on the table and wrestling with it head on."

Problem #2: Lack of Contextual Structure

The other major type of problem related to how most organizations conduct meetings is that they lack structure. And the "single biggest structural problem facing leaders of meetings is the tendency to throw every type of issue that needs to be discussed into the same meeting." In an effort to save time, leaders often schedule a regular weekly or biweekly meeting that covers everything possible from sales strategies to budget reports. They do this so that team members can knock it all out at once and get back to their so-called "real work." The end result of such a model is that it "only ensures that the meeting will be ineffective and unsatisfying for everyone."

Should meetings be "informative and quick," "interactive and strategic," conversations about "company culture and people," or just vehicles to "make clear decisions and move on?" Lencioni says all are true. "There should be different meetings for different purposes" and each of them should serve "a valid and important function." Meetings should fall into four different types.

The Daily Check-In is a five minute, standing meeting where key leaders share what they are working on that day to avoid confusion about how to prioritize actions. The Weekly Tactical meeting runs sixty to ninety minutes and begins with a "Lighning Round" where each attendee takes just sixty seconds "to quickly describe what is on their respective plates," which is then used to create an agenda for the meeting. Participants then strive to resolve issues ensuring they only focus on things that are of immediate concern.

The Monthly Strategic is the meeting where leaders get together and "wrestle with, analyze, debate, and decide upon critical issues that will affect the business in a fundamental way." Topics should be limited to only a few and each topic should be given at least two hours to hash out. These are the meetings where participants engage safely in "open-ended conversation and debate."

Finally, the Quarterly Off-Site Review gives "executives an opportunity to regularly step away from the daily, weekly, even monthly issues that occupy their attention, so they can review the business in a more holistic, long-term manner." These meetings should be full of "reflection and discussion" on topics like personnel, culture, strategy, competition, and other broad categories that impact the team and the organization in the long run. These meetings also serve as a means to improve relations between team members and unity among the team as a whole.

When seeing the title of the book, most people assume that Lencioni's book would be about how to have fewer meetings, not more. When they learn that it is actually a prescription for having more, they react negatively. This is because of the damaging myth we have around meetings. We think they are time wasters. And unfortunately, in many organizations that is in fact the case. But the problem is not the number of meetings or how long they are. The problem is that they are organized, led, and managed in the wrong way.

In ***Death by Meeting,*** Lencioni offers leaders a structured approach to meetings that will make them engaging, productive, and informative for all involved. His model promises to reduce wasted time, improve decision making, and bring teams closer together. But that's not all. When meetings are chronically mismanaged, they "exact a toll on the human beings who must endure them." The ramifications of this extend far beyond the business itself. Staff will certainly feel dissatisfied in the immediate term, but they may also end up feeling angry, lethargic, and cynical towards each other and the organization. This bleeds into their personal lives, as well, impacting "self-esteem, families, and their outlook on life."

Lencioni does not exaggerate when he claims that his model for meetings can positively impact us and the lives of our people. Yes, above all leaders have an obligation to the business but in looking out for the business, they can also take care of their people. This will breed a positive feedback loop that improves business to improve the people, which improves the business and so on. When leaders choose to overcome the ugly "death by meeting" condition of their organization they can learn to change meetings into a productive, useful, and even fun part of business and life.

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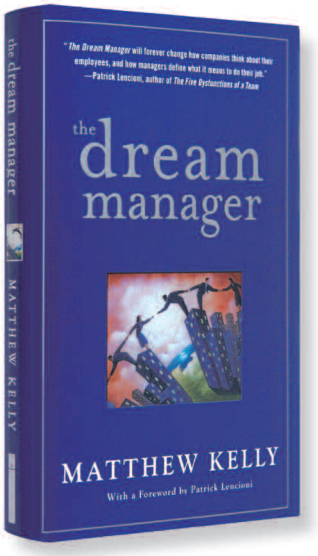
Dream Manager

July 2009

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Management: Strategies

The Dream Manager



by Matthew Kelly

THE SUMMARY IN BRIEF

Managing people is difficult. With disengagement and turnover on the rise, many managers are scratching their heads wondering what to do. It's not that we don't dream of being great managers, it's just that we haven't found a practical and efficient way to do it. Until now …

The fictional company in *The Dream Manager* is grappling with real problems of high turnover and low morale — so the managers begin to investigate what really drives employees. What they discover is that the key to motivation isn't necessarily the promise of a bigger paycheck or title, but rather the fulfillment of crucial personal dreams. They also learn that people at every level need to be offered specific kinds of help and encouragement — or our dreams will forever remain just dreams as we grow dissatisfied with our jobs and lives.

The Dream Manager explores the connection between the dreams we are chasing personally and the way we all engage at work. Taking on the growing problem of employee disengagement, *The Dream Manager* explores the dynamic collaboration that is unleashed when people work together to achieve company objectives and personal dreams.

IN THIS SUMMARY, YOU WILL LEARN:

- How a company can become the best version of itself by helping employees become better versions of themselves.
- How to change the way you manage and relate to people.
- How to recognize the dreams of those that you lead.
- How to inspire your people to achieve their visions.
- How to unleash the power of dreams to keep your business going.

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THE COMPLETE SUMMARY: **THE DREAM MANAGER**

by Matthew Kelly

The author: Matthew Kelly is an internationally acclaimed speaker and the author of *The Rhythm of Life*, *The Seven Levels of Intimacy* and *Perfectly Yourself*. His books have sold more than 1 million copies and have appeared on numerous bestseller lists.

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The Dilemma

The future of your organization and the potential of your employees are intertwined; their destinies are linked.

An organization can only become the best version of itself to the extent that the people who drive that organization are striving to become better versions of themselves. This is universally true whether the organization is a business, school, government, nonprofit or sports team. To the extent that a CEO, an executive team, and a group of managers and employees explore their potential as individuals, so too will an organization explore its potential.

Disengagement

The problem is that the great majority of people in the workplace today are *actively disengaged*. This is the dilemma that modern managers face. To varying extents, people don't feel connected to their work or the people they work with. No single factor is affecting morale, efficiency, productivity, sustainable growth, customer intimacy and profitability more than this disengagement.

If, on average, your employees are 75 percent engaged, disengagement is costing you 25 percent of your payroll every month in productivity alone. The real cost to your business is, of course, much higher when you take into account how disengaged employees negatively affect your customers and every aspect of your business.

The right people are an organization's greatest asset. We may have acknowledged this truth in theory, but we have not allowed it to sufficiently penetrate the way we manage our organizations and, indeed, the way we manage the people who drive them.

It's not that we don't want to engage the people who work with us and for us. In most cases it seems that we simply have not found a practical, efficient and affordable way to do it.

The Dream Manager

The Dream Manager concept provides a revolutionary way of reversing this crippling trend toward disengagement and demonstrates how organizations large and small can actively engage their people once again, thus creating a competitive advantage of monumental proportions.

BusinessWeek reports that, over the next 10 years, 21 percent of top management and 24 percent of all management jobs across all functions, regions and industries will become vacant. Add to this trend an aging population, a shrinking work force and a growing intolerance for the undocumented worker population that provides much of the unskilled labor in the United States today, and you have a talent and labor crisis of enormous consequences across all disciplines — from the highly skilled to the completely unskilled.

But it is not enough simply to hire the right people. The ability to attract, engage and retain talent will be the number one strategic objective of every successful modern leader and organization.

Purpose

A company's purpose is to become the best version of itself.

What is an employee's purpose? Most would say, "to help the company achieve its purpose," but they would be wrong. That is certainly part of an employee's role, but an employee's primary purpose is to become the best version of him- or herself.

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Contrary to unwritten management theory and popular practice, people do not exist for the company. The company exists for people. When a company forgets that it exists to serve its customers, it quickly goes out of business. Our employees are our first and most influential customers.

Finding a way to create an environment that helps employees become the best version of themselves, while at the same time moving the company toward the best version of itself, may seem impossible to many; to others, these purposes may seem diametrically opposed; but in reality, they are astoundingly complementary.

This is the story of how one leader and his executive team set out to transform a business by actively engaging a disengaged work force.

PART ONE: DESPERATION

Something was wrong and Simon Roberts knew it. Meandering slowly through traffic on another cloudy morning, he started wondering where life was going, and his thoughts quickly wandered to his job. It seemed so transactional now, and that left him feeling flat and unmotivated. Simon wasn't a lazy person; he loved a good challenge. But lately he'd found himself disengaging from his work, and that bothered him. Something needed to change — he just wasn't sure what it was, or where to start.

He had joined Admiral Janitorial Services four years earlier because solving problems and working with people were the two things Simon was passionate about.

His business card read "General Manager" but as Simon reflected on the past four years, it seemed he had spent most of his time dealing with recruiting issues. "Lead Recruiter" seemed more accurate since, truth be told, 75 percent of his time was spent dealing with issues directly related to turnover.

Admiral Janitorial Services had an annual turnover rate of 400 percent, just above the industry average. Needless to say, team spirit and employee morale were low.

How Much Is Turnover Costing Us?

"It's costing me a fortune," Greg said as he charged through the door. He never had learned to knock, but then again, he owns the company.

Greg founded Admiral when he was just 17 and, over the past 25 years, he has grown the business from a one-man operation to a small army of around 400 employees.

"What's costing you a fortune?" Simon volleyed, though he knew exactly what Greg was talking about.

"Turnover!" Greg said, visibly exasperated.

Coaches and CEOs

A football coach's number one priority is to attract, develop, nurture, organize and motivate the franchise's talent. Coaches and team owners are intimately aware that the future success of their organization depends on the talent they attract, engage and retain.

Finding and nurturing talent is their number one priority. Why should the priorities of a CEO or manager be any different?

"It's hard to know how much this is costing us," Simon said. "We are having to hire for some positions three times a quarter. And it's not just recruitment costs. Turnover affects morale, efficiency and customer relationships. I've been telling you for 12 months that it's a big problem."

Greg nodded. "I know, I know. It's just that now we're starting to lose clients over it. I had a call from Charlie down at P&G today, telling me we're getting a warning letter putting us on a 90-day probationary period. He says our work has been sloppy and they've noticed a constant flow of new faces, and they feel like things are falling between the cracks."

"I wish a pay raise would make them stay, but I'm not sure," Simon replied. "Let's find out what's causing the turnover. Let's find out why they're leaving."

"How will we find that out? Greg asked.

"We'll ask them," said Simon.

Ask Your Employees

The next morning, Simon and Greg met at First Watch to talk more about their turnover problem. It was a relaxed environment.

"So you're just going to go around and ask them why people are leaving?" inquired Greg, half serious and half sarcastic.

Simon replied, "The employees know things about our business that we don't. We should do a survey and ask them why they think so many people come and go. You'll be amazed at what they'll tell us. Nobody knows the business like those who work in the trenches of it every single day. Ask your employees. They know more than you think."

The Initiative

The number one reason people didn't stay at Admiral: transportation.

"They don't live near where they work. Many don't have cars or even a driver's license, and they're often working at hours when public transportation is either not available or just too dangerous. Would you want to stand around waiting for a bus in some parts of town?" Simon explained to a disbelieving Greg.

"OK, so what do we do now?" Greg asked.

Simon explained, "My team has thrown around a few ideas, including coordinating a carpooling system, but it's too unpredictable. What we need to do is put together a shuttle system to bus our employees from their neighborhoods to the job sites."

"All right," Greg agreed reluctantly, "but if you're wrong …"

Simon cut him off. "No more threats, Greg, because the truth is, I'm miserable the way things are. If we can't get at this turnover issue, you won't have to fire me — I'll quit."

The following week, the shuttle bus system was announced. Three weeks later, it was fully operational. During the day, Admiral would bus employees to and from certain locations in four key neighborhoods, and at night they would bus them to and from their homes.

The results were almost immediate.

One Year Later

Over the next year, employee turnover fell from around 400 percent to 224 percent. Real progress had been made. A record profit had been posted, and Simon and Greg both knew that the reduced turnover was the biggest contributing factor. And the other factors were all derivatives of having addressed the turnover crisis.

It was also interesting to note that sick days were down 31 percent from the previous year and lateness had been reduced by 65 percent.

Simon left a report outlining these results on Greg's desk, and left the office.

The next morning, Greg came into Simon's office with a bonus.

"I want you to know I doubted you at every turn, but the survey and the shuttle bus ideas were great. I actually see the reduced stress among people. It's more enjoyable for me to come to work and, even though at times I can be rude and impatient, I want you to know that I am grateful."

Simon could barely believe his ears.

"I need you to do another survey!" Greg barked.

Simon just about fell off his chair. "You hate my surveys."

"I know. I know. But that was in the past. I hated your surveys when they were costing me money. Now they're making me money. Find out what's next on the list," Greg said.

"What list?" Simon asked, toying with him a little.

"The 'Why people leave Admiral' list!" Greg insisted. "And hire another assistant. You're going to need one. We are going to get to the bottom of this turnover thing and build an extraordinary team." ●

PART TWO: THE INITIATIVE

Simon was determined not to lose the momentum. He called an executive meeting to ask the question … again. "Why do so many people leave Admiral?"

Most just shrugged their shoulders and said, "If we could pay them more, they would stay."

Sandra Anderson was Simon's new assistant and he had asked her to sit in on the meeting with him. Not easily intimidated, she spoke up, saying, "The problem is, they don't see any future in it. It could be a dead-end job, or we could make it a stepping-stone."

Everyone in the room knew that. It was the obvious answer. But the leadership team had become immune to it. It had been overlooked because they believed they couldn't change it.

"These people all have dreams," Sandra explained. "We need to find a way to connect their job today with their dreams for tomorrow. I've been studying the turnover reports all week, and it seems that, on average, we keep an employee for about six months. A year ago, the average was three months. Imagine if we could increase that to three years. That alone would radically transform our whole business model."

"She's right," interjected Simon. "I think we can help our employees build a bridge between their NOW and a better FUTURE. Dreams are the bridge. We need to convince them that this is not a dead-end job, and the only way to do that is to demonstrate that working here can help them get where they want to go."

Dreams Drive Us

Nothing was resolved when the meeting came to an end. Simon trudged back to his office a little deflated. The past year had been filled with great progress, and that had been both fulfilling and exciting. But he knew he was up against another brick wall. This time it wasn't with Greg — it was with the team.

"What are you thinking?" Greg asked, poking his head into Simon's office. He sat down and Simon began to speak.

"If you ask people to talk about their jobs, they usual-

ly reply with a rote answer or a sales pitch they've given a thousand times before, unless they are really doing something that they're passionate about. But if you ask people to talk about their dreams, in most cases you'll see a remarkable increase in their passion and energy."

"So what are you saying?" Greg asked.

"I think Sandra is on to something here. Dreams drive us! We have to find a way to make a connection between people's daily work and their dreams," Simon explained.

Making the Connection

The following week, with Sandra's help, Simon put together another survey.

They called it the "Dream Survey." It was specifically designed to develop an understanding of the employees and their dreams.

"We've asked them about our business, and we've asked them why they think people leave Admiral. Now we need to know what drives our employees," Simon explained to Greg and the rest of Admiral's leadership.

The Dream Survey had only one question: "What are your dreams?"

Some employees wanted to go to college, others wanted their children to go to college. Some wanted a car, others a vacation. What was the most common dream among the employee responses?

Home ownership. More than 60 percent of those who turned in their surveys included the desire to own a home as one of their dreams.

Seeking a Dream Manager

"We need a Dream Manager!" Simon announced.

"Who or what is that?" Greg asked, in a tone that wavered between curiosity and sarcasm.

"A Dream Manager is someone who will help our employees achieve their dreams," explained Simon. "The Dream Manager will meet with employees, discuss their dreams and help them put together a plan to achieve their dreams. Once a month, they can meet with the Dream Manager, assess their progress and discuss next steps. As for finding one, I'm thinking it should be a cross between a life coach and a financial adviser, because most dreams involve a financial component.

"We have to give our employees an opportunity to progress and advance," Simon continued. "When people feel they are progressing, they are much less likely to start looking around for another job. It is when they don't feel that they are advancing that they start to get restless."

"So will the Dream Manager offer career counseling?" Greg asked.

"Once every six months, an employee will have the option to invite his or her supervisor to their monthly Dream Session. During that session, the Dream Manager, the employee and his or her supervisor can discuss a vision for the employee's future — but particularly, what the next career step is and how long it will take to achieve that next step," Simon explained. "They will stay because, for many of them, this will be the first time anyone has ever really sat with them and helped them map out a future. The whole point is that, because of the Dream Manager, the job is no longer dead-end. It becomes a stepping-stone. The Dream Manager Initiative will create a connection between the fulfillment of their dreams and their work."

The Arrival

The following week, Simon interviewed 27 people for the position. Sandra had placed advertisements in all the local job-hunting outlets and the applications had been flowing in.

Sean Evans was the candidate that Simon and Sandra finally agreed to present to Greg as their number one choice. He had a degree in business, had been working as a financial adviser for nine years, had a history of drive and excellence, and his community involvement suggested he was interested in helping people.

Greg took Sean to lunch after a brief get-together with Simon and Sandra. When he returned, Greg announced that he agreed that Sean was the man for the job.

The House

Simon had known from the beginning that it was important to help some employees achieve some big dreams. He knew some early success stories were pivotal to the overall success of the program, because he knew the quicker some dreams were accomplished, the more Admiral's employees would get involved in the Dream Manager Program.

With that in mind, Sean had focused on helping Rita, an Admiral employee, find and buy a house. He was with her at every step in the process, and now it was going to become a reality. In the first few months, there had been several dreams accomplished, but this would be the first big dream to be realized.

Sean had arranged to go with Rita for the closing at the bank, and then Simon and Sandra had joined them to take Rita to her new home. As they drove into the driveway, Sean said, "Well, now it's yours!"

Rita was next to him in the front seat, beaming.

One hundred and thirty-two days after her first meeting with the Dream Manager, Rita was in her new home. With no money down and a monthly payment just slightly higher than her rent, Rita moved into the first home her family had ever owned. Rita became a living, breathing advertisement for the Dream Manager Program.

After Two Years

By the end of the second year, 11 employees were living in new homes they never thought they'd own and more than 100 employees had fulfilled the first dream on their list.

Turnover was down from 400 percent to just over 50 percent in two years.

The profits were staggering.

Greg took Simon, Sean, Sandra and their spouses to the Caribbean for an off-site strategic planning session. It was a combination of work and reward. They spent five days in Antigua. The beaches were beautiful, the weather gorgeous and the synergy among team members and their spouses was extraordinary.

Each morning, they met for breakfast and then took the meeting to Greg's suite.

Profit Sharing

Greg opened the first session by explaining how successful the Dream Manager Initiative had been and how he wanted to give some of the profits back to the employees.

He further explained that he wanted to redistribute a portion of the profits in three ways: by raising wages and salaries, creating a new bonus system and enhancing the Dream Manager Program.

Greg said, "The truth is, we should ask the employees how they think we should enhance the program. We can't underestimate how important it was that the employees got to have a say in the beginning. We shouldn't shut them out now. Let's keep them involved in the process."

"I was thinking the same thing," said Sandra. "I think it's time for another survey."

Sean stepped in now, saying, "We can put together a short report of the ideas we have come up with, ask the employees to comment on them and assign priority to each of them and let them add any other ideas they have."

They had discovered what they had already known, and found it to be as true as ever. There is no substitute for involving everyone in the process. ●

PART THREE: EXPANSION

Since getting back from the Caribbean, everybody had been asking Simon what the team had decided while they were away. Simon explained that they hadn't decided anything, only that they had come up with some new ideas for the expansion and improvement of the Dream Manager Program, and now they wanted to have the employees' input on these new ideas.

The only thing the group had set in stone while they were away was that they needed to reach full participation in the Dream Manager Program as soon as possible. At this point, only 65 percent of employees had been initiated into the program. With Sean's workload the way it was, it would be up to a year before the rest of the employees who wanted to participate were active in the program.

This backlog meant hiring at least one, and maybe two more Dream Managers. But they wanted the other employees' feedback on this, so the full-participation idea was included alongside their other ideas.

More Survey Results

The surveys went out and came back in record time and with a record level of respondents. The overwhelming majority of employees listed full participation as the number one priority of the Dream Manager Program over the next three to six months.

Greg, Simon, Sean and Sandra had come up with some great ideas, but they had missed something that might not have occurred to them had they spent six months in the Caribbean, instead of five days.

The number one request from the employees in the survey was that their children be able to meet with the Dream Manager.

"Our children need a Dream Manager," or similar phrasing, appeared on 71 percent of the surveys returned.

Culture of Dreams

Simon and his team at Admiral were building a culture of dreams. The notice board in the employee lunchroom was now covered with photos and other evidence of dreams achieved.

Each month, when the employees came to headquarters to meet with their Dream Manager, they were encouraged to stop by and check out what was happening in the lives of other employees.

The executive team had been having a series of meetings to discuss a new bonus system.

It had been 11 quarters since the birth of the Dream

Manager Program, and profits every quarter had steadily increased. Greg had been pouring money back into the program, but nowhere near as much as the profits had been increasing, and now he wanted to give back to the employees in some way.

"I don't want this to be a one-time thing," Greg said to the team. "I want us to create a structure whereby a percentage of increased profits will go to the employees every year."

"What did you have in mind?" Simon asked.

The Proposal

"Well, I was thinking we could do three things. First, an across-the-board pay increase for all employees. Next, I thought an annual bonus system based on company and personal performance. In this case, we could allocate a certain amount to each team or department, based on profit, and they could decide how to divide it among themselves. Finally, I would like to start a Dream Fund. A percentage of profits each quarter will go into this fund. Each employee can apply for a grant from this fund for the fulfillment of a specific dream. The managers and employees can vote to say who gets the grants. We could assign categories, perhaps $500, $1,000 and $2,500 to begin with."

The Dream Bonuses and pay increases were, needless to say, a huge hit with the employees, and they provided yet another injection of enthusiasm. Anyone who thought this was going to be a passing fad was now convinced that the Dream Manager Program was here to stay.

Today

Today, five years after the birth of the initiative, more than 98 percent of Admiral employees participate in the Dream Manager Program. Home ownership among employees has tripled in five years, consumer debt among employees has been reduced by 40 percent — and 2,785 significant dreams have been accomplished.

Turnover has fallen from 400 percent to just 12 percent over the five-year period, and Admiral's internal placement program accounts for 70 percent of that turnover. Gross revenue has tripled, and the number of employees has risen from 407 to 742, including 11 Dream Managers. Profits have risen every quarter since the program was initiated.

Once a month, employees meet with the Dream Manager in order to take time to dream up a richer, more abundant future for themselves and their families.

Today, the children 12 years and older of Admiral employees can meet with a Dream Manager once a month to discuss their future and their dreams.

At the last annual dinner for employees, Greg said in his speech, "Why are so many people so amazed by what we do here at Admiral? I ask myself this question all the time. Why is it so surprising to people to discover that if you treat people like people, they respond like people? Dreams are at the core of every person. It is there that our passion for life is ignited."

The temptation is to convince yourself that your employees' dreams are not relevant to your business. That is only true if your employees are not relevant to your business — and if that were true, why would you employ them?

You can ignore people's dreams, but it will be at your peril. You will pay an enormous price if you do. ●

What's Your Dream?

Dreams are invisible, but powerful. Think for a moment of electricity. You cannot see it, but it keeps everything going.

Should you doubt that electricity keeps everything going, turn off the electricity at your office tomorrow! You will find that little if anything gets done and that most of your employees will go home for the day.

So it is with dreams. They are invisible but powerful. You cannot see them, but they keep everything going.

Getting Started: Applications and Tools

You have your own dreams to dream and your own adventures to pursue. Some time today, *drag yourself* away from all that occupies your daily attention and write down your dreams. Make a list of 100 dreams. If you absolutely cannot do it today, at least take a moment to schedule it for tomorrow or the next day. And if you find yourself putting it off, ask yourself why.

Just start writing. Don't place limitations on yourself. Dream and write from that stream of consciousness, as if anything were possible.

As you write your Dream List, here are 12 areas to stimulate a good cross section of dreams: physical, emotional, intellectual, spiritual, psychological, material, professional, financial, creative, adventure, legacy and character.

For the next week, take 10 or 15 minutes each day just to read through your Dream List. Other dreams

may come to mind — add them! You may decide some dreams are not really you, or not that important to you. Delete them from the list if you wish, or leave them there so you can look back in time and see what you thought was important to you.

After one week, go through the list and apply one of the following three categories to each of your dreams: short-term (within 12 months), mid-term (one to five years) or long-term (five years or more).

The next step is to get a Dream Book. Start to write down your dreams and ponder them from time to time so that you don't lose sight of them in the midst of your daily activity.

Changing Expectations

A new breed of corporate loyalty is both possible and necessary. We simply need to change our expectations. No company can keep an employee that doesn't add value and help that company become the best version of itself. Simple economics demands that such an employee cannot remain. At the same time, a company cannot reasonably expect an employee to be loyal if that company's demands and expectations consistently lead an employee to become a lesser version of him- or herself.

The new breed of loyalty will be based upon an understanding between employees and companies of one another's purpose — to become the best version of themselves. Some may scoff and beg this conversation to return to reality — but consider the companies that find themselves on *Fortune*'s elite list of the best companies to work for. Of course they strive for and achieve better than average profits, but if you glance down the list of criteria, you'll discover a list of company initiatives that, directly or indirectly, help employees become better versions of themselves. These companies believe that if they help their employees become better versions of themselves, the company will necessarily become a better version of itself.

Corporate Loyalty

Walk through the hallways of these companies and you will see a highly evolved form of corporate loyalty emerging. These companies understand that if they help their employees achieve their purpose as individuals, the employees will in turn be more passionate about helping the corporation achieve its purpose and goals.

This new breed of corporate loyalty is the clay from which a highly evolved and cohesive type of team can be built and managed. The "us versus them" mentality that has been fostered for hundreds of years in the workplace desperately needs to be replaced by a spirit of dynamic collaboration. This level of collaboration can only be achieved when both managers and employees are convinced that each has the others' best interests in mind.

When a company's culture opposes its employees' purpose (that is, hinders employees from becoming the best version of themselves), the employees will consciously or subconsciously oppose the company's goals and objectives. This in turn will prevent the company from achieving its purpose (that is, becoming the best version of itself). The individual purposes of employees and companies are inseparably linked.

The 21st Century Manager

Many people have been putting together strategic plans for their organizations or departments for decades, but they have never created a Personal Strategic Plan.

Teach people the importance of strategic planning in their own lives and they will understand its importance in the life of your company. The same is true for dreams and goals. If you want to engage employees in corporate dreams and goals, you must first engage them in their own personal dreams and goals.

Dreams provide fascinating insights into what drives people. This is indispensable knowledge for a manager of any kind. Use employee reviews as an opportunity to take an interest in the dreams of the people who report to you.

Take an active interest in the dreams of the people on your team and in your life, encourage them to move boldly in the direction of their dreams and have the courage to share your own personal and professional dreams with them. Over time, the people who surround you will begin to do the same among themselves, and you will witness a new spirit of collaboration — and the unrivaled power of a culture of dreams.

It is a different approach. Different is exactly what is needed in the corporate arena if we are going to engage employees and build dynamic teams. So, don't be ordinary. ●

RECOMMENDED READING LIST

If you liked *The Dream Manager*, you'll also like:

1. ***Outsmart!* by Jim Champy.** Jim Champy identifies the counterintuitive lessons learned by companies that have been able to sustain super-high growth for at least three years straight.
2. ***Ideas Are Free* by Alan G. Robinson and Dean M. Schroeder.** The authors provide the road map for totally integrating ideas and idea management into the way companies are structured and operate.
3. ***Built to Last* by James C. Collins and Jerry I. Porras.** This business classic shows you how to surge ahead with audacious goals, preserve your ideology, create a cultlike culture and ensure your organization's future.

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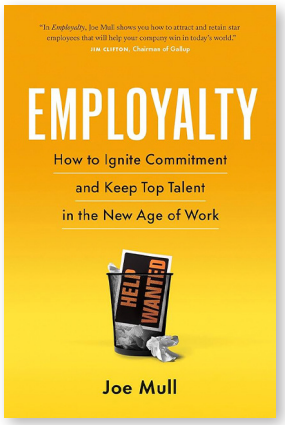
Employalty

Joe Mull

Executive Book Summaries®

Employalty

How to Ignite Commitment and Keep Top Talent in the New Age of Work



by **Joe Mull**

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THE SUMMARY IN BRIEF

This is a book for business owners and executives who struggle to find and keep devoted employees. It's for those companies that want a more engaged workforce and a competitive advantage in hiring, quality, and performance. It's a book for leaders who want to make a case for changing how their organizations hire and treat employees. Because everything in ***Employalty: How to Ignite Commitment and Keep Top Talent in the New Age of Work*** by Joe Mull is anchored in the research and trends of what most employees want out of a job, it's also a useful tool for job seekers and career changers to better understand the conditions to seek out for the highest degree of professional happiness.

But the first thing to understand is that these three factors—an Ideal Job, Meaningful Work, and a Great Boss—work together to create a destination workplace. When they are each consistently present in the employee experience, commitment appears. That commitment, in turn and across a team, produces a multitude of desired business results, including retention, reputation, and revenue.

IN THIS SUMMARY, YOU WILL LEARN:

- How the Employalty model is a framework for creating a positive work environment where companies can attract and retain top talent.
- Employees are demanding a better work experience and want meaningful work, good bosses, and a healthy work-life balance.
- Why companies need to invest in their employees and offer competitive pay, benefits, and flexibility.
- How leaders can create a culture of belonging so their employees feel valued and respected.

Introduction

We are experiencing record-setting job switching and persistent staffing shortages across industries. Fewer people are entering the labor force, more workers are leaving, all while more and more jobs are being added to the economy. All three of these conditions are projected to continue for years.

There's another reason for so much job changing and understaffing across industries: a massive recalibration of how work fits into people's lives. Workers are demanding less suffering at work. They want more time, less stress, and better treatment. More than a decade of record-setting job changing across industries has made one thing clear: employees want a more humane employee experience.

Employalty

Employalty doesn't mean "employee loyalty." Employalty is a portmanteau of the words "employer," "loyalty," and "humanity." Employalty is the commitment employers make to consistently deliver a humane, person-centered employee experience, because that's what leads people to the highest levels of commitment at work.

Employalty is rooted in the idea that people do the best job possible when they believe they have the best job possible. Treat them better than they would be treated elsewhere, and they'll join and stay. When people join, stay, care, and try, every metric you pay attention to in your organization is positively impacted.

Employalty also creates a competitive advantage in hiring. When the people who work for you describe your organization as the very best place to work, you attract a better caliber of candidate looking for their best place to work—and you also keep good people, so you lose less time and money replacing and retraining.

The era of trying to find the best person for the job is over. You must now create the best job for the person.

We know what employees are looking for. Nearly every piece of research published in the last twenty years on attracting, keeping, and inspiring employees has pointed again, and again, and again to three primary factors: commitment appears when employees get to do their Ideal Job, doing Meaningful Work, for a Great Boss.

As we work to create destination workplaces, we must understand that while commitment isn't fleeting, it is both fragile and variable. Each person in your organization has their own internal scorecard.

In 2021, Americans quit their jobs in record numbers. But people weren't just quitting their jobs. They were changing jobs. So, let's be clear: the Great Upgrade as it should be called, has been around for a decade, has increased year over year, wasn't caused by the coronavirus, and is expected to continue until who knows when. This is not a blip or a fad.

Engineering your employee experience to align with the changing needs and values of the workforce isn't just about doing something altruistic. It's a business decision. A strategic one.

Dehumanization is the perception and treatment of people in ways that ignore and diminish their intrinsic worth as humans. In the workplace, dehumanization occurs when workers are viewed solely based on their role or functionality.

But there's one other consequence of dehumanization that may be the most pervasive and harmful. It's the belief by a portion of society that those who would no longer subject themselves to dehumanization at work—and the suffering it creates—are actually of flawed character, a phenomenon called "The Myth of the Lazy".

Perhaps the most loathsome outcome of the Myth of Lazy is that many workers get blamed for the very suffering they endure. Every employee's quest for a job that allows for a better quality of life is also a search for a workplace that recognizes and honors their complete humanity. For some business owners and leaders, this will require a shift in mindset and beliefs.

Ideal Job

If you want the highest level of commitment from your workforce, you must first and consistently commit to them, not just as employees but as human beings.

The radical disparities between what people earn and what things cost today have created suffering for many in the workforce.

After years of limiting pay, where businesses said, If we pay you more, we won't survive, the tables have turned. Now workers are telling businesses, unless you pay us more, we won't survive.

In 2018, leaders at PayPal discovered that many of their employees had a net disposable income between 4 and 6

To attract talent and inspire commitment, you must create the best job for the person.

percent.The CEO set a goal to get employees' net disposable income up to 20 percent, a figure that is often recommended by personal finance experts. Employee turnover at PayPal has been reduced by half, saving millions in staffing costs. Their customer satisfaction has gone up, too.

Note that compensation involves more than just wages. According to the Society for Human Resource Management, the most sought-after employee benefits are flexibility, health insurance, paid time off, retirement, parental leave, and life insurance.

Generous pay translates to a higher sense of duty and a higher level of effort. What sustains it over time, though, isn't the dollar amount. It's the sense of being valued and taken care of.

But a manageable workload is not just about sticking to a forty-hour workweek or implementing a shorter one. It also requires us to manage the workload that employees carry during their allotted work time.

To attract talent and inspire commitment, you must create the best job for the person. What many crave more than just a hybrid or work-from-home schedule is the freedom to figure out for themselves how, when, and where to work.

To begin offering more flexibility to your employees, you'll first want to invite employees into that conversation, so you can engineer ideal arrangements together. If you want to grant employees more autonomy via flexibility, you and the employee will need clarity on individual expectations and outcomes.

Meaningful Work

Since the mid-1970s, a growing number of researchers have been studying the idea of Meaningful Work. What's abundantly clear in study after study is that when we perceive our work as being worthwhile, important, or valued, there is a correlating positive impact on work engagement, employee commitment, and job satisfaction.

To harvest all the commitment that Meaningful Work creates, your organization must ensure people's jobs include purpose, strengths, and belonging.

By 2025, Gen Z and millennial employees will make up 65 percent of the US workforce. Among the highest priorities and most central values of these two generations is the idea that businesses should do more than sell a product and make a profit. They also want their employers to be agents of change.

When your organization demonstrates that it is truly impacting lives in a positive way, you're attending to one of the essential ingredients of Employalty. Your organization's mission must be specific, transformational, and rooted in emotion.

Purpose comes from the emotion that product or service evokes in customers when it's done well. For employees to experience Meaningful Work, you need to broadcast a specific emotional purpose that makes a difference in the lives of others.

Where most companies fall short on purpose isn't in finding the right language. It's that they fail to live that mission in their actions. This happens when decisions aren't driven by the mission. This action—managers consistently articulating how employees' work contributes to the mission—is among the most important in this book.

Another crucial tactic for fostering purpose is creating a culture of ongoing recognition. When employees are celebrated for their contributions, they experience purpose and, thus, Meaningful Work.

The very best recognition "programs" are those that trigger a manager or peer to directly acknowledge a specific and timely talent or contribution that someone made.

Purpose alone doesn't create Meaningful Work. Employees must get to do work that aligns with their strengths.

When we spend most of our time laboring to improve what we're not good at and don't enjoy, motivation decreases. While minimizing weaknesses can prevent failure, research suggests that it cannot inspire excellence.

Employees who are actively encouraged to use their strengths at work handle their workload more effectively, show lower levels of absenteeism, and describe higher job satisfaction.

As leaders, we must install ways for our team members to utilize their gifts. This requires intentionality on the part of the leader and adaptability on the part of the organization. Eschew the belief that, as job roles go, one size fits all. Every person on your team is a unique individual.

Teams play a significant role in whether an employee experiences Meaningful Work. What we know is that, in addition to purpose and strengths, employees derive fulfillment—and therefore commitment—from one more set of experiences that is central to feelings of Meaningful Work. It's a set of experiences that we'll capture in a single word: belonging.

Deloitte's researchers describe belonging as one of the most important issues for attracting, retaining, and activating employees in today's workplace.

According to Jeremy Schmidt, "The companies that are attracting talent show an empathetic and compassionate culture. People want to be treated fairly and equitably and be able to bring their true selves to work. We need to create an environment where everyone can feel 150 percent comfortable to be their authentic selves."

Belonging doesn't just lead people to stay. It's part of the cocktail of conditions organizations must foster to drive employee engagement, and thus higher performance.

When we discuss making workplaces comfortable for all, we're attempting to create an environment where employees don't experience exclusion. Organizations that establish this kind of culture are twice as likely to meet or exceed financial targets, three times as likely to be high-performing, six times as likely to be innovative and agile, and eight times as likely to achieve better business outcomes.

It's not uncommon to discover that someone on the team could be described as toxic. This person engages in back-channel communications, public or private criticism, cliques, keeping score, demeaning or dismissive comments, and pitting people against each other, among other troublesome behaviors that are detrimental and must be addressed.

Research clearly shows that diverse teams drive more revenue, make better decisions, catch more errors, and innovate more often. Team members must feel connected to the people they work with. The employee resource groups that companies have installed are one powerful way to enhance connection and, ultimately, belonging.

Connection also occurs when employees build meaningful relationships with co-workers over time. Connection occurs when team members form more sophisticated relationships with one another.

If you lead a hybrid or fully remote team, it's imperative to innovate in these aspects of belonging. How? We must get people laughing together and learning about each other beyond work topics. Beyond these virtual tactics, the number one recommendation for helping virtual teams form better connections is to try and gather in person at least twice a year.

The third element of belonging is contribution. When the individual talents, ideas, and efforts of team members are known to a team, there is understanding across the group of how that person is helping the team succeed. Be careful, though, to spotlight more than just accomplishments. Here, time and traits matter.

Great Boss

75 percent of people who quit a job say their boss is part or all of the reason why. How bosses treat the people they supervise is the single biggest influence on employee commitment. If an individual contributor is able to work to their fullest potential, it's because their boss has engineered the environment that makes it possible.

Too often those doing the hiring believe that if someone was great in a job, they'll be good at leading others who do that job. Again and again, this proves to be untrue.

So, who should we be hiring to lead teams? Decades of research in engagement, organizational development, and motivation point to three factors: coaching, trust, and advocacy.

Coaching is the act of helping someone sort through what they know, think, and feel to determine their next actions. A good coach listens intently, asks questions, and leaves the responsibility for determining next steps to the other person in the conversation. At the heart of coaching is setting aside judgment in favor of curiosity. Coaches operate with the assumption that people are both decent and capable.

Coaching is the transcendent leadership skill.

Gallup's research has found that one meaningful coaching conversation each week can have a profound impact on engagement and retention.

Great Bosses engage in ongoing advocacy for the person first, position second.

Employalty is about creating a more humane employee experience. Next, leaders must grant and earn trust.

To be a leader who earns trust, David Horsager says, several patterns of behavior are required. Chief among them is pairing competence with humility. Here the trait of knowing what you don't know is critical. Trust is also rooted in people believing what you say. For this reason, leaders and business owners must follow through on their plans and keep their promises. We must also be transparent whenever possible. Additionally, to nurture commitment, leaders must grant trust to employees often before it is earned.

In organizations where employees enjoy high amounts of trust from their leaders, workers report 74 percent less stress, 106 percent more energy at work, 50 percent higher productivity, 13 percent fewer sick days, 76 percent more engagement, 29 percent more satisfaction with their lives, and 40 percent less burnout.

Where trust is lacking, innovation can be stifled; where trust is given, innovation can flourish.

Start with the belief that your employees have integrity. Treat them as humans with scruples and employees with talents. Then define goals, discuss progress periodically, give feedback, and provide support. That's the trust recipe.

Beyond granting and earning trust, a Great Boss cares about his or her people beyond the tasks and duties of their job. Advocacy, put simply, is acting in another person's best interests. Great Bosses engage in ongoing advocacy for the person first, position second.

If having a Great Boss is a central ingredient to Employalty, then advocacy is a central ingredient to being a Great Boss. Advocacy also requires leaders to absorb blame and distribute credit. When failure occurs on a team or project, a Great Boss says "this is my fault." When accomplishments are achieved, a Great Boss is quick to say "credit goes to... ," naming a person or team.

To compete for talent, Great Bosses must become common in your organization, from the CEO all the way down to front-line managers.

Nearly nine out of ten bosses believe they are leading well, yet fewer than two out of ten employees say that they are. This gap is everywhere.

Now more than ever before, employees from all industries are rejecting unnecessary suffering at work. As such, they are rejecting, in all forms, the prospect of working for a bad boss. If you want to have any hope of attracting talent, positioning them to become psychologically committed, and enticing them to stay, you must insist on better bosses.

Implementing the Employalty Model

The Employalty model provides the simple framework leaders need to find and keep employees, unlock their commitment, and level up your company's performance. Giving employees their Ideal Job doing Meaningful Work for a Great Boss is the blueprint to getting employees to join, stay, care, and try. It's how you turn your enterprise into a destination workplace.

Your first step should be to assess the current state of your organization against the Employalty Scorecard. First, you can ask your team members. In addition you should open a dialogue with your workforce to better understand what is and is not working well across the three factors of Ideal Job, Meaningful Work, and Great Boss. You can do this via focus groups, interviews, or by adding open-ended questions to your survey that ask employees to tell you more.

Once you've gathered insight, you'll next want to create a 30-day, 90-day, and 180-day plan.

Once you've created this set of plans, begin communicating with your employees. Introduce the Employalty concept to your organization. As weeks turn to months and you execute on your three plans, periodically reassess and adjust plans accordingly to ensure you are actually improving the employee experience in each of the nine Employalty dimensions. The clearest indicators to whether your organization is getting things right or wrong are applicants and turnover.

As you grow ever closer to creating the kind of employee experience that reflects all nine dimensions of the Employ-

alty model, it's time to start using that to your advantage. Highlight the conditions you've worked to create for your employees. Share them in job postings, on your marketing channels, on social media, and with your vendors and business partners. Once you've put in the effort to make your company a great place to work, tell everyone.

Remember, great employees follow Great Bosses, not just on the job, but out the door. Keep Great Bosses, and you'll keep great employees.

Over time, an Employalty movement requires a partnership between those who lead on the front lines and those who control the resources and strategy of the organization. Like cogs in a complex machine, if one gear malfunctions, the whole mechanism goes kaput.

After years of overwork and dehumanization, employees have gotten a glimpse of what's possible as some companies started engineering a better, more humane employee experience. Now that more and more workers are seeing a new way of working, they want only that, and those who cling to the old way of doing business are struggling to do business.

Companies that embrace Employalty understand that commitment is a two-way street. If we expect people to devote their time, attention, and effort to meeting our company's needs every day, we must devote ourselves to meeting our employees' needs every day.

When employees love what they do, how they do it, and who they do it with and for, their health, well-being, and quality of life soar. They respond to these conditions with emotional and psychological commitment. That commitment, in turn and across a team, produces a multitude of desired business results, including retention, reputation, and revenue.

Remember, people will do the best job possible when they feel they have the best job possible. Commit to them, and they'll commit to you.



Joe Mull has spent more than 15 years teaching leaders how to be better bosses. In demand as a keynote speaker and trainer, he is the host of the popular Boss Better Now podcast and founder of the Boss Better Leadership Academy. He is the author of two previous books, ***Cure for the Common Leader*** and ***No More Team Drama***. Joe holds a Master's degree from Ohio University, has taught courses at the University of Pittsburgh, and previously managed training at one of the largest healthcare systems in the U.S. Joe resides near Pittsburgh, PA with his wife, three children, and a rambunctious dalmatian named Flash.

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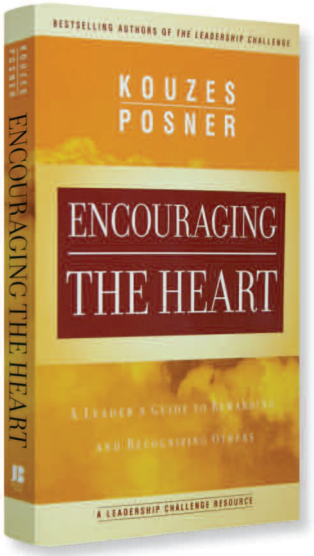
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Encouraging the Heart

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Encouraging the Heart

A Leader's Guide to Rewarding and Recognizing Others



by Jim Kouzes and Barry Posner

THE SUMMARY IN BRIEF

Encouraging the Heart is about the principles and practices that support the basic human need to be appreciated for who we are and what we do. It is not about glad-handing, back-slapping, gold stars and pay-offs. It's about the importance of linking rewards and appreciation to standards of excellence.

Encouraging the Heart has its origins in Jim Kouzes's and Barry Posner's research on the practices of individuals functioning at their personal best as leaders. Since their studies began more than two decades ago, the authors have collected thousands of best practice leadership case studies and analyzed tens of thousands of leadership assessment instruments. They have consistently found that when getting extraordinary things done, leaders follow five practices. One of the five practices is encouraging the heart.

Leaders create relationships, and one of these relationships is between individuals and their work. Ultimately, we all work for a purpose and that common purpose has to be served if we are to feel encouraged. Encouraging the heart only works if there is a fit between the person, the work and the organization.

IN THIS SUMMARY, YOU WILL LEARN:

- Encouraging the heart requires a set of recognizable, learnable and repeatable actions that leaders can take to reinforce the standards of the enterprise.
- One way to show that you care is to pay attention to people, to what they're doing and how they're feeling.
- Learning to understand and see things from another's perspective is absolutely crucial to building trusting relations and to career success.
- Personalizing is about knowing someone so well that you know what's appropriate individually or culturally.
- Stories are better able to accomplish the objectives of motivation and mobilization than are bullet points on an overhead.

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THE COMPLETE SUMMARY: **ENCOURAGING THE HEART**

by Jim Kouzes and Barry Posner

The authors: Jim Kouzes and Barry Posner are the authors of the award-winning and best-selling book, *The Leadership Challenge*, with over 1.8 million copies in print. They've co-authored a dozen other books on leadership and developed the highly acclaimed Leadership Practices Inventory (LPI), the top-selling off-the-shelf 360-degree leadership assessment instrument in the world. They are the recipients of the American Society for Training and Development (ASTD) 2009 Distinguished Contribution to Workplace Learning and Performance Award. Jim Kouzes is a professional speaker and the Dean's Executive Professor of Leadership, Leavey School of Business, Santa Clara University. Barry Posner, Ph.D., is Professor of Leadership and former Dean (1997-2009), the Leavey School of Business, Santa Clara University. Jim and Barry have also co-authored the award-winning books *A Leader's Legacy*, *Credibility: How Leaders Gain and Lose It* and *Leadership Practices Inventory*.

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The Heart of Leadership

Ask yourself this question: Do I need encouragement to perform at my best? When this question was asked in leadership classes, only about 60 percent reported that they needed encouragement to do their best. The question was reframed: "When you get encouragement, does it help you perform at a higher level?" This time about 98 percent said yes, and only 2 percent said no.

These responses are in line with a study by the training and development company Kepner-Tregoe, in which researchers found that 96 percent of the North American workers they studied agreed with the statement "I get a lot of satisfaction out of knowing I've done a good job."

Starved for Recognition

So we get a lot of satisfaction from positive feedback, and encouragement helps if we get it. Why, then, do we think we don't need much positive affirmation? Perhaps it's because we don't experience enough encouragement to realize how important it is. Most workers don't get much recognition for a job well done, and most managers don't give it, according to the Kepner-Tregoe study.

Only about 40 percent of North American workers say they receive any recognition for a job well done, and about the same percentage report they never get recognized for outstanding individual performance.

Only 50 percent of managers say they give recognition for high-performance. Evidently, most assume that getting extraordinary things done is just part of the job.

As the authors of the Kepner-Tregoe study put it, "Unless this issue is addressed, the goal of achieving a high-performance workplace will remain unattainable."

Just Say Thank-You

Opening up is harder for some people than for others, but major psychotherapy is not required here. It starts with what Robert Fulghum pointed out years ago in his book *Everything I Ever Needed to Know I Learned in Kindergarten*, the little reminder pinned to the wall where you're sure to see it every morning when you come to work, "Remember to say thank you!"

Study after study points out just how fundamental all this really is. For example, one survey examining employee turnover found that the chief reason people give for leaving is that they get "limited praise and recognition."

When asked what skills their managers might develop to be more effective, employees place at the top of the list "the ability to recognize and acknowledge the contributions of others."

Appreciation, acknowledgment, praise, thank-yous, some simple gesture that says, "I care about you and what you do." It's information that communicates, "You're on the right track. You're doing really well. Thanks." To deny each other this gift of positive feedback is to deny increased opportunities for success. At the heart of effective leadership is genuinely caring for people. ●

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The Seven Essentials of Encouraging

While he was president of North American Tool and Die (NATD), Tom Melohn enjoyed giving out Super Person of the Month awards to employees who went the extra mile to help the company move toward its goal of high quality and no product rejects. Melohn made himself highly visible to everyone in the workplace. But more than this, he personally presented the Super Person awards with a gregarious style that was his trademark.

Through the strength of his presence, Melohn revealed that he knew what was going on, cared about people, got a great deal of pleasure from his work and took pride in the accomplishments of others.

Underlying the practice of encouraging the heart there is a set of seven recognizable, learnable and repeatable actions leaders take that make people feel special and reinforce the standards of the enterprise. When leaders do their best to encourage the heart, they:

1. Set clear standards.
2. Expect the best.
3. Pay attention.
4. Personalize recognition.
5. Tell the story.
6. Celebrate together.
7. Set the example.

These seven essentials of encouraging the heart are core leadership skills. When striving to raise quality, recover from disaster, start up a new service or make dramatic change of any kind, leaders must make sure that people experience in their hearts that what they do matters.

Leaders 'Know Thyself'

Leadership doesn't depend on mystical qualities or inborn gifts but rather on the capacity of individuals to know themselves, their strengths and their weaknesses, and to learn from the feedback they get in their daily lives — in short, their capacity for self-improvement. Leadership scholars consistently note the high correlation between leadership skills and the capacity for self-improvement.

"Know thyself" is the inscription over the oracle at Delphi. And it's still the most difficult task any of us faces. But until you truly know yourself, your strengths and weaknesses, what you want to do and why you want to do it, you cannot succeed in any but the most superficial sense of the word.

There's a rule in golf that applies equally to self-improvement: play it as it lies. For nongolfers, that simply means that you have to play the ball from wherever it lands, whether it's in the rough or on the green 10 inches from the cup. Applied to self-improvement, the notion suggests that we have to be able to identify and look very honestly at where we are right now in terms of our skills.

The information we gather in this way tells us where to start correcting, where to start building our skills and how to make the most of our strengths. ●

Alice in Wonderland

When you were a kid, you probably read *Alice in Wonderland.* Remember the croquet match? The one where flamingos were the mallets, playing card soldiers were the wickets, and hedgehogs were the balls? Remember how all the pieces kept moving and the rules kept changing all the time?

Poor Alice, she became so frustrated. There was no way of knowing how to play the game to win. There seemed no reason even to play the game. It was rigged in favor of the Queen of Hearts, anyway. And for the queen, that was really the point.

We've all been Alice at one time or another in our lives. We've been unsure where we're supposed to be going, what the ground rules are that govern how we behave or how we're doing along the way. Just when we think we get the hang of it, the boss comes along and changes everything. This is a recipe for maddening frustration and pitiful performance. Our hearts just aren't in it.

The first prerequisite for encouraging the heart is to set clear standards. By standards we mean both goals and values (or principles). They both have to do with what's expected of us, but goals connote something short-term, whereas values and principles imply something more enduring.

The First Essential: Set Clear Standards

Tony Codianni, of Toshiba America, once said: "I have a need to be personal with my folks. To me there's no difference between work and personal life. ... Encouraging comes from the heart. It's heart-to-heart, not brain-to-heart. It has to be genuine."

But don't mistake Codianni's love of people for a

willingness to forget about standards.

Exemplary leadership is soft and demanding, caring and conscientious. As Codianni puts it, "I always tell trainers in my group that they have to master the program first, and then they're free to change it." To Codianni, having a clear set of expectations about what people will achieve is part and parcel of being caring.

We can learn a lot about leadership from the Girl Scouts and Boy Scouts. In these organizations, boys and girls learn and pledge to uphold certain principles. They earn advancement and recognition for their deeds. As they achieve specific goals they earn merit badges. The badges are symbols of living up to the standards.

Goals Concentrate Our Minds and Shape Who We Are

Values set the stage for action. Goals release the energy. University of Chicago professor Mihalyi Csikszentmihalyi has studied the state called "flow" for more than two decades. Flow experiences are those times when we feel pure enjoyment and effortlessness in what we do.

Among his findings, Csikszentmihalyi reports that "in order to experience flow, it helps to have clear goals — not because it is achieving the goals that is necessarily important, but because without a goal it is difficult to concentrate and avoid distractions. Thus a mountain climber sets as her goal to reach the summit not because she has some deep desire to achieve it, but because the goal makes the experience of climbing possible. If it were not for the summit, the climb would become pointless ambling that leaves one restless and apathetic."

Though many of us perceive goals as the finish line, Csikszentmihalyi is suggesting that the important function of goals is to get us moving with purpose and energy. What's really important to being our best is concentration and focus on something that is meaningful to us.

Goals Plus Feedback Keep Us Engaged

People need to know whether they're making progress or marking time. Goals serve that function, but it's not enough simply to know that we want to make it to the summit. We need to know if we're still climbing or if we're sliding downhill. There is revealing research about the impact that clear and positive communication has on internal motivation and physical stamina.

In one study, Stanford University's Albert Bandura wanted to find out how people's willingness to put forth effort to perform a task was influenced by the presence or absence of goals and feedback. He found that people's motivation to increase productivity on a task increases

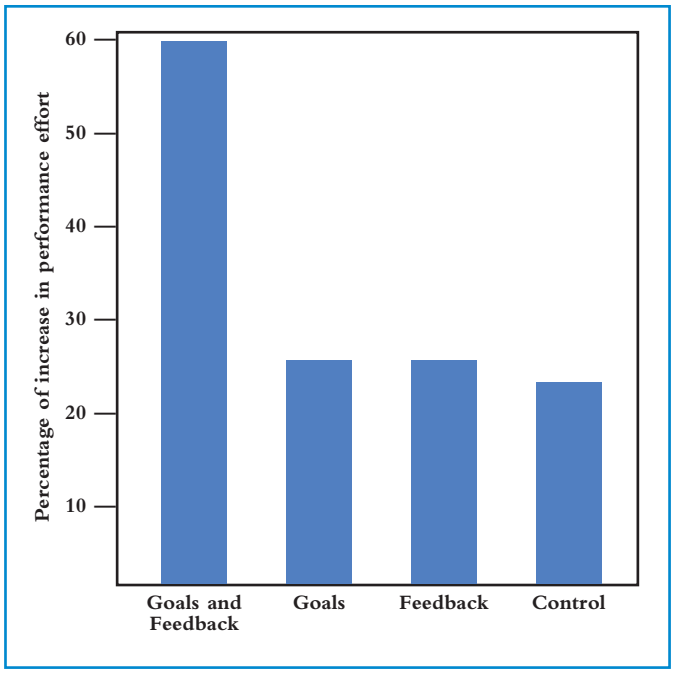


Figure 4.2

only when they have a challenging goal and receive feedback on their progress. (See Figure 4.2)

Encouragement Is Feedback

Encouragement, it can be said, is a form of feedback. It's positive information that tells us that we're making progress, we're on the right track and we're living up to the standards.

Encouragement requires us to get close to people, show that we care about them and demonstrate that we are interested in others. Because it's more personal and positive, encouragement is more likely to accomplish something that other forms of feedback cannot.

Encouraging the heart strengthens trust between leaders and constituents, a relationship that is critical to getting extraordinary things done in organizations. ●

The Second Essential: Expect the Best

Harvard professor Robert Rosenthal and co-researchers discovered that if we expect others to succeed, they probably will. If we expect them to fail, they probably will. People tend to live up, or down, to our expectations of them.

Managers communicate expectations in a number of ways. Managers with positive expectations set a climate that makes people feel more at ease. They offer positive reinforcement, give others information, give others opportunity for input and resources to do their jobs, and

are likely to lend them assistance and give them better assignments. The manager's attitude influences his or her behavior toward others, and the behavior influences the results.

Successful leaders have high expectations, both of themselves and of their constituents. The expectations that successful leaders hold provide the framework into which people fit their own realities.

People are often anxious or nervous when they are encouraged by people in leadership positions to deliver their personal best. However, surveys show that spurred on by their leaders' high expectations, they develop self-confidence that gives them the courage and volition to live up to those expectations.

Clearly, before we can encourage the heart, we have to believe in others, and in ourselves. Our belief in others has positive benefits for individual leaders, for their constituents and for the organizations they serve. High expectations matter.

Positive Images Create Positive Possibilities

Positive futures for self and others are first constructed in our minds. Unless we can see ourselves as being successful, it is very difficult to produce the behavior that leads to success. Positive images make groups more effective; relieve symptoms of illness; and enhance achievement in school, the military and business.

Exemplary leaders know how to purposefully hold in their minds high expectations for themselves and other people. ●

The Third Essential: Pay Attention

One way to show that you care is to pay attention to people, to what they're doing and to how they're feeling. If you are clear about the standards of behavior you're looking for and you believe and expect that people will perform like winners, then you're going to notice lots of examples of people doing things right and doing the right things. Paying attention is all about being curious, really. Your curiosity shows you care.

Listen With Your Eyes and Your Heart

Learning to understand and see things from another's perspective is absolutely crucial to building trusting relations and to career success. For example, studies from the Center for Creative Leadership revealed that successful executives derailed because of insensitivity and inability to understand the perspectives of other people.

They undervalued the contributions of others, making them feel inadequate. They listened poorly, acted dictatorially, played favorites and failed to give — or sometimes even share — credit with others.

The net result over time was that these traits and attitudes caught up with them. When these managers really needed the help of others around them, they were left to fend for themselves, ignored, isolated and on occasion purposely sabotaged.

Eyes-and-heart listening can't be from a distance, reading reports or hearing things secondhand. Our constituents want to know who we are, how we feel and whether we really care. They want to see us in living color. This means regularly walking the office hallways and plant floors; meeting often with small groups; and hitting the road for frequent visits with associates, key suppliers and customers.

When you really pay attention — when you're curious, when you look for the best, when you put others first, when you listen with eyes and heart, when you hang out, when you open up to and with others — then you find what you're seeking. You notice all kinds of examples of people living up to and exceeding the standards that have been set. You find lots of opportunities to recognize individuals for their contributions. ●

The Fourth Essential: Personalize Recognition

To truly recognize a person so that he or she is encouraged by your efforts, you absolutely have to know something about who he or she is — some likes and dislikes, whether the person enjoys public recognition or shirks from it, and even what he or she is or is not willing to take credit for. Failure to learn something about others can result in an act of recognition that has no meaning. In fact, it can even hurt.

Ann Cessaris of Key Communication reminds us all of another reason why it's essential to personalize, or should we say "culturalize," recognition.

"I had a client," she reported, "who was born in Asia, came to this country at age 12, and was very well acclimated to life in the United States. However, when his boss rewarded his exceptional contribution to a team project by giving him a delightful corner office, he was horrified. He felt it destroyed the feeling of teamwork and his future relations with his team members."

Cultural values run deep, says Cessaris, and she's absolutely correct. Personalizing is about knowing someone so well that you know what's appropriate individually or culturally. It's pretty arrogant for someone to assume that just because he or she is the leader he or she

naturally knows what's right for others without even bothering to inquire or observe.

What it comes down to is thoughtfulness: how much effort you put into thinking about the other person and what makes the recognition special for that person. It means observing an individual and asking, "What would really make this special and unique for this person — make it a memorable, one-of-a-kind experience?"

The Fifth Essential: Tell the Story

We're inundated with bits and bytes of information every nano-second of every day. How can we possibly sort through it all and remember even a morsel? Research clearly demonstrates that information is more quickly and accurately remembered when it is first presented in the form of an example or story.

Researchers have found, for instance, that when American history textbooks were translated into the story-based style of *Time* and *Newsweek*, students were able to recall up to three times more information than they were after reading more typical school text.

Stories are better able to accomplish the objectives of motivation and mobilization than are bullet points on an overhead. Well-told stories reach inside us and pull us along. They give us the actual experience of being there and of learning what is really important about the experience.

Because storytelling has been found to be so crucial to learning, sense making, decision making, motivating and mobilizing, it's no wonder leadership researchers have stressed how effective storytelling is as a leadership tool.

How to Tell a Great Story

Use these practical guidelines to construct a story the next time you are about to engage in an act of recognition:

1. Identify the actors. Make sure that you clearly have in mind a person (or team of people) you are trying to recognize. Name names.

2. State the predicament. Present both the problem to be solved and the standard that is at stake. It's one thing to praise people for solving a problem, but it's more powerful to also praise them for living up to the organization's beliefs.

3. Clarify the actor's intentions. In your recognition story, relate what went through the person's mind as he or she weighed the options.

4. Describe the actions. Relate in as much detail as you can what happened. It's important to describe the behaviors so the next time others are faced with a similar predicament they can have a framework for action.

5. Include the props. Like props in a play, objects are important to a story. They give detail and help people put themselves into the predicament. Objects may be inanimate or animate (as with people). There may be a protagonist and an antagonist.

6. Tell how it ended. Tell the listeners what happened in the end and why it was important.

7. Paint — or reenact — the scene. Be sure to place all of this in context. Relate when and where it happened. Talk about the surrounding circumstances.

8. Include a surprise. Every great story includes some kind of surprise. If at all possible, find a way to add an element of amazement. It adds interest, makes the story more memorable and produces more fun.

Recognition stories that include all these elements require time and preparation. Good storytelling is an art, and like any art it requires practice. But if you accept that storytelling is effective as a leadership tool, then the practice and preparation are well worth the investment.

The Sixth Essential: Celebrate Together

All individual recognitions can, in some way, be made group celebrations. When we think of celebrations, we often imagine very elaborate events. Though celebrations are often magnificent affairs, they can be very simple too. Broaden the definition of celebration to include the small as well as the grandiose. The critical ingredient is togetherness.

Celebrations Build Community

Celebrations — whether to recognize the accomplishment of one person or to cheer the achievements of many — are opportunities to promote individual health, but also opportunities for leaders to build healthier groups. Highly visible public recognition builds the self-esteem of the recipients, and it builds a sense of community and belonging, of working together to achieve shared goals and shared victories.

Terrence Deal and M.K. Key express it this way: "Celebrations infuse life with passion and purpose. ... They bond people together and connect us to shared values and myths. Ceremonies and rituals create community, fusing individual souls with the corporate spirit. When everything is going well, ritual occasions allow us to revel in our glory. When times are tough, ceremonies draw us together, kindling hope and faith that better

times lie ahead."

Celebrations increase the sense of belonging. By making achievements public, you build a culture in which people feel that their efforts are appreciated and even applauded. People who count themselves as members of this community can find meaning and purpose here.

The Seventh Essential: Set the Example

When Cary Turner took over the stores division of Pier 1 Imports, he personally called or wrote all the store managers in the company to introduce himself and thank them for their hard work. Now that he's been there for a while, according to those who work with him, he still says thank-you all the time and sends personal handwritten thank-you notes.

Small gestures, perhaps, but this is how cultures of celebration and recognition are built. One thank-you note at a time. One positive role model at a time.

Turner's also prone to the outrageous sometimes. He will accept almost any challenge to inspire and encourage associates. For instance, in December 1997, when the stores as a whole achieved a 10 percent comparative store gain, he walked barefoot on hot coals. The slogan: "We're so hot, we're cool. We're so cool, we're hot." In 1996, he made a bet with his regional managers: he'd visit all of them dressed in a chicken suit if they'd significantly increase sales. They did and he did. When a Washington, D.C., store hit $2 million in sales, and because the store manager asked him to, Turner arrived dressed as a bride to promote its bridal business. When the Northwest region increased its December sales by 11.1 percent and challenged him to do something outrageous, he parasailed over the Puget Sound and Seattle waterfront.

But it doesn't always take the outrageous to make a positive impact. Turner is well known for slapping "high fives" wherever he goes, in the stores, in the corporate office elevator and even with customers. It's his way of saying, "Thank you for everything you do." It's this enthusiastic connection that makes him approachable to the people who look to him for encouragement and inspiration.

Over and over again, it's the same story. Wherever you find a strong culture built around strong values — whether they are about superior quality, innovation, customer service, distinctiveness in design, respect for others or just plain fun — you also find endless examples of leaders who personally live the values.

Yes, it may emanate from the top, but a culture is sustained over time because everyone becomes a leader; everyone sets the example.

Credibility Is the Foundation

The recurring lesson is that it all starts with credibility. In researching the qualities that people look for and admire in their leaders, it is revealed time and time again, more than anything, people want leaders who are credible. Credibility is the foundation of leadership. Period.

Above all, people want to believe in their leaders. They want to believe that the leaders' word can be trusted, that they do what they say. The findings are so consistent over such a long period of time that this can be referred to as the first law of leadership: If you don't believe in the messenger you won't believe the message.

Leadership credibility makes a huge difference in our performance and our commitment to an organization. When people perceive their immediate managers or senior managers to have high credibility, they're significantly more likely to:

- Be proud to tell others they're part of the organization
- Feel a strong sense of team spirit
- See their own personal values as consistent with those of the organization
- Feel attached and committed to the organization
- Have a sense of ownership for the organization.

However, when people perceive their immediate managers to have low credibility, they're significantly more likely to:

- Produce only if they're watched carefully
- Be motivated primarily by money
- Say good things about the organization publicly but criticize it privately
- Consider looking for another job if the organization experiences problems
- Feel unsupported and unappreciated.

Credibility makes a difference. Among other things, loyalty, commitment, energy and productivity depend upon it. When it comes to deciding whether a leader is believable, people first listen to the words and then watch the actions. Constituents are moved by deeds. Actions are the evidence of a leader's credibility. This observation leads to a straightforward prescription for leader modeling: Do what you say you will do.

This strategy has two essential elements: the first is *say* and the second is *do*. To set an example, leaders must be

clear about their values; they must know what they stand for. Leaders must put what they say into practice. They must act on their beliefs and do.

Leaders Go First

Setting the example for encouraging the heart starts, in fact, by giving yourself permission to do so. It starts when you get personally involved.

When leaders do get personally involved in encouraging the heart, the results are always the same: the receiver and the giver both feel uplifted. ●

Finding Your Voice

You cannot lead out of someone else's experience. You can only lead out of your own.

In his witty book *Management of the Absurd*, psychologist and management consultant Richard Farson writes, "In both parenthood and management, it's not so much what we do as what we are that counts. ... There is no question that parents can and should do worthwhile things for their children, but it's what they are that will really matter. ... The same dynamic occurs in management and leadership. People learn — and respond to — what we are."

Max De Pree, former chairman and CEO of Herman Miller, the Michigan furniture maker, tells a moving story that well illustrates this point:

"Esther, my wife, and I have a granddaughter named Zoe, the Greek word for "life." She was born prematurely and weighed 1 pound, 7 ounces, so small that my wedding ring could slide up her arm to her shoulder. The neonatologist who first examined her told us that she had a 5 to 10 percent chance of living three days. …

"To complicate matters, Zoe's biological father had jumped ship the month before Zoe was born. Realizing this, a wise and caring nurse named Ruth gave me my instructions: 'For the next several months, at least, you're the surrogate father. I want you to come to the hospital every day to visit Zoe, and when you come, I would like you to rub her body and her legs and her arms with the tip of your finger. While you're caressing her, you should tell her over and over how much you love her, because she has to be able to connect your voice to your touch.'

Ruth was doing exactly the right thing on Zoe's behalf (and, of course, on my behalf as well), and without realizing it she was giving me one of the best possible descriptions of the work of a leader. At the core of becoming a leader is the need always to connect one's voice to one's touch."

De Pree goes on to explain for leaders "a prior task — finding one's voice in the first place."

Beyond Tools and Techniques

Finding your voice is absolutely critical to becoming an authentic leader. If you can't find your own true voice, you end up with a vocabulary that belongs to someone else, mouthing words that were written by some speech writer who's nothing like you at all.

Finding one's voice is something that every artist understands, and every artist knows that finding a voice is most definitely not a matter of technique. It's a matter of time and searching — soul searching.

Poet David Whyte has written "the voice throws us back on what we want for our life. It forces us to ask ourselves, Who is speaking? Who came to work today? Who is working for what? What do I really care about?" Finding your voice begins by asking yourself Whyte's questions.

It's important to answer them for yourself — to find your true voice. Because you can't lead others to places you don't want to go yourself. If you don't feel a burning passion for something, how can you inspire and encourage others to share it?

There is one truth you absolutely must confront. Understanding that the heart of effective leadership is genuine caring for people, how much do you really care about the people you lead? The question must be confronted daily, because when you care deeply, the techniques described here present themselves as genuine expressions of your caring. When you care little, they're perceived as nothing more than gimmicks and you're thought of as a phony.

You can learn to lead, but don't confuse leadership with position and place. They're not what earn you the respect and commitment of your constituents. What earns you their respect in the end is whether you are what you say your are and whether what you are embodies what they want to become. ●

RECOMMENDED READING LIST

If you liked *Encouraging the Heart*, you'll also like:

1. ***Leading With Character* by John J. Sosik.** This book offers a unique collection of essays on leadership from 25 famous names in business and culture.
2. ***Primal Leadership* by Daniel Goleman, Annie McKee and Richard E. Boyatzis.** Discover how good leaders use their Emotional Intelligence to get results. Learn how the four quadrants of EI impact your leadership.
3. ***The Enthusiastic Employee* by David Sirote, Louis A. Mischkind and Michael Irwin Meltzer.** Drawing on 30 years of research, the authors explain why high morale is good for the bottom line. Learn the specific management practices that can have the greatest impact on performance.

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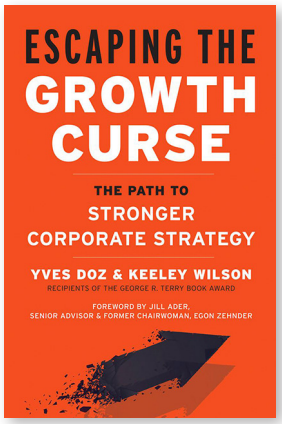
Escaping the Growth Curse

Yves Doz, Keeley Wilson

Executive Book Summaries®

Escaping the Growth Curse

The Path to Stronger Corporate Strategy



by **Yves Doz and Keeley Wilson**

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THE SUMMARY IN BRIEF

What is the curse at the heart of this book? In short, as companies mature, their underlying growth naturally slows. Yet investors have come to expect continual strong growth. To meet these demands, CEOs buckle under pressure and focus on delivering short-term financial results—or the "illusion of growth." But this type of growth comes at a devastating cost. It's a distraction from developing genuine value-creating strategies.

This endless pursuit of growth is folly and unsustainable and requires a rethink about the limits to growth and how publicly listed companies are run as a consequence. It calls for the governance of companies to become more strategic so that boards have a genuine responsibility for a firm's future and prosperity. And this means the strategy process has to be more collaborative—emerging from the interaction between boards and the CEO. In ***Escaping the Growth Curse: The Path to Stronger Corporate Strategy***, authors Yves Doz and Keeley Wilson compellingly invite us to spark the collective imagination of boards.

IN THIS EXECUTIVE BOOK SUMMARY:

- Learn why stalling growth is a common issue as companies mature.
- Uncover the unrealistic growth expectations that lead to poor decisions and unethical behaviors.
- Grasp the argument for boards to shift from a passive monitoring role to a more strategic one.
- Understand the reasoning for companies to embrace strategic governance to avoid the pitfalls of short-termism.

Part 1: When Growth Stalls

There is a great delusion that companies can keep increasing their earnings year over-year. But as is becoming increasingly clear, growth is not eternal.

The Growth Conundrum

The root cause of many governance troubles is ultimately the same—stalling growth. And as companies mature, this type of slowdown in growth will be a fact of life. Yet stalling growth seems to be anathema to most CEOs and executive managers. Many influential investors have come to expect, and indeed demand, short-term quarterly growth, and so CEOs and senior executives focus much of their energy on trying to meet this expectation, with the implicit support of their boards.

The pursuit of growth has been vital at both the individual and broader economic levels for human development. It is vital to human inquiry, learning, and creativity.

Short-term growth often masks the illusion of success, sacrificing long-term value and ethical conduct for immediate gains. Leaders prioritize quarterly targets over integrity, resorting to accounting tricks and financial maneuvers to inflate results. This destructive approach undermines sustainable growth, harming shareholders and the environment. While executives benefit, shareholders and society ultimately suffer. Yet, despite its flaws, short-termism persists, driven by a relentless focus on quarterly results.

Leaders find it challenging to accept and adapt to slower growth as companies mature, requiring new competencies and board support. Without these, CEOs and executives fall into the growth trap, unable to find significant new growth opportunities. Pursuing new growth based on existing strengths is risky and complex. Companies often struggle to find new opportunities due to weak strategic assets, differing business models, or cultural rigidity.

As companies mature, they become myopic and resistant to change, focusing more on operational performance than innovation. While some companies may find new growth opportunities, the pressures of short-term earnings make it difficult for leaders to focus on long-term strategies.

The CEO's Mission Impossible: Who Would Want to Be a CEO?

Ambitious managers aspire to become CEOs, attracted by power, prestige, pay, and perks. However, the job comes with unrealistic growth expectations, incessant pressure, and relentless scrutiny. As companies mature and growth slows, these challenges intensify. CEOs often maintain the illusion of growth at the expense of long-term sustainability to avoid backlash from shareholders, the media, and their boards. The conflicting pressures and exposure make the role daunting.

The rise of celebrity CEOs and their high compensation packages further expose them to scrutiny. Despite high pay, studies show that higher CEO compensation often correlates with lower performance due to overconfidence and risky decisions. CEOs also face intense pressure from short-term earnings targets and the media, leading to increased visibility and vulnerability.

Complexity adds another layer of difficulty for CEOs. They are expected to deliver predictable quarterly growth in a complex world where traditional management tools and linear models are less effective. The VUCA (volatility, uncertainty, complexity, and ambiguity) environment leaves CEOs feeling vulnerable and anxious, making the role even more challenging.

The CEO's Wrong Response

The sense of fear and VUCA feelings (vulnerable, unaware/uninformed, confused, and anxious) that many CEOs now experience is not surprising given the significant and often contradictory pressures they face, their greater exposure, and the increasing complexity of their operating environment. As a company matures and growth slows, the alignment between leadership, board members, and investors strains, tempting CEOs to misrepresent performance to maintain the illusion of growth, compromising the long-term future of the company.

Misbehavior among CEOs ranges from short-sighted actions to ethically questionable and outright fraudulent behaviors. It is the board's duty to monitor the CEO and senior executives for signs of wrongdoing.

CEOs and managers who engage in deceit to meet market expectations are not inherently bad but may overlook their moral compass under pressure to keep investors, the board, and their reputations intact. Studies show a significant portion of leaders are involved in wrongdoing, often escalating if not caught. The scope and scale of misrepresentation can grow within an organization as managers feel pressured to meet targets.

Share buybacks are a common tool for manipulating performance targets, inflating EPS, and increasing share prices, often resulting in huge payouts for executives. However,

High-profile CEOs with a record of growing the company can be untouchable, making effective oversight difficult.

they can be value-destroying and dangerous for long-term viability. Acquisitions and divestments can also provide short-term growth while destroying value.

Misleading, borderline, or fraudulent accounting is another method to conceal bad news and meet performance targets. Engaging in these wrong responses to slowing growth can speed up a company's decline, jeopardizing its long-term future.

Under pressure, CEOs may retreat into operational efficiency, cutting long-term strategic resources. In the context of shareholder capitalism, CEOs face intense short-term pressures, lacking the skills and mindset for long-term strategy. Questions arise about who will protect the long-term interests of companies.

Part II: A New Deal at the Top

Why Strategy Matters for Governance: Broadening the Boards Mandate

Boards have become part of the problem. By adopting a passive monitoring role, many have been limited in their involvement and understanding, sometimes even unaware of brewing troubles in the companies they oversee.

If the executive management team is ill-equipped to guard against short-termism and protect the long-term future of a firm, who should take the reins? The board is uniquely positioned to navigate a mature firm toward purpose and progress. For boards to take on a more collaborative strategic role, they must overcome several impediments.

Boards face contradictory pressures and greater public scrutiny. They must balance supporting strategies for strong quarterly earnings with safeguarding the long-term future of the firm for all stakeholders.

Shareholders, motivated by self-interest and varying time horizons, often pressure boards to focus on short-term returns. Yet, the rise of shareholder lawsuits, particularly post-financial crisis, indicates growing focus on ethical and safety standards.

The relationship between a board and CEO can be challenging. High-profile CEOs with a record of growing the company can become untouchable, making effective oversight difficult.

To overcome these challenges, boards must expand their role and responsibilities, evolving from the traditional monitoring role to a more strategic one. Research suggests that boards should take on a more strategic role, including:

1. Strategic Direction
2. Purpose
3. Buffering
4. Probing
5. Measuring
6. Risk Assessment
7. Talent Assessment
8. Succession Planning

To guard against the growth curse and build a company's long-term viability, boards need to take a stronger role in strategy, requiring new skills, structures, and processes for more strategic governance.

Building an Effective Board

Despite the obvious importance of having an effective board, a rigorous set of principles and guidelines for building a high-performance board has been lacking. This requires understanding what motivates successful people to become board members, ensuring each member can contribute strategically, identifying key traits, skills, and characteristics for group effectiveness, and managing the group to maintain alignment between the CEO, executive team, shareholders, and stakeholders for the company's long-term prosperity.

Director Motivation: For boards to be effective, directors need to be impartial, engaged, and free of personal agendas.

The Importance of Strategic Minds: Directors must be skilled strategists with "strategic minds" to effectively guard the company's future.

Getting Board Composition Right: To avoid short-termism and ensure strategic governance, boards need cognitive diversity, deep and broad knowledge, industry experience, optimal board size, and appropriate length of tenure.

Leadership Unity within the Board: Effective boards require unity, fostered through open dialogue, revealing motives, aligning around common goals, and empathizing with each other.

An Effective Chair: Good chairs encourage open dialogue, collaboration, and transparency while avoiding personal agendas.

Board Assessment: Regular assessments of the board's effectiveness, including 360-degree evaluations, are essential to identify and address potential problems.

The ultimate custodians of a company should actively secure its future.

Defining the Strategic Direction

If boards are to play a more active role in safeguarding the long-term future of companies and avoiding the growth curse, then a more strategic form of governance is essential. With the average CEO tenure being around five to six years, expecting executive leadership to incorporate a long-term perspective is unrealistic.

Strategic Sensitivity-Looking Outside to Imagine the Future: To gain greater strategic sensitivity, directors need to commit additional time to analyze findings and develop a shared point of view. They can use tools and methods already in use by the company's research and innovation units.

Corporate Foresight Methods: This involves developing "what if" scenarios based on likely future challenges and opportunities arising from trends and disruptions across various areas.

Anticipating Disruptions and Inflection Points: This involves recognizing that major changes usually take years to impact.

Technology Scanning: Boards must have strategic sensitivity about emerging technologies.

Listening to Customers: Investigating customer pain points can provide insights, but boards should also consider potential customers to identify future demand.

Forward-Looking Indicators: Boards can use scenarios from corporate foresight and technology scanning to identify potential early changes and preconditions.

Learning Experiments: These provide valuable insights into future opportunities and help define long-term perspectives.

Strategic Sensitivity: Questioning Your Thinking: Enhancing strategic sensitivity requires distancing, challenging, and reframing.

Understanding the Quality of the Strategy Process

Overcoming the growth curse and setting a company on the path to a stronger corporate strategy requires not only understanding the external environment but also having a deep awareness of the strategic health of the firm. The challenge arises when management hides the company's true health behind respectable earnings.

Directors must then find ways to assess whether emerging problems are cyclical or structural and identify early warning signs to act upon before it's too late.

Inward Focus: Companies often become trapped by their success, focusing more on internal efficiencies and operational issues rather than seeking new opportunities.

Lack of Dialogue: Healthy strategy processes require open and honest dialogue.

Internal Conflicts: Companies with internal rivalries and lack of corporate coherence suffer from fragmented strategies and personal rivalries.

Narrow Framing: Companies focusing on their dominant core business may fail to embrace new opportunities.

Poor Strategic Decisions: A failing strategy process leads to poor decisions, often influenced by past commitments and entrenched orthodoxies.

Strategy Crisis: By the time a company reaches a strategy crisis, internal acknowledgment of strategic misalignment is apparent, though external perception may lag.

Getting the CEO and Executive Team Right

Good strategy emerges from the interaction between the CEO and the board, requiring collective leadership and responsibility. When boards define a long-term strategic direction and understand the quality of the strategy process, they can better assess whether they have the right CEO.

Internal candidates offer continuity, understanding the company's culture, processes, and customers. They are less of a gamble but may not be suitable if change is needed.

External candidates can provide fresh perspectives but

Companies focused on growth and renewal invest in scaling up existing assets or developing new ones.

come with their own baggage. Boards must consider whether they want the new CEO to change the company's context and culture.

Part III: Making Strategy Stronger

Strategic Assets and Strategic Options

In the search for sustainable long-term success, large mature companies need to move away from the pursuit of relentless short-term growth. Recognizing that continuous linear or exponential growth will inevitably plateau, companies must manage slowing growth in their core business while exploring strategic options for renewal.

A critical and ongoing collaborative exercise for the board, CEO, and executive management team is assessing the company's strategic assets.

Strategic assets are defined by four characteristics: they are rare or unique, distinctive and hard to substitute, not easily imitable, and not tradable. These assets include intangibles like R&D, brand, know-how, collective capabilities, culture, employee commitment, technology, and customer loyalty.

Strategic assets are dynamic and change over time. Companies focused on growth and renewal invest in scaling up existing assets or developing new ones.

However, valuable strategic assets can be squandered through ignorance and underinvestment, especially when the CEO prioritizes short-term earnings. Boards and executives must ask whether the company's strategic assets fit with the current strategy, how they may change with external disruptions, and how they can be leveraged for new opportunities.

Assessing strategic assets is challenging and should be assessed through various lenses, including input from partners, customers, complementors, and supply chains.

Underinvestment in strategic assets can lead to long-term decline, and boards should monitor such investments to safeguard the company's future. Additionally, boards must address strategic liabilities, which can hinder growth and strategic direction.

Ultimately, strategic assets are core building blocks for a company's long-term and short-term strategies.

Strategic Agility and Strategic Options

The strategic options available to a company today are narrower due to the increased speed and cycle times in the business environment, limiting the time firms have to build new capabilities and accumulate necessary strategic assets.

The three vectors of strategic agility—strategic sensitivity, leadership unity, and resource fluidity—also play a critical role in determining the company's strength. The board must understand the health of these vectors and their interactions as they impact short- and long-term growth ambitions.

Strategic Agility: This is the ability to continually seek out and react to new opportunities while withdrawing from mature businesses to avoid the growth curse. It involves three vectors:

1. Strategic Sensitivity: This is the sharpness of perception and intensity of awareness and attention.
2. Leadership Unity: This involves the ability of the executive team to make bold, fast decisions.
3. Resource Fluidity: This refers to the structural agility and processes needed to translate ideas into actions through rapid resource redeployment and capability reconfiguration.

Assessing Strategic Agility: The board must gauge the company's strategic agility by looking for symptoms of strategic rigidity and evaluating the levels of strategic sensitivity, leadership unity, and resource fluidity.

Three Vectors in Concert: Understanding the state of each vector is valuable, but analyzing their interplay provides deeper insights. Effective action requires strong leadership unity and resource fluidity to support strategic sensitivity.

Assessing Strategic Options: True agility comes from strong positions on all three vectors, offering a range of strategic

options. The board must assess the relative strength of each vector to evaluate the CEO's strategy and the company's readiness for disruptions and growth.

Revitalizing the Company for Renewal

Even with strong strategic options and a clear long-term direction, a firm's efforts at renewal and transformation can fail if there is a lack of energy and commitment. Achieving high energy and commitment is increasingly difficult due to new disruptions, technologies, trends, and demographic changes. The combination of these issues presents a significant challenge:

- COVID pandemic and changing working practices.
- Automation, AI, and de-skilling.
- Growing inequality and loss of jobs for life.
- Millennials and Generation Z.

Indicators of Low-Energy, Low-Commitment Cultures

- Lack of Purpose: Excessive operational focus leads to stress, tension, and infighting.
- Top-Down Management: Disenfranchises staff and imposes a culture of compliance, reducing autonomy and increasing frustration.
- Lack of Commitment: Fragmented organizational structures and dysfunctional communication lead to cliques and political point-scoring.
- Negative Emotional Climate: Frustration and negative emotions replace pride and purpose, leading to lethargy and resentment.
- Poor Job Satisfaction: Overwork, lack of appreciation, and barriers to performance lead to burnout and high attrition rates.

Assessing Energy and Commitment

Understanding the company's dominant logic is crucial. External assessments are often more effective as staff may not trust internal audits.

Rekindling Energy and Commitment

- Purpose: Staff need a compelling and meaningful purpose with clear goals.
- Management: Shift from top-down to bottom-up initiatives.
- Commitment: Provide the right support, structures, and processes to build trust and mutual respect.
- Emotional Climate: Foster a positive emotional environment that focuses on opportunities.
- Job Satisfaction: Ensure work is meaningful and satisfying.

To escape the growth curse and successfully navigate renewal challenges, management must inspire, engage, motivate, and instill a sense of pride and purpose in the company's employees.

Some Final Thoughts

The COVID-19 pandemic devastated physical and mental health, triggered the largest global economic crisis in recent memory, and led to unprecedented levels of public and private debt.

Additionally, Russia's 2022 invasion of Ukraine marked the first major European war in over 70 years, disrupting global food supply and deepening an existing energy crisis. Global inflation soared to 8.8 percent in 2022, up from about 3.5 percent pre-pandemic. Central banks rapidly increased interest rates, plunging millions into poverty. Financial system vulnerabilities came to light with the collapse of Silicon Valley Bank, Signature Bank, and Credit Suisse.

Geopolitical tensions increased, further strained by a retreat from globalization. Growing wealth inequality and employment uncertainty worsened societal cohesion, fueling populist movements. Environmental crises and climate change overshadowed these issues. The World Health Organization estimated air pollution causes up to 7 million deaths annually. Biodiversity loss, ocean pollution, and water shortages due to climate change exacerbated the situation. Extreme weather events cost billions and led to food shortages.

The 2022 World Economic Forum Global Risks Report identified environmental issues as top threats, with climate action failure, extreme weather events, and biodiversity loss as the most severe.

Despite these challenges, opportunities have arisen. The COVID-19 pandemic accelerated mRNA research, opening avenues for treating diseases like cancer. The war in Ukraine spurred the development of renewable energies. Climate change drove innovation in various industries, including the promise of nuclear fusion for clean energy.

Companies need to change, with some already identifying opportunities to address global challenges while gaining a competitive edge. More businesses must become forces for

good, addressing people, the planet, and the future.

Economics teaches that the search for profits is a force for good, enabling growth and innovation. However, addressing fundamental challenges requires collaboration beyond governments, involving various stakeholders, including companies.

Business leaders must consider the long-term impact of their actions and apply criteria beyond shareholder wealth. Our research found that many corporate leaders are hesitant and unprepared for this wider role. They must shift from short-termism to handling complexity and strategic surprises with multiple stakeholders.

This book highlights the need to bridge the gap between governance and strategic management. Boards must play a stronger role, providing direction anchored in long-term ambition and worthwhile purpose.

Boards should be future-oriented, guarding ethics and shielding management from short-term pressures that encourage misbehavior. Strategic governance ensures companies are better managed and better global citizens, building better societies and protecting against financialization and CEO greed. It also alleviates pressures on CEOs and their teams, fostering better workplaces, especially for younger generations prioritizing a sustainable future.





Yves Doz is the INSEAD Solvay Chaired Professor in the management of technological innovation and the Academic Committee at CEDEP. He has worked with many global corporations such as IBM, Intel, Microsoft, Nokia, P&G, Toyota and Xerox. His work with the public sector recently included advising Finnish Parliament institute. Keeley Wilson is Senior Researcher at INSEAD. Her work for the past 20 years in both research and consulting has focused on global innovation strategies, management processes, strategic alliances, and leadership challenges at a wide range of companies including HP, Novartis, Shell, Siemens, Reuters, Schneider, and Xerox.

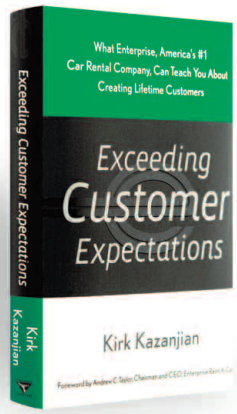
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Exceeding Expectations

Kirk Kazanjian

SOUNDVIEW Executive Book Summaries®



What Enterprise Rent-A-Car Can Teach You About Creating Lifetime Customers

EXCEEDING CUSTOMER EXPECTATIONS

By Kirk Kazanjian

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THE SUMMARY IN BRIEF

Enterprise Rent-A-Car grew from a small leasing operation in Missouri into a private family-owned $9 billion global powerhouse in 50 years. Enterprise founder Jack Taylor and his son Andy Taylor, chairman and chief executive officer, attribute the company's success primarily to a simple yet hard-to-achieve notion: "Take care of your customers and employees first, and the profits will follow."

Exceeding Customer Expectations *traces the building of Enterprise over the years and provides insight into the time-tested strategies that have propelled Enterprise into the nation's leading car rental company.*

Among these strategies is the company's belief that winning customer loyalty is like running a marathon, not a 100-yard dash. By mastering this principle, Enterprise has earned an enviable reputation as one of the world's best companies to work for by empowering its employees, promoting from within and sharing company profits with employees. It has also won countless customer service awards and enjoyed a nearly unbroken streak of record profits.

In this summary, noted business author Kirk Kazanjian shows you how you can apply the principles of "The Enterprise Way" so your company can consistently outperform and outsmart the competition.

In addition, this summary will discuss the following:

- ✓ ***The crucial difference between "completely satisfied" and "satisfied" customers.***
- ✓ ***How to hire smart people and train them from the ground up.***
- ✓ ***The traits shared by the most successful managers to keep employees over the long haul.***
- ✓ ***How to develop differentiating features that set you apart from your competition.***
- ✓ ***The six keys to forming effective business partnerships.***

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EXCEEDING CUSTOMER EXPECTATIONS

by Kirk Kazanjian

— THE *COMPLETE* SUMMARY

From the Basement to the Top

Enterprise Rent-A-Car has become a $9 billion global powerhouse, buying more new cars each year than any other company in the world. It's also the largest seller of used vehicles in the country.

How has Enterprise done it? The company has an unbending determination to keep its customers happy. At the same time, it strives to hire the smartest and most talented people possible. What Enterprise knows is that in order for employees to provide outstanding customer service, they must be both committed to their jobs and properly incentivized. The two are closely connected.

At Enterprise, having "satisfied" customers isn't enough. When you *exceed* people's expectations and bring them to the "completely satisfied" category, they are at least 70 percent more likely to do business with you again.

Does The Enterprise Way work for companies outside of the car rental industry? For an answer, you need to look no further than Enterprise itself. The Taylor family, who own Enterprise, also own and operate other diversified and completely unrelated businesses, all of which have enjoyed similar success by following these same techniques and management principles. ■

Take Care of Your Customers and Employees, and the Bottom Line Will Follow

"I didn't start out wanting to get rich," says Jack Taylor, founder of Enterprise Rent-A-Car. "Making a huge amount of money was just not high on my list. Ensuring that customers were well taken care of and that employees were happy — those were the most important things. I figured if I did those two things well, I'd make money, because I would attract customers willing to pay a fair and decent price for what I was offering."

Fifty years after Enterprise was founded on these principles, the car rental behemoth has quietly become one of the most highly rated companies in the world based on multiple measures, including customer service, financial stability and growth, employee retention and innovation.

Enterprise doesn't just want its customers to be *satisfied*. The only way an employee can be promoted is by making sure customers are *totally satisfied* and convinced that Enterprise has done everything possible to exceed their expectations. Employee promotions are based on customer satisfaction, which the company continually tracks and monitors.

Although Jack Taylor remains involved in the company, his son Andy has led Enterprise since 1980, first as president and now as chairman and CEO. "The success of Enterprise is not based on technical proficiency or a complicated business model," Andy Taylor says. "We derive our success from careful adherence to a common-sense approach: We treat our customers well, we give our employees respect and opportunities to grow, and we know that if we stick to these two rules, profits and growth will naturally follow."

Make Everyone Feel Special

Enterprise's dedication to making customers feel special is implicit in its famous slogan, "Pick Enterprise. We'll Pick You Up." The company will come get you at your house, or just about anywhere else. It's part of the company's comprehensive customer service program. Enterprise employees shake your hand and greet you by name, being professional yet friendly. And most Enterprise offices aren't very opulent, set up with

(continued on page 3)

The author: Kirk Kazanjian is an expert on business, finance, marketing and customer service. He's the best-selling author of more than a dozen business and personal finance books; is frequently interviewed by the media; and has appeared on CNBC, CNN, Bloomberg and many other radio and television stations across the country.

Exceeding Customer Expectations by Kirk Kazanjian.
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Take Care of Your Customers and Employees, and the Bottom Line Will Follow

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convenience in mind. There's a branch within 15 miles of 90 percent of the U.S. population.

Enterprise's commitment to winning repeat business is largely what differentiates it from the rest of the car rental industry. The company is singularly focused on making sure customers have a good experience and that they'll come back again.

Over the years, Enterprise has learned that there are six primary reasons people will stop doing business with you. The biggest reason: 68 percent go elsewhere because of the poor way they were treated by employees of the company. Successful retention, therefore, means building personal relationships with customers with the goal of keeping them for life. ■

For additional information on what Enterprise learned about why customers leave, go to: http://my.summary.com

Go Beyond the Call

If the employees handling your transaction at Enterprise seem more focused, engaged and, yes, brighter than those you've met behind the counter at other car rental companies, that's because those are the kind of people Enterprise intentionally hires. Enterprise isn't looking simply to hire counter clerks to check out cars. The company wants each employee to move up the leadership ladder.

Enterprise's unique structure of giving entrepreneurial freedom and sharing profits with employees has created incredible worker loyalty, fostered innovation and produced impressive results. What the company has learned over the years is that happy employees make for happy customers.

Think Ahead

After five years of selling Cadillacs for Arthur Lindburg in St. Louis, Mo., Jack Taylor was making good money. But as he contemplated his future, he began to recognize the limitations of being a car salesman. One of Lindburg's friends owned a leasing company and explained how leasing worked to Arthur and Jack.

Jack wondered why someone would buy a car if he or she could lease one instead. He was also intrigued by the potential benefits afforded to the owner of such a business. For starters, leasing companies didn't have to obtain a franchise from the manufacturer. They could open an office wherever they wanted, without geographic restriction, and had the freedom to lease any kind of car. Leasing was more flexible, enabling you to do a better job of meeting the unique needs of each customer. Jack especially loved that part of the business.

Jack asked Lindburg if he could start a leasing business, and the two worked out a deal and agreed to form a partnership for this new venture. In February 1957, Jack started Executive Leasing, the precursor to what would become Enterprise. The company operated from a basement office carved out of two car service bays in the subterranean service department at Lindburg's Cadillac dealership.

At the time, few individuals understood the financial benefits of leasing over buying. But Jack knew if he could get the ear of potential customers at a certain income level and educate them about the merits of this alternative to ownership, he had a good chance of making a sale and beating out conventional car dealers. Slowly, the business began to grow.

Surround Yourself with Like-Minded People

Jack looked for energetic, hard-working people to join the company. Most came through word of mouth, referred by mutual friends or relatives.

The men and women who came to work for Enterprise have always been taken care of by the company and given the tools and support necessary to do the same for its customers. In turn, as Jack surmised, the bottom line has more than taken care of itself.

Stand Tall in Tough Times

The real test of what a company is made of, and its commitment to employees and customers, often comes during times of crisis. Enterprise had a chance to demonstrate how it responds in such situations more than once in recent years.

One opportunity came on Sept. 11, 2001. The terrorist attacks in New York City, Washington, D.C. and Pennsylvania that morning stranded hundreds of thousands of travelers across the United States. Enterprise branches filled up with travelers looking for a way to get home to destinations hundreds, and sometimes thousands, of miles away.

Because of the decentralized nature of its business, combined with relatively low customer interest, Enterprise doesn't offer one-way or drop-off rental. But as the dimensions of the calamity became apparent, managers independently decided to let stranded customers take the cars wherever they needed to go. Headquarters quickly signed on to the plan. They determined that getting people home was the most important thing. Up to 5,000 cars were displaced as a result. It took months to get them back or sell them. But Enterprise never hesitated, in spite of the cost.

What employees wouldn't relish being able to help

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Go Beyond the Call

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people out in such a meaningful way, knowing that they had the authority to make this decision and feeling reassured that the company would back them up because they were doing the right thing? That's a big part of what taking care of both your employees and your customers is all about. ■

To Gain a Competitive Edge, Be Different

Enterprise has always tried to be very different from everyone else in the car rental business. While the most obvious difference is Enterprise's attention to service, the company also sets its products apart in other ways — the location of its branches, the professional appearance and friendly attitude of its employees and, most famously, the door-to-door service touted in its trademarked slogan, "Pick Enterprise. We'll Pick You Up."

Behind the scenes, Enterprise is fundamentally dissimilar from its major competitors. Its rental operation began by serving non-airport customers, a completely different segment of the rental market. It has a unique management and organizational structure, along with an unprecedented compensation system. Enterprise is also a privately held, family owned company, which means it isn't subject to the same pressures for quick returns and pumped up profits that much of its major competition faces.

Be Open to Opportunity

Jack Taylor viewed the car rental business as a cutthroat, crowded industry with a questionable future. To him, leasing initially seemed to be a far more attractive option. But the great thing about opportunity is that, like beauty, it is in the eye of the beholder.

Some of Jack's early leasing customers would occasionally come in looking for loaners when relatives were visiting from out of town or when the vehicles they leased were in for service. Jack started out by saying, "We don't rent cars," but then decided that he had to go into the rental business to meet the needs of his customers.

One day, Doug Brown and Don Ross, two of Jack's employees, stopped in to talk with the insurance adjuster at the insurance arm of AAA Missouri. Maybe, Brown reasoned, the adjuster would rather offer customers a rental car instead of just handing out money to pay for a rental, especially if the insurance company could better control its expenses. The adjuster agreed to give it a try.

Without realizing it at the time, Brown and Ross had just made their first sale to a vast, untapped pool of potential renters, a market that would eventually drive Enterprise to become the largest car rental company in North America. It's what is now referred to as the "home-city" market — renting to local residents who need temporary transportation due to an accident, repair, out-of-town guests or the need for a different car to accommodate any variety of needs. And it began a partnership that would fuel unprecedented new opportunities.

The rental operation began to build as the three-man rental team hit the streets to drum up business. Through diligence and determination, they had unwittingly created yet another key differentiator that set the company apart from the competition.

By 1971, Executive had five offices in St. Louis. The company changed its name to Enterprise, one of the ships Jack had served on in the Navy. Despite his initial reluctance, Jack felt that the rental business model was working well. He decided to expand this concept even further. Jack and his team began looking for the next location to move into. They wanted a mid-sized city in the Southeast that showed moderate to strong growth, and settled on Orlando, Fla. The insurance business in Florida was about to undergo a monumental change that would help both drivers and Enterprise: the enactment of "no-fault" insurance.

Pick Customers Up

Jack asked one of his best leasing managers, Bob Bell, to open the Orlando office. Jack then chose Lanny Dacus, who had joined the company less than a year before, as Bell's assistant. Dacus didn't like the thought of rental cars sitting idle on weekends because insurance companies — the majority of Enterprise's customers — were closed then.

He tried to figure out a way to turn the cars into revenue generators during this off-peak time and, in the process, helped begin a new business venture for the company: weekend leisure rentals. Dacus decided to pick up customers who were visiting the area on business, but without cars. He created a package for weekend clientele containing brochures and a map of the area showing various points of interest.

The pick-up service also proved useful as the benefits of no-fault insurance became clear to consumers. For example, small accidents that would have otherwise gone unreported were now being filed. Insurance companies couldn't keep up with the claims, and body shops were inundated with work.

Given that their customers had no cars, frustrated body shop managers and dealerships started calling Dacus, asking him to please come pick up these people. Dacus was willing to do what it took to get the business, even though providing such transportation wasn't part

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To Gain a Competitive Edge, Be Different

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of company protocol. Before long, shuttling customers became common.

Picking up customers also helped with another problem. If it was at a peak time, Dacus would offer to come pick up customers at their homes or offices — but at a time when things would likely be a bit calmer at the branch. This helped to prevent customer overload and allowed Enterprise to earn a reputation for great customer service around town. It was known as the car rental company that picked up customers. After seeing the overwhelmingly positive results, more and more Enterprise offices began to embrace this pick-up service. They came to realize it was an important differentiator between Enterprise and its competitors. It instantly gave Enterprise an advantage in the marketplace.

Take Advantage of Market Voids

While the Hertzes and Avises of the world were competing near airport runways, Enterprise was growing by leaps and bounds in American driveways. By the early 1980s, the company's core business of leasing started to share the limelight with the growing rental business. The rental side got so big that what was originally known as Enterprise Leasing (and Executive Leasing before that), officially became Enterprise Rent-A-Car.

Since 1991, Enterprise has opened an additional 5,500 branches and added an average of 38,000 cars each year to its fleet. At the same time, the home-city market has grown from $2 billion to almost $10 billion. It's only in recent years that the bigger national players have made a serious attempt to open off-airport locations as well.

Enterprise itself began opening airport offices about a decade ago, and today already has about a 7 percent to 8 percent share of the U.S. airport market segment. The airport market has grown to represent 10 percent of the company's overall revenue.

Today, Enterprise operates several other auto-related businesses — leasing (or fleet services), retail used car sales and commercial truck rentals — all of which are run under the same principles. ■

Never Settle for 'Satisfied'

As the business grew, keeping a focus on customer service ahead of profits became more challenging to consistently execute. It required putting a formalized system in place to relentlessly track customer satisfaction and ultimately hold employees accountable for delivering on the promise.

The system Enterprise built to track customer service has grown into one of the most comprehensive and effective programs of its kind in corporate America. Yet, it's also one of the simplest. The company has dubbed the program ESQi — Enterprise Service Quality index.

Every Enterprise branch is assigned its own ESQi score. These numbers are then averaged to come up with an overall company number. The ESQi score represents the percentage of customers who report being completely satisfied with their rental experience. The number is crucial, because Enterprise uses this measure as a key variable for determining who gets promoted.

When ESQi was first rolled out, many general managers thought their branches would come out at the very top of the charts. But some of the most confident ones learned the truth: They weren't doing a very good job. By the mid-1990s, Enterprise's ESQi experiment was in full swing. The more the company learned about its "completely satisfied" customers, the more it recognized their importance.

Through its ESQi surveys, Enterprise has identified six attributes that have the greatest impact on customer satisfaction. They are satisfaction with:

- Personal courtesy

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Widespread Myths About What It Takes to Make Customers Happy

Myth #1: Boosting customer satisfaction requires giving away the store.

Enterprise's research showed that outstanding overall service, not giveaways, led to higher scores.

Myth #2: Good managers already know which areas need improvement.

Enterprise proved by comparing the managers' intuitive conclusions with actual survey results that there is no substitute for statistically valid measurements. And without these measurements, it's impossible to manage knowledgeably and effectively.

Myth #3: There's not much difference between being somewhat satisfied and being completely satisfied.

Enterprise proved by tracking both survey results and subsequent behavior that completely satisfied customers are *three times* more likely to do business with you again than those who are somewhat satisfied.

Myth #4: Complete satisfaction means perfection.

Perfection is something to strive for, but it's rarely ever attained. Besides, a customer may have encountered significant problems in the transaction, yet still reported being completely satisfied, provided the problems were taken care of appropriately.

Never Settle for 'Satisfied'

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- Professionalism
- Personal timeliness of service
- Personal treatment as a valued customer
- The mechanical condition of the car
- The timeliness to complete the rental transaction.

Most of these attributes have to do with service rather than with the quality of the product. By concentrating on these attributes, groups can raise their ESQi scores. Negatives in any area are destructive to overall customer satisfaction.

Put Yourself in Your Customer's Shoes

Among the best ways to understand what customers are thinking, and therefore how you can improve their overall experience, is by putting yourself in their shoes. Workers at all levels are encouraged to constantly look around the office, hear how many times the phone rings before being picked up, look at the expressions on the faces of customers and other teammates to see whether they are smiling or showing signs of frustration, and make sure to properly greet everyone coming through the door.

Enterprise has learned through all of its processes that creating a completely satisfied customer doesn't just happen by accident. It's a deliberate process that requires continuous commitment, frequent training, constant monitoring and financial consequences for those who don't live up to the high standards of service. At the same time, the foundation is built upon those common courtesies we all expect. It really comes down to the golden rule of treating your customers the way you would want to be treated yourself. ■

For additional information on how to touch customers throughout the cycle of service, go to: http://my.summary.com

Eight Steps to Turning an Angry Customer Around

No matter how conscientious and accommodating you are, at times you will find yourself dealing with an upset customer. At Enterprise, employees are taught to do the following in an attempt to turn a volatile situation around:

1. Actively listen with an understanding attitude.
2. Record what the customer tells you.
3. Apologize.
4. Find out what the customer wants.
5. Propose a solution and attempt to get the customer's buy-in.
6. If the customer doesn't like your solution, ask him or her what a fair resolution would be.
7. Follow up by calling your customer to ensure his or her satisfaction.
8. Never let the customer lose face.

Hire and Train Good People from the Ground Up

Enterprise's growth has given it a voracious appetite for fresh, career oriented people. The company hires thousands of candidates a year for its management program. A majority of hires fall into one of two categories: recent university graduates or people wanting to begin a new career in a structured management training program.

Enterprise has more than 200 recruiters, the majority of whom work within each of the individual operating groups or regions around the world. Enterprise recruiters are a constant presence at college campuses.

The company also finds qualified candidates through its Web site, and has a paid college internship program, taking on about 1,700 juniors and seniors each year as interns and teaching them highly marketable skills relating to every aspect of running a successful business.

What attracts potential candidates to Enterprise? The opportunity to create their own career path, performance-based promotions, autonomy and the potential for substantial earnings.

Promote from Within

Enterprise's "work your way up" and "promote from within" policy assures that every field employee has been fully immersed in the company's culture and way of doing business.

In addition to allowing for continuity and rewarding hard work, promoting from within creates a much more stable work environment and fosters teamwork instead of internal jealousies and competition. Employees know that someone from the outside won't suddenly come in and become their supervisor. Everyone at the top has been exactly where they are, and each employee's hard work will be rewarded with future promotions. ■

Treat Everyone Like an Owner

Few do as much as Enterprise to truly allow employees to behave like and be compensated as owners. This feeling of entrepreneurship spurs everyone at the company to perform at their highest potential every day. And while the approach and incentives Enterprise uses might appear on the surface to be more costly than necessary, the company's innovative pay-for-performance plan is really what has made it so successful for such a long time.

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Treat Everyone Like an Owner

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Employees reaching the assistant manager level begin to receive both a base salary and a cut of the profits from the business. Indeed, Enterprise pays out almost 40 percent of all company profits to employees. While most companies see the payroll as a drag on the bottom line, Enterprise has always thrived on spreading the wealth.

Pay on Company and Individual Performance

Enterprise not only pays its people a percentage of the profits from their individual branches, but as they are promoted to the area, region and, ultimately, the group level, they receive a share of profits from all of the operating units underneath them.

One risk of tying compensation in with the profit-and-loss statement is that it has the potential to encourage short term thinking and cause one to cut corners at the expense of customer service. Enterprise keeps this in check by tying promotions in with delivering good customer service. In fact, the only way to move up at Enterprise is by wowing the company's customers.

Family Businesses Can Work Well

Enterprise today is owned almost entirely by the Taylor family. The company has become a role model for how to effectively preserve a family owned business. Such businesses generate half of the gross domestic product in the United States, hire 60 percent of American workers and create 78 percent of all new jobs. Yet only one out of every three family businesses survives into the second generation.

Today, a third generation of Taylors is working at Enterprise. Even those family members not working for Enterprise on a day-to-day basis are involved in high-level meetings about its ongoing operation. At the same time, non-family members continue to move up the ranks, with little worry the company will change its generous ownership-centered structure, which rewards them financially for excellent performance. ■

Form Strong Partnerships

Enterprise's most crucial partnerships are those with the array of insurance providers that send so much business its way. While other car rental companies covet this market and continually try to wrest market share away, Enterprise remains the preeminent leader in the insurance replacement field.

To create greater efficiencies, Enterprise set out to build what has come to be known as ARMS, short for Automated Rental Management System. At its heart, the system was designed to let insurance companies manage the entire rental process with Enterprise electronically.

Future versions would add to this experience by tracking the vehicle repair process. This would create far greater efficiencies throughout the repair, reduce friction and lower the number of bothersome follow-up calls to all parties involved, including the insurance adjuster and repair shops.

In a fairly short time, a significant percentage of all insurance companies signed on with Enterprise to use ARMS. With the rollout of ARMS underway, Enterprise took another step through the creation of preferred provider option agreements, or PPOs. These agreements serve as written understandings of what new additional value-added services Enterprise would bring to the table in exchange for suggesting Enterprise to customers with no other preference.

Continually Striving for Greater Efficiencies

The evolution of the ARMS system continues. Enterprise spends about $10 million annually on system upgrades to ARMS, and some 300 insurance companies now use the system. An affiliated application, ARMS for Dealerships, connects several thousand car dealers around the country to Enterprise, while ARMS Automotive is used by some 7,000 body shops.

Beyond the insurance companies and body shops, Enterprise also has numerous business relationships with the auto manufacturers that supply its vehicles.

What has Enterprise done to create such close and mutually beneficial partnerships over the years? The same things that every business can do to achieve similar results:

1. Begin by identifying the concerns of your customers and potential partners.
2. Once you've identified what your partners want, determine the mutual benefits from the relationship.
3. Believe in what you say you are going to do, and go into the relationship with a 100 percent commitment.
4. Don't go for the last "oink out of the pig," says Andy Taylor, meaning don't try to squeeze out every last penny of advantage. "That doesn't mean we don't negotiate hard," says Taylor. "But we try to always work together toward a common goal."
5. Keep the lines of communication fluid and open.
6. Never rest on your laurels. ■

Use Technology to Enhance the Customer Experience

Enterprise discovered long ago that no matter how good your product or service, without the smart use of technology, you'll lose out on the opportunity to make it easy and cost effective for customers to do business

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Use Technology to Enhance the Customer Experience

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with you. Enterprise's overriding philosophy is that, above all, technology should be used as a way to drive customer service.

What distinguished Enterprise from others and paved the way for impressive future innovations was the fact that senior management fully supported the company's various IT initiatives from the start and were involved in all phases of development. Indeed, Enterprise looks at technology as a strategic asset — something that can help strengthen the customer relationship — not just as another cost of doing business.

One major difference between the systems used by Enterprise and its major competitors is that Enterprise writes and develops all of the technology applications used to take care of customer needs in-house. Most other companies rely heavily on outside consultants and independent contractors, many of whom don't know the car rental business very well. ■

Grow Smart

Enterprise's most financially difficult period came in the early 1970s, just as the company was beginning phase one of its growth spurt. The country was faced with high gas prices, an energy crisis, a glut of unwanted luxury cars and a deep recession that began to drain the company's cash reserves. As 1974 progressed, business began to improve. Surviving the tough economic times wasn't easy, though it made some advantages of Enterprise's business model clear.

Up through the early 1990s, Enterprise funded all of its growth through profits and by taking out loans. As the company grew, it expanded into bank syndication financing. Now much of Enterprise's growth is funded through private placements.

By 1999, Enterprise was ready to make a formal entry into the airport market. Two to three on-site airport locations were added monthly over the next seven years, a pace that continues today. As other airport car rental companies have seen their market shares shrink, Enterprise's airport business has taken off.

What's more, Enterprise has discovered that, while the company is always open to new ideas and approaches, it is essential that any endeavor stick to the company's central operating principles. ■

Live Your Core Values

Enterprise refers to its eight founding values as "the values that define us and drive us." What are they?

- Our brand is the most valuable thing we own.
- Personal honesty and integrity are the foundation of our success.
- Customer service is our way of life.
- Enterprise is a fun and friendly place, where teamwork rules.
- We work hard and we reward hard work.
- Great things happen when we listen to our customers and to one another.
- We strengthen our communities one neighborhood at a time.
- Our doors are open.

Andy Taylor is convinced that businesses not taking their core values seriously will suffer the consequences. "These values are the reasons why customers should want to do business with you, why talented people would want to build their careers with you and why neighbors are glad to have you in their communities," he says. ■

The Enterprise Business Model

If you were to sum up the primary traits that have made Enterprise so successful over the past five decades, it would come down to the following:

1. Have a strong belief from the very top that taking care of customers and employees is job number one.
2. Empower workers as entrepreneurs and pay them on the bottom line.
3. Hold employees financially accountable for offering excellent customer service.
4. Establish strategic partnerships.
5. Dare to be different.

While all of these traits can be adopted by businesses of all types, it's important to remember that execution is everything. They must be ingrained into the fabric of your company. It's a philosophy that Jack Taylor set in motion 50 years ago when he purchased his first seven vehicles, and thus opened the doors to one incredible business. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Exceeding Customer Expectations*, you'll also like:

1. ***Mastering the Complex Sale*** **by Jeff Thull.** Learn the Prime Process, a diagnostic, customer-centered selling approach that sets you apart from the competition and positions you as a trusted adviser.
2. ***The Starbucks Experience*** **by Joseph A. Michelli, Ph.D.** Michelli gives his readers an in-depth look at the success strategy of this well-loved coffee house-styled company.
3. ***Know-How*** **by Ram Charan.** The author presents eight skills that separate top performers from non-performers in the corporate world.
4. ***The Carrot Principle*** **by Adrian Gostick and Chester Elton.** Gostick and Elton team up to show readers how the best managers are able to use recognition to engage employees, boost performance and retain talent.
5. ***L.L. Bean*** **by Leon Gorman.** CEO of L.L. Bean and grandson of company founder Leon Leonwood Bean, Gorman offers an inside look at the history of one of the United States' best-loved companies.

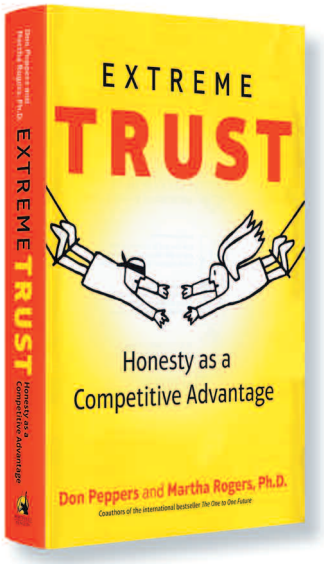
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Extreme Trust

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Extreme Trust

Honesty as a Competitive Advantage



by Don Peppers
and Martha Rogers, Ph.D.

THE SUMMARY IN BRIEF

If you accidentally try to order the same song twice from iTunes, you'll be warned that you already own it. Not because it would be illegal or unethical for Apple to profit from your forgetfulness. There's a clear business reason: the leaders of iTunes realize there's no better way to make you trust them than to be totally honest when you least expect it.

In the age of the Web, every action an organization takes can be exposed and critiqued in real time. Don Peppers and Martha Rogers, Ph.D., the authors of *Extreme Trust*, argue that the only sane response to these rising levels of transparency is to protect the interests of customers proactively, before they have a chance to spread negative buzz — even if that requires spending extra money in the short run to preserve your reputation and customer relationships in the long run.

The companies that Peppers and Rogers call "trustable" remember what they learn from each interaction, and they use these insights to create better and better customer experiences. They focus on winning the long-term battle for trust and loyalty, even if the dollar value of that trust is hard to quantify.

With a wealth of fascinating research as well as practical applications, *Extreme Trust* will show you how to earn — and keep — the extreme trust of everyone with whom your company interacts.

IN THIS SUMMARY, YOU WILL LEARN:

- Why trustability creates a higher standard of expectations between organizations and their customers.
- The reason that trust is able to serve the interests of both customers and the bottom line.
- How to protect customer interests proactively.
- The difference between brand equity and trustworthiness.
- Why transparency is a good investment.

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THE COMPLETE SUMMARY: **EXTREME TRUST**

by Don Peppers and Martha Rogers, Ph.D.

The authors: Don Peppers and Martha Rogers, Ph.D., have coauthored eight books, including the global bestseller *The One to One Future*. They are the founders of the Peppers & Rogers Group, a global management consulting firm.

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Trust: Not Just a Good Idea. Inevitable.

Immediately after the first Gulf War in 1991, USAA — the insurance and banking company based in San Antonio, Texas — sent out refund checks to several thousand customers, called "members" by USAA. The idea was that since the men and women who had been serving at the front couldn't drive their cars back in the United States during the several months they were posted in the Middle East, USAA suspended charges for the premiums during the time the soldiers were overseas and sent out unsolicited refunds once the military personnel got home. The employee culture at USAA is based on a simple idea: treat the customer the way you'd want to be treated if you were the customer.

As for those refund checks? Nearly 2,500 of them were sent back to USAA by grateful customers who told USAA to keep the money and just be there "when we need you."

What's the difference between USAA and the other financial services companies we all know about? Many of those companies are not bad companies. And yet none of us — not even the executives of these well-run institutions — could imagine customers refusing to take refunds from those companies.

Most businesses today consider themselves to be trustworthy, and by yesterday's standards they are. But that's as far as most businesses go, and by tomorrow's standards it won't be nearly good enough. Not even close.

Technology has now changed the landscape of competition so much that a new, more extreme form of trustworthiness will be required in order to be successful. Simply doing what you say you're going to do and charging customers what you say you're going to charge them will no longer be sufficient. Instead, businesses will be expected to protect the interests of their customers proactively — to go out of their way, to commit resources, and to use their insights and expertise in such a way as to help customers avoid making mistakes or acting against their own interests simply through their own oversight.

We've coined the term "trustability" to encapsulate this new form of extreme trust, and what we mean by trustability is very simple: "proactive trustworthiness."

Most businesses and other organizations operating today think that they're already customer-centric and that they are basically trustworthy, even though their customers would disagree. Being "trustworthy" is certainly better than being untrustworthy, but soon even "trustworthiness" won't be sufficient. Instead, companies will have to be trustable.

But trustability is a higher standard still.

Rather than simply working to maintain honest prices and reasonable service, in the near future companies will have to go out of their way to protect each customer's interest proactively, taking extra steps when necessary to ensure that a customer doesn't make a mistake, overlook some benefit or service, or fail to do or not do something that would have been better for the customer.

As Interactions Multiply, Trust Becomes More Important

Trust has always been touted as important, certainly. But one of the most important implications of a more highly interconnected world is the increased level of trust and trustworthiness we expect from others. The fact is that trust is becoming a more essential attribute of

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human culture for several reasons as people connect with one another more efficiently. First, of course, is the simple fact of transparency. From WikiLeaks and the Arab Spring to a cable TV repairman asleep on your couch or an airline's luggage handlers mistreating bags, people will find things out. Transparency increases the cost of hiding the truth. ●

Serving the Interests of Customers, Profitably

One of the problems with the idea that trustability and selfishness don't mix, just in case you haven't already picked up on it, is that it calls into question the moral legitimacy of free-market economics itself, which is built on the principle that people acting in their own self-interest will, collectively, create a better standard of living for everybody. The "neoclassical" economic model assumes that people always act in their own self-interest and that these independent, self-interested actions collectively create substantial economic value. As Adam Smith famously suggested in *The Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."

It turns out that neoclassical economics is flawed, however, in the way it defines human motives, because pure, absolute self-interest in any person is not the norm but an aberration. Very few people are ever completely self-oriented, never doing anything that might undermine their own interest. People like this are called psychopaths, and what makes them aberrations is that they're completely immune to the feelings of others. The rest of us have empathy. Concern for others' feelings is hardwired in our brains. You don't have to "learn" empathy. Newborn babies a few days old will cry when they hear other newborns cry. Toddlers unable to speak will try to help adults in accomplishing tasks. So while Adam Smith's description of the baker's motive may be generally correct, if one of the baker's close friends was starving, if the baker was contributing to a community dinner or if he was particularly proud of one of his confectionary creations, then he would not be likely to look solely to his own financial interest in selling his goods.

Psychopathic Capitalism

Human beings may seldom act out of purely "rational" self-interest, but what about companies? A corporation is legally chartered to create wealth for its owners, and failing to work on behalf of creating shareholder value would seem to be an abdication of management's fiduciary duties. However, in any modern economy a successful company is also a complex organization with multiple stakeholders, including not just shareholders but also employees, customers, and the communities in which it operates. From a practical standpoint, a company must be careful not to ignore the interests of its non-shareholder constituents precisely because doing so could threaten shareholder value. Abusing employees, the community, or the environment could easily lead to costly regulations or legal conflicts.

While there is no union movement or environmental group championing the rights of customers, the discipline of competition has always been considered a sufficient check. Fail to respect your customers' interests and you will be competed out of business, or so the argument goes.

A trustable firm will find empathy returned by the customers themselves. You don't have to count your change when you're dealing with a real friend. When an untrustable company pursues immediate economic gain to the exclusion of all other considerations, however, we could make a direct analogy with the human psychopath, oblivious to how his actions affect the feelings of those around him. And while only a few of us may ever have been victimized by a psychopathic person, all of us interact regularly with at least a few "psychopathic" companies and brands. We have become so accustomed to nonempathetic customer "service," in fact, that we do not even consider it abnormal. But as standards improve, nonempathetic companies will become rare, then rarer, then endangered, and eventually extinct. ●

Basic Principles of Trustability in a Business

- **Do things right.** Be competent. Manage the functions, processes, and details right in order to make it easy for customers to do business with you. And pay attention to the customer's experience, not just to the company's financial performance.
- **Do the right thing.** Ensure that the way your organization makes money aligns with the needs and best interests of your customers. You can't be trustable if you're entirely focused on the short term. Customer relationships link short-term actions to long-term value.
- **Be proactive.** Knowing that a customer's interest is not being well served and doing nothing about it is untrustable. Not knowing is incompetent.

Trustability: Capitalist Tool

The clash between trustability and a company's own short-term financial interest is real. It is a serious and continuing obstacle to be overcome, and we don't want to minimize it. Urging companies simply to "do the right thing" isn't likely to change how management sees the world. The profit motive does that.

Taking the Long-Term View

Today's most successful firms focus on the long-term value of their customers and the importance of maintaining their trust and confidence, despite the fact that sometimes the actual economic value can be difficult to quantify. In his portrait of one such forward-thinking firm, *Googled: The End of the World as We Know It*, Ken Auletta tells the story of how its founders approached their IPO (initial public offering):

Google's two 31-year-old founders were driving the company with a clarity of purpose that would be stunning if they were twice their age. Their core mantra, which was echoed again and again in their IPO letter, was that "We believe that our user focus is the foundation of our success to date. We also believe that this focus is critical for the creation of long-term value. We do not intend to compromise our user focus for short-term economic gain."

And Google has shown again and again that it remains focused on earning the trust of its users by acting in their best interests, no matter what the short-term attractiveness might be for doing otherwise. The company never accepts money for a search result or a higher search ranking, for instance. And rather than trying to "capture" users and keep them on the website, Google's philosophy is driven by the goal of setting its users free as soon as possible so they can quickly navigate to any of the search results shown. On search results pages the ads are ranked primarily in terms of the amount of clicks they generated from users. The more clicks, the more relevant or attractive an ad is to users, and so the more prominently it is displayed. No amount of money (short-term benefit) can generate a higher-than-justified prominence for an ad (long-term erosion of trust).

Trustability and Self-Interest: A Paradox

The fact that earning your customers' trust has economic benefits for your business sets up an interesting philosophical conundrum: if you "do the right thing" for customers because it benefits your business economically, aren't you really just being self-oriented?

Trust is as trust does. It doesn't matter at all to a customer whether his interests are being proactively looked after on account of the benevolence of a company's management or on account of their desire to benefit their own shareholders. Either way the customer gets better served. It is the firm's actions the customer can see, not what's in the company's heart.

However, motive does make a difference within the firm. That is, in order to have a company that seriously tries to earn its customers' trust, there must be some unifying message or sense of mission that drives employee behavior at all levels to do this in the thousand decisions they make every day. This is a tall order, because no business rule or line of software code will ever be sufficient to ensure that employees treat customers right. Your employees have to want to do that. To have this kind of an organization you have to focus carefully on the corporate culture and on the "unwritten rules" that govern how your employees approach their jobs.

Sharing: Not Just for Sunday School

Dan Ariely, Duke University's respected behavioral economist, suggests that "revenge, even at personal expense, plays a deep role in the social order of other primates and people." He describes an experiment involving two chimpanzees placed in neighboring cages with a single table of food just outside the cages but still within each chimp's reach. The food table is wheeled, and either chimp can reach out to pull it closer to its own cage (and therefore farther from the other's). However, a "revenge rope" leading out from each cage is rigged so that if either chimp pulls it the table will collapse and spill all the food onto the floor, out of reach of both of them. Use of the rope is carefully demonstrated to the chimps, so they each know that it destroys any possibility of either of them reaching the food. Researchers have found that if both chimps share the food, all goes well in this experiment. But if either chimp rolls the table too close to its own cage and the other can no longer reach it, then that other chimp will sometimes explode in a rage and yank the rope, collapsing the table for both of them.

Empathy and the urge to punish injustice are not the only ingredients in our complex social natures. But empathy's role should not be underestimated, and its connection to the enforcement of socially accepted norms is critical.

Death by Tweet

However we frame the issue, punishing unfair behavior is an essential part of being social. And there's a reason for the phrase "sweet revenge." Don't you feel a lit-

tle tingle of satisfaction yourself when you learn about a heartless or cruel criminal getting a tough sentence?

Online technologies, of course, allow us to avenge wrongdoing in a highly social, highly interconnected way. Revenge has never been easier or more satisfying, and it can be far more long-lasting and punitive. Reminder: once an opinion about you hits the Internet, you may as well count it as immediate, ubiquitous, and permanent. As one advertising executive said, "You can't un-Google yourself." ●

Trust and the E-Social Ethos

In addition to reciprocity, empathy, and the desire to avenge injustice, our social interactions are subject to a whole set of customers and "unwritten rules" that have developed over untold generations of people conversing with each other. When you discuss something with a friend, colleague, loved one, or stranger, you adhere to these customs even without thinking. Don't interrupt. Listen first; show an interest. Respond to what others are saying.

But there are subtler principles as well. Suppose, for instance, a good friend were to ask your help in getting a job at the company where another friend of yours is a vice president. All he really wants is an introduction. He's your friend, and he would certainly do the same for you. But what if in asking for this favor your friend also offered you $100 to make the introduction? Or $500? Wouldn't you be totally put off by this? Maybe he's not really your friend after all, you might think, because this certainly isn't how friends deal with friends.

This conflict represents one of the most important differences between how we interact in a commercial setting versus in a social setting. The commercial economy is characterized by people freely exchanging money with other people. You buy from me, I sell to you, and if we do it right we both consider ourselves better off. Nor does this seem out of line to any of us.

With the rise of modern, free-market capitalism, these two domains of human activity — social and commercial — became quite distinct and separate, but technology seems to be smashing them together. Social production, for instance, combines features of both domains, being fueled by social interaction, trust and sharing, but generating real economic value as well. Whether the sharing involves someone's free time, honest opinion, computer coding, editing and curating, or computation cycles on their computer hard drive, the end result is genuine economic value, worth real money.

Over time, the e-social "ethos" that comes to govern our online interactions will develop as a set of purely informal and unwritten customs.

Regardless of the legal and regulatory protections or mandates eventually enacted, however, it is clear that trust will be a dominant guiding principle in the e-social ethos, because maintaining trust is essential for the smooth functioning of the overall system.

How Friends Treat Friends

The unfamiliar workings of the e-social ethos can easily trip a business up when it tries to deal with social media simply as a new channel for marketing or to generate positive word of mouth, because most marketing and business tactics that make sense in the commercial domain just don't apply in the social domain. Most people use social media to interact for the same reasons they attend parties or participate in casual conversations with friends — not for financial benefit or to accomplish some task but for the enjoyment and fulfillment they get from connecting with others or for the gossip, insight, and inside information they acquire. Mixing up these two domains can lead to real problems, because social influence can't be bought any more than friendship can.

In September 2006, a blog appeared entitled *Wal-Marting Across America*. It featured two intrepid RV owners, known only as Jim and Laura, who were driving from Walmart to Walmart across the United States, visiting stores along their way, and interviewing a whole stream of ever-upbeat Walmart employees. Other bloggers, however, suspected that Jim and Laura were fictitious, not real people driving their motor home around from store to store. And soon enough it was revealed that the two bloggers were actually paid contract writers for Walmart, hired by Edelman, the company's PR firm, to create a series of glowing articles. This ignited a firestorm of protest from others in the blogosphere, with people lashing out at both Walmart and Edelman. Walmart's initiative perfectly illustrates the single biggest error most companies commit when they try to operate in the social media space: rather than respecting the e-social ethos, they think they can treat social media just like any other marketing "channel," in this case using it to create a kind of advertising message.

What Walmart learned was that even though the social domain can serve as a marketing channel, the social ethos still has to be respected. You can advertise to viewers using a fictional story to entertain them on television, but you don't lie to your friends and call it "advertising." ●

Control is Not an Option

If a psychopath is someone who can't be trusted, then what do you call someone who can't trust? Control freak. Psychopaths and control freaks are flip sides of the same disorder. But e-social technologies raise the general standard of trustworthiness for all of us, no matter which side of the interaction we're on.

Extending trust to others is a particularly scary idea for executives and managers, stirring up nightmares of cheating, disengaged employees and litigious customers. You can't take the "manage" out of "manager" without creating a feeling of insecurity. But inevitably the power equation governing commercial transactions will be upended by this incoming tide. As transparency increases and customers know more and more, every advantage a business used to have as a result of one-sided information flow will evaporate. Companies can no longer control the knowledge that gets "out there."

Unarmed, Nestlé Fights a Battle of Wits with Greenpeace

Like a bad habit, the urge to control continues to plague many companies' efforts to participate in the increasingly robust network of e-social connections now available. Things seemed to be going smoothly for Nestlé and its Facebook fan page right up to early 2010, when a Greenpeace initiative turned Nestlé's own fans' conversation against the company. In a campaign to get Nestlé to stop using palm oil in its products, contending that it was damaging the environment, Greenpeace used Facebook to organize support. They rebranded the Nestlé Kit Kat bar with a faux "Killer" bar logo and posted a video on YouTube disparaging Nestlé's practices.

The first reaction on the part of Nestlé's public relations and marketing staff was to try to control this unruly and threatening discussion. The company contacted YouTube to have the video taken down on the grounds that the made-up logo violated Nestlé's trademark, but of course the video had already been widely circulated on the net, and people could still find it easily on other sites such as Vimeo.

For Nestlé, it all went predictably downhill from there. Some of the company's Facebook fans began posting comments promoting the Greenpeace video and urging others to get on board the campaign to pressure Nestlé to stop harvesting palm oil. Other fans designed their own unflattering modifications to Nestlé's logo. The hapless control freaks at Nestlé tried to stifle the discussion with an escalating series of actions that in retrospect appear naïve and petty. They deleted some critical comments posted by customers on their Facebook fan page (like maybe people wouldn't notice?), and they even began pointing out spelling and grammar errors in some of their critics' messages. This of course only stirred the embers of the smoldering Greenpeace issue into a roaring inferno, converting what might once have been a customer-engagement opportunity into a five-alarm PR disaster.

As the inferno blazed higher, it made the leap into mainstream media as well, and Nestlé's resistance to Greenpeace's demand was soon overwhelmed by public pressure. Within days, the company announced it would no longer use palm oil. But from Nestlé's actions it was obvious that the marketing types failed to realize until late in the episode that control was not an option. ●

What Could Nestlé Have Done Differently?

Nestlé's whole Kit Kat brouhaha took place on the company's own Facebook page, for heaven's sake — an online space specifically designed for the brand's best and most loyal customers.

Rather than trying to "control" the discussion to avert this nearly inevitable outcome, what if Nestlé had reached out to the ones most invested in the movement? Since the argument was lost anyway, there would have been little downside for Nestlé if it had announced a temporary moratorium on palm oil use, for instance. Coupled with an appropriate corporate acknowledgment and apology, this action might have been seen as a peace offering, taking much wind out of the other side's sails.

Build Your Trustability in Advance

It's a tough world out there. If you want to survive in this new world of transparent, always-on interactivity and rapid, unpredictable shifts in opinion, don't wait for the storm to hit. Get ready for it now.

But first, here's a self-assessment question that might indicate how well your company is prepared for trustability. Do you allow customers to make comments about your products and services on your own website for other customers and prospective customers to see?

We've asked this question of enough audiences around the world to know that the overwhelming majority of senior executives still tremble with fear at the very idea.

Customer Reviews Are Essential. And Anyway, They're Inevitable.

To be proactively trustworthy, a company *must* facilitate customers' sharing their honest opinions with other customers about the problems they are trying to solve or the needs they are meeting, and this honest sharing will include, of necessity, the role that the company's own products and services play.

Monologues are totally controlled by one party — the speaker. Mass media monologues are controlled by the marketer.

By definition, however, a dialogue cannot be totally controlled by either party — not by you and not by your customer. Instead, as a free exchange of thoughts or conversation, a dialogue will go in its own direction. You can push it and guide it, but you cannot control it.

Executives have lots of perfectly logical reasons to fear making their customers' actual opinions freely available. What if a customer has a complaint and goes public with it right on our own website? Or what if a customer just doesn't like the product? Or what if a competitor masquerades as a customer and runs our product down?

Listen up: get over it. If you abdicate your own role in the conversation, you are simply undermining your trustability. (Anyway, people will ask, What are you afraid of — the truth?)

The reality is that truth is more persuasive than spin, and this is one of the secret advantages of allowing customers to be honest in their opinions with other customers.

A bit of criticism from customers assures other customers that your online product reviews are authentic. They're genuine. You are trustable. When a company hosts this kind of information exchange, it is departing from the money-dominated commercial ethos of economic self-interest. Rather than unswerving (and psychopathic?) self-promotion, when you make it easy for customers to find out what other customers honestly think about your product or service, you are showing a human face and proving your trustability. ●

Honest Competence

Proficiency and competence are directly observable. And they are an important part of the "customer experience" — how it feels to be a company's customer. Customer experience is the reason you connect your siloed databases, send your people to seminars on mobile best practices and increase efficiency so you can save your customers time and help them find and get what they need at a fair price without any roadblocks.

To remain competitive today, a company needs to make and deliver a quality product or service, and it needs to understand and relate to the customer being sold to. We can call these two basic capabilities product competence and customer competence, and both are critical.

True Confessions: Domino's and the Transparent Pizza

Domino's had developed a reputation among pizza consumers as the "pizza of last resort," the kind of food delivery you might order if you didn't have enough money to get a good pizza or if there was no Pizza Hut or Godfather's near enough. So, to celebrate the chain's fiftieth anniversary the company rolled out a completely new and revamped product. More than that, however, to publicize the upgraded product they launched a television ad campaign frankly admitting to the error of their (past) ways. One of the new commercials, for instance, played clips from focus groups in which participants lambasted their product as "the worst excuse for pizza" they'd ever had, before cutting to CEO Patrick Doyle's confession that while his company's pizza had been below standard for years, Domino's was now determined to do better.

Six months later Domino's announced it would stop using retouched photos to promote its pizzas, relying instead on straight camera shots, honestly taken — and appealing to customers to send in their own photos for use in the ads.

The "Pizza Turnaround" campaign gave Domino's revenues and profitability a nice lift as well, with U.S. same-store sales increasing by nearly 10 percent in 2010, a phenomenal increase for the large chain. In fact, it was the first full year of positive growth since 2007, and for at least the first half of 2011 these higher levels of domestic same-store sales have been maintained or increased.

Today, however, the world has become so transparent that everybody will already know your product is "crappy," so refusing to admit it yourself is not just inauthentic but downright delusional. In the real world, fallibility is the most direct route to trustworthiness. Admitting one's own vulnerability is the first step in earning someone else's trust. ●

Trustable Information

Current estimates are that the volume of data available to the human race doubles roughly every two years, but

now that technology is beginning to connect up highly efficient networks of people, as opposed to simply streamlining the storage and processing of data itself, the speed at which new data will be generated is likely to accelerate faster than Moore's law. From a mathematical perspective the messaging in a growing network increases at a "combinatorial" rate, faster than geometric growth, and some of the more breathless estimates are that within just a few years the volume of data and "technical information" may be doubling every few hours.

This is an almost unimaginable acceleration in information. It will test the limits of human understanding, requiring us to focus ever more carefully on accuracy, reliability, usefulness, objectivity, and consistency.

Managing for Transparency

We're headed for a world in which all our e-mails and phone calls will be as public as Facebook. In such a world, no matter what actions we ultimately agree to take and regardless of how we "position" ourselves in the media, our intentions are likely to become visible as well. This is the reality of transparency, and it is technologically inevitable.

In the e-social world, spin is out and customer experience is in. When one customer communicates with another, she doesn't share her impression of the brand's promise; she shares her experience. ●

Designing Trustability into a Business

Even though it might be highly disruptive as a competitive strategy, it isn't overly difficult to imagine how trustability would operate in any given business category. We only need to put ourselves in the customer's shoes. So let's just imagine how trustability would manifest itself in a few different kinds of businesses, starting with mobile phones.

Trustability in the Mobile Phone Category

Within an environment of smartphones and increasingly capable wireless services, the charges a mobile carrier assesses can be complex, and complexity presents a tempting opportunity to take advantage of customers.

A genuinely trustable telecom operator would automatically assign customers to the most economical call plans based on their calling, texting, and data usage.

While most mobile companies (and other subscription-based businesses) will make outbound calls to customers at bill-paying time to prompt payment, when appropriate, AT&T actually calls at least some of its customers before the due date by which a late fee would be assessed.

Trustability in Financial Services

While there is obviously no requirement for any financial institution to extend credit to a customer (or to cover an overdraft without charging a fee), a large proportion of "penalty" fees are incurred by customers who are in fact creditworthy. A genuinely trustable retail bank would use easily available information to assess customers automatically for their creditworthiness, eliminating many such charges and possibly offering an automatic e-transfer among accounts when such a transfer is available but just hasn't yet been elected by the customer. At present, most banks reserve this kind of service for high-balance customers only, but there's no business reason it couldn't be more generally available.

And any genuinely trustable financial institution would allow its customers to post their own reviews of its services and products (including comparisons with other companies' offerings) on the company's own website, making these reviews freely and impartially available to other customers.

In the final analysis, it is almost certain to be the new companies and the start-ups that employ these tactics to overturn the old way. They have less invested in the current paradigm and less to lose by destroying it. Gradually, they will use trustability to transform our entire economic system, in the same way that interactivity itself has so dramatically transformed our lives already. They will deploy honesty as a brutally efficient competitive weapon against the old guard.

Very soon, for competitive reasons, all businesses, old and new, will begin to respond to the increase in demand for trustability by taking actions that are more worthy of trust from the beginning — that is, actions that are more transparently honest, less self-interested, more competently executed, less controlling, and more responsive to others' inputs. More proactively trustworthy. Trustable. ●

RECOMMENDED READING LIST

If you liked *Extreme Trust*, you'll also like:

1. ***Smart Trust* by Stephen M.R. Covey and Greg Link.** Blind trust can be as dangerous as zero trust. This summary shows a better, balanced way to trust in business and life.
2. ***Good Company* by Laurie Bassi, Ed Frauenheim, Dan McMurrer and Larry Costello.** Learn how to win in the "Worthiness Era," a time in which consumers are demanding a higher level of responsibility from a business.
3. ***The Thank You Economy* by Gary Vaynerchuk.** This summary reveals how businesses can harness all the changes and challenges inherent in social media and turn them into tremendous opportunities for profit and growth.

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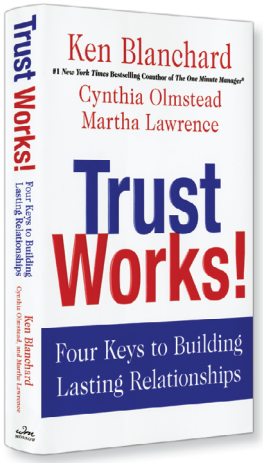
TRUST WORKS!

Four Keys to Building Lasting Relationships

by Ken Blanchard, Cynthia Olmstead and Martha Lawrence

© 2013 Harper Collins, 130 pages

Cynthia Olmstead, the creator of TrustWorks!™, identified trust as a key differentiator in successful organizational change initiatives. Trusting the direction established in senior management's strategic plan, as well as trusting your colleagues' ability and commitment to deliver on their respective responsibilities as part of that plan, is vital if everyone is going to pull together to accomplish the shared goals for the organization. However, as Ken Blanchard, one of Olmstead's co-authors of *Trust Works!: Four Keys to Building Lasting Relationships,* points out: "Trust is a delicate thing. It takes a long time to build, yet you can blow it in a matter of minutes."



Beginning a dialog about trust requires a shared vocabulary that, the authors propose, is very often harder to achieve than first anticipated. Trust is in the eye of the beholder, and it can be perceived from words, actions and even body language. Within that construct, those words and actions have the potential to either build or erode trust, and the person whose behavior may be eroding the trust of his or her colleagues may be totally unaware that it is happening, because we each see trust through our own filters.

A path to building trust and developing the competency to resolve trust issues is presented in the framework of a behavioral model — the ABCD Trust Model™ — that organizes successful trust behaviors into four main groups: "Able (demonstrate competence), Believable (act with integrity), Connected (care about others), and Dependable (maintain credibility)." In place of behavior-specific chapters, the authors provide an initial introduction to the model through a parable about the lack of trust between a cat (Whiskers) and a dog (Woof) and how their behavior "threatens the tranquility of an animal-friendly family." The objective here is to begin a conversation about trust in both our personal and professional lives.

Part 1: A Tale of Trust

Mr. and Mrs. Berryhill, their seven-year-old daughter Kylie, and toddler son Billy, share their country home with Whiskers, Woof, a wise old parrot named Presley, a hamster named Harriet and a goldfish named Wiggles. In recognition of the "generations-old enmity between cats and dogs," it is Whiskers and Woof who embark on a journey of behavior change as they learn to question the status quo of their relationship and to trust each other. At the same time, the Berryhill parents embark on their own journey as Mr. Berryhill faces challenges both at work and at home. At work, the pressures of new responsibilities in his job are drawing Mr. Berryhill's performance to the attention of his boss, who is questioning whether he has the necessary skills and abilities to successfully manage those new tasks. At home, yet another fight between Whiskers and Woof leads to the destruction of an entire table full of dishes and prompts Mr. Berryhill to announce that all the animals will have to go if the cat and dog can't figure out a way to get along.

It falls to the wise old parrot Presley to explain to the other animals that: "Trust is a matter of perception," and to guide them through the: "ABCDs of trust." Mrs. Berryhill shares the same wisdom with her husband, guiding him through the ABCDs in working to win back the trust and confidence of his boss.

The ABCD Trust Model™

Using a wise mentor for both the animals and the humans in the parable allows each behavioral group to be introduced from a broader perspective than a simple first-person narrative. Both sides of the trust relationship can then be examined rather than just prescribing a change path for one side or the other.

Each of the four groups is introduced with a quick self-assessment of behaviors across a five-point scale from "Hardly Ever" to "Always," allowing the reader to examine his or her own trust behavior (either personally or professionally) as the story unfolds. A cumulative self-assessment is presented at the end of the parable to use to either see if your answers have changed after you have read the entire story, or allow you to score both your personal and professional behavior in separate assessments.

Ready and Able

The first group — being Able — focuses on demonstrated competence. This means looking for opportunities to demonstrate that you trust someone and you can be trusted. For Woof's changing relationship with Whiskers, that means digging a hole under the fence to demonstrate that he knows how to help her (being *trusted*). For Mr. Berryhill, that means committing to his boss that he can handle the new responsibilities (he can be *trusted*) and asking for his help in identifying a couple of mentors to help him improve his performance (reinforcing that he trusts his boss's judgment). The quick self-assessment identifies the following behaviors as examples of being ready and **Able** to be trusted:

- I get quality results
- I solve problems
- I am highly skilled
- I am good at what I do
- I have relevant experience
- I use my skills to assist others
- I strive to be the best at what I do

Building Trust Takes Time

In order to be Believable, you must act with integrity. This takes time. You cannot simply announce that from now on you will do better when you are starting from a place of unearned trust or clear distrust. For Woof, this means keeping the confidences that Whiskers shares with him, being respectful, and not judging the behavior of others. For Mrs. Berryhill, this means keeping her promise to Kylie to get swimming lessons for Billy so that he can join her for playtime in the pool. In both cases, there was a deficit of poor behavior and broken promises that needed to be addressed before any forward progress could be achieved.

The quick self-assessment identifies another seven behaviors as examples of being **Believable:**

- I keep confidences
- I admit when I am wrong
- I am honest
- I avoid talking behind people's backs
- I am sincere
- I am nonjudgmental
- I show respect for others.

Trust Is a Two-Way Street

The third group — being Connected (caring about others) emphasizes the emotional component of trust. Trust cannot be earned by simply approaching the other behavior groups as checklist items that need to be addressed. The behavior has to be perceived by the recipient as evidence that you care about her and that her trust is important to you. This means that the recipient also shares the responsibility of demonstrating that she acknowledges and appreciates the effort through communication and the sharing of information. For Whiskers, this means breaking through the "age-old enmity" and actually talking to Woof. For Mr. Berryhill, it means regular progress checks with his boss to share updates and success stories to reinforce his commitment to do better. The quick self-assessment identifies the following seven behaviors as examples of being **Connected:**

- I listen well
- I praise others' efforts
- I show interest in others
- I share about myself
- I work well with others
- I show empathy for others
- I ask for input

The ABCD Trust Model™

Able

Believable

Connected

Dependable

It All Depends

Holding yourself accountable to others and being consistent in your behavior enables you to be Dependable and maintain your hard-earned credibility with family, friends and colleagues. The animals of the Berryhill household demonstrate this fourth behavior category by working together to protect Billy who crawls dangerously close to the edge of the pool. For Mr. Berryhill, his modified behavior at work is rewarded with a promotion that is reflective of his newly-demonstrated skills and natural strengths. The quick self-assessment identifies the final seven behaviors as examples of being **Dependable:**

- I do what I say I will do
- I am timely
- I am responsive to requests
- I am organized
- I am accountable for my actions
- I follow up
- I am consistent

> "Usually there is no safe way to discuss problems that have grown due to a lack of trust, such as poor morale, interdepartmental and interpersonal conflicts, poor customer service, and lack of communication. The beauty of the ABCD Trust Model™ is that it takes the complex subject of trust and simplifies it into a framework that leaders at all levels can use to build more trusting relationships."
>
> — *Trust Works!, p. 120*

Part 2: Trust Busters & Trust Boosters

In the second part of the book, the authors build on the insights gained in the parable and self-assessment by demonstrating how the ABCD Trust Model™ can identify behaviors that either encourage or undermine trust. Beginning with a brief series of red flags that you may be facing at work, the authors revisit each of the four behavior groups and suggest positive behaviors (trust *boosters*) as solutions for perceived evidence of trust issues (trust *busters*).

If, for example, you are noticing that your colleagues are withholding information from you, excluding you from meetings, avoiding eye contact, or avoiding you completely in the hallways of your offices, you probably have a trust problem. Following the template of the ABCDs of trust and the 28 specific behaviors outlined in the self-assessment, you will have a path to follow to resolve that problem.

The Importance of Perception

Until you can accurately measure the severity of the problem, you don't really have a place from which to start your resolution. This is where the problem of trust being a matter of perception becomes a significant obstacle. To illustrate what can happen when trust means different things to different people, the authors invoke the story of five blind men all describing the same elephant:

"The one who feels the leg says it's like a tree; the one who feels the tail swears it's like a rope; the one who feels the elephant's trunk is sure it's like a snake; the one who feels the ear insists it's like a fan; the one who feels its side is sure the elephant is like a wall. In the same way, people see behaviors from their own points of view."

The critical point here is that resolution of a trust issue can only be truly successful if you clearly understand the perspective of the person who has made the assessment of your 'trustworthiness.' Your past behavior may have been erroneous or inappropriate, or it may have been a simple case of misunderstanding.

Until you have that information clarified as your baseline, the four quadrants of the ABCD Trust Model™ have the potential to be misused, resulting in exacerbation rather than resolution of the original problem.

Rebuilding Damaged Trust

In a situation in which trust has, despite our best intentions, been damaged or perhaps irreparably broken, the emphasis moves from clarification of a baseline to a more volatile scenario of frank and highly emotional conversations. The authors warn that in some cases, the stakes may be so high for such conversations that the specialized services of experienced mediators or therapists may be required, but all such emotionally-charged scenarios will demand: "fortitude and forethought." The four quadrants of the ABCD Trust Model™ should be leveraged in the following five-step process:

1. Acknowledge and Assure. Acknowledging the damage done and the extent of the problem that exists is a critical starting point that may also prove to be the end-point of the conversation if the other party makes it plain that there is no interest in reaching a mutual resolution. Assurances of your intention to restore trust may allow the dialog to move forward.

2. Admit. Admission of your role in the breach of trust and ownership for whatever harm was caused is necessary if you are to start rebuilding your credibility. This is not the same as a blanket admission just to get the conversation moving, but rather a notification that you have given serious thought to what occurred and the role you played in it.

3. Apologize. Even if you feel that you weren't entirely at fault, apologizing for your behavior and committing to changing that behavior demonstrates humility and sincerity. Any attempt to make excuses or shift blame will bring that apology into question and undermine the authenticity of your commitment.

4. Assess. Using the ABCD Trust Model™, invite feedback from the other party as to which elements of the four behavior groups were violated. The more specific the information shared, the clearer the path to resolution will become, although this may present some uncomfortable emotions.

5. Agree. Identifying the trust buster behavior in step 4 should allow both parties to agree on the appropriate trust booster behaviors needed to rebuild the damaged relationship in a detailed action plan.

A Message for Leaders

The authors fervently believe that the ability to build (and, where necessary, restore) trust should be regarded as a: "defining competency for leaders in the 21st century." Trust may take time to build, but if the pace of change initiatives continues to accelerate, there will be less and less time to rebuild it if you get it wrong. Any perceived failure on any one of the four core components of trust — Able, Believable, Connected or Dependable — will bring about tangible consequences that directly hit the bottom line of the organization: "people bail on relationships and leave organizations, cynicism reigns, progress grinds to a halt, and self-interest trumps the common good."

Taken as individual events or instances, a broken promise, unfulfilled commitment, unfair treatment, or bold-faced lie to achieve an ulterior goal may simply be dismissed as an everyday business occurrence: "it's nothing personal, it's just business." However, repeated occurrences of such "trust-busting' behavior, especially by leaders or senior management, will result in a low-trust environment characterized by employees who are: demoralized, disengaged, unproductive, and afraid to take risks." By contrast, work environments built on trust will deliver deeper and more productive relationships that foster proactivity, creativity and, most importantly, a growing bottom-line.

WHY YOU WILL LIKE THIS BOOK

The parable of Whiskers and Woof manages to inject some humor, energy and a non-threatening message into a potentially dry subject matter, which is especially useful if readers are currently facing highly-charged trust issues in their workplaces. The use of a family setting in tandem with a recognizable business scenario facilitates both comprehension and adoption of the material, while underlining the value of interpersonal skills in multiple environments.

The authors: Ken Blanchard is the Chief Spiritual Officer of The Ken Blanchard Companies. His One Minute Manager Library has sold more than 15 million copies and has been translated into more than 25 languages. **Cynthia Olmstead** founded TrustWorks Group in 1987 and served as its president until it was bought by The Blanchard Companies in 2010. A group development expert, she recognized that the core of many problems is the lack of trust. **Martha Lawrence** is a former editor at Simon & Schuster and Harcourt. She is an executive at The Ken Blanchard Companies.

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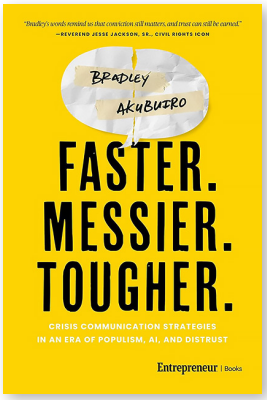
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Faster. Messier. Tougher.

Crisis Communication Strategies in an Era of Populism, AI, and Distrust



by **Bradley Akubuiro**

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THE SUMMARY IN BRIEF

Faster. Messier. Tougher. examines how the environment surrounding corporate crisis communication has changed in the age of social media, political polarization, and rapid information flows. The book's central premise is that traditional crisis communication strategies no longer fit the realities organizations face today. Instead, companies must operate in a landscape where silence can be interpreted as guilt, narratives move faster than facts, and public reactions are shaped by fragmented audiences and cultural divisions.

The book introduces a set of practical frameworks for navigating this environment. These include identifying the stakeholders whose trust truly matters, understanding how trust functions as a form of reputational capital, and responding to crises with authenticity rather than scripted perfection. It also examines how misinformation spreads, how organizations are assigned narrative roles such as villain or victim during crises, and how companies can integrate AI tools into communications while maintaining credibility.

The book is structured as both analysis and practical guidance, combining conceptual frameworks with lessons drawn from real corporate crises. Author Bradley Akubuiro, a communications executive who served as a senior spokesperson at Boeing during the Boeing 737 MAX crisis, draws on firsthand experience advising organizations facing regulatory scrutiny, reputational attacks, and political pressure. His professional background informs the book's focus on how communications strategy can function as a central component of organizational decision-making during periods of public scrutiny.

IN THIS EXECUTIVE BOOK SUMMARY

- Explain why stakeholder trust shapes crisis interpretation
- Identify priority audiences by influence tiers
- Show how authentic responses navigate risk and pressure
- Use AI and analytics to improve monitoring and messaging

INTRODUCTION

Read the Room or Risk Everything

For all of us in crisis communications, it feels like the world shifted beneath our feet while we weren't looking. The strategies that served us for decades, the careful statements, the measured responses, the wait-and-see approaches, are more than just ineffective; they're actively dangerous.

The uncomfortable truth is that many organizations clinging to the old playbook aren't just failing; they're making their exposure worse.

I am offering a new framework for a world where corporate communication and crisis communication have become indistinguishable and where the ability to navigate perpetual controversy isn't just a nice-to-have skill; it's essential.

The scenario planning I learned as a teenager—understanding your environment, assessing threats, and having contingency plans—goes beyond survival instinct. It's now a core competency for anyone responsible for protecting an organization's reputation in the current moment.

Whether you're a CEO, head of communications, or otherwise responsible for protecting an organization's reputation, this is your road map to not just surviving the storm but emerging from its wake stronger than ever.

CHAPTER 1

From the Age of Impact to the Age of Issues

On the heels of the COVID-19 pandemic, America seemed to reconnect with its benevolent side. Companies, foundations, and individuals donated a whopping $557 billion in 2023, a remarkable number given the elevated cost of living and nonstop headlines warning of an impending, although never materializing, recession. American culture was embracing impact in new and meaningful ways.

Perhaps the most far-reaching backlash to the age of impact has been the dismantling of the diversity, equity, and inclusion (DEI) movement. DEI opponents began using every mechanism at their disposal to turn back the clock.By early 2025, federal policy shifts eliminated DEI programs and removed nondiscrimination as a criterion for federal contracts.

In response, many in boardrooms have felt compelled to reassess—and at the very least, rebrand, if not eliminate—their DEI initiatives or risk significant legal ramifications.

In just a few short years, we'd gone from the age of impact to the age of issues, where change is the only constant, and crisis communications has become synonymous with corporate communications. Navigating this world requires a new strategic approach.

Crisis Communications in the Age of Issues

Traditional media is dying by the day, and the elimination of fact-checkers on social media platforms means there is literally nobody empowered to defend the truth. From a communications standpoint, we have to accept the fact that we now operate in a society of half-truths, where large swaths of the population will latch onto tiny kernels of veracity wrapped in layers of lies and webs of confusion.

You, me, and the companies we represent have only ourselves to rely on when it comes to protecting our reputations and interests. As communications professionals, we are tasked with the impossible job of shielding our stakeholders from all the misinformation, disinformation, half-truths, and all-out intentional lies that can and will spread at the speed of light.

It's not going to be easy. You and your organization *will* take hits, so it's time to learn to take a punch if you have any intention of staying in the fight. This moment will require you to change the way you think about reputation, and that includes changing your approach to protecting your brand. It will mean undergoing reeducation in crisis communications.

CHAPTER 2

My People, My Party, and Me

Fear of Displacement

It comes as no surprise that, with the proliferation of AI and automation and constant media coverage of immigration, many people are experiencing stress, disorientation, and instability driven by fears of displacement by technology, demographic change, or both.

It's important to be able to identify and address legitimate concerns while toning down the unsubstantiated and often dangerous rhetoric, even if these false narratives move the needle in your company's favor.

Distilling the Five Fault Lines

As a practical framework, none of these fears and divisions are random—they follow predictable fault lines:

> It's not actually about truth; it's about trust.

- **Economic divide**: Pits "haves" against "have nots," making any action perceived as benefiting the wealthy over the average person vulnerable to populist backlash.
- **Cultural-political divide**: Identity politics and backlash cycles create opposing camps; what delights one side enrages the other.
- **Tech divide**: Reflected in views on AI and automation, where some see tools for success while others see instruments of displacement.
- **Institutional trust divide**: Reflects eroding faith in media, government, and big business, meaning different audiences will trust (or distrust) your message based on your scale, interests, and perceived power—and, more broadly, which institutions they still believe in.
- **Information divide**: Shapes where people get their news, whether from TikTok or *The New York Times*, or between MSNBC and Fox, resulting in the same communication being interpreted through entirely different information ecosystems, often with vastly different framing.

Here's what matters: When you put out messages, reactions from one side of these divides will differ radically from reactions on the other side. Read the room, know where backlash might originate, and understand that when you step on these fault lines, wittingly or unwittingly, the response may be fierce and potentially viral.

CHAPTER 3

Truth Versus Trust

We are living in an era where people get to choose their truths. In fact, 70% of us get our news from sources that align with our preconceived views. Just think about what this type of information, based on biased perception, means for our jobs as communicators.

Merriam-Webster defines truth as "the body of real things, events, and facts: actuality; the state of being the case: fact." If people *choose* what is true, they are, in essence, ignoring facts in favor of a subjectivity that comports with their chosen reality. If someone is going to tell a lie about you or your brand, the thing that will matter most is not whether the allegation has any basis in reality but how much trust your stakeholder audience already has in your brand.

When it comes to your successful reputation defense, what carries the day won't be objective facts and compelling proofs; it will be how much trust you've either built up in advance or can muster after the fact to shield you from disinformation turning into a full-fledged crisis.

Countering Lies, Rumors, and Vitriol

Misinformation and disinformation are both as old as time, but what is new is their speed and the range they travel. The key is to know your audience and what they care about in relation to you. What's more important than what is said is what people believe.

There are lots of ways to counter false narratives, but the right answer is rarely hand-to-hand combat. The only true defense is for people to love you so much that they choose not to believe the untrue things that they hear. It's not actually about truth; it's about trust.

It's important to be strategic about how and where to combat the lies, rumors, and baseless vitriol. To do that, you have to step back and figure out where your greatest vulnerabilities are and what people need to understand from you if you want to keep their trust. You need to understand what made it so easy for people to buy into the lies about your brand and what was driving such a high degree of distrust.

CHAPTER 4

Battle Lines Drawn

There is power in drawing a line in the sand, in knowing what your company stands for and the values it holds at its core. The alternative to standing up for your core values is wavering, intellectualizing the issues by weighing the pros and cons of advising your company leaders to declare who they are and what they believe.

If your convictions tell you that your company should not be associated with harmful or discriminatory behavior, then say so. Your brand will be stronger for it, and your stakeholders will feel reassured by your clarity.

Take Care of Your Employees

There are going to be times when you don't have forewarning, when circumstances demand swift and immediate action following an unanticipated event. In those instances, living your values requires showing up for your employees simply because they need you to and because it's the right thing to do.

As an employer, a leader, and someone intent on putting your actions where your values lie, it's important to go beyond the usual "thoughts and prayers" party line. Your employees don't need your platitudes. They need your support and compassion. If you're going to make a public statement, make it count.

CHAPTER 5

Breaking News, Breaking Trust

There was a time in the not-too-distant past when traditional media was widely considered the fourth estate, a reference to its role in ensuring transparency in government and as a check on abuses of power.

Today, traditional media has lost much of its magnetism. The digital age has opened the door for new entrants into the once-insulated world of news gathering and dissemination. New media, including Substack, social media influencers, video-sharing platforms, podcasts, and streaming services have provided increasingly sophisticated ways for user-generated content to draw attention away from more traditional news organizations.

There is still enormous value in engaging with print and broadcast reporters when it comes to heightening your influence across multiple media channels. But the key now is in understanding how to leverage the credibility of traditional media as a validator in conjunction with the reach and direct-to-audience access of new media.

To Engage or Not to Engage

When the alarms are sounding, one of the most urgent demands of a crisis communicator is determining whether it's in your company's best interest to engage with the media at all around a particular matter. Discretion, or in this case, discernment, can truly be the better part of valor. If you're on the fence about whether to weigh in on an issue, ask yourself first: Is this crisis even yours?

Often, when a major issue impacts an entire sector, reporters will seek out comments from companies they know will be most affected. In these instances, it's important to take a step back and think about whether there's truly any advantage to responding. If you don't have a clear goal in mind, you should take a pass.

If you determine that a certain situation does warrant media outreach, particularly if the crisis specifically involves your company, it's important to consider which reporters are most likely to help you reach your objectives, including boosting your credibility.

This may seem counterintuitive, but in a crisis, you don't always want to seek out the reporters you can count on to write a favorable story about your company. Often, it's better to engage with the person who's earned a reputation for fairness and accuracy, even if that means that your company might be raked over the coals from time to time. Toughness and credibility in reporting go hand in hand, and in a crisis, the most important ally you have is credibility.

CHAPTER 6

Employee Identity

Your employees are your most important stakeholders. They are the people with the most skin in the game when it comes to rooting for your success. If you haven't captured the hearts and minds of the people working closest with you, then you can be certain that you'll have a tough time holding on to the loyalty of your other stakeholders, such as customers and investors, should you face a crisis or a negative event.

If you want your biggest stakeholders to have your back, you're going to have to find ways to provide them with the lived, meaningful experience of being a part of something greater than themselves.

You will have to treat your employees like the critical stakeholders that they are. And that begins with showing your human side consistently and authentically. Whether you have one hundred employees or one hundred thousand, when it comes to managing through a crisis, it's more important than ever to put a human face on leadership.

CHAPTER 7

Before the Storm

The best crisis management is prevention. Stop the fire before it starts. But since that isn't always possible, the most effective way to survive a crisis is to prepare a strong crisis management and communications infrastructure well before a crisis hits.

> The human brain doesn't process crises as data points; it processes them as stories. ”

The goal of crisis preparation is to turn potential disasters into manageable challenges. Organizations that prepare well don't just survive their crises; they often emerge stronger than before. They build deeper stakeholder trust, clearer internal processes, and more resilient cultures.

What Is a Crisis?

Not every bad headline is a crisis, and not every warning is a false alarm. A true crisis is an unexpected event that threatens your ability to operate, your reputation, or the safety of people who depend on you. The operative term here is *threatens*, not annoys, complicates, or creates some bad press.

If you're wondering whether an incident or situation has risen to the level of a true crisis, consider the following criteria:

1. Are you under real-time pressure? Do you need to make decisions in hours, not days?
2. Is there potential for significant stakeholder impact? Could this materially harm people who trust you?
3. Is this something that will garner significant public attention? Will this attract media coverage or social media amplification?
4. Is there a real threat to operations? Could this disrupt your core business or change how you're regulated?

If three out of four are yes, congratulations, you're officially in crisis mode. If it's fewer than three, you're probably dealing with an issue that needs some serious management but not crisis-level resources.

Preparing for a Crisis: A Six-Step Framework

After working in the trenches with top communications professionals for nearly two decades, I've distilled comprehensive crisis prep into the following six-step framework:

Step 1: Evaluate risks

There is no substitute here for brutal honesty. You'll need to take a good, hard look at both internal and external factors that could play a role in propelling your company into crisis.

Step 2: Assemble a crisis response team

Your core crisis response team should be small and powerful. It should also be available 24/7. Start by choosing your five core team members: a crisis leader, someone from operations, a communications guru, a legal advisor, and an HR lead.

Step 3: Build a crisis positioning system (CPS)

Your crisis playbook shouldn't look like a federal regulation: thick, unreadable, and ignored when it matters most. The core of an effective playbook should be no more than fifteen pages. It needs clear guidelines, identified vulnerabilities, and actionable filters that work in real time. CPS replaces your static playbook with a living, learning architecture. It's designed to help you sense threats early, decide intelligently, act fast, and adapt continuously using both machine intelligence and human judgment.

Step 4: Implement monitoring and early warning systems

Communications leaders need to develop a reflex reaction to any early warning signs that something could be amiss. This is why monitoring the public and internal relations landscapes is crucial to your crisis preparation protocols. The sooner you get wind of an issue, the better position you'll be in to address it or even contain it.

Step 5: Train employees at all levels

Crisis response training builds muscle memory; when the pressure hits, people revert to what they've practiced. Teach your leadership team to act as your crisis cabinet and train your employees to be aware enough to function as your first line of defense.

Step 6: Review and update regularly

Your crisis plan is a living document; it's not a museum piece. The threats you prepared for last year might not be the ones that hit you this year. If your company's Y2K holding statements are still taking up space in your template library, it's past time for a refresh. You should conduct a strategic review of your crisis plan each year.

CHAPTER 8

Stop Talking to Empty Rooms

Leaders often find themselves shouting into the wind, not because their message is wrong but because they're addressing an empty arena. Not every word spoken by a powerful person has a powerful impact. Context matters. Your job is

to measure *actual* impact among your priority audiences, not react to hypothetical influence.

Identifying Your Priority Audiences

Companies that navigate crises successfully identify who can help or harm them and build strong relationships with those stakeholders in advance. This starts with defining your inner, middle, and outer circles of influence.

Inner circle: direct business impact

Your inner circle consists of the people who can immediately affect your operations. Usually, this will consist of just a handful of impactful stakeholders.

Middle circle: influence amplifiers

Your middle circle of influencers has the power to shape what your inner circle thinks. Typically, it will consist of between fifteen and fifty stakeholders, which will include industry reporters and content creators, trade association leaders, senior employees, analysts, and community leaders.

Outer circle: general awareness

The outer circle consists largely of people who are great at creating noise but generally have little significant influence, as they rarely drive business decisions. These include fringe media personalities, most social media influencers, members of the general public outside your target demographic, activist groups, and politicians not directly relevant to your business.

Know Where Your Audiences Get Their Information

Identifying your stakeholders and decision-makers in order of influence is one thing, but understanding how and where to reach them is another. This is where it's vitally important to understand the new media landscape and how to leverage it to your advantage in a way that ensures your messaging gets to its intended audience.

CHAPTER 9

Master the Message

Every crisis is a real-life drama, demanding a problem, a victim, a villain, a hero, and a resolution.

Your goal as a crisis communicator is to keep your organization from being cast as the villain. And you accomplish that goal by telling a compelling story with a strong narrative from your point of view.

If your crisis communications revolve around data points alone, you're missing a critical opportunity to connect with your audience.

The human brain doesn't process crises as data points; it processes them as stories. And every story needs characters with clear roles.

Organizations that fail to cast the people who will fill these dramatic roles end up leaving the audience no choice but to assign the roles themselves. And nine times out of ten, when left to their own devices, the public will cast a company and its executives as the villains.

Tactical Takeaway: Map Your Roles

Before you say a word in public, ask yourself these questions: Who are we in this story? Are we the victim of circumstance? The hero working toward a resolution? Or are we accidentally positioning ourselves as the antagonist that is creating obstacles to answers?

Map every stakeholder to a role, understand which role you're naturally falling into, and then decide if that serves your objectives. If it doesn't, reframe your role thoughtfully and deliberately.

Matching Urgency of Message to Medium

Not every crisis plays by the same rules. The communication strategy that works for a data breach will destroy you during a safety recall. The type of crisis determines everything about how you deploy your message.

Safety crises

When people's physical safety is at stake, such as in the case of toxic spills, product recalls, or active threats, credibility is your only currency. Lead with your most credible channels: direct website alerts, straight-to-camera CEO video, and immediate SMS and email notifications where possible.

Reputational crises

These crises play by different rules because you're changing minds, not protecting lives. This requires broader stakeholder engagement and content tailored to break through on each platform.

Spokesperson Strategy

The days of one-size-fits-all spokespeople are over. Your CEO's LinkedIn presence needs different content than your Instagram strategy, which needs different voices than your podcast appearances.

> Communication isn't a support function; it's core infrastructure.

Match voice to venue and avoid forcing square pegs into round holes. Your CFO's thoughtful analysis of market conditions might be perfect for a Bloomberg interview but terrible for a TikTok response to criticism.

CHAPTER 10

Create Compelling Content and Measure What Matters

The organizations that emerge stronger from crises don't just survive the storm; they use data to turn it into a competitive advantage. While their rivals scramble to respond to every piece of criticism, smart leaders use measurement systems to separate real threats from noise. They know which platforms their key stakeholders actually use, what messaging moves the needle, and when silence is the strongest response.

Leverage the Dramatic Power of Human Stories

People need dramatic examples to shake them out of apathy. Sometimes, the greatest impact comes from simple acts, such as a humbled leader speaking authentically or a symbolic action that demonstrates commitment.

The same applies to corporate crisis communication: you need that symbolic moment, the human element that helps people understand not just what happened, but why it matters and what you're willing to risk to make it right.

Meeting Each Audience Where They Are Ready

Different subsets of your various audiences need different content formats. Don't risk losing public opinion because you don't offer people the content in a manner that they're ready and willing to receive. Match the format to the audience's preferred consumption method, even if it's outside your organization's comfort zone.

And once you get your formats in sync with each audience, set up a solid measurement system to validate your approach and to help you pivot when required.

Develop Thick Skin to Build Resilience

Once you are confident in the data, you have to be comfortable with discomfort. This is one of the hardest challenges for a corporate board or leadership team to face.

Toughness is not traditionally a corporate strong suit, but it increasingly needs to be. The companies that win today don't just weather storms; they use the turbulence to build stronger, more resilient operations. The companies that thrive in this environment are the ones that can take hits and keep moving forward.

CHAPTER 11

Harnessing the Power of Vulnerability

People don't buy what you make; they buy why you make it. They don't connect with corporate speak. They connect with vision, possibility, and the sense that your company understands something important about their lives.

This is what authentic leadership communication is about: connecting your company's mission to something that matters deeply to the people who need to believe in it. And when a crisis hits, people connect with authenticity.

The Corporate Tendency Toward Robotics

Most companies approach crisis communications like they're diffusing a bomb. Every word gets vetted by legal. Every statement gets stripped of emotion. Every human element gets carefully sanitized away. The result? Communications that sound like they were written by an algorithm for an audience of lawyers.

But in times of uncertainty and fear, people want leadership, not legalese. That goes for words and for actions. The leaders we remember aren't those who avoided difficult moments but those who rose to meet them with genuine humanity.

This isn't just about crisis management; it's about character. When everything you thought you knew gets stripped away, what remains is who you really are and what you truly stand for. The organizations that thrive in crisis aren't those led by people with perfect plans but by those with authentic conviction and the vulnerability to admit when they're facing something entirely new.

CHAPTER 12

Put Stakeholders First

Smart organizations design their communications function from the outside in. The most effective structure is the one that's optimized to engage the stakeholders most critical to the business's success.

There are multiple models you can follow, depending on the stakeholders you prioritize. Here are a few different examples of how to consider framing based on a few of the most commonly prioritized stakeholder groups:

Employees

Your employees are the audience most likely to see through corporate BS. During a crisis, they'll either amplify your message or undermine it. There's no middle ground.

If your own employees don't believe you, no one else will.

Public and civil society

Your audience—customers, consumers, activists, community leaders—are bombarded with information and armed with skepticism.

Civil society stakeholders, including NGOs, foundations, and all sorts of community leaders, have long memories and little patience for corporate virtue signaling. They want authenticity over rhetoric, action over statements. They can detect inauthenticity from orbit, and they have platforms to amplify their skepticism instantly.

Shareholders and regulators

In times of crisis, your formal stakeholders—regulators, investors, and boards—aren't looking for empathy. They're looking for competence. They want transparency, discipline, and a clear chain of accountability. They want to see that you understand the problem, own the solution, and have systems in place to prevent recurrence.

The expectation is straightforward: Show, don't tell, that you're in control.

AI as Your Force Multiplier

Every company is grappling with how AI both threatens and empowers its stakeholder communications. The organizations that master this balance will have a decisive advantage.

With AI, anyone can now create convincing fake websites, clone executive voices, or generate professional-quality disinformation campaigns. But the inverse is also true. AI can be a force for transformative opportunity, making communications teams exponentially more effective, particularly across three core dimensions: volume of output, customization of output, and speed of development and dissemination.

Beyond these core capabilities, AI also enables increasingly sophisticated early warning systems through real-time monitoring across platforms, generates professional multimedia content without traditional design resources, and provides deep stakeholder intelligence that helps predict reactions before messages go public.

CHAPTER 13

Comms at the Center of the Storm

Too often, communicators put themselves in a behind-the-scenes box, a self-imposed prison of sorts. Executives don't necessarily expect us to stay there, but we've convinced ourselves that it's where we belong. If anything, top executives want us to share the burden of being front and center. Breaking the mindset that communication belongs behind the scenes isn't just freeing; it strengthens the entire business.

Communicators need to be equipped not only to direct communication but also to own it. Business leaders need communications professionals who function as strategic counselors, leaders who can take the heat, control the narrative, and represent the company's interests with the same authority as any C-suite executive.

The New Rules for Strategic Leaders

The communications professionals who will lead in the next decade are the ones who understand that this job is about scenario planning, not spin. They're the ones willing to walk into the mess instead of waiting for someone else to clean it up. If you're ready to do this work, here's what it requires:

- own your voice
- integrate your function
- measure what matters
- live your values
- embrace the mess

The scenario planning that kept me alive in dangerous situations growing up—understanding your environment, assessing threats, having contingency plans—is the same fundamental capability keeping companies alive in dangerous narrative environments. Both require constant vigilance, pattern recognition, and the ability to move fast when the situation changes.

Conclusion

The companies dominating the next decade are being built right now by leaders who understand that communication isn't a support function; it's core infrastructure. While your competitors are still debating whether to invest in these capabilities, you need to be shaping markets, influencing policy, and controlling narratives.

For those willing to evolve, the tools are more powerful than they've ever been. The need is greater than it's ever been. But the window won't stay open forever.

The threats aren't theoretical. They're not coming someday. They're here.

Your competitors are getting better at this while you read this sentence. Your employees are watching to see if you mean what you say. Your customers are one TikTok away from deciding you're the villain in someone else's story.

You hope reality doesn't find you, or you can build the capacity to handle that reality when it arrives.

The choice is yours.



Bradley Akubuiro is a nationally recognized expert in corporate reputation and a partner at Bully Pulpit International, where he leads the corporate communications practice. He advises global brands on crisis management, change communications, and media relations. Previously, he served as chief spokesperson for Boeing and held senior communications roles at United Technologies Corporation. His experience also includes work at Booz Allen Hamilton and advisory roles in government and international development. Bradley is a contributor to Business Insider, Forbes, and Inc. and has been recognized in Crain's Chicago Business and PRWeek 40 Under 40. He lectures at Northwestern University and serves on multiple boards.

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Featured Book Review

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Don't Settle for Satisfied Customers

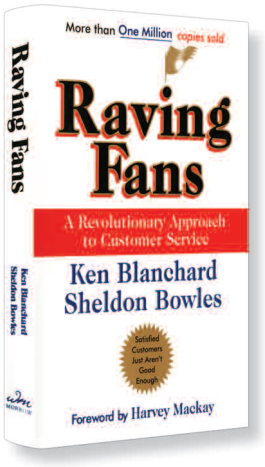
Review by Chris Lauer

RAVING FANS

by Ken Blanchard and Sheldon Bowles

© 1993, William Morrow, $22.95, 137 pages,
ISBN 978-0-688-12316-1

Appropriately enough, magic reigns supreme in the pithy little business fable co-authors Ken Blanchard and Sheldon Bowles deliver in *Raving Fans*. Although there is nothing supernatural about the real profits and repeat business created by great customer service, there is something very magical about the way attracting highly motivated, long-term customers can turn a business from just another name in the Yellow Pages to a highly successful company. In *Raving Fans*, the authors describe how any forward-looking leader can turn three secret ingredients into a powerful formula for creating outstanding customer service.



Satisfied customers are just not good enough. For a company to be successful, it needs fans who are so excited about its products and services that they rave to everyone they know about the company's greatness. Helping managers and executives build the services and products that create this type of customer is why leadership gurus Blanchard and Bowles wrote *Raving Fans* back in 1993. Today, their story and the lessons it contains remain as relevant as they were more than a decade ago.

Like all great fables, *Raving Fans* introduces us to a sympathetic hero whose fate is about to change over the course of an exciting adventure. Our hero has no name other than his new job title, the Area Manager, perhaps so every reader can put him- or herself in his shoes. The problem is, the protagonist has been hired at a company that turns over people in that position every eight months. Each of those previous people failed at the one thing the president of the company values: customer service. The Area Manager must tackle the sizable task of discovering the secret to great customer service or lose his new job.

Charlie the Fairy Godmother

Thankfully, just when he has entered the realm of perplexed panic, realizing he hardly knows a thing about great customer service, the Area Manager's fairy godmother enters the picture, appearing out of nowhere, ready to take him on a journey that will teach him everything he needs to know about the elusive customer service that will set him apart from his failed predecessors.

Forget what you've ever imagined a fairy godmother to be. This fairy godmother has no magic wand, no puffy dress, no twinkling glow. On the contrary, the fairy godmother advising the Area Manager is much different than those found in other fairy tales. This fairy godmother plays amazing golf, reads minds, predicts the weather and knows everything anyone could ever want to know about creating great customer service.

It's worth mentioning that this particular fairy godmother is a man named Charlie, and he only imparts his wisdom to those who are ready to hear his words about creating "raving fans." It seems that his celestial home

office is an equal opportunity employer, and Charlie was hired to fill its quota of men needed in its ranks of fairy godmothers.

Although the premise might sound preposterous, the principles that flow between the Area Manager and his counselor Charlie are vital for all managers. When Charlie shows our hero how to create fans so dedicated that they are willing to drive 40 miles out of their way just to spend their money, he is sharing timeless business wisdom that all modern leaders can put to use in their work.

Just as the fairy godmother in *Cinderella* acts as a mentor to her young protégée and protects her with magical powers, Charlie guides our hero through a journey to magical places where he discovers the power of total quality customer service. Along the path to his goal, the Area Manager meets a variety of successful businesspeople Charlie has mentored in the past.

Preventing Customer Flight

The starting point of our hero's journey is a company that is just treading water. The Area Manager's employer has customer service that really stinks. Nobody smiles. Employees are rude to customers. If a competitor ever steps up and does things better, customers will inevitably flock away in droves. But since everyone in the industry seems to be suffering from the same lack of inspired customer service, the company stays in business and customers hang around. The real problem for the company lurks in its future: Being no worse than its competition means that the company will be unprepared should its abused customers ever find the slightest reason to fly the coop.

The first lesson that Charlie imparts to our hero is that satisfied customers don't cut it. These are the customers that will take their business to a competitor in a heartbeat. The only way to prevent this kind of defection is to turn satisfied customers into "raving fans." Truly dedicated customers display the loyalty that keeps them around forever, and makes them brag about a business to others. They also bring their friends, families, neighbors and colleagues to that business's front door. These are the people that turn a company into a real success. Since customer service is really the bottom line for all companies, creating raving fans is an essential skill that they need to master to become booming businesses.

Charlie, the fairy godmother, has three magic secrets for creating raving fans, and through the course of the Area Manager's journey, Charlie imparts them one by one to our hero. In between their lessons, the two men play golf.

Make a Decision About What You Want

After playing their first 18 holes together, Charlie takes our hero to meet the first in a series of smart people who provide him with the insights he needs to turn Charlie's secrets into a working business model. The first person the two men visit is Leo Varley, the owner of Varley's Department Store.

In Varley's store, the Area Manager experiences exquisite customer service first hand. A greeter pins a carnation on him. A clerk finds him a book, which is out of stock at Varley's so she purchases it from a nearby store and wraps it for free. During his experience at the department store, the Area Manager notices that Varley's washroom is immaculate. He also discovers that Leo works from a desk right in the middle of the store where customers are encouraged to engage with him and ask him for anything they might need.

Leo offers the Area Manager the first secret of raving fan creation: Decide what you want to do. Although this seems simple, it is a crucial decision that every manager who wants to create great customer service must make. In other words, create a vision of what you want your business to offer to its customers. Take time to formulate a clear understanding of what your business looks like, down to the smallest detail, and imagine how you can satisfy your customers' needs. This exercise includes discovering how you will empower your employees to serve customers and what you will do differently from your competitors.

The next stop that Charlie and our hero make is at Sally's market, a grocery store that offers customers a variety of amenities that the Area Manager has never experienced before. There's valet parking, store advisers, a computerized shopping service, nutritional advice, rapid checkout, automated billing and free shoe shines to boot! These are the extras that show our hero what outstanding customer service can look like in a different retail setting.

Sally, the owner of the grocery store, explains that deciding what you want for your business also includes creating a "vision of perfection" that centers on the needs and desires of customers. She points out that this is part of the way she turned her struggling grocery store into a thriving success story. By carefully transforming her market into her fantasy of a perfect grocery store, step by step over time, she was able to attract the raving fans who make her extremely successful.

Find Out What Your Customers Really Want

Several days later, the Area Manager and Charlie go out for another drive. This time they meet Bill the plant manager. As a manufacturer with his finger on the pulse

of his customers' needs, Bill explains the second secret Charlie imparts to his students. This lesson takes the first secret of great customer service into the realm of reality even farther by injecting the manager's decisions with the desires of his or her customers: Discover what your customers really want. By asking important questions and listening closely to the answers that customers give, a manager is better able to adapt the vision of the company is his or her head with the reality of customer demand.

Bill describes how each customer will have his or her own focus, which might be incomplete, but can still provide a manager with valuable insights that can help the business fulfill desires. He also explains that some customers want much more than what the manager's original vision of the company entails. It is up to the manager to decide whether to incorporate that desire into his or her original vision, or to tell the customer to please look elsewhere for another company to fulfill that desire.

Fire Bad Customers

Herb Kelleher, the founder and former CEO of Southwest Airlines was famous for doing this on the rare occasion that he found a passenger who just could not be satisfied.

According to legend, a frequent flyer of the airline was constantly unsatisfied by everything Southwest did. She continually wrote letters to the airline complaining about the company's boarding policy, its lack of in-flight meals, the flight attendants' uniforms and the casual atmosphere during the airline's flights. When the employees in Southwest's Customer Relations Department were at a loss for what to do next, they sent the woman's letters to Kelleher.

Kelleher, who was CEO at the time, wrote back to the woman: "Dear Mrs. Crabapple, We will miss you. Love, Herb."

The authors of *Raving Fans* explain that sometimes a customer's vision for your business is so different from your vision that he or she simply does not fit into the picture. In other words, customer service is vastly important, but there are limitations. Those limitations define the business. When a customer falls outside of those parameters, it is more important for the company to bid farewell to that customer than it is to rearrange the original vision to accommodate somebody who is too hard to satisfy. Rather than waste money and resources fighting a losing battle, a better solution is to simply (yet politely, like Herb Kelleher) tell that person to take a hike.

On the other hand, when a good customer who loves your company has some input that might be useful for your company, by all means take that information to heart. Adapting your original vision to accommodate the sharp focus of a valuable customer can help you improve your customer service immensely. Just decide how far you want to go outside the lines of your vision, and work hard to keep your business in line with its goals.

Never Take 'Fine' as an Answer

Two pieces of good advice that Bill imparts to our hero are 1) a customer's silence speaks volumes and 2) a mundane response like "fine" from a customer is not good news. Bill explains that if people don't care enough about your product or service to offer you any praise or feedback, or if they simply respond with "fine" when they are asked about their experience with your company, then you are not doing enough to keep them when a competitor offers them something a little better. Don't be lulled into complacency by quiet customers. Instead, listen harder for what they really feel, every day, Bill says. The best way to do this is to ask sincere questions and respond with sincere answers. These actions show customers that you are listening. People love to be heard, so this is a great way to turn them from merely satisfied customers to raving fans.

Next, the Area Manager goes to visit his fairy godmother for another golf outing. On the way there, he meets Dennis, a cab driver who not only quickly and smoothly takes him to his destination, but also provides the Area Manager with the greatest cab ride of his life. Dennis opens and closes his door for him. He offers him cold and hot beverages. He gives him a selection of radio stations. He has magazines and the day's newspaper available. His cab sparkles, and the interior is comfortable and perfectly clean. Dennis serves as yet another example of a customer service genius and the third secret of creating raving fans: Deliver the vision plus 1 percent.

Could Be Canada

To help his student understand more deeply what Dennis had showed him in practice, Charlie takes the Area Manager on a magic carpet ride to a place far, far away. Possibly, this place is in Canada. The reason why Canada is a good bet is because the next place the pair visits is a perfect example of a customer-friendly gasoline service station where attendants run to the car, pump it full of gas, check the engine, wash the windows and provide over-the-top service with a smile. Although the story's gas station business is fictional, it is easy to speculate about the origins of this part of *Raving Fans*.

It just so happens that Sheldon Bowles, the book's co-author, was once the president and CEO of Domo

Gasoline Corp. Bowles and his chairman, Canadian Senator Douglas Everett, were responsible for building that company into one of Canada's largest independent gasoline retailers. Domo was also famous for its full-serve Jump to the Pump® service, which sounds suspiciously like the gas station the Area Manager visits in *Raving Fans*.

At the imaginary gasoline retailer in the fable, the owner, Andrew, tells our hero what he means by "deliver" and "plus one." Regarding the *deliver* part of the equation, the gas station owner explains that delivering on your customer promise is not an occasional thing. Success is built on consistency. He adds that a business that wins raving fans makes realistic promises and meets them every single time, often over-delivering on those promises.

Through continuous incremental improvement ("plus one"), a business gets better through steady growth. By improving just 1 percent of the business each week, Andrew points out, by the end of the year, the company is more than 50 percent better than it was at the beginning of the year. He calls this "The Rule of One Percent." This simple rule goes a long way toward keeping a business moving forward without upsetting the passionate customers who already love the company as it is.

Through continuous incremental improvement 'plus one,' a business gets better through steady growth. By improving just 1 percent of the business each week, by the end of the year the company is more than 50 percent better than it was at the beginning of the year.

Consistency and Flexibility

While Andrew describes the final secret in the formula for raving fans, he brings up another important concept: Systems are needed to make incremental improvements part of the structure of the business. He also points out that while systems help to keep a business humming along and growing, you must remember the importance of flexibility when it comes to encouraging employees to serve customers better. Rather than setting up strict rules that create robotic employees, he suggests creating customer-centric systems that help employees make their own decisions based on their customers' immediate needs. The consistency created by systems allows a business to make incremental improvements that take it beyond the original vision on which it is built. Customer-centric flexibility makes the business human.

Through the insights of Leo, Sally, Dennis, Bill and Andrew, Charlie makes his message clear to our protagonist. Raving fans don't just arrive out of nowhere. They are created by the persistent and consistent efforts of inquisitive and visionary managers, like the Area Manager, who listen to their customers.

By describing the secrets that can take him and his company to the next level of customer service, Blanchard and Bowles offer all professionals the tools they need to start building a more customer-focused organization. Through the simplicity, relevance and genius of their clever characters and the compelling nature of the story in which they are introduced, the authors have created a timeless piece of business fiction that can help all managers attract raving fans to their businesses in the real world. ●

The authors: Management guru Ken Blanchard is the co-author of the successful management guide *The One Minute Manager*®, which has sold millions of copies since he wrote it in 1981 with Dr. Spencer Johnson. Blanchard is also the author or co-author of an additional 23 books, including the best-sellers *Gung Ho!*, *High Five* (two more books he co-authored with Sheldon Bowles) and *Raving Fans*, which has sold more than 1 million copies to date. He is also the chairman of Blanchard Training and Development, a highly successful management consulting and training company.

Sheldon Bowles originally made a name for himself as a customer service genius when he founded and presided over Domo Gasoline Corp., a groundbreaking business that he turned into a $75 million company through a variety of unique customer service initiatives. Today, he serves as president of Ode to Joy Limited, a successful diversified holding and management company.

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The Art and Science of Innovation

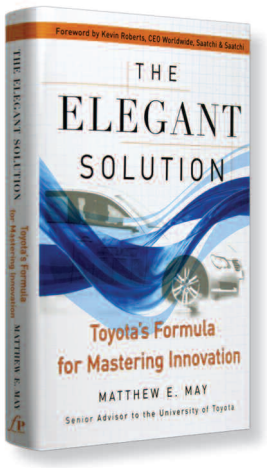
Review by Tom Moore

THE ELEGANT SOLUTION: TOYOTA'S FORMULA FOR MASTERING INNOVATION

by Matthew E. May

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ISBN: 978-0-7432-9017-3

Why have the wheels come off the U.S. automotive industry? Why are foreign manufacturers kicking our collective rear on nearly every measure of performance, product development, manufacturing, quality and profitability? More insidious, how pervasive is this decline? Is the erosion of U.S. automotive clout symptomatic of our business culture as a whole? Can we shake our competitive malaise and recapture our pre-eminence on the world stage?



These questions become increasingly relevant not only to the future competitiveness and prosperity of our economy but to the way we, as individuals, participate in and benefit from that economy. On that latter score, the news has been bleak. Every day, jobs are being restructured, outsourcing establishes new beachheads, unemployment ravages more communities, loyalty and meaning have all but vanished, and compensation erodes. In short, we are asked to do more with less and with fewer rewards — hardly a prescription for a fully engaged workforce or an economic recovery.

As businesses seek to rekindle their value proposition in today's post-industrial world, one competitor continues to raise the bar. By any measure — customer loyalty, vehicle quality, profit, output volume, best-selling new models, innovation, sustainability — the automaker Toyota defines excellence. Toyota's nearly $150 billion-plus market value outstrips General Motors, Ford, Daimler-Chrysler, Honda and Volkswagen combined. Toyota makes twice as much money as any other carmaker, even though it enjoys less than a 15 percent market penetration.

How does the company do it? What makes Toyota different? It's the essence of a corporate culture, engineered to encourage individual creativity, according to longtime Toyota business partner Matthew May in his insightful work, *The Elegant Solution*. He should know. He spent many years on the inside of Toyota teaching at Toyota University, and he takes us behind the scenes of Toyota's continuous improvement process. Looking through his lens, we come to better understand not only the cancer that is undermining the performance of many of our institutions but a treatment plan for our recovery.

His prognosis? America, once the economic juggernaut that defined performance, quality, leadership and prosperity, lost its edge when it grew complacent and greedy and stopped looking for new solutions that would better serve its customers. And therein contains the seeds of our recovery.

"Good Enough" Never Is

For Toyota, innovation is the mastery of thinking within the box. This oxymoronic reality — systems and

creativity — helps explain Toyota's corporate DNA and its record of outstanding performance. The system gives the individual worker purpose, direction and a sense of belonging. That is the safety net that encourages workers at all levels to seek new and better ways of doing things.

But May is skilled enough in his craft to avoid the trap of allowing this impressive story to devolve into stagnant textbook prose or sophomoric cheerleading. To drive his message home and make it more memorable, he punctuates the text liberally with quotes, sidebars, charts, pictures, templates, hansei (reflections) and anecdotes.

None is more riveting or enlightening as the inspirational story of Paul Guitierrez, an autoworker from the former General Motors plant in Fremont, Calif. When Toyota took over the facility in the 1980s, "we went from 'just do your job' to 'no one knows the job better than you,' " Guitierrez says. "They teach us how to solve problems. They say, stop the line anytime if something's wrong. I was floored. That right there changed my life. All of a sudden, I'm looking for ways to fix problems, make improvements, basically get rid of anything that was stupid."

May's use of Guitierrez's story helps to move the focus of the book along and gives the reader an insider's perspective on the shifts that take place when new management is installed in a business. Takeovers are often viewed as negative and punishing to current employees. The Toyota situation shows that a new owner can bring a great deal of success and give employees hope.

A Short History of Innovation

While May is an unapologetic Toyota enthusiast (as it turns out, with good reason) none of the principles, practices and protocols he shares are unique to Toyota. In fact, he includes a number of innovative practices from companies such as JetBlue, Starbucks, Clear Rx, Apple Computer and Anthropologie. "The magic is found in Toyota's remarkable ability to collectively and completely master all of them as a way of life, not a program centered on select teams led by specialists with artificial agendas," May explains. "That's what makes Toyota unique and worth studying."

May begins with the story of Sakichi Toyoda, who, in 1888, watched his mother work on a primitive spinning loom all day, often having to scrap an entire day's work because of a single broken thread. "I began thinking about ways to power the looms so that weaving could be done faster and more cloth could be made more cheaply," Toyoda says. "People could then buy cotton goods for less, and that would benefit society substantially." Some 30 years and numerous minor improvements later, Toyoda perfected the power loom with the capability to stop the loom automatically whenever a thread broke.

> **"Toyota implements one million ideas a year. For Toyota, innovation is the mastery of thinking within the box."**

Not only did Sakichi Toyoda find the elegant solution, he found the art and science of continuous improvement that became the lynchpin to Toyoda Automatic Loom Works, the precursor to Toyota Motor Company. This resourceful spirit was absolutely essential in an era of scarcity — land, facilities, money and labor — as he leveraged his employees' ingenuity, constant improvement and a strong will to serve society to accomplish more with less.

A Spiritual Quest

May introduces Sakichi Toyoda, not to showcase his inventive prowess but rather to place in context his nearly Zen-like quest to develop a better solution to a real problem. When it comes to solutions, simple is better, according to May. And elegance is better still. Arriving at the ultimate meaning behind the title of his book, May writes, "An elegant solution is one in which the optimal or desired effect is achieved with the least amount of effort."

What makes this intriguing is that it doesn't matter whether the focus is a discussion of a new product design, or the enginineering of a new technology, or an improvement to a daily operation, the core processes for innovation are the same and can be taught and replicated; all entailing a rigorous search for the optimal solution, all working toward solving the problem of how to do something better.

The truth is that customers are not impressed with features that don't meet their needs or solve their problems. Innovation is about satisfaction and value, not new gizmos. Therein lie the philosophical underpinnings that guide the quest for elegant solutions:

Ingenuity in craft. May urges us to reject self-limiting behaviors, such as blaming corporate bureaucracy or resource constraints for maintaining the status quo. He argues that we should develop our expertise and take pride in our work to overcome complacency by viewing such opposition as "an inventive challenge."

Pursuit of perfection. May debunks the myth of the "thunderbolt breakthrough," arguing those often serendipitous events are rarely repeatable and often don't square with a culture of innovation founded on continuous improvements and the systemic pursuit of perfection.

Fit with society. Remember the old saying that if you build a better mousetrap the world will beat a path to your door? That's not entirely true, according to May, who maintains that without a major rodent infestation, such a mousetrap, no matter how innovative, will not be successful. Establishing this fit requires a clear understanding of your business and your customers.

These are the principles that, to this day, fuel the engine of innovation at Toyota and form the basis of everything Toyota does. Without them, it's too easy for any business to become focused on short-term financial performance. Exhibit one is Toyota's competitors in Detroit.

What Is Innovation?

In demystifying innovation, May blows the doors off traditional assumptions that innovation is the province of the few, the trained, the elite. "It's NOT sitting around dreaming up earth-shattering ideas behind closed doors, trying to be clever and creative in concocting a new secret sauce that will blow the doors off the competition," he writes. "It is making best use of one's expertise while openly exploring possibility and defining the task at hand. It is a front-line worker exploring, finding and solving an important problem hands-on."

Innovation depends upon how we connect with our work, May notes. The more engaged we are and the more trust we feel, the more creativity will be unleashed. So how do we move to that level of engagement?

May says the first step is to avoid the trap of getting lost in titles and job descriptions, which inhibit us from capturing the meaning of our work. For those struggling to make the connection, May employs "The 5 Why's." He simply starts with a job description and starts peeling to unlock the real purpose or meaning of the job by asking, "Why is that important?" After five such questions, the cause should be revealed. Autoworkers, like Paul Guitierrez, come to see their jobs not as working on an assembly line but as protecting families as they drive.

The flip side of the engagement coin is relentlessly exploring new solutions by asking questions to develop a better understanding of our business and our customers. Suppressing curiosity builds drone-like conformity, the arch-enemy of innovation.

How Do We Achieve Innovation?

It's one thing to diagnose the problem; it's quite another to convert these philosophies into an actionable recovery plan. May succeeds on both counts. Appropriately, that's where he spends the bulk of his energy — elaborating on how to implement the elegant solution. Although it is a journey without a destination, the path is marked with some visible, repeatable practices.

> "Remember the old saying that if you build a better mousetrap the world will beat a path to your door? That's not entirely true…"

May carefully ensures this roadmap applies to individuals and corporations alike. For the individual, there are the tools to buck the bureaucratic inertia that can stifle innovation. And from the business leader's perspective, there are tools to remove the myopic organizational barriers that constrain personal ingenuity and creativity.

As he spells out how to implement innovative practices, May uses a problem, cause and solution format, which helps us understand each of these areas.

Perpetual learning. What separates Toyota from other companies is its mastery of perpetual learning driven by the cultivated desire to understand. In order to accomplish those objectives, Toyota employs the process of I.D.E.A. Loops (Investigate by questioning to fully analyze the problem; Design by solving problems and generating solutions; Execute by testing a solution; and Adjust by assessing results and improving the design based on user feedback). Without a systematic learning process, it's difficult to make change relevant.

Live in your customer's world. In order to avoid solutions that don't work as predicted, May encourages us to get closer to the customer. Toyota calls it, "genchi benbutsu," the Japanese term for "go and see." The idea is to observe the customer, become the customer and collaborate with the customer to develop a more complete understanding of the customer. For instance, Toyota's product developers working on the Scion attended raves and hip hop parties to understand their youthful target audience. The challenge is to be nimble enough to accept facts that run contrary to our beliefs.

Think in pictures. Pictures and images connect people in an emotional way that helps to illuminate the innovative path we need to work. This visualization can take the form of visual dashboards to monitor performance on goals or "obeya" sheets. "Obeya," which means "big room" in Japanese, is the nerve center for any Toyota team project. Output from these sessions is captured on a large tabloid-sized sheet nicknamed an A3 for the international paper size.

Capture the intangible perceptual and emotional elements. Too often solutions fail to excite the customer because of a tunnel-vision focus on features as opposed to benefits for the customer. May urges us to

capture the intangibles that people truly prize. Therein we'll find the most compelling elements of value. For instance, Lexus doesn't sell luxury transportation, but rather safe sanctuary and quiet escape. Disney doesn't operate theme parks; it sells magic and fantasy. The tangible drivers of value — quality, cost, speed — are merely the price of admission and, in order to compete, it's essential that we get these right. But if we can get to the heart of what enhances the customer experience, we have the opportunity to unleash a torrent of creativity.

Leverage the limits. Understand that resource constraints can spur ingenuity. For instance, in 2005, Toyota announced that it was looking for ways to cut in half the $5,000 difference in price between Toyota's hybrid cars and similar gasoline models, without compromising the current quality or performance. Because it was aligned with Toyota's business model, that arduous and audacious goal, once articulated, became reality.

Make kaizen mandatory. May tells us that the number of ideas submitted per employee in Japan is 100 times greater than in U.S. companies, despite the fact that the average reward is 100 times less than in the U.S. "Kaizen," the Japanese word for continuous improvement, caters to the idea of submission of ideas, not acceptance.

Keep it lean. Despite the accelerating scope and pace of change, too many businesses invest in structures that impede response time and flexibility. Customization and complexity become intertwined and will ultimately erode whatever value is provided. To combat this tendency, May encourages us to start looking at the world through the eyes of the users and to the front-line employees and relentlessly fight against complexity and "scale it back, make it simple and let it flow."

Summary

When we think of Toyota, we think cars. Yet May is quite clear that what separates Toyota from the pack is its relentless pursuit of innovation. Toyota refuses to rest on its laurels. It fights complacency by encouraging ideas from every level of the organization. It's all about incremental improvements, getting a little bit better every day.

> "Lexus doesn't sell luxury transportation, but rather safe sanctuary and quiet escape. Disney doesn't operate theme parks; it sells magic and fantasy."

The Elegant Solution serves as a clarion call for businesses or individuals flailing in the stagnant backwater of uninspirational and un-aspirational mediocrity. But far from a death knell, May's work paints an optimistic view of the future.

"More and more people are beginning to return to the almost forgotten Renaissance era of mastery. They're adopting a different view of their work. In all walks of professional life, from senior executives to factory workers to part-timers, people are beginning to see themselves as business artists and business scientists.

"Great innovation seeks to find and fit the rhythm of change happening around us. At the same time it aims to lead that change by finding a way to do something better than it's ever been done before. Great innovation is a brand of leadership. Elegant solutions meld with society. They help move the world."

There's no time to waste. Toyota is already moving away from the narrow focus on product and service quality because of the perceived creeping of commoditization. According to May, the company has set its sights on creating "compelling customer value, about how to flow that value through streamlined processes and about embedding a real discipline around the pursuit of perfection."

The best never rest. ●

The author: Matthew E. May partners as an advisor with corporate leaders to help guide change and drive innovation in their organizations. He is the director of Aevitas, a Los Angeles-based firm that works with teams to instill a strong discipline around constant innovation, using a unique blend of logic and creativity to embed the routines they need to build a balanced portfolio of ideas from the front lines to the boardroom.

For more than eight years, May partnered with the University of Toyota, playing a key role in the organizational learning strategy, design and delivery of core programs for Toyota associates both domestically and internationally.

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Featured Book Review

SOUNDVIEW Featured Book Review
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Virtuous, Virtual New World

Counterintuitive Lessons for Your Business and Your Life

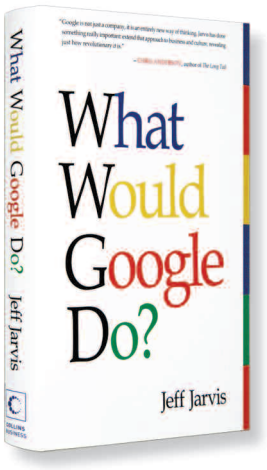
Review by Tom Moore

WHAT WOULD GOOGLE DO?

by Jeff Jarvis

HarperCollins Publishers, Copyright ©2009, 257 pages, $26.99 ISBN: 978-0-06-170971-5

We are entering uncharted waters. The turbulent scope and pace of change has turned our worlds upside down and inside out, leaving us dazed and confused. Web 2.0 is already considered passe, but so many businesses have yet to come to grips with its impact. Combine the rapidity of change with the financial uncertainty and it's quite a hazardous time.



No area of society has been left unscathed. Retailers, banking, insurance, media, utilities, educational institutions, governments and social groups are clamoring for their moorings. In the wake of the raging economic tsunami, many previously successful enterprises find themselves underwater and in need of federal assistance.

Yet one business model stands out above the rest — Google. In 2008, as banks, companies and even nations took on water, Google announced profits rising 26 percent. Google has 71 percent of the share of searches in the U.S. while controlling 69 percent of online ad serving and 24 percent of online ad revenue. So, confronted with the challenges of the present it makes sense to ask: What would Google do?

The answer is revealed by Jeff Jarvis, media and news blogger at Buzzmachine.com and an associate professor and director of the interactive journalism program at the City University of New York's Graduate School of Journalism. This new-age prophet helps us navigate the treacherous currents of the new economy in his new book, *What Would Google Do?*

If that title sounds somewhat heretical, it's because it's meant to be. Jarvis says it was inspired by the bumper stickers and bracelets that ask What Would Jesus Do? In this iteration, Google has become the higher power of the new Internet economy. The point of the book is not to mimic everything that Google does but to learn how to see the world as Google does, analyzing and deconstructing its success so we can apply what we learn to our own companies, institutions and careers.

Part social commentary, part history and part prophecy, *What Would Google Do?* is an old-fashioned tent revival packed into 257 pages of exciting, thought-provoking and inspirational prose. Jarvis condemns our sinful past and spurs us on to our economic salvation by following the altruistic rules that have been the cornerstone of Google's success: openness, collaboration, transparency and trust.

The Missing Link

Jarvis provides an inside look at how he came to realize the potential of the Internet. He took to his blog to chronicle the customer service frustration he had with a new Dell computer and then shared his personal accounts when circumstances found him reporting from near Ground Zero during the 9/11 attacks.

"A few bloggers in Los Angeles read what I had written, wrote about it on their blogs and linked to me," he recalls. "I responded and linked to them. At that moment, a gong clanged over my head. I realized

"The days of the command-and-control economy, in which companies held information close to the vest to artificially pump up demand and push products and services on unsuspecting customers, are over."

we were having a conversation — a distributed conversation, happening in different places at different times, which was made possible by the link."

In that moment, Jarvis says he realized the connected, interactive and collaborative power of the Internet. He realized that this structure had the potential to transform commerce, marketing, politics, government, education — the world. "The link and search created the means to find anything and connect to anyone," he explains. "Now everyone could speak and all could hear. It enabled people to organize around any interest, task, need, market or cause."

Link and search started a revolution in the way we interact with others that continues to ripple through every sector of our society. Those that understand that the information transformation has less to do with technology and business and more with building new connections and relationships will survive and even thrive in this new era. Those that don't are doomed, Jarvis maintains.

Endangered Species

In their most messianic interludes, companies and institutions tend to view the Internet as a resource that has been created in their own images, according to Jarvis. For instance, retailers think of the Internet as an online catalog from which consumers will order merchandise. Too many businesses and institutions view the Internet as merely a portal that has done nothing more than extend their reach and accelerate the speed with which their customers can do business with them.

But the Internet abhors such inefficiency. The days of the command-and-control economy, in which companies held information close to the vest to artificially pump up demand and push products and services on unsuspecting consumers, are over. Indeed, entire industries and companies, such as car sales, advertising agencies, governmental bureaucracies, insurance, headhunters and real estate brokers, are in danger of going the way of travel agents if they don't heed Jarvis' admonition to stop trying to make money by interfering in transactions.

If this sounds like the theoretical ramblings of a wild-eyed futurist, Jarvis is quick to bring us back down to earth with a sobering dose of cold, hard reality that makes his prognostications far more prescient:

- "In 2007, eBay sold $59.4 billion in merchandise from 547,000 online stores," he writes. "It may be dwarfed by Wal-Mart's $345 billion, but in 2007 eBay beat the sales of America's largest store chain, Federated (aka Macy's), who had revenues of $26.3 billion in 853 stores."
- "Gawker Media, a gaggle of gossipy blogs started by Nick Denton, boasted in July 2008 that its dozen sites had double the Web traffic of the *Los Angeles Times* online — 254 million vs. 127 million page views in a month."
- All Weblogs, taken collectively, have an audience of readers that is larger than the number of people who buy a daily newspaper.
- "Skype — which at the end of 2007 had 276 million accounts in 28 languages — exploded as a free service before it added paid features that drastically undercut old phone companies."
- Zillow.com provides automated estimates of a home's value based on comparable sales in our communities. This invades and erodes the province previously controlled exclusively by real estate agents and the Multiple Listing Service.

"The mass market is dead," Jarvis declares. "It committed suicide by not heeding market trends and developing authentic, interactive relationships with its customers. Google just handed it the gun."

Power to the People

The new frictionless economy is fueled by companies like Google that seamlessly connect demand to fulfillment. Instead of trying to control the customer, they allow their constituents to take part in setting the direction and the rules of engagement. These companies understand the transformative power of the Internet; these networks, platforms and links put the people in charge by connecting them with information, action and each other. It is in those connections where value is created, efficiency is found, knowledge is grown and relationships are formed, Jarvis maintains. Relationships are the currency of the new economy.

These new customer relationships undermine the conventional laws of supply and demand that have defined much of our economic, political and social interactions up until this point. Consider the case of an airline that had only so many seats to sell. As demand for the scarce resource escalated, so too did the price. Google has blown the cover off of this scarcity mentality by creating a business model based on abundance: The more content there is for Google to organize and the more places

there are for it to place its ads, the better. The same counterintuitive tenets are ripping through other sectors of the economy.

Amazon.com is a case in point. The company holds as little inventory as possible, owns no stores, pays no retail rent, hires no sales clerks and owns no shipping infrastructure. Because of the sheer volume of its business, Amazon.com is able to negotiate the best prices from suppliers, a portion of which is passed back to its customers in what is termed the "Internet dividend," which only builds volume even higher.

Or consider the well-documented tales of the open-source economy fueled by a distributed phalanx of programmers who pooled their resources to collectively create the Linux operating system that powers most Internet servers, to develop the free Apache Web server software that delivers most Web pages, and to perfect Mozilla Firefox for the 500 million open-source browsers. Open-source projects are not the chaotic anarchies many would have us believe, but rather have leadership and structure — an elegant, altruistic organization in which the contributors are not motivated by selfish greed, but rather by the desire to be a part of something bigger than themselves.

The Economic Salvation

But Jarvis does more than simply extol the seismic shifts under way in our economy. He provides navigational beacons directing companies to a new prosperity based upon how much control they give back to the people. He distills Google's relationship with its customers into attributes, each bearing clever headlines such as "Small is the new big," "The post-scarcity economy," and "Atoms are a drag," which not only fuel our curiosity but help him drive home his message of transparency, collaboration and trust.

He challenges companies to step down from their self-anointed pedestals and make themselves open and responsive to their customers. It's the Golden Rule of the Internet age: Treat others the way we want to be treated. He advises us to determine what it is that we do best, stick to it and link to the rest — which frees up resources that can be better deployed.

Jarvis uses the example of Kodak as a company focused too long on its tangible product (film) rather than establishing dominance in the digital arena. He estimates that Kodak's hesitance cost the company the opportunity to acquire the online service Flickr.

Beyond that, Jarvis packs *What Would Google Do?* with dozens of sound, practical takeaways such as Googling our companies' names to determine what people are saying about us. But he doesn't stop there. He encourages us to engage these outsiders, interact with them and respond to them authentically without the barriers of an intern or a public relations company. View each interaction in strictly human terms and as an opportunity to build a personal relationship and provide better products or services. "When you hand over control you start winning," he says.

Whether we like it or not, he reminds us that when customers come looking for us on Google, we'd better have answers to their questions on our Web sites before they are asked. When customers talk about us in public, we'd better have the means to hear and respond, or face the risk of a competitor with a better answer stealing our customers in a flash.

To cultivate this new spirit of openness and transparency, he doles out liberal doses of practical steps companies can take to increase their "Googlejuice," a term he coined to describe how companies can enhance their online effectiveness.

In his prescriptive manner, Jarvis urges companies to load their Web sites with as much information as possible, using simple phrases most likely to be searched by prospective users. To facilitate the vital links with other Web sites that build credibility, "give everything published a permanent address — a permalink — so it can attract more traffic and links and so Google has a place to which it can reliably send people looking for that information."

Practicing What He Preaches

What Would Google Do? is a book that is not so much read as explored. Written in the staccato, pithy style of a blogger as opposed to the long essays more typical of a traditional book, it might appear, upon first blush, that his insights are quicker and shallower than we would typically experience in this style of work.

"Kodak's hesitance (to go beyond film into the digital photo market) cost the company the opportunity to acquire the online service Flickr."

But that's not the case. Drawing from the contemporary business commandments he preaches, Jarvis discloses that he practiced the art of collaboration in writing the book — but not by putting the writing online for readers to correct and edit and not by having readers vote on what he should say. He did so by discussing the ideas in the book on his blog as he researched them and asking readers for guidance. They generously gave their help, and it makes the end product even better. In fact, this peer and collaborative

"Part social commentary, part history and part prophecy, *What Would Google Do?* is an old-fashioned tent revival packed into 257 pages of exciting, thought-provoking and inspirational prose. Jarvis condemns our sinful past and spurs us on to our economic salvation by following the altruistic rules that have been the cornerstone of Google's success: openness, collaboration, transparency and trust."

vetting encouraged him to abandon ideas that didn't work, infusing his treatise with greater value.

But he doesn't stop there. Instead of rigidly trying to control all the information (and thus the reader's attention), Jarvis links his work to numerous thought leaders and to other Internet entrepreneurs, providing valuable context that underscores his message. For instance, he cites:

- Umair Haque, who argues that "making money by controlling production, distribution and marketing is a diminishing game," according to Jarvis. Rather, Jarvis encourages us to visit the economist's Web site for a presentation that reveals the "three sources of value creation are revelation (the good stuff), aggregation (distribution 2.0) and plasticity" (enabling online content to be extended through open, decentralized and connected niche communities).
- Adrian Holovaty, the journalist and technologist who used Google Maps to portray crime data in various neighborhoods.
- Mark Zuckerberg, who helped his friends provide "elegant organization" to study groups and social communities that already existed and that ultimately resulted in Facebook.
- Craig Newmark, founder of craigslist, who made it easy for the classified advertising community to post and search such offerings online.

Lessons Learned and Applied

In another section of the book, Jarvis applies his newfound economic theories to a range of traditional businesses and shows how they must change if they want to survive: how automakers should let us help them make cars; how retailers can help us find unique goods and services; and how universities should help us craft our education, among others.

In the new Google economy, companies will grow and prosper by building platforms to help others prosper. Indeed, growth will come less from owning assets inside one company (and amassing risk there) than from enabling others in a networked world to build their own value, reduce their cost and spread their risk.

Jarvis writes at length about how our customers and prospective customers control our destiny. They hold the key to our brand, our products and our service. There is an inverse relationship between control and trust. The more we control, the less we will be trusted; the more you hand over control, the more trust you will earn.

Trust begins with an act of opening up; it's a mutual relationship of transparency and sharing. The more ways we find to reveal ourselves in an authentic fashion that shows how much we care about our communities, the more we will breed trust, which Jarvis brilliantly exposes as the ultimate brand.

"Too many companies have been built not on trusting people, but on making rules and prohibitions, telling customers what they cannot do and penalizing them for doing wrong," he writes. "Google has built its empire on trusting us. Trust Google on this." ●

The author: Jeff Jarvis blogs about media and news at Buzzmachine.com. He is associate professor and director of the interactive journalism program at the City University of New York's Graduate School of Journalism. He is consulting editor of *Daylife*, a news startup. He writes a new media column for *The Guardian* and consults for media companies. Until 2005, he was president and creative director of Advance.net, the online arm of Advance Publications.

Prior to that, Jarvis was creator and founding editor of *Entertainment Weekly*, Sunday editor and associate publisher of the *New York Daily News*; TV critic for *TV Guide* and *People*; a columnist on the *San Francisco Examiner*; assistant city editor and reporter for the *Chicago Tribune*; and a reporter for *Chicago Today*.

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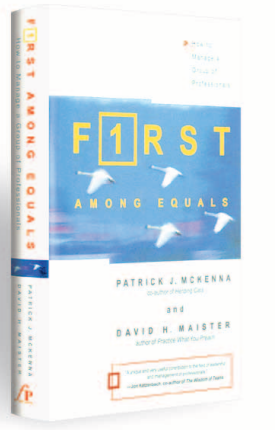
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First Among Equals

Patrick J. McKenna and David H. Maister

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



Patrick J. McKenna and
David H. Maister

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A Guidebook for How Group Leaders Can Manage the Unmanageable

FIRST AMONG EQUALS

THE SUMMARY IN BRIEF

Managing people is difficult, particularly when you are tasked with leading a group of confident, intelligent professionals — often used to working with a certain amount of autonomy — to accomplish some task or essential goal. Group leaders must be skilled not only in management basics (delegation, decision-making, running meetings, and so forth), but also in the "softer" skills of inspirational leadership practices.

Crammed with concrete advice and practical applications and examples, First Among Equals, *written by two leading experts in the field of managing professionals, will help you inspire, cajole and provoke your people to reaching their full capabilities and promise.*

What You'll Learn In This Summary

In this summary, you will learn how to do the following:

✓ **Get ready to lead.** Before you lead, you must clarify the responsibilities and parameters inherent to your role as leader, to ensure that you add value to the group's activities. You also need to confirm your mandate to lead, then build relationships with each individual on your team — inspiring (not just managing) your people.

✓ **Coach your people as individuals.** You must understand what coaching entails on a one-to-one basis — what things, both formal and informal, you can and should do to be most effective.

✓ **Coach your teams as a whole.** Improving the performance of your group as a whole involves many things, including building trust within the team, selecting goals that challenge and energize your people, and acknowledging accomplishments (individual and collective) through recognition.

✓ **Build toward future successes.** Maintaining a high level of efficiency in your groups is an ongoing process; you must build on your successes by nurturing junior members of your group, keeping membership to a manageable size and learning how to properly integrate new people into the collective whole.

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GETTING READY

Clarify Your Role

Your job as a group leader is to help your people, and your team, win — to be a catalyst between people with different skills and work styles, diverse experiences and (sometimes) conflicting priorities. Playing such a role is not always easy. Most times, group leaders spend their entire working lives focusing on their own individual performance; to be successful, group leaders must have a willingness to focus on other people and their success (attitude) and the ability to influence others without being domineering (skill).

Pushing for Greater Commitment

Most often, you will be working with talented people who know what to do to be successful, but who simply aren't doing it. In these cases, your role as group leader is to help people fulfill that potential by influencing their attitudes, feelings and emotions in order to raise their performance and commitment level.

There are a number of actions you should take to raise the levels of enthusiasm, excitement and performance in your group. First, you need to spend time informally coaching and developing both senior- and junior-level group members. Conduct formal performance reviews, as well as post-review coaching and counseling, when required. Celebrate individual and group achievements, both small and large.

You should also be in touch with other group members' clients, in order to help them better satisfy those clients and grow those relationships. Also, help the group explore new and innovative uses of technology to better deliver service and reduce costs. ■

For examples of what you can do for your group, go to: http://my.summary.com

Know Your Tasks

It is important for you to define (with your own management, as well as those in your group) which tasks you will perform. If you and your group are to succeed, it is necessary for you to agree upon (and write down) your role, responsibilities, accountabilities and performance measures.

Confirm Your Mandate

Before you can effectively manage your group, you must ensure that you have reached agreement (with your superiors and fellow group members) on your "terms of engagement," or your mandate. You might think everyone around you already shares the same view of your mandate, but this might not be the case. What are your priorities? What does management expect of you? What do your fellow group members expect of you?

Terms of Engagement

In addition to reaching agreement on your role, your terms of engagement should include the following:

1. Time to do the job. Probably the single biggest source of failure in making professional groups work is not giving the group leader sufficient time to perform his or her job. When leaders are expected to be as fully busy as anyone else on client or production work, the job of group leadership does not receive the priority it requires. Enabling group leaders to give leadership activities priority has both qualitative and quantifiable results for a business.

2. Your right to coach. A major part of a group leader's real value comes from discussing individual

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The authors: Patrick J. McKenna, a partner in Edge International (Edmonton, Canada), and David H. Maister, co-author of *The Trusted Advisor*, are internationally renowned experts on managing professional service firms.

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Confirm Your Mandate

(continued from page 2)

performance and engaging in effective follow-up with individual members of the group. This follow-up may include simply reminding your colleagues about a project, or following up with a client.

3. Your performance criteria and compensation. Group leaders should be measured and appraised predominantly by how well their group has done, and whether they have undertaken the appropriate steps and activities to raise that performance. Leaders should not be paid more simply for assuming the role.

4. Input on the compensation of team members. While the group leader should not be the sole source of performance review or the sole determinant of compensation, he or she should be enabled to provide formal input to both those things for each member of the group.

5. Valuing everyone's non-reimbursed time. Much of what groups do to create their future success involves investment of non-reimbursed time in activities that build the future of the business, such as marketing activities, tool development and so forth.

6. What you need from your firm's leadership. Firm leaders need to be dedicated and committed to the success of group work at your company, particularly if the traditions of groups and group leadership are not yet well established. To demonstrate their commitment, they should: let everyone know that having effectively functioning groups is a high priority; encourage those who are reluctant to get on board; volunteer to attend group meetings; be enthusiastic cheerleaders; develop cross-functional group leader councils; and schedule periodic progress reviews. ■

For more on the quantitative benefits of leadership, go to: http://my.summary.com

Build Relationships — One at a Time

While your technical competence and knowledge will determine a portion of your effectiveness as a group leader, your real success will turn on whether you are received by your people as a trusted advisor — that is, as a group leader to whom colleagues would turn eagerly and regularly for advice, guidance and counsel.

When considering how well you build relationships, ask yourself these questions:

● **How many of those that you have the responsibility to coach would consider you their trusted advisor?** A trusted advisor helps you see things in a new way — this is different from telling you what to do.

● **Do you actually like the people you're coaching, and do they know you like them?** If they don't, your effectiveness as a coach will diminish, regardless of the intellectual rigor of your comments.

● **Do the people you're seeking to coach actually view you as being someone who cares about others?** Do they think you care specifically about them? You must be viewed as honorable, trustworthy, consistent and dependable as well.

● **Can you help your people to visualize and articulate their dreams?** You need to understand each of your people in such a way that you help each one develop an individualized, custom-tailored approach to development, one that excites and challenges them.

● **Are you investing time toward building a strong relationship?** You need to show interest in your people, understand their needs, spend time with them away from your tasks at hand and, in general, be willing to give of yourself in order to earn their trust and confidence.

● **Do people feel comfortable admitting their flaws to you?** It takes considerable emotional investment to be an effective group leader, to make your people feel comfortable coming to you in any circumstance, even to confess a weakness to you.

● **Do you always act and offer your advice in the best interests of your people?** Be sincere with your people and lead by example. If you act as if you want everyone to succeed, your group will follow you toward achieving that success. ■

Having a "Deep Insight into People" Pays Off

One of the most effective managers the authors have ever met was Don Groninger, the onetime general counsel for Bridgestone/Firestone. Groninger was always looking for ways to advance the careers of his people, even (or especially) if this meant their being promoted out of his legal group. In the words of one of his people:

"He had a deep insight into people and could discover and nurture strengths that others might not see. He paved the way for you to take on stretching challenges, expected you to produce results and, without ego, trusted you to run with the ball, calling on him only when you felt the need to. He did not micromanage, but when you asked for guidance, what you received was the wealth of his 'book learning' as well as his 'street smarts.' I don't know that he was ever wrong in the advice he gave me."

Dare to Be Inspiring

Your group will best achieve peak performance by unleashing the power of your people. This is done not by managing or leading them, but by inspiring them. There are individuals in every profession who strive to create big dreams, steeped in a strong set of personal values, in setting high standards and in striving to lift the spirits of human potential. This is not about management, nor is it strictly about leadership — it goes beyond what either of those two words might mean to us.

Inspiration is all about the details — every conversation you have with someone advances, diminishes, or leaves neutral your relationship with that person. Here are some other details—things you must do in order to inspire your people:

- **Show a genuine interest in what your group members want to achieve.** Too few group leaders bother to pay attention to what their people want and need in developing their careers; this, however, is a critical part of your role as a group leader. Do not lose good people or abet sub-par performance by not showing that interest.
- **Show an interest in the things that mean the most to your people in their personal lives.** In order to get the best you can out of people, it is helpful to get to know a bit about their personal lives — their families, leisure-time interests, the things they are most passionate about. You cannot build a successful business enterprise if everyone merely stays in a role and deals with others merely in functional or logical terms. You cannot separate your performers from who they are as human beings.
- **Be there for your people in times of personal or professional crisis.** Right now, as you read this, it is very likely that some member of your group is facing a crisis or transition. Are you aware of it?
- **Informally "check in" with each of your people.** If a group leader simply takes a few minutes to listen to his or her people — particularly in a time of high pressure or frustration — something special can happen. You can ease a burden, recharge a battery, or provide encouragement exactly at the point in which your people need it.
- **Offer to help when they truly need it.** Offer to pitch in and help your people get their work done in busy times, lightening their load and helping them through a rough period. If you want people to accept your influence in the future, help them now. ■

To learn how conductor and teacher Benjamin Zander inspires his students, go to: http://my.summary.com

COACHING THE INDIVIDUAL

Once you have confirmed your mandate, built relationships within your group and learned what it takes to inspire and not simply lead, you are ready to tackle in greater detail the leadership, management and coaching activities so vital to being a group leader. You must be able to get your people to accept your guidance, build rapport with them by listening to them and deal with the exigencies that arise when working with different individuals. ■

Win Permission to Coach

Coaching is an activity, not a title or a position. It is the process by which you help another person fulfill his or her potential, and it requires that you judge well when to intervene, and when to stay away. Indeed, before you can even begin to develop and stretch your people's talent, you must assess whether you have earned the "right" to be able to do so. Here are some basic steps that may help you win permission to coach:

- **Ask how things are going.** Find out what is on the person's mind and identify any available opportunities to help that person expand his or her skills.
- **Confirm that the individual is ready for coaching.** Focus on an issue that the person seems most interested in or concerned about, and let him or her know that you are available to provide guidance, ideas or feedback.
- **Ask questions to clarify the situation, and offer support and assistance.** Phrase your questions carefully, so they do not pressure the person or imply a negative reaction. Draw out facts, and determine if he or she has the right information to move forward.
- **Offer information as appropriate.** Offer only necessary information, providing whatever the person needs to choose a course of action.
- **Listen actively.** If necessary, take some brief notes. Don't interrupt with your own ideas. Always look to build rapport through listening.
- **Help the person identify possible courses of action.** Avoid offering any of your own ideas until after the person you are coaching has finished. Encourage him or her to think aloud, and make a list of the ideas generated, without commenting on feasibility.
- **Agree on the next step**. Prompt the person to make a firm commitment to action and clarify the steps he or she is planning to take, and by when.
- **Offer your personal support and confidence.** Conclude by expressing your continued interest, your confidence in your colleague's ability to resolve the issue, and your desire to help, if and where you can do anything that would support him or her in accomplishing the specified objective. ■

Tackle the Prima Donnas

We all know the type. They are brilliant at what they do, and make outstanding creative and financial contributions to your group's success. The only problem is that, people of high achievement can sometimes insist stubbornly on having their own way, and can often be contemptuous of others. In many cases, absolutely no one else wants to work with them. Here are a few things to keep in mind:

✓ **Focus on behavior, not personality.** Giving feedback that comments on someone's personality traits is destructive. The individual will only become defensive and subsequently turn off. If it is behavior change that you're after, point out the specific actions in question.

✓ **Tell your colleague what behavior needs to change, clearly and specifically.** Try to be as objective as possible. Concrete examples — something you have observed first hand, or a situation that has been brought to your attention — will help the individual understand where the problems lie and show that you are not jumping to conclusions.

✓ **Place the situation in the context of career development.** It is important to let prima donnas know what's in it for them if they change their behavior; how they will be more valuable to the firm, acquire more respect from people around them, and even how it may affect their clients. Point out that they run the danger of alienating the people whose cooperation they need. If you come across as being critical, you may get a grudging acknowledgment, but you are not likely to achieve observable or long-term behavior change.

✓ **Set small, realistic goals.** Micro changes in behavior can be big victories. Change is achieved step by step.

Deal Differently with Different People

Not every individual can be managed or inspired the same way. A manager must learn to deal with each individual according to the things that energize that individual. One place to start is in trying to understand different people and how they like to be treated. To that end, we turn to the work of Dr. David Merrill, who discovered two clusters of behavior that are helpful in predicting how individuals are likely to behave in certain situations:

● **Assertiveness.** In its most practical form, an individual's level of assertiveness is the degree to which he or she is seen by others as being forceful or directive. More assertive people are "tell" people — they exert pressure for a decision, and are pointed in expressing opinions, sometimes at great volume. Less assertive people are "ask" people, who tend to be more subdued in their expressions, preferring to ask in order to gauge how others feel about a situation, to collect as much information as possible.

● **Responsiveness.** With this cluster, you are looking for how people express themselves and how they react. More responsive people tend to be emotive, appearing friendly, with an expressive countenance and engaging easily in small talk and sharing personal feelings. A more reserved and less responsive person may appear poker-faced, so that you are never quite sure whether he or she is in agreement with what you are saying. These people may indeed have strong feelings; they are just less likely to display them.

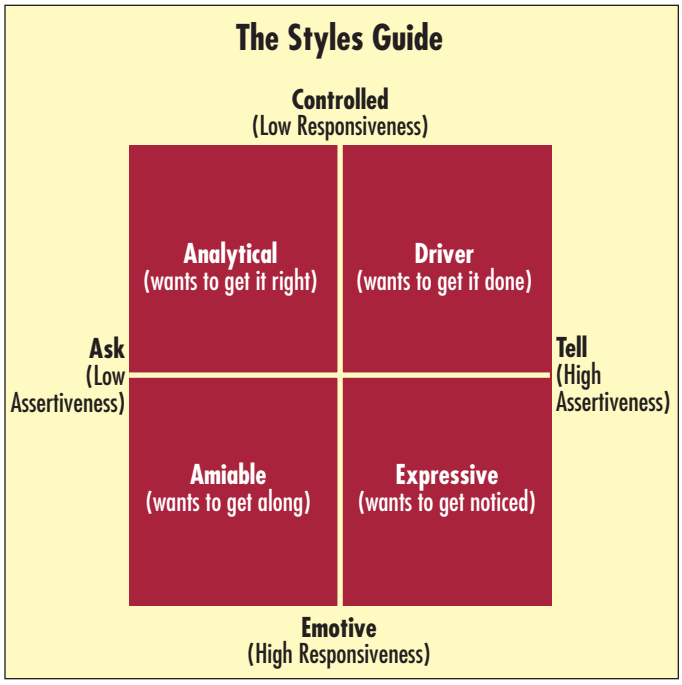
Putting the two behavior clusters together gives us an idea of what particular individuals are like, where they may be coming from, what their expectations are and how you need to work with them.

We see four distinct behavior groupings that you will likely deal with as a group leader:

● **Drivers.** Drivers are people who are highly assertive, but low in responsiveness. They are most comfortable when they are in control of themselves, the work environment and their client transactions. Drivers like to make up their own minds, and will likely be put off if you simply offer them a course of action. Therefore, when coaching drivers, present any recommendations with alternatives, together with any documentation or examples you can offer. Remember that managing drivers is not easy, because often they want to manage you!

● **Analyticals.** Analyticals are low on both responsiveness and assertiveness. They are obsessed with getting information — they crave data and often agonize over decisions, wanting to be certain of making the right choice.

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Deal Differently with Different People

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They thrive on specifics; in order to build a coaching relationship, you need to be well organized and clear, explaining your thoughts systematically and expecting to be asked a lot of questions about the situation or subject at hand. When proposing a course of action, explain both the advantages and downsides of the action. When recognizing Analyticals' work, do so privately, in specific terms, being concise and simple in your feedback.

● **Amiables.** Amiables are low on assertiveness, but high on responsiveness. They project sensitivity to others' feelings, exhibit great patience and believe it important that they take time to establish relationships. When coaching amiables, allow plenty of time to explore their thoughts and feelings. Be sure to deal with one subject at a time, one step at a time, making sure the amiable is ready to move from one topic to the next before doing so. Appeal to their need to strengthen relationships, and acknowledge their contributions, their teamwork and their dependability.

● **Expressives.** Expressives are high on both responsiveness and assertiveness. They are not hesitant about making their presence or feelings known, and are often highly intuitive and can be highly persuasive when they combine their personal power and emotional display. They are inclined to informality; when meeting with them, take a few minutes to build rapport and show them you are interested in them as people. Provide them with an opening to talk about themselves. When coaching them, don't overwhelm them by allowing them to jump into a course of action before they're ready, as is their proclivity. Help them channel their enthusiasm with reminders and hands-on assistance, to help them prioritize and organize. ■

COACHING THE TEAM

Once you understand how to manage the members of your group as individuals, you must turn your attention to managing the group as a group. Not only must you be able to understand and influence individual people, but you must understand and influence a significant number of them simultaneously. Three of the things you must do are the following:

● ***Build team trust.***
● ***Throw down a challenge.***
● ***Give recognition.*** ■

Build Team Trust

Everyday frustrations can lead to lost energy in a group, as suspicion, unresolved issues, forgotten commitments, missed deadlines and other issues lead to lost trust between group members. While trust is often an unspoken issue, it is critical to the cohesion of a group. If you don't have trust, people won't cooperate, won't be committed and won't know where they stand.

Before engaging in any trust-building initiatives, you should understand some of the elements of trust, and what you can do about them:

● **Sharing**. Group members need to feel comfortable with sharing things about themselves with the group, from personal attributes or accomplishments, to mistakes or failures. By talking about these things, they take risks, but by taking those risks, the group moves to a deeper level of trust. Trust needs to be earned.

● **Following through on commitments.** Unfulfilled promises bleed away your team's energy. Address the reasons for a member's failure to follow up on a commitment, in order to prevent that failure from eating away at any trust or goodwill specific members have built for each other.

● **Letting people know if you can't do something.** Failure to confirm agreement to a course of action breeds uncertainty, hesitation, doubt, resentment and lack of trust. Encourage your people to confirm specifics when partnering with others to get a task or job done. ■

Throw Down a Challenge

Common wisdom suggests that offering generous extrinsic rewards (money) gets people to increase their performance. But money isn't the whole story; people are moved when they have a clear set of challenges before them — solving a complex problem, discovering something new, etc.

What challenges each member of your team is largely indigenous to each individual, in his or her desires, dreams and aspirations. Your job is to find the proper balance between the action opportunities that are available and the individual skills sets of your people.

Of course, the challenges you throw down must benefit the group as a whole, as well. Once you set a goal, you need to create a powerful and urgent reason to achieve that goal, building a case for action that is based on facts and real business needs. Try the following process:

● **Ask the members of your group to articulate what's in it for them.** Discuss with each person in the group what opportunities the challenge pose for them, to get their buy-in and focus from the start.

● **Give everyone the opportunity to stand up and declare his or her personal commitment.** Everyone in the group is ultimately a volunteer — they must choose

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Throw Down a Challenge

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to be in or out.

● **Focus first on what you can do now, with existing resources.** Ensure your people do not become overwhelmed or discouraged by the complexity of the challenge. Try to produce tangible short-term results.

● **Encourage experimentation.** Encourage people to create something fundamentally new, to benefit your clients and your group as a whole.

● **Build for an early success to continue the momentum.** Remind the team of what is at stake, what the big picture holds, what larger meaning your challenge has for your enterprise and how that challenge will help your people leave their mark.

● **Search continually for opportunities for people to create or outdo themselves.** Find new ways for people to solve problems, explore new ground and deal with external challenges. And try at all times to make it fun.

● **Set unreasonable expectations.** When your objectives seem outlandish, you are forced to think differently about your opportunities. Set the upper limit on what people think is possible, and challenge your people to exceed it.

● **Focus on the excitement of the endeavor.** The influence and expectations you generate as a leader ultimately contribute to the abilities of your people to grow within the environment you provide for them. ■

Develop Your Group's Rules of Recognition

One of the major problems of groups is that they often have no explicit, shared agreement on what it means to be a group. They have not discussed, let alone reached a consensus on, what responsibilities they owe to each other, nor on what principles their group will operate. Many so-called groups are really just collections of people who, in subtle ways, are each simply pushing their own special interests.

What is needed is an approach that will create a more inspiring system that provides for higher levels of shared enthusiasm, decision making, performance, participation, and morale. This can be done by basing your group on three fundamental principles:

● **Set Levels of Mutual Accountability**. A basis for every championship team, in every endeavor, is having hard-and-fast, nonnegotiable "ground rules" that everyone agrees to abide by. Great groups formulate and commit to writing a set of ground rules for how their team will work together and how they will manage themselves, thus bringing about constructive peer pressure.

For example, is it acceptable for group members to confront those who don't complete the projects that they have accepted responsibility for? Those who place their personal agenda ahead of the group's goals? In great groups, the players police themselves. People hold themselves, and each other, accountable. The essential principle is that the group collectively sets and manages the ground rules, and the ground rules then manage the group.

● **Set Levels of Shared Contribution.** A good place to start is to ask how much "investment" time each person is willing to commit, beyond their normal production or client-serving workload, to furthering the group's objectives. The next challenge is to ensure that people appreciate that the investment time contributed to the group is for projects and activities that will benefit the group as a whole.

● **Establish Your Shared Values.** Excitement, energy and pride (and thus the accomplishment that drives financial success) can be created by building agreement that the group will conduct its affairs to higher standards than the group's competitors. The group voluntarily accepts greater discipline in monitoring and enforcing excellence, never settling for competence. ■

BUILDING FOR THE FUTURE

Maintaining a high level of efficiency and success in your groups is an ongoing process—a journey, rather than a destination. As such, you must always keep the future of your group in mind, tuning in to the things you need to do to build on your successes. These things include the following:

● ***Nurture your juniors.***

● ***Integrate new people.***

● ***Control your group's size.*** ■

Nurture Your Juniors

Junior staff, by definition, are at the early stages of a career, and need one thing above all — the chance to develop and build their skills. How well skills are built depends on two key processes:

● **Work assignment.** What projects do the junior members get to work on? Over what part of the project are they given responsibility? A good model to follow is one where all the senior people get together regularly and jointly allocate junior staff to projects, taking into consideration the best resources to provide to key clients, providing developmental work experiences, keeping motivation and morale high, and a number of other considerations.

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Nurture Your Juniors

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● **Work supervision.** What quality supervision do junior members receive while working on assigned projects? Unfortunately, many groups do not have a consistent agreement on what constitutes appropriate standards for supervising work. You should engage your senior colleagues to establish standards in your group, rather than simply trying to impose standards on them. It is, however, imperative to establish some consistent expectations and accountabilities; junior members are entitled to them.

A Sample of Supervision Standards

There are some standards of behavior in work supervision that must be considered and enforced. Junior group members are entitled to certain expectations; among them are the following:

- **They understand thoroughly what is expected of them when assigned a task.**
- **They understand how their assigned tasks fit into overall objectives for a project.**
- **Help is available when they need to have questions answered.**
- **They receive prompt feedback, good or bad.**
- **They are actively encouraged to volunteer new ideas and make suggestions for improvement.**
- **In each engagement, high standards for performance are set and enforced.** ■

Integrate New People

It takes time and effort to integrate a new member to a team, to keep the new member from floundering, creating conflict, or worse. As good people become harder to find, your internal processes for orientation and integration become absolutely critical. After all, you're not just hiring a warm body; in most cases, you're adopting a new colleague into your family. Take some essential steps to properly integrate these new people, including the following:

● **Manage first impressions.** Design an orientation program that provides information to people as soon as they arrive. Remember to introduce your group to the new person, and the new person to your group.

● **Give them support — before they ask.** New people require a clear understanding of their group's expectations, as well as introductions to specific people who can support them in getting up to speed on tools, technology, even the basic layout of your work area. It is up to the group leader to organize the investment in time necessary to make the new team member feel welcome.

● **Make them feel valued.** High-quality internal training programs not only give people the skills they need, but also send the clear message that you care about people's career development and are willing to invest in them as individuals.

● **Provide an immersion experience.** Orientation systems that steep newcomers in the personalities and culture of their new group build career-spanning relationships that support success in their new environment. Think bonding. Think teamwork.

● **Communicate, communicate, communicate.** Groups that take internal communications seriously tend to do a far better job of retaining their best members. Use the tools at your command (voice mail, e-mail, internal newsletters, etc.) to assess results, celebrate strengths and solicit feedback from your people. ■

Control Your Group's Size

Bigger does not always mean better, and nowhere is that more evident than when it comes to measuring group effectiveness. One of the most certain ways to ensure failure is to allow membership to grow beyond a small, solid working group. When groups balloon in size, they often decrease in effectiveness — group members feel no real sense of attachment or personal commitment, and often find themselves spending many nonproductive hours in group meetings.

The more people in a group, the less commitment any one person shows to following through on individual projects, and the less buy-in any individual has for the group's success or failure. To avoid these problems, keep your groups small, by trying one of the following options:

● **Downsize your groups.** When new groups are formed, insist that they include fewer than a dozen people to start. Reorganize existing groups into smaller units. It may not be easy to remove some people from some groups, but the long-term impacts on productivity make this effort critical.

● **Use a "resource member" approach.** A core group should consist of only those whose full-time efforts are involved in the specialized area. This group is the decision-making body for the area, with others providing assistance or expertise as the need arises, at the discretion of the group leader. Each person chooses one core group to belong to, but they will also serve as "resource" members for other groups, according to preference or client work in those areas. As resource members, they can keep tabs on group activities, but they are not expected to volunteer for projects in that area, unless a specific task or project might involve or benefit an individual client.

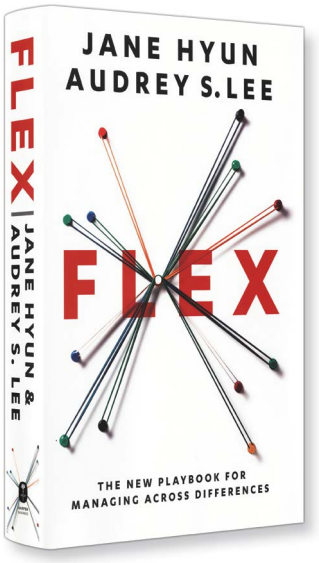
● **Create splinter groups.** Break up larger teams into smaller, practice-specific splinter groups, usually defined by the distinctive clients the group seeks to serve. Not only will these focused groups be smaller, but they will have more in common and will be more likely to function as an integrated team. ■

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Flex

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Flex

The New Playbook For Managing Across Differences

by Jane Hyun and Audrey S. Lee, with Leslie Miller

THE SUMMARY IN BRIEF

Renowned executive coaches and global leadership strategists Jane Hyun and Audrey S. Lee offer lessons on the vital skill of "Flexing" — the art of switching leadership styles to more effectively lead people who are different from you, allowing managers to successfully manage the multicultural workers of today and tomorrow.

Flex offers a proactive strategy for managers to navigate and leverage diversity effectively in this new global economy, showing managers how to understand the power gap, the social distance between you and those in the workplace of different cultures, ages, and gender; flex your management style by stretching how you work and communicate with others, and bridging the gap with more effective communication, feedback tools and building healthy teams; and multiply the effect by teaching these skills to others and closing the power gap with clients, customers and partners to create innovative solutions.

Creating flex in a company's management style will impact all aspects of developing the talent you have, attracting future talent and building relationships with customers in this competitive marketplace. Now, *Flex: The New Playbook for Managing Across Differences* shows you how.

IN THIS SUMMARY, YOU WILL LEARN:

- Why flexing is good for business.
- How to find creative ways to bridge the power gap.
- How to develop the key traits of a fluent leader.
- How diverse thinking can drive innovation in your organization.

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THE COMPLETE SUMMARY: **FLEX**

by Jane Hyun and Audrey S. Lee, with Leslie Miller

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Introduction

In life and in business, all great relationships are built on the essential principles of trust and respect. When trust is present, it's exciting to watch relationships flourish, people and teams become productive, and companies prosper. The problems start when there is a breakdown in trust and when you fail to realize that people build trust in different ways. Barriers arise when workers from different cultural contexts expect others to behave the same way they do, without understanding that while the intent might be the same (e.g., to show respect), the behaviors might look very different.

To be sure, organizations have become more diverse — a global/multicultural workforce, more women and a new generation of workers have entered our ranks in large numbers; but many businesses have not yet figured out how to best engage the talent that they have successfully recruited. Due to the speed of change in our current business environment, leaders must be adept at leveraging their employees who work throughout their local markets around the world for input, wisdom and skills to survive.

We all need to learn a new skill set that will enable successful business interactions in our new diverse surroundings. Your country manager in Vietnam as well as your finance director sitting in headquarters in Chicago may lack the fluency required to work effectively with each other. We are simply not taught how to relate to people from other backgrounds, and these skills of *flex*ing are not adequately taught in our educational systems, undergraduate programs or business schools. (Flexing is adapting how one communicates, relates and responds to others in a manner that takes into account an understanding of status differences.) Although we are more connected globally as a workforce through technology, managers aren't actually better equipped to interact and communicate globally with people. And the stakes are significant.

PART I: GETTING INSIDE THE GAP

What You Don't Know Can Hurt You

Many managers are struggling, faced with a playing field that looks dramatically different from the one into which they were hired. As of June 2012, people of multicultural backgrounds (of Asian, African American and Latino/Hispanic descent) made up 36 percent of the labor force, according to the US Department of Labor. According to a McKinsey study, women held 37 percent of all jobs in the United States in 1970 and nearly half of all jobs in 2009. By 2025, three out of every four workers around the globe will belong to Gen Y.

Although companies might agree that they have done a decent job of recruiting a fair representation of women and multicultural employees, they are far from being certain about how to get the best ones to stay and realize their full potential. Without a more nuanced understanding of the interpersonal gaps between people, managers

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will be at a loss as to how to bridge the distance between themselves and employees who possess different cultural values and drivers of success.

There is a solution to all this misunderstanding, miscommunication and missed opportunity. The answer lies in valuing differences in the leadership development of your employees and developing the qualities of a fluent leader. This ability to flex affects how we deal with power and status differences and how we communicate and relate to each other.

Flexing is Good for Business

The way you handle the social distance between yourself and employees (or clients) of different cultures, genders and ages can make or break your company. This distance, or the power gap, is the "amount of emotional distance that separates subordinates from their bosses," as defined by Dutch social psychologist Mauk Mulder. Renowned intercultural expert Geert Hofstede showed that the power distance that is socially acceptable by the boss and employee depends largely on their national culture.

We apply the power gap to discuss the chasm that separates managers and employees, men and women, as well as employees of different generations and different cultures. In each of these relationships, we refer to this distance as the power gap. In particular, we see the impact of unspoken assumptions, crossed signals and confusion inside companies large and small across three key groups: culture, gender and generations.

Hardwired for Sameness

When it comes to navigating across differences, research shows that goodwill and positive intent are not enough. In the absence of an adaptive, fluent leader at the helm to encourage different viewpoints, there is tremendous pressure for employees to fit in to the existing leadership norms of the team. But employees may not thrive under this management approach, or they may resent the changes they are forced to make. Over time, some will simply tire of constantly going out of their natural comfort zone to fit in to the new culture and find an organization (or manager) that can tap in to their strengths more readily. Consequently, they will underperform or leave.

The Key Competency: Fluency

Our goal is to enable leaders to achieve what we consider to be the key competency for today's leaders, what we call *fluency.* Like someone fluent in many languages, a truly fluent business leader is able to work and communicate effortlessly with many types of people who are different from him- or herself. We must be taught to view difference as latent potential, not as a liability.

To develop fluency, take a look at your own leadership. Here are the four management styles you might encounter. Try to assess in honest terms where you fall on your own journey toward becoming a fluent leader.

Style 1: The Blindsided Manager. Working with people who are different from you makes you feel uncomfortable, and/or you might have had limited experience interacting with them. You may not be aware of the gap existing between you and your direct reports due to the power distance, and are blindsided when things don't always go the way that you expect. Therefore, most of the time, you don't even notice your lack of ability in closing the gaps with them.

Style 2: The Judging Manager. You find individuals who relate differently to you annoying or feel that there is a better way to do things. You tolerate some differences, but when push comes to shove, you know that you have the right way of doing things. You expect your team to conform to your style.

Style 3: The Golden-Rule Manager. Diversity training and previous experience have taught you that it's probably safest to treat everyone the same. You emphasize "fair treatment" and also believe that most people will respond positively if you treat them the way that you would want to be treated. You may subconsciously use your own experience and position in establishing the "universal template" for managing people.

Style 4: The Fluent Leader. You accept and are curious about potential differences across cultural, gender and generational lines. Instead of resorting to stereotypes to judge these differences, you begin your exploration and appreciate difference on an individual level. You use this knowledge to help correct negative behaviors and engage employees' motivated skills and talents on a deeper level. You are able to flex across the power gap to be more effective with your direct reports.

Managing the Power Gap

Conventional wisdom would say that the outliers from the dominant culture — the multicultural workers, the more junior people, or perhaps the young, entry-level team members — should work to get their styles, values and communication in sync with their managers and feel empowered enough to close the power gap. However, conventional wisdom might not be right and may not always work. We've seen that the same dynamics repeat themselves time and time again as the unique perspectives

of different groups are not understood by their managers, to the frustration of both sides.

As we examine the power gap dynamics, it is helpful to note the management and communication styles that exist at either extreme in the spectrum. Hierarchical management styles depend on standardized systems, value a great deal of control, and expect integration of others into the established system or order. Great deference is given to people in authority, and decision making is generally top-down. Hierarchical management styles roughly mirror traditional corporate company structures.

Egalitarian management styles are based on the doctrine of egalitarianism. In general, in a flat organizational environment, workers may share fairly equal authority in decision making. Egalitarian employees may feel comfortable questioning the manager and interacting less formally with him or her, whereas employees who are more hierarchical might wait for the manager to assign work, and maintain a safe distance.

How the Power Gap Manifests on Your Team

The more hierarchical your culture or background, the greater the power gap is apt to be. This is because hierarchical cultures reinforce the differences between managers and employees. The effect is that any power gap that exists is magnified through the lens of this dimension. A greater power gap can result in decreased communication as well as increased misunderstandings and conflict, potentially leading to missed opportunities for building significant business and career relationships.

But when managers choose to close the gap and meet their employee partway, they are *not giving away authority or respect*. Closing the power gap need not make a leader more vulnerable; in fact, it can do the opposite, creating trust and communication where before there was only conflict and poor performance.

Understanding the power gap dimension is *the* must-have survival skill in the high-stakes game of leading in the new age. As you move along your journey toward fluency, we encourage you to shift your mindset from the fear-based and conflict-avoidant model of the past and adopt a fluent leader's curious, proactive investigation of the new American workplace.

Culture and Communication: Flexing Across Styles

There are a myriad of styles and manners in which people build trust, relate to one another, and communicate their needs and expectations. Your first step toward flexing, as a manager, is to learn to identify and examine the different styles and preferences of your employees through this lens. You should also analyze your own interaction preferences. Are you a group thinker or an individual decision maker? When you have to give tough feedback to your colleagues, do you tell it to them straight, or do you try to soften the blow? Are you expressive or more emotionally restrained? Understanding the nuances of each person's style will aid you in your ability to practice flexing in your leadership.

A Premium on Direct Communication

The acceptable norm in most American organizations is to employ a direct communication style. Overall, in American culture, we are more willing than in indirect cultures to confront a difficult situation, have it out, and get the issues on the table. Direct communicators expect that whatever words they say comprise the entirety of their message. Indirect communicators may rely on other signals, signs, codes and even third parties to communicate their meaning, and depend upon the receiver of the communication to decode their meaning and understand what they are trying to say.

In cultures where direct messages are preferred, people tend to distrust indirect communicators, as they are viewed as too vague or as intentionally deceptive or even manipulative. However, we should keep in mind that most indirect communicators are trying to get their message across just as clearly as their direct-communicating counterparts; they are simply using a different style.

In practice, indirect approaches can also be very effective, another means to get the message across in a different way. It encourages both parties to actively participate in thinking over a problem rather than telling someone that what they'd done is wrong. Being indirect is about mitigating your message to soften it — and that has its value, too, because the focus is building and maintaining a relationship. When being more indirect is warranted, effective techniques include phrasing a demand as a question or making it conditional through the use of *would, could, maybe*, etc.

How Do You Build Trust?

The dimension regarding relationship or task-oriented styles speaks to how you build trust with your coworkers, with your employees and with your bosses as well. This can be described in more succinct terms as tension between "being vs. doing." Do you delve into the business agenda right away after an introduction, or do you require a more developed relationship before you feel comfortable advancing the business relationship?

In general, Americans are very task- and results-oriented when it comes to building trust. An existing relationship isn't required in order to sign a contract or make a big business deal. Other cultures are much more relationship focused. Someone might need to know everything about you — from the background of your family, to the college you went to, to your entire career trajectory — before they would dream of putting pen to paper. What seems like wasted time to a results-oriented boss might be critical networking and relationship-building time to an employee who believes he or she simply can't move forward without it.

Portrait of a Fluent Leader

One of the greatest hurdles that leaders will face lies in knowing how to engage with people from other backgrounds. The question you will have to ask at every step is, "How do I define and/or identify what gap exists in my department, my division, at every level inside my firm? Then, what do I do to bridge that gap?" Becoming a fluent leader takes much more than just knowing the best way to hear from everyone on your team or reaching out to your direct report instead of waiting for her to come to you. We discovered six critical traits for a fluent leader that encompass the attitudes and behaviors needed to flex up, down and across:

Possessing Self- and Other-Awareness. Fluent leaders have a good grasp of their own strengths, weaknesses and preferences. Additionally, they are able to quickly discern the preferences of others in order to know how to flex their style. This trait in action shows a leader's cultural competence and emotional intelligence.

Adaptability: Adaptability is a key component of fluent leadership, indicating an ability to adapt to stretch your styles and preferences and sometimes exercise other styles to better interact with others. Fluent leaders are not only able to admit their mistakes; they recast them as teachable moments and are able to adapt to shifting styles and circumstances.

Comfort with Ambiguity and Complexity: Fluent leaders are unique in that they are able to break down complex situations and uncertainty. They know how to get to the root of the relevant issues and priorities in any given situation. They manage even tough situations and search for reconciliation.

Unconditional Positive Regard: Fluent leaders demonstrate *unconditional positive regard* (UPR), a term coined by psychologist Carl Rogers that signifies the unconditional acceptance of others, even in their vulnerable and weakest moments. Fluent leaders with UPR are able to envision the future state of a situation or of a person's development, give feedback, and imagine future leadership potential for others.

Innovation: Fluent leaders are also marked by a tremendous and insatiable curiosity in other people, in their approach to differences, and in their innovative ways of building relationships and doing business. When they encounter something or someone they don't understand, their first reaction isn't avoidance — it's interest.

Flexing Across the Power Gap: Fluent leaders are comfortable owning a leadership identity and effective at managing up, down and across the organization as well as with customers and vendors. They understand their power gap preferences and those of others on the hierarchical vs. egalitarian spectrum. They close the power gap and forge trusting relationships with all levels, through empathy, trust and integrity.

PART II: THE KILLER APP: FLEXING ACROSS THE GAP

Power Gap Principle: Flex Your Management Style

We all have a default mode of relating to people. The art of flex lies in noticing when your preferred mode of relating to people is not shared by those different from you and then reaching across the power gap in search of a solution. When working across differences, the same strategies may not work and may not have the same outcome you intended. It's imperative that all of us develop the ability to flex our styles if we want the best performance out of those who work for us.

Remember that flexing requires decreasing the power gap with your team members. It is about exercising a variety of responses to make you more adaptable and fluent. Flexing is also about context: customizing and individualizing your approach to the person and situation, as you might do when raising three very different children, each with distinct learning styles and personalities. Finally, flexing always starts with authenticity. Show who you are and what you value, and then extend your curiosity toward others.

Look for Creative Ways to Bridge the Power Gap

Without realizing it, your open-door policy might actually be shutting a fair number of your employees out. Before you can investigate the motivations for their behavior, you must embrace the fact that we often work with individuals who view the world through an entirely different lens — not better or worse, just different. It's crit-

ical you not judge their behavior as wrong and first simply allow yourself to see the difference.

Most managers and executives are now trained to eradicate or ignore difference in our workplaces as a defense against legal action. However, it is only by forgoing assumptions and judgments that we can explore the potential motivations behind that behavior, then identify solutions. Once you've noticed who's not in the room or who's left out of the conversation, you need to start investigating why they aren't there. For varying reasons, different employees may not feel that they have built sufficient rapport with their bosses to just "drop by." They may feel it's their duty to solve problems on their own and spare you the aggravation and potential embarrassment. Try to understand whether the difference is cultural, rooted in gender or a generational gap.

Making the First Move: Five Steps to Productive Dialogue

If an employee is failing to participate or hasn't given you a key piece of information, here's a step-by-step framework for engagement:

1. Initiate a one-on-one conversation about a situation you have observed that you are interested in exploring.
2. Describe the impact of these actions on you and connect it to business objectives; make sure you avoid blaming the person.
3. Investigate what is beneath the surface of the behavior; examine the intentions, values and motivations that might be driving the behavior and the barriers that might be keeping the employee from developing new, effective behavior.
4. Explain why this behavior is so critical to your productivity and to your team dynamics.
5. Develop a plan of action for new behaviors that the employee can practice to bring his or her intentions, values and core motivations into alignment with the impact of the behavior.

The new challenge is to understand the varying needs of those who bring a different lens to working in your environment. Make the connections, be proactive, and don't wait for your employees to close the gap with you.

Navigate the Power Gap with Your Peers

As a leader, you not only need to be able to close the gap with your superiors and those who work for you; you need to be particularly skilled at managing *sideways*, to flex to your peers and those who work in other functions of the organization to move your project forward. The pros of effectively managing the gap with your peer colleagues include allowing you to maintain your status in the hierarchy; creating allies in the organization; fostering a stronger team relationship; building credibility and your own cultural capital; and identifying you as a leader.

Some peer relationships might appear equal on the surface — two people share the same title, the same level, and perhaps report to the same boss but display wildly different communication and cultural perspectives. Add in differences of culture, gender or generation, and you have an even wider power gap to manage.

Peer or Competitor

People often wear multiple hats in a single role: While you are on the same team and expected to play well with others, there is still the expectation that you need to differentiate yourself from your peers. You are not only colleagues; you are competitors. Some companies assess performance through ranking or quintiling, processes HR departments are charged with to ensure that the star employees are receiving promotions, bonuses and stock offerings while the lowest-ranked employees or bottom 20 percent are probably on their way out the door. Under that kind of pressure, where the competition from coworkers could literally mean your job, reaching out to close the gap with your peer might seem almost counterintuitive.

However, we believe it is important that you do set the tone for how a relationship can progress right from the start. Truly fluent leaders will find ways to flex across to peers, across differences, and even in the face of resentment and friction. Proven strategies to reach across the gap include befriending your peers. Extending a heartfelt "I can learn a lot from you" can go a long way toward eradicating animosity and getting you on the same team. Also, extend yourself and offer your own skills and help. If you have risen faster in the ranks, stem jealousy and competition by sharing ideas about how you can share power in your new position. But don't just say it. Give credit to those who have supported your ideas, and reciprocate often.

Connecting with Customers and Partners

Business success is not just about flexing your management style to better reach people who are different from

you inside your organization. It's also directly tied to your relationship building, the underlying foundation to all selling, negotiating and client-development practices. If you are able to notice, appreciate and ultimately leverage the difference between you and your global clients as well as build trust and communication with your external vendors, your business will thrive.

Aligning the Inside and the Outside of Your Organization

What does it mean to align your internal and external business culture? One tangible example of reaching external markets through internal leadership is IBM's creation of its Market Development group, tasked with growing the company's market share with minority and women-owned businesses. It does so by various strategies, including partnering with external vendors to provide sales and service to the many small- to medium-sized businesses run by minorities and women. It leveraged its internal cultural capital to reach into underutilized markets to great effect, understanding that, as David Thomas, dean of Georgetown's McDonough Business School, put it, "diversity was an untapped business resource."

You don't have to be a company as large as IBM to use a similar strategy. Smaller companies and organizations also have affinity groups or employee resource groups (ERGs) already in place. If leadership commits to the power and possibility of these groups and invests in their ability to leverage their cultural capital to the company's and the constituency's benefit, ERGs can function as an excellent bridge to connect your organization with your partners and customers.

Working With Overseas Partners

Whether you have a customer base in another country or have operations in another country for global distribution, it's critical that you bridge the gap between you and your vendors, even if you have the upper hand in the relationship. Simply expecting your vendors to communicate in the same way you do and operate with the same set of values will probably open you up to disappointment and missed opportunity. Using flex skills to close the gap with external partners and vendors, however, can turn even difficult situations into win-wins.

Some of the most effective ways we have found to overcome differences in communication styles and culture include the following:

- Give the partner or customer explicit ownership over their own expertise.
- Provide a platform for open discussion, giving them permission to speak honestly about their needs.
- Establish expectations in a way that honors their contribution.
- Clearly explain your requirements as well as the reasons behind them.
- Close with questions.

These closing questions can prove key. Offering humility on your part and offering your help to meet shared goals are a few ways to share power and get great results.

PART III: MULTIPLYING YOUR SUCCESS

Onboarding Your Employees

When new employees receive an orientation, it is typically a single event that takes an hour or two to complete. For the most part, these sessions deliver static data such as benefits, processing information and official company policy. We invite you to rethink how you bring new hires and new team members into the fold, particularly to reflect the vast array of cultural, generational and gender perspectives that your incoming hires will bring. For many, the first few weeks of work provide the best and most fertile opportunity to bridge the gap and create immediate trust and enhance communication with your incoming talent. *Onboarding* is the updated term that organizations have come up with to replace *orientation*.

We see onboarding as a company-initiated talent development process whereby the hiring manager, with the support of HR leadership, designs the most appropriate and useful entrée for new employees to be enfolded into the team. Good onboarding defines the intentional way you introduce new people to how things get done inside your organization and provides a true insider's perspective on who the players are; what the company culture is really like from the inside and how things get done; developing your personal career objectives; GARP (generally accepted rules for promotion) specific to the organization; and understanding the internal power dynamics.

Bridging the Gap with Employees New to the Company

For employees new to the company, the onboarding process is a rich opportunity not only to express clearly your mission, company values and internal processes but also to bridge the gap and understand the values that shape their interactions and preferred communication style. When you notice moments of disconnection or that you don't understand, apply these pre-engagement questions to ask yourself about your new hire:

- What are they thinking? What's behind the action?
- What don't they know about our company culture that's causing a disconnect?
- How do I connect with this person?
- How will I pass on both formal expectations and explain the unwritten rules?
- Can I connect this person with other stakeholders or an internal buddy to help her find her way?

Don't overlook the importance of relationship building in this early and critical stage. It's every bit as important for a new hire to focus on building trust as it is for companies seeking to form new relationships with global partners. The relationships form the basis for all future interactions.

Leveraging Diverse Thinking from Your Teams to Drive Innovation

Hiring a diverse workforce is not enough. People must be trained to work with difference, and the importance of diverse ideas and process must be cultivated in order for a company to spur creative thinking. In many ways, innovation is the utmost application of closing the power gap. It requires people to manage up, down and across peers to work through differences, be receptive to good ideas no matter where they originate, and encourage risk taking.

How Difference Drives Innovation

When you're forced to stay out of your comfort zone and are challenged by new information and points of view, the creative part of your mind is stimulated. These are just a few of the ways that having diverse teams can contribute to innovative thinking and processes: A diversity of opinions and experiences encourage creativity, adaptability and original thinking; diverse environments that value individual opinions are more likely to create a sustainable shift in one's mindset; diverse teams are able to leverage their more extensive networks and cultural capital to increase what is possible or thought to be possible to achieve.

Overcoming the Barriers to Innovation Through Flex

To create a culture of innovation, new ideas and risk-taking need to be encouraged and not penalized. As a fluent leader, approach each individual team member and assess how they might push into new territory and what that looks like for them. It's also important to know how each team member takes in information, processes it and then spits it back out. You will need to be attuned to these differences in thought and process and create a variety of organizational opportunities for ideas to come to the table. Consider these strategies:

Diversify your forums for debate and exchange. To capture the widest possible variety of ideas and opinions, you need to offer a wide range of organizational opportunities where people can exchange ideas and debate their merits. These can range from a suggestion box or feedback forms or designated blue-sky days.

Create sponsors at all levels. As you're building this environment, ensure there are sponsors for each team member and initiatives at all levels of the hierarchy. Create a culture where everyone at all levels is valued. If someone has a great idea, there is a forum or channel for that innovation to be tapped. Ensure people are open to a full team perspective.

Access internal and external voices to drive innovation. Innovative thinking requires that you hear from all the participants at all angles. Internally, it's crucial that you are listening vertically down the command chain and that departments hear one another's perspectives. Forge ways to connect to external points of view and close the customer gap. Speak to the people who are in direct contact with your customers, or connect regularly with virtual and offsite teams to get their perspective.

If there is one prerequisite to harnessing the full creative power of tomorrow's talent, it is this: We must be able to address and navigate through difference. We mustn't be afraid to have the conversation and work through complicated, misunderstood, messy or loaded issues. And we must become willing to go outside our own comfort zones and extend an invitation toward those different from us to meet in the middle.

If there is to be a change in how we recruit, reward and advance our best talent, it means committing to practice and persistence, continuing to apply the principles of flex while making it a part of your ingrained management process.

RECOMMENDED READING LIST

If you liked *Flex,* you'll also like:

1. ***Winning with Transglobal Leadership*** **by Nazneen Razi, Ph.D., Peter Barge, Robert A. Cooke, Ph.D., Linda D. Sharkey, Ph.D.** The authors deliver an easily implemented process for assessing your organization's global capability and developing the leaders who will drive success.

2. ***The 2020 Workplace*** **by Jeanne C. Meister, Karie Willyerd.** Meister and Willyerd present a functional guide to help you and your organization create tomorrow's workplace of choice.

3. ***The Inclusion Dividend*** **by Mark Kaplan, Mason Donovan.** In today's increasingly diverse, global, interconnected business world, investing in diversity and inclusion pays off. Kaplan and Donovan explain how.

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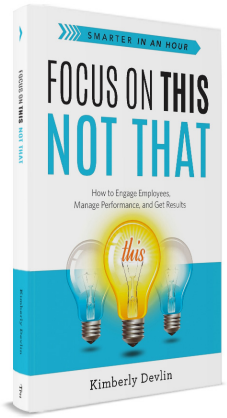
Focus on This, Not That

Kimberly Devlin

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Focus on This, Not That

How to Engage Employees, Manage Performance, and Get Results



by **Kimberly Devlin**

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THE SUMMARY IN BRIEF

In ***Focus on This Not That***, author Kimberly Devlin shows that where you focus your attention is where the vehicle ends up— and the same is true of managers. She shares the secrets to strategically and proactively embracing leadership roles in order to put out fewer fires, conduct fewer counseling conversations, and deal with fewer headaches. By focusing on these amazing management strategies, managers will be able to realize the engagement, performance, and results managers need to be become exceptional— the type of leaders employees talk about for all the right reasons.

Featuring detailed strategies for removing bad managerial habits and replacing them with proactive and effective ones, Devlin shows managers that improved leadership and performance from employees is as simple as focus— where to place it, and where to leave it to your employees. By becoming more efficient with their focus, managers can help reach their own greatest potential and that of their employees and organizations.

IN THIS SUMMARY, YOU WILL LEARN:

- Three steps for developing and leading high performers.
- How to achieve business results while helping employees achieve their ambitions.
- Step-by-step processes to master your new role's responsibilities.
- How to put this guidance into practice in your career.

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Sarah T. Dayton, Editor-in-Chief • Meghan Kozak, Director of Content • Kylie Waytuck, Graphic Designer

Get Ready, Set, Go!

As a manager, all eyes are on you. You need new skills to keep employees engaged. You need to demonstrate new behaviors to manage others' performance. You are being held accountable for getting results. And, you are pressed for time.

What you really need right now is guidance. This book is designed for you. You don't mind putting in the effort, but you need direction on how to succeed in this role. You're wondering where to direct your focus. Focus on This, Not That will share where to start, what to do, and how to follow through, while providing tools to help you at every step of the way.

Commit to learning the principles in this book, and you'll be well on your way to saving yourself hours and days of heartache as a manager. By applying the strategies in this book, your managerial effectiveness quotient will multiply exponentially.

Why Don't Employees Just Do What I Need Them to Do?

Employees can only do what you expect when they know what your expectations are. That sounds simple enough, so how is it that so few people, when asked, can provide a fantastic— or even adequate— answer to, "Will you tell me one specific expectation your manager has of you?" Not understanding their managers' expectations usually isn't the failure of these employees— it's a failure by the manager to properly set and communicate those expectations.

To set you up for success in engaging staff, managing performance, and getting results, you have to understand the three common mistakes managers make— failing to define expectations, failing to communicate them, and failing to maintain a focus on them.

Mistake #1: Fail to Define Expectations

If you are assuming your employees know what you expect, what that looks like, and how to achieve it, you are succumbing to the first mistake many managers make— failing to define expectations.

Don't leave employees guessing about what you expect. It's not as simple as providing a copy of their job description, holding a staff meeting to announce expectations, or making passing comments saying that you need more from them. Instead, prepare for one-on-one employee expectations meetings by recording specific expectations of team members based on their positions, duties, and their department's or organization's overall goals. The defined expectations should be clearly stated and observable, have performance standards associated with them, and be connected to greater goals or initiatives.

Mistake #2: Fail to Communicate Expectations

It's hard to imagine a good reason to keep your expectations from your team. Maybe you read that expectations should be set within an employee's first few weeks— ideally, they should— and months or years have now passed, leaving you thinking it is too late to bother. Perhaps you work in a dynamic industry, organization, or department that frequently reinvents itself to keep pace with shifts that impact your team's work, leaving you wondering, "What's the point? Any expectations I set today will change soon enough." Or, you might be asking, "Isn't it obvious stuff everyone should know?"

If you don't express your expectations, don't be surprised when they are not met. While establishing expectations early is a best practice, if you didn't to it yesterday, doing it today is better than tomorrow or not at all.

Mistake #3: Fail to Maintain a Focus on Expectations

"Set it and forget it" is a dangerous mantra for managers to adopt regarding expectations. This would be like planting a flower bed and never returning to water it, fertilize it, or deadhead flowers that have faded out of bloom. But, frequently that is just what happens in the workplace— about a week or two after annual performance reviews.

Keep in mind that expectations can change— in response to changes in the work environment, staffing levels, organizational shifts, or other reasons. Without your attention, established expectations can become outdated, leaving employees potentially doing just what you asked of them but not what you need from them— through no fault of their own.

Having defined expectations and established them with your employee, sharing regular feedback with them on their performance creates the expectations trifecta. If you were coaching a new driver, would you wait until they drove into a ditch to redirect their performance?

What Keeps People Engaged?

Research confirms that employees whose managers involve them in goal setting are four times more likely to be engaged than other employees.

Unfortunately, this only happens for 30 percent of employees. Let your employees be counted among them. One of the keys to achieving and maintaining engagement is using collaboratively created work goals.

The difference between expectations and goals is that expectations specify desired behaviors and goals specify desired results. Establishing expectations must come first, and then you can proceed to goal setting. What gives work goals their power to engage is that you and your employee create them together in the context of the organization's goals and your expectations as a manager.

To properly help employees create powerful goals, you will want to use the RESULT framework—Related, Evaluated, Shared, Uplifting, Length, and Transition. Each of these components will not only help with goal-setting—but with helping employees to achieve those goals.

Maintaining a Focus on Performance with Recognition and Feedback

While feedback can be used to reinforce or redirect behavior, the term often implies correction. But you're encouraged to ingrain both reinforcing language (praise) and redirecting conversations in day-to-day discussions. Make them a part of your normal routine.

Ideally, your praise will recognize actions, outputs, and behaviors that support employee expectations and goals. Redirecting feedback is equally critical to master and integrate. All employees need it—low-, mid-, and high-performers alike.

Anchors and Boomerangs: Signs You Are Micromanaging

Take a moment to consider how many anchors and boomerangs are on your desk, in your inbox, or on your to-do list. Anchors are work—tasks and projects—that could be done by another team member that you hold onto to do yourself. Boomerangs are work you have delegated to team members that you take back for one reason or another.

What do you estimate to be the total weight of these anchors you carry needlessly? How much energy would you say you expend watching for and catching boomerangs—which become anchors once caught—that you could dedicate to managing performance instead? Learn to recognize anchors and boomerangs for what they are. Anchors are ballast that drags against your ability to perform your role. Boomerangs are distractions from what you should be doing—the work that only you can do.

To better delegate and avoid micromanaging, you will want to learn to identify the work, choose the appropriate individual, define expected outcomes, share related information, build in checkpoints and follow up with feedback.

Step One: Identify the Work

Is the idea of delegating difficult or uncomfortable for you? If you are unsure of what work to delegate, start by writing a few lists. Create one list cataloging the tasks that initially helped you develop your skills that in turn can help develop your team's skills. Create another that records the work you need your team to perform competently in your absence. Create a third that lists projects that relate in some way to the career goals and ambitions your employees have shared with you. Use these three lists to identify work to delegate. Together, they represent a gold mine of delegating opportunities and will keep you from dumping on your employees.

Step Two: Choose the Appropriate Individual

One of your responsibilities as a manager is balancing the workload among the team. When determining to whom you will assign the work, assess the knowledge, skills, and abilities of your employees. Consider their current workloads and work styles. Factor in the demands and constraints of the work you are assigning. Then, define the reasons why the selected employee is the right match for the work. Here are some sample reasons for selecting the right employee:

- The work represents an opportunity for the employee to develop new skills.
- The work aligns with a career goal the employee has shared.
- It is a high-exposure project that will showcase the employee's skills.
- The project will entail learning about an aspect of the business that is of interest to the employee.
- The work supports existing responsibilities of the employee's position.

Step Three: Define Expected Outcomes and Share Related Information

To succeed at this step, focus on outcomes rather than the processes and activities that produce the outcomes. Describe the desired end result, list the ultimate deliverables, and specify what overall success looks like. As you listen to

and answer your employee's questions about the assignment, find opportunities to provide related information in the context of their questions. Be sure to place your emphasis on what is not written down that they will need to know.

But how do you balance giving your employee this project ownership while also developing your confidence that they have enough information and guidance to succeed?

Step Four: Walk Through Potential Disconnects and Resources

Questions are the key to giving your employee ownership and developing your confidence in their success. "How will you get started?" is a powerful example. It encourages independent thinking and leads your employee to recognize potential challenges and consider the resources they may need.

This step is all about asking instead of telling. Pose questions, listen to responses, and use additional questions to guide instead of directing employees in how to perform the work. This will create autonomy, lower the odds of the project becoming a boomerang, and save you the time you would dedicate to performing the work yourself.

Step Five: Build In Checkpoints

Now it's time to ensure the delegated work does not become a fire to be put out or a boomerang by setting checkpoints that are used to reconnect and assess progress. The first mistake managers make with checkpoints is failing to set them. The second is scheduling them too late. Check yourself with this brief exercise: It is Monday morning and you are delegating work to your employee. When should the first checkpoint be scheduled?

Instead of setting the first checkpoint at the 50-percent mark, set it at the 15-percent mark. This reduces last-minute crises that occur when half of the project time is left but all of the work remains to be done.

Step Six: Follow Up with Feedback

Regardless of whether you are thrilled with the results, lukewarm about them, or disappointed in them, your employee needs to receive feedback from you if managing performance is truly a priority for you. Deliver both recognition worth receiving and redirecting feedback to lead your employee to high performance.

The causes of micromanaging are varied, but the solution is universal: establish clear expectations, maintain open lines of communication, provide all the information, resources and tools needed, and schedule times to receive updates from your employees on their work. The more you practice this, the easier it becomes.

Where Do I Go from Here?

Becoming the manager you always wished you had is within your reach. You have dedicated the time to get this far. Now, dedicate time this week to lay the foundation for leading as you aspire to— by focusing on this, not that.



Kimberly Devlin is an unwavering pragmatist who believes theory is overrated and that time should have an ROI. She has discovered ways to transform information overload and time crunch into innovative and actionable systems that improve productivity and get results. Kimberly is a sharp and engaging writer, international speaker, facilitator, and instructional designer who brings practicality, humor, and 20+ years of in-the-trenches experience to build game-changing leaders and organizations. She's a dynamic communicator, passionate about productivity, and on a mission to change the way we learn and work...because your time is too precious to waste. **kimberlydevlin.com**

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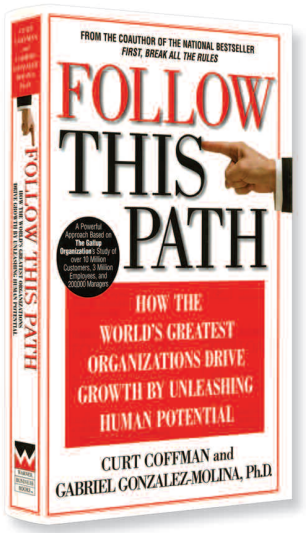
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Management: Hands-On

Follow This Path

How the World's Greatest Organizations Drive Growth by Unleashing Human Potential



by Curt Coffman and Gabriel Gonzalez-Molina, Ph.D.

THE SUMMARY IN BRIEF

When it comes to getting ahead in business, The Gallup Organization has led the way. In *Follow This Path*, two Gallup researchers describe the results of a recent Gallup study of more than 10 million employees and 200,000 managers. Their groundbreaking findings show how developing your people can lead to a quantum leap in cost efficiencies and profits.

What do the world's greatest organizations have in common? They know that their most valuable resource is human — their employees and customers. And the best companies understand two important facts: People are emotional *first* and rational *second*, and, because of that, employees and customers must be emotionally engaged in order for the organization to reach its full potential. Gallup research not only bears that out, but has uncovered the secrets of creating and managing an "emotional economy" that will provide boom possibilities for your company.

Follow This Path shows employers how traditional ways to engage people no longer apply. Instead, it offers a system called The Gallup Path, based on proven, revolutionary strategies of the most successful businesses. *Follow This Path* describes how organizations forge unbreakable bonds between employees and customers with superior performance.

IN THIS SUMMARY, YOU WILL LEARN:

- Why you must look at your employees as your first line of defense.
- How to discover the best employee and customer motivators.
- How to build relationships one customer and one employee at a time.
- How to value and develop human relationships all around you to transform your business — starting today.

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THE COMPLETE SUMMARY: **FOLLOW THIS PATH**

by Curt Coffman and Gabriel Gonzalez-Molina, Ph.D.

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For additional information on the authors, go to http://www.summary.com.

Introduction: The Path to Take

Great organizations achieve sustainable growth and profits because they do what other organizations don't: They maximize the innate, individual talents of their employees to connect with customers. They know that tapping the resources of humans is the only remaining area where significant improvements can — and do — lead to an unlimited source of competitive advantages.

Will this change the way you view employees and customers? It should — *if* you want to profit and grow along with great organizations and compete with them.

Now Is the Time for Change

In case you haven't noticed, there's a whole new world of employees and customers out there. Where employees are concerned, the modern workplace is not filled with a generation of workers who received identical marching orders: Get an education so that you'll be hired for a steady job at a decent salary; Work as hard as you possibly can, because a job is a privilege on which you can base your future and secure the welfare of your family; The perceived value of hard work, discipline and responsibility should never waver; Your "loyalty" will be taken for granted.

Today, the world of work has totally changed. Nowadays people skip from job to job and from company to company. Working as hard as possible may still be an ideal held by some, but too often they burn out quickly and lose their effectiveness.

An Emotion-Driven Economy

Great organizations know how to chart a course through the worldwide competitive maze to keep their customer relationships not only intact, but also thriving. They do this by connecting to their customers on an emotional level. When that happens, customers return because of *the way they feel*. The response has been so phenomenal that these organizations don't refer to their return patrons as loyal. They speak of them as being *emotionally engaged customers*.

Simultaneously, great organizations create an environment in which their best performers can do what they excel at, over and over again. These men and women are so tuned in to what they are doing, and so effective at responding to the needs of customers, that profits and growth flourish, as do the employees. These men and women are referred to, with gratitude, as being *emotionally engaged employees*.

When engaged employees utilize their natural talents, they provide an instant, and constant, competitive edge. They build a new value: emotionally driven connections between employees and customers. ●

Welcome to the Emotional Economy

Here's what the world's most successful organizations *don't* do. They don't suppose that either superior college grades or comprehensive training is the only accurate or dependable indicator of the right person for the job. Neither do they expect that employee incentives will guarantee consistently better job performance.

Instead they depend on the reliable source that other businesses disdain: *human nature*. They know that the

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

emotions of both employees and customers create feelings, which drive their behavior. Great organizations are aware of the power of emotions and, therefore, set up the conditions that generate and cultivate emotional mechanisms among employees and customers. The only way to achieve this is through human interaction, the fastest and most powerful trigger of emotional states.

By recognizing and unleashing the innate abilities of employees and matching their gifts to the positions that will best take advantage of them, thus making them even stronger, great organizations look inward in order to move forward.

They cherish the fluctuations in human behavior because they understand that these create a pathway as electric as any inside a brain.

For example:

- Employees who use their natural talents in their jobs produce significantly more than average workers.
- Emotionally committed employees form teams that deliver exceptional outcomes.

Customers recognize the passion and commitment employees feel toward them and cannot help but respond in an emotional way.

This emotionally driven reaction builds a bridge between employees and customers that creates engagement. This engagement becomes the key factor that drives sustainable growth. Sustainable growth is the route to profits and, ultimately, higher stock value.

In the end, great organizations know that a reason-driven economy can travel only so far. The missing link is the engagement of deep-seated emotions as the driver of growth and profits. These — and only these — feelings are the fuel that propel talented individuals to do more and inspire customers to return.

Discover the Talents of Each Employee

Mike Rose is great at what he does, and it shows. Leaning back in his chair, his feet resting on his desk, headset in place, he inhabits his area — he refers to it as the "command center" — with ease. Relaying information and answering questions with an enthusiastic manner that is endlessly engaging to the people on the other end of the line, Mike enjoys his job. When speaking to customers, he exhibits what seems to be a magical ability to "read" them, even though he never sees them.

Information technology is Mike's field of operations. He interacts with established and potential customers, presenting new products and services to them. Providing technical support is another part of his work.

But for Mike, the very process of speaking to people, finding out their likes and dislikes, guiding them to the products and services that are right for them — that's what gets him psyched every morning:

As he says, "I have the best time talking to people and figuring out what is or isn't important to them. When I make a connection, I hear it in their voices, and it makes me feel good."

Mike's connection with the people he speaks to is emotional.

Mike has a natural talent for his work. But he brings something else, something that cannot be taught. When he connects with customers, he feels good. Customers, in turn, feel that Mike cares about them. Consequently, Mike's work keeps blooming into profits.

Talent Is Where You Find It

Everyone has talent — the natural predispositions that make each of us particularly effective. It is when this recurrent pattern of thinking, feeling and behavior is applied to the right role that superior performance is generated. The trick is to find that role in which talents can be put to their best use.

Build Strong Customer Relationships

By asking "What are the ingredients for building a strong customer relationship?" Gallup researchers found:

- The strongest long-term commitment — the emotional allegiance — of a customer to a brand or to an organization does not derive solely from superior factual knowledge and rational appreciation of a product's intrinsic and extrinsic benefits.
- Rather, it is the result of an emotional experience derived from noteworthy interpersonal, product and brand interactions.

The Route That Never Goes Astray

Like ancient roads that provided the means for trade, commerce and wealth, employees can provide the pathway to profits and growth. So it makes excellent practical sense to pave the way for their talent to reach the world. With competition mounting on a global scale, no business, industry or organization can afford to pay an

employee for providing anything less than a great performance, which means one that is emotion driven.

Of course, there is a huge range within roles and situations, and among types of industry and organizations; diversity is a constant. Nonetheless, hundreds of performance-linked-to-outcome studies at Gallup, involving a highly diverse range of roles and positions, including those in sales, customer service, teaching, health provision, law enforcement, sports and the arts, revealed fascinating information.

These analyses identify the exceptional contribution of talent, as opposed to other internal or external variables. The analyses also measured the magnitude of the contribution of the employer.

Gallup discovered that great organizations:

- Identify, select and develop talent.
- Nurture their employees' strengths. Roles are constantly being adapted to better suit these strong points. Because true value comes from the best performers, the bar is continually raised. Outcomes are measured and compensation is tied to them.
- Train to develop individual strengths.
- Understand that knowledge can be transferred from one person to another, but is always specific to the situation.
- Bolster strengths so that profits will grow.

With this information in hand, the selection for the right talent to fit the right role can begin.

Talent and Profits: The Inseparable Duo

Hundreds of Gallup studies have proven, time after time, that talent makes a huge impact on profitable growth across every major type of occupation and industry. They also discovered that the effect of talent is reflected by how productive a person can become. The top 25 percent of the most productive individuals in all sorts of occupations were identified, reviewed and studied in depth with regard to their performance and personal talents.

Ultimately, the results were clear: Only the best — consistently exemplified by the most productive — generated sustainable and real value. The key to highest individual performance lies in the unbeatable combination of experience, training and talent. That's why it is imperative that the talent combinations of the best be compared with those of poor and average workers. Only then can their strengths be identified and channeled so that they, too, can spur growth. ●

Steering Toward Engagement

Gallup researchers felt that looking at both the highest- and lowest-producing work groups was imperative in order to discover the conditions that consistently distinguish them. That's why they researched all kinds of industries and organizations, identifying the issues that managers and employees alike can act upon.

They also felt that the ultimate goal would be to identify the cultural conditions that attracted and nurtured top talent as well as those that drove negative attitudes and defeating behavior.

As a result of this mammoth effort, a group of 12 highly focused questions known as the Q^{12} were posed to employees within hundreds of companies.

The 12 Conditions for a Great Workplace

The Q^{12} define the conditions of a great workplace. Great managers run productive workplaces whenever these 12 conditions are met.

1. **I know what is expected of me at work.** Without expectations, it is impossible to assess progress.
2. **I have the materials and equipment I need to do my work right.** More than anything else, information is the top necessity for every employee.
3. **At work, I have the opportunity to do what I do best every day.** In great organizations, the most productive work flows when a person's innate gifts are matched to a role that celebrates them.
4. **In the last seven days, I have received recognition or praise for doing good work.** Singling out excellent work and praising it goes a long way toward recognizing the individual contributions of employees. Not surprisingly, it adds to their sense of accomplishment.
5. **My supervisor, or someone at work, seems to care about me as a person.** Employees don't leave companies, they leave managers and supervisors whom they feel don't care about them either as individuals or as employees.
6. **There is someone at work who encourages my development.** Most people want to achieve more proficiency in what they do; it's human nature to want to improve, to overcome challenges and to come out on top.
7. **At work my opinions seem to count.** Innovative ideas are priceless.
8. **The mission or purpose of my company makes me feel my job is important.** Being part

of the bigger picture is very compelling. It comes under the heading of *emotional compensation*, because it can't be bought and paid for; instead, it is perceived. Stretching themselves to make a difference comes naturally when employees see that what they do has a profound impact.

9. **My associates or fellow employees are committed to doing quality work.** Identification with a shared commitment is crucial for the work group to turn out a quality product or service.
10. **I have a best friend at work.** Having a best friend at work improves a person's chances of being engaged by an amazing 54 percent. Not having one, on the other hand, reduces chances to zero.
11. **In the last six months, someone at work has talked to me about my progress.** What employees are doing well should be brought to their attention.
12. **This last year, I have had opportunities to learn and grow at work.** Learning must be targeted to enhance existing strengths; otherwise it won't add to an employee's personal and professional growth. ●

Directions for Enhancing and Managing Employee Engagement

Great managers employ just four keys to meet their goals:

1. When selecting someone, they opt for talent, not simply experience, intelligence or determination.
2. When setting expectations, they understand the importance of defining the right outcomes, not the steps to get there.
3. When motivating someone, they focus on the person's strengths, not his or her weaknesses.
4. When developing someone, they help find the right fit between talent and role. And they use the Q^{12} as a guide to understanding and developing their employees.

Managing the Q^{12}

Every great manager knows where each employee stands in each of the 12 conditions. Great managers almost instinctively build the 12 conditions into their work environment. They know that only in the best environment can they get their employees' talents to blossom.

Here are 12 tips:

1. **Define the right outcomes.** At the basis of the engagement process are the basic expectations of a role.
2. **Provide the necessary tools.** If the matching of skills with tools is not thoroughly examined, there can be great cost for either the individual, the organization or both.
3. **Select for talent.** The best managers clearly see the specific talents needed for every role.
4. **Focus on each person's strengths.** Effective recognition is positive in nature, immediate and real-time to performance. Additionally, it is specific about what is being praised, is close to the action and is done in a way that best impacts the recipient.
5. **Caring counts.** A productive workplace is one in which people feel safe enough to experiment, to make mistakes, to challenge, to share information and to support each other.
6. **Find the right fit.** The best managers help employees differentiate between talent, which occurs naturally and cannot be created, and both skills (the "how-to" of a job) and knowledge (factual or experiential) — each of which can be learned.
7. **Let people be heard.** Nothing is more demoralizing to employees than being excluded from being able to express opinions about major decisions that directly affect their work.
8. **Help each person find meaning.** Good managers believe that a part of their jobs is bringing the company's purpose or mission down to size. They do this by explaining it to each person in a form that each individual can relate to.
9. **We're all in this together.** Great managers clarify the definition of "quality" and make sure that employees and customers share the same vision of what that means. Therefore, everyone in a work group must understand how the customer defines "quality" and agree with it.
10. **You'll be there when I need you.** In the perspective of great managers, employees are most productive when they cooperate with one another, when they combine efforts and when they do not have to waste time watching their backs. Great managers understand their team members' need to feel that they can trust the people around them.
11. **Look at how far you have come.** All employees need feedback to know how much they have grown.
12. **Organizations learn through their people.**

Great managers learn how each employee defines personal "opportunities." ●

Emotional Economics, Part 1

The reporting of the economic impact of engagement on profits and growth has only begun. This study is ongoing at Gallup, and there are numerous areas of hidden impact that remain to be revealed and estimated. But right now, the undisputed fact is that employee engagement significantly impacts the ability of an organization to achieve profitable growth.

Since nothing in an organization occurs inside a human vacuum, however, every single event handled by human beings bears the handprint of their engagement.

The challenge is in catching up with the organizations that have already reduced the variation of engagement/disengagement within.

What can companies do to improve their ratio of engagement? First, "think big and act small," because the only way to find the real solutions to problems in the workplace is at the workplace level. The solution already lies inside your own organization, at superior individual workplaces where the outstanding stories of engagement can be identified and applied to the entire organization.

Second, it's time to realize that all problems relating to engagement are directly associated with talent that is either underutilized or ignored. No matter how many percentages are tallied or numbers are crunched, without important relationships among workers and between managers and work groups, engagement cannot happen. This is the first fundamental lesson of emotional economics.

The Disengagement Warnings You Must Heed

The numbers don't lie. You must identify your engaged, not-engaged and actively disengaged employees because they make huge impacts on your business every day. And unless your employees become engaged to their work and work group — and stay that way — they won't be able to work to their maximum ability.

If you want to win in an increasingly competitive business world, you must look at your employees as your first line of defense. They can make you or break you. Remember:

- **The majority of employees are not engaged at work.** More than 42 independent Gallup studies indicate that approximately 75 percent of employees in most companies are not engaged at work.
- **Disengaged employees cost companies hundreds of millions of dollars annually.**
- **Remedial training doesn't cure disengagement.**
- **Companies create waste.** Waste and lost opportunities represented by disengaged employees are pulling your organization down. ●

The Open Highway

First the bad news: Mounting evidence points out that in the absence of a meaningful emotional relationship with a brand or an organization, customers are naturally predisposed to switch their allegiance. This means that customers are not born loyal. The good news is that customers are naturally predisposed to be emotionally attached, once emotional connections are established.

It's All in Your Heart

Emotions are the mechanisms that set people's highest-level goals — including what they repurchase. While customers often forget factual information (how much they spent on a service or how much an item costs), they almost always remember their emotions, good and bad — more often the latter than the former — when it comes to deciding whether to buy a product again or keep a service.

This means that the process of deciding whether or not to stay also depends on the emotions experienced while purchasing and using a product or service. So apart from performing its intrinsic functions, a product or a brand carries profound emotional connotations for customers. At the beginning, middle and end of every transaction, emotional engagement is always at its heart.

Customer Loyalty

There are three kinds of customer loyalty:

- The forced kind, which is imposed by a monopoly and lasts only as long as the monopoly does.
- The bought kind, which is directed at a captive audience (frequent flier coupons are an example, where an airline offers a choice that fliers might not use).
- The emotional kind, which can go on infinitely. Unless you focus on emotional engagement, you will not be able to persuade customers to return to you. ●

The Four Emotional States That Drive Customer Engagement

There are four distinct emotional states which collectively represent the four basic dimensions of emotional

engagement: Confidence, Integrity, Pride and Passion. As you'll see, each one builds on the one preceding it. One can't be skipped to get to the next level. As with the Q^{12}, the sequence must be followed to work maximally.

- **Confidence.** Confidence develops out of a "relationship," either through mental images created by brands, through experience with products and services, or by human interactions with employees or representatives. Confidence grows from technical competence, flawless systems and proper understanding of all customer needs, including the actions and procedures that must take place. It also depends on the understanding of intangible issues, such as treatment and the knowledge required to meet customer expectations. The key words for trust are "genuine," "authentic," "accurate" and "credible."
- **Integrity.** Integrity is the belief in a brand's ethical commitment, the unequivocal compliance with principles agreed upon and with a fair resolution of problems or unanticipated events. Integrity is gauged by whether a customer feels fairly treated and by whether he or she expects a fair resolution to any problems encountered. That belief is reinforced when a customer feels he or she is dealing with a company that is not only competent and forthright, but also fair and ethical. It can be instilled, for instance, by a salesperson who steers the customer to a product he or she wants instead of immediately pushing the most expensive merchandise. Similarly, if a clerk botches a room reservation, he or she should know to offer a clear indicator of apology, like an upgrade.This calls for an organization to plainly define the principles to which it will adhere and the ways in which it will apply these in practical day-to-day scenarios that approach problems from the customer's perspective.
- **Pride.** Engaged customers develop potent feelings that result from the relationship they form with a company through all its touchpoints. These feelings extend well beyond believing that the company keeps its promises and resolves problems. These feelings represent the pride felt in being associated with a brand and all that it represents.
- **Passion.** When a customer refuses to accept an equally attractive substitute for a product and says, "No thanks. I'll wait for what I want even if I have to pay more for it," his or her passion is showing.

Passion cannot be established in the heart and mind of a customer unless the three previous emotional levels are in place. ●

Directions for Enhancing and Managing Customer Engagement

Running a successful restaurant depends on a lot of things: location, a good chef, an efficient waitstaff, fresh ingredients, a pleasant atmosphere, attractive tableware, flattering lighting; the list goes on and on. But you can have all these things and fail if your customers don't keep coming back.

So states Steve, a manager who has been responsible for transforming three restaurants into the top places to dine over a 20-year period.

"I never 'assume' that customers will come back," Steve says. "I try to appeal to them in a personal way, because experience has shown me, over and over again, that it's the only system that works."

As the manager, he is the go-between linking the employees and all of their many functions with the customers who walk in — and out — the doors every day. Like other great managers, he relies on an unbeatable combination of three actions.

First, he knows the specific talent themes of every employee. By taking the time to find these out, he can direct their strengths in the most effective directions.

Second, he meets the expectations of his customers every time they arrive. This means that the way he runs the restaurants, the treatment people receive, and the advice they hear about food and wine selections is consistent.

Third, Steve knows the likes and dislikes of his regular patrons. Because of this, he is able to initiate something new with all repeat customers each time they come in. While this isn't the easiest thing to do, he realizes that it's imperative if he wants to keep his customer relationships strong.

The Three Links

No matter where they take place or what kind of brand, product or organization they involve, every employee-customer interaction involves three simultaneous processes: actions, treatment and knowledge.

- **Actions** are the functional aspects — that is, all the activities that an employee is supposed to perform on the customer's behalf.
- **Treatment** represents the employee's personal touch, the positive or negative attitudes that set the tone of the customer's emotional response to what

the employee is doing.

- **Knowledge** refers to information and advice, which customers appreciate as "enhancing the value" of their experience.

Great managers use the following three links to make sure that action, treatment and knowledge are achieved every time an employee interacts with a customer:

First Link: Align employee strengths to meet customer expectations. Great managers recognize that every employee has talent themes and possesses a unique style of building and cultivating strong personal relationships.

Second Link: Initiate, sustain and restore customer emotional states. Great managers always regard customers as individuals waiting for an emotional state to be initiated, sustained and restored.

Third Link: Intensify the consistency of emotional states. ●

Emotional Economics, Part 2

To date, the largest proportion of fully engaged customers for any company worldwide is still less than 50 percent. This means that all organizations across the globe are running at a fraction of their potential, with severe economic implications to their financial outcomes.

In a time when CEOs and Wall Street economists are asking why soft numbers — which reflect people's attitudes, opinions and preferences both as employees and customers — are becoming increasingly serious subjects of study, great organizations have learned that these numbers matter.

In today's business environment the ability to engage customers is the exception rather than the rule. The challenge for most organizations is how to make this process the norm rather than the rare exception. The list of requirements to make it happen includes the commitment of both corporate leadership and the front-line employee. Here's what the great organizations do:

- Adopt one consistent metric and language — one that can yield valid comparisons among business units, brands, products and time.
- Identify the drivers of emotional attachment.
- Focus on the experience and the engagement of the customer and holding every executive, manager and employee accountable for how they impact the customer emotionally.
- Discover the best practices and initiatives within the organization that stimulate emotional engagement.
- Continuously align the structure and the practices of the organization to best serve the engagement requirements of the customers.
- Guide the organization's strategic response, as well as the tactical activities, of front-line managers and associates into coordinated action to enhance customer engagement.
- Empower and support all front-line employees and teams to continuously improve the customer's experience and level of engagement. ●

Managing the Emotional Economy

Gallup's experts say that maneuvering The Gallup Path successfully requires linking three elements in the proper sequence.

The study Gallup recently completed strongly speaks of a pattern employed by the world's most productive individuals, work groups and organizations. While they vary in size, managerial style, industry and location, these organizations meet the three requirements of superior performance time and time again.

1. Talent drives performance. Engage the talent of every employee. Top performers share two important traits. First, they measure their performance in terms of objectively defined business outcomes and they use their talents as the key source for their individual strengths.

2. Engaged employees are your most productive people. Have managers engage all employees. The very best behaviors that employees exhibit are clues to their talents, a signal to follow to maximize those innate strengths. The economic value that great organizations create for their best employees is entirely emotional. It is built one employee at a time.

3. Engaged customers always come back for more. Engage customers so that all become profitable. Real growth derives from both existing and new customers. All customers must be treated as the individuals they are, and not as standardized blips on a statistical chart. There is only one factor that will impel customers to return to your brand or product or organization: the way they feel about you. ●

RECOMMENDED READING LIST

If you liked *Follow This Path*, you'll also like:

1. ***The 21 Indispensable Qualities of a Leader*** **by John C. Maxwell.** Maxwell provides a concise, accessible leadership book that helps readers become more effective leaders from the inside out.
2. ***Open Leadership*** **by Charlene Li.** Li offers the next-step resource that shows leaders how use social media to be "open" while maintaining control.
3. ***Multipliers*** **by Liz Wiseman with Greg McKeown.** Are you a genius or a genius maker? Learn how to become a multiplier of talent and people and how multiplying can have a resoundingly positive and profitable effect on your organization. .

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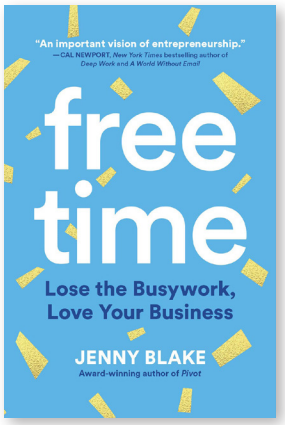
Free Time

Jenny Blake

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Executive Book Summaries®

Free Time

Lose the Busywork, Love Your Business



by **Jenny Blake**

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THE SUMMARY IN BRIEF

As business owners, we've all been there. You have a long list of must-do items but you find yourself stressed, avoiding, and distracted. You are not quite at burnout but you are getting there, and quick. During these times, the strong temptation is to just throw in the towel and pivot into something else entirely. Entrepreneur and author of ***Free Time: Lose the Busywork, Love Your Business***, Jenny Blake calls this state "burn-it-all-down mode and whenever it strikes, it is a signal communicating that you are not working sustainably. If you don't do something about it, sooner or later it's going to catch up with you. The good news is that "something" could be your next big business breakthrough.

Free Time is not about working as little as possible. It's about applying a framework that creates a business that energizes every person who is involved, from you as the owner to your "Delightfully Tiny Team" and the wider community you serve. It's about designing and running a "Heart-Based Business" that does not require you to sacrifice your time or your health. By "repeatedly applying the principles and systems throughout this book" you will be able to happily, and strategically, work less.

IN THIS SUMMARY, YOU WILL LEARN:

- How to apply the Free Time Framework to your Heart-Based Business
- Why and how to align your values, energy, and strengths to your work
- How to design work for ideal outcomes, impact, and optimal process
- Who, What, and When work should be assigned to others

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Heart-Based Business

Being a business owner does not mean that you have to live a stressed out, profit-focused, give it all you got life. You have a choice. Instead of focusing on growing your business at the expense of your health and peace of mind you can choose simplicity, streamlining, and the pursuit of less stress.

You can choose what types of clients or industries you serve so that they are aligned with your values and have the potential to make the kind of impact you desire to make. You can work with integrity, honoring the health and humanity of all involved. All of this and more are characteristics of the Heart-Based Business mode.

Over the last decade this evolved to become a central guiding question for Heart-Based Business, one that I have shared with thousands of small business owners to stay focused on possibility instead of worst-case scenario outcomes. Heart-Based Business means engaging with an ongoing inquiry:

How can we earn twice as much in half the time, with ease and joy, while serving the highest good?

As Heart-Based business owners, it's not about who can hustle, grind, and grit to "beat" the competition. You deserve to honor your life while you build your business.

The ingredients of meaning, community, family, and vitality are at the heart of life-giving businesses and they energize everyone who participates in them, from the owner to the team members to the clients and community.

Free Time Framework

Free Time can be viewed in two ways within the context of running a business. Free Time is:

- Used as a verb to describe the continual improvement of systems that free your time, and
- Used as a philosophy that reimagines how we work, focusing on freedom and Heart-Based Business values, instead of orienting toward money or growth at the expense of time and health.

The Free Time Framework is designed entirely within the above contexts and aimed at moving you and your business away from friction and towards flow. Let's look at both sides in more detail.

Friction: Disharmony, resistance, procrastination, overwhelm, or even dread. Too many mistakes happen, work falls through the cracks, and things go haywire. You feel guilty, even embarrassed, by the state of your systems.

Flow: Busywork is eliminated, focused on the vital few projects and clients, spend the majority of your time working on tasks that you and only you can do, aligned with your greatest strengths, while delegating the rest.

Friction in your business is typically caused by a problem in one of three areas:

- Pressure to bring in more revenue to cover rising expenses,
- Prices that do not generate profits and undervalue your services and the increasing complexity of running a business, or
- Porous boundaries with people you work with that consume crucial recharging time.

Anytime you find your business in a state of friction, you can work through the Free Time Framework process, which is structured according to three stages: **Align, Design, and Assign.**

Part 1: Align

The Free Time Framework begins with a focus on your mind, releasing yourself from invisible and outdated ways of working that are keeping your time unnecessarily and artificially constrained.

You are your best asset, and systems are a skill. You have to move towards a new way of working that is aligned with you in three key areas.

- **Your values:** Operationalizing what makes you and your company unique
- **Your Energy:** Discernment about what to work on (and how) to achieve results
- **Your strengths:** Doubling-down on your talents, intuition, and imperfection.

One of the bonuses of going through this stage is that it is also an important gauge. If you discover the work or opportunity no longer aligns, you will phase it out. No need to systematize what should not be done in the first place.

Values

Operating principles stem from core values. Principles

How can we earn twice as much in half the time, with ease and joy, while serving the highest good?

provide the logic of "why and how we do things here," the overall mindset and approach to work. Where process outlines exactly how you achieve desired outcomes within each area of the business, principles guide those processes to a higher level. Clarifying your values is only a fraction of the work; the rest follows in operationalizing those core values through streamlined systems. To ensure your values are honored throughout day-to-day interactions, you will:

- Set agile operating principles
- Create an externalized mind
- Systematize the spirit of your business

Setting Agile Operating Principles: Your operating principles, whether you are explicitly aware of them or not, are already serving as a foundation for systems you do (or don't) have in your business. Articulating them is crucial, especially as you expand your team, as they set in motion a chain of reasoning based on underlying values.

Create an Externalized Mind: In addition to your operating principles, clearly outline processes that define how you work in a well-organized, easy-to-navigate Manager Manual: your externalized business mind.

In doing so, you will be more confident and less stressed, better able to trust yourself and others to run operations smoothly, and communicate about your business clearly. In an ideal world, no piece of information (or your clients) lives only in someone's mind–yours or your team's. None. Nothing.

Systematize the Spirit of your Business: Design onboarding systems to preemptively address buyer's remorse by deciding in advance what you want their experience to be, designing a process to reflect those values, then doubling down to ensure new clients feel welcome. Special touches come from intentional process design for the values that embody the spirit of your business.

Energy

Notice your energy as you work. Pay attention to interactions with your team and clients: When and with whom do you feel most in the zone? When do you feel most disconnected and drained? What are the most energizing aspects of your business and which ones create unwanted friction? To work with ease and joy, you will:

- Set purposeful intentions
- Let it be easy, let it be fun
- Give yourself golden hour

Set Purposeful Intentions: Setting intentions allows you to filter opportunities, especially ones that seem good on the surface, but that are not energetically aligned with your aims. Purposeful intentions steer you through tough decisions toward your highest contribution. Part of intention-setting involves examining underlying, unconscious intentions muddying the waters of desired business outcomes. It could be that you are complicit in creating the conditions you say you don't want.

Let it be Easy, Let it be Fun: There are two types of challenging work: hard work and Hard Work. Lowercase hard work is rewarding, challenging, and pushes us to the edge of our stretch zone, where we discover flow. Uppercase Hard Work is worn as a badge of suffering, one that mostly leads to burnout. There is a better way.

If something is too hard, take it as a signal to pause, regroup, and revise your approach. If the process of what you are doing, building, or creating is no longer fun, stop.

Give yourself Golden Hour: You have golden hours, one or two times per day that are optimal for your peak energy and creativity, given your unique circadian rhythms. Make sure you allocate your golden hours for your best work. What's your job today?

Be discerning about what you choose and know that it will fluctuate and require trade-offs. Remind yourself that doing this one thing means it has been a successful day.

Strengths

How you do that one thing you love is not how you do everything. It is a pocket of blissful work that yields greater results than working on what you are mediocre at. The

responsibility is yours to fill or reduce the many roles that aren't aligned with your unique strengths. To remove barriers to create more space for your strengths, you will:

- Build your business intuition
- Continuously bust bottlenecks
- Embrace imperfection

Build your Business Intuition: Pay attention to abrupt signals, surprises, or alarming occurrences. These moments indicate when you are no longer in flow, despite what your heart wants, or what your mind thinks you should be doing.

The signs are speaking to you, letting you know what it is time to lean into your intuition as a strength signaling what to do next. Trust that an answer will emerge when it is time.

Continuously Bust Bottlenecks: Finding yourself embarrassed, missing important deadlines, or profusely apologizing to others on a regular basis can be signals that you are bottlenecked in your business.

You might be the best in the world at what you do, but if your systems are broken or outdated, your clients will quickly become frustrated and go elsewhere.

Embrace Imperfection: Embrace "cookie dough" work that is awkward, imperfect, and incomplete. Launch it anyway and gather real-time feedback. Trust that your creative cookie dough will be delicious as is.

Part 2: Design

This second stage of the Free Time Framework, Design, will help you create space for your most important work, ignoring distractions along the way. Before starting any new project, you will clearly define three areas:

- **Ideal Outcomes:** What are the ideal outcomes, large and small? How will you measure success? How will the finished product look? How will you know it is complete?
- **Impact:** What impact will this project have in the world? Who is it for? What problems are you solving? What do they write when they send you a thank-you note for creating it?
- **Process:** This is where you design how you and your team will work toward your ideal outcomes and impact. You will create a project plan with key milestones, and decide how to communicate along the way, noting what to do when problems arise.

Ideal Outcomes

Design the process and ideal outcomes before starting work on a new project. Notice when you are stuck thinking something will be long, hard, or exhausting. Invite nonlinear breakthroughs by opening up to the possibility that results could happen quickly, joyfully, and easily.

Stop mopping with already soaked time sponges: doing repetitive, reactive work without cleaning up the actual mess. Instead of reacting in the moment, create systems to free up time in the future. Notice micro-guilt, people-pleasing, worrying, and saying yes to lukewarm opportunities just to avoid saying no.

Invite nonlinear breakthroughs (NLBs): An NLB is an unexpected sharp turn of clarity or success, rather than a linear, long, or otherwise time-consuming analysis or slog. You may assume that the only way to achieve progress is through hard work and intense willpower. Invite an NLB instead.

Envisioning a path that might just be easier than expected, is exactly how many entrepreneurs achieve liftoff. NLBs invite us to be surprised not only by the outcomes of any business effort, but by the path to get there.

Apply serendipity as a business strategy: Serendipity happens when you release your small experiments, or pilots, out into the world, without knowing what will result. Sure enough with luck, effort, and persistence to keep putting things out there, someone's interest will spark.

If you stick with steadily launching your ideas, they accelerate. With serendipity as a business strategy, you do not have to design precise outcomes, have all the answers right away, or a detailed plan mapped out from the start.

Solve for Sisyphean systems: Sisyphean, a Greek mythological king, was sentenced to an eternity of futility, rolling a giant boulder uphill only to have it roll back down once he neared the top. In today's world, these giant boulders come in the form of never-ending inboxes and notifications.

Many of these Sisyphean systems are, by definition and by design, "hard to contain or eradicate." It takes Herculean willpower–or a shift in systems and mindset–to resist the urge to respond all day, every day, into eternity. If we get caught up in these addictive systems, we miss the chance to do our best work, in our best timing.

Be mindful of the impact of how you describe your community and customer journey and consider the myth that hard work is all it takes.

This requires awareness, stepping back to see a bigger picture and possibilities, and implementing a pattern-interrupt or new process for repeating situations that are not serving our best work.

Impact

Design with your desired impact top of mind, creating solutions that serve the highest good for all involved, including your team, clients, and broader community. Continually collect feedback and improve your products for greater resonance. Be mindful of the impact of how you describe your community and customer journey and consider the myth that hard work is all it takes. Consider the invisible privileges that impact success.

Always be listening: Built-in listening is a systematic way of ensuring there are feedback mechanisms built into the business. Always be listening by making a practice out of continuous open listening, setting up a variety of systems to do this. Consent is key, of course and in addition, ensure that a monthly recurring task rolls the feedback up for review to improve products and inform every new project.

Scale by getting ready for a big break: Prepare your systems to catch the wave of interest and incoming leads that get generated. If you scale with sloppy systems, your problems will only multiply. If you don't see it coming (or envision that it is possible and act accordingly) you may run out of inventory, crash servers, or experience other flubs. Build with excellence and prepare ahead of time for all possible outcomes.

Use life-giving language: The words you use publicly and behind the scenes matter. They carry energy. Respect and acknowledge hard work, luck, and privileges—as success is almost always a combination of these and more.

Language represents our values and beliefs. Consider how language maps to processes in your business, and your resulting motivation (or lack thereof) to follow them. For example, acquiring a new customer refers to a human you respect as an object to be bought or caught. That language is dehumanizing and demotivating, especially if you are a Heart-Based Business. Be accessible and inclusive in your language and actions.

Process

Ensure that you and your team are intentional about designing the process required to make the work happen before you assign to team members. Be strategic with your time with batching of small and not time-sensitive tasks to eliminate task bloat. Design your default state to be intentional, active focus.

Design deep work containers: You deserve to have uninterrupted, focused time to do dynamic work, at times when you are most creative. It is all important to systematize deep work time amidst a world of fractured, digital distraction.

Deep work time means nothing else gets scheduled in advance during that time. Give yourself permission to turn your phone to Do Not Disturb during deep work times.

Time block and bake in batches: Time blocking is dividing the day into specific segments to complete discrete activities through concentrated efforts. Knowing what this is and doing it are very different things. You will not block time expansively if you hold yourself to an outdated energetic imprint of what a calendar means, and how it should be managed.

Rethink calendar-cramming habits that no longer serve you. Batch your time by doing similar activities together, even planning them in advance on a quarterly basis.

Automate what you repeat: If this then that (IFTTT) represents a way of thinking for repeatable tasks in your business. No task needs to be repeated the same way twice, at least if you are paying attention and willing to do a little bit of extra work up front to define if this then that rules. By automating as much as you can, you stay focused on the work you love most.

Automate small, repetitive actions through software. Engineer simple systems to prevent failures of memory, energy, overwhelm, decision making, and delegation.

Part 3: Assign

In this last stage of the Free Time Framework, now is the time to let go of as much of it as you can by assigning next steps to someone other than you. You will set up structures that build trust in your team. The assign stage challenges you to assign most of what you can. For every task, project, and responsibility, you will get clear on:

- Who
- will do What
- by When

Who

If you are the only person working in your business, you are far more likely to be the bottleneck and to be burdened by work that drains you. In this section you will:

- Promote yourself from Chief Everything Officer
- Construct your Delightfully Tiny Team
- Double how much you delegate

Promote yourself from Chief Everything Officer: It's nearly impossible to do your best work when you're doing all the work. To create a lasting company, you need to ensure that it does not hinge only on your energy, effort, attention, and time.

Consider hiring a thought partner who compliments your skillset and an assistant or project manager who can take care of the details for both of you.

Construct your Delightfully Tiny Team: Examine team size based on leader preference, culture, and cohesion. What makes a team delightfully tiny is up to you, the leader, to decide, based on the intersection of three things: your strengths and energy, your current strategic projects, and desired outcomes for your team or business.

Delightfully Tiny Teams help you reach your personal sweet spot of efficiency and freedom as the owner, enabling you to focus on your best work.

Double how much you delegate: Even if you think you already delegate effectively, you have room for even greater efficiency and resulting peace of mind, whether on the home or work front. Conduct a 5 T's audit for tiny, tedious, time-consuming, terrible at, and time sensitive tasks you can offload next.

What

Look for person-to-project alignment as you facilitate ongoing conversations with your team. Look for ways to automate, delegate, or drop the draining work. In this section, you will:

- Make yourself replaceable with the Fiji test
- Identify, discuss, and solve for drainers
- Take responsibility for all frustration

Make yourself replaceable with the Fiji test: What would happen if any one of your team members were whisked to Fiji on a moment's notice for a three-week vacation, and told to leave all of our devices at home?

Set up systems and documentation so that a stranger to the business can step in tomorrow, in any role, and run things smoothly. Each person must work towards making themselves replaceable every day.

> Your true strengths are areas you are already skilled at and that energize you.

Identify, discuss, and solve for drainers: Your true strengths are areas you are already skilled at and that energize you. Better understanding your energizers can also help you navigate your drainers, which is work that is soul-sucking and drains your energy instead of charging you up. Conduct design-your-role conversations that identify and solve for drainers with each team member.

Take responsibility for all frustration: When the pandemic hit and all future work started being canceled, it would have been easy to wallow and feel sorry for myself. A pandemic is not any one person's fault. The best thing to do as a business owner was recenter and take full responsibility, one small step at a time. Taking responsibility and being open to feedback is the only path to sanity.

When

When you work matters as much as how you work, and how much. Most work is not urgent; Set parameters for your communication cadence, and how you will indicate when something is truly time-sensitive. In this section, you will:

- Track every task and assign one clear owner
- Answer less: every question lives three lives
- Save someone next steps

Track every task and assign one clear owner: A central task database to capture every single activity, large and small, ensures your externalized mind won't fail. You will benefit greatly by building a task management system you can trust, so you can focus without worrying that you are forgetting things.

Answer less: Disorganized documentation around common questions in your business triples the work–and the frustration–for your team and customers.

Every question lives three lives: the first time it is asked and answered, the documentation of the question and response in the Manager Manual, and the addition of that Q&A to a public-facing resource.

Save someone next steps: Ask your team to get in the habit of looking beyond the initial details of a request. Run through a quick check before marking something complete, by anticipating what the assigning person will need to do next. Take a far back view to anticipate what subtasks will follow.

The Free Time Framework can help you spot and eliminate friction step by step, pulling your attention out of the weeds and back to your highest vision. For any given project, you can realign with why work matters (sometimes phasing it out), then design a more streamlined process alongside your ideal outcomes, and finally assign it to someone on your team to shepherd its success.

By committing to smarter systems and heart-based operating principles, we expand into even more immense potential, taking extra steps now to help us soar far into the future.



Jenny Blake, author of the award-winning book Pivot and co-creator of Google's acclaimed Career Guru coaching program, is back with her signature blend of heart-based operating principles and practical tools. Jenny is an international keynote speaker helping forward-thinking organizations and individuals map what's next. She hosts two podcasts with over 1 million downloads combined: Free Time with Jenny Blake for heart-based business owners, and Pivot with Jenny Blake to help others navigate change. Jenny started her first blog, Life After College, in 2005, which was later turned into a book and published by Running Press in 2011.

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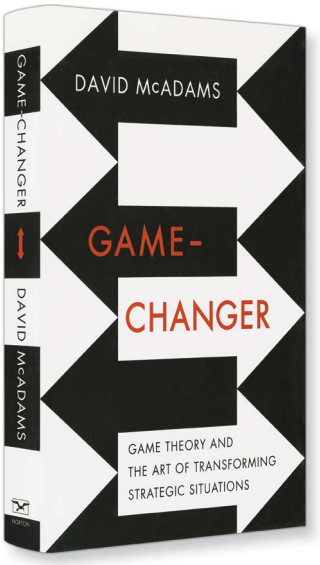
Game-Changer

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Management



Game-Changer

Game Theory and the Art of Transforming Strategic Situations

by David McAdams

THE SUMMARY IN BRIEF

Even seemingly certain defeat can be turned into victory — whether in battle, business or life — by those with the strategic vision to recognize how to "change the game" to their own advantage. The aim of David McAdams' *Game-Changer* is nothing less than to empower you with this wisdom — not just to win in every strategic situation you face but to change those games and the ecosystems in which they reside to transform your life and our lives together for the better. McAdams provides a radically new and easily learned way to outstrategize your rivals.

Game-Changer develops six basic ways to change games — commitment, regulation, cartelization, retaliation, trust and relationships — enlivened by countless colorful characters and unforgettable examples from the worlds of business, finance, sports and more. The book then digs into several real-world strategic challenges, such as how to keep prices low on the Internet. In each case, McAdams uses the game-theory approach to identify the strategic crux of the problem and then leverages that "game-awareness" to brainstorm ways to change the game or at least mitigate the underlying problem.

So get ready for a fascinating journey. With *Game-Changer,* you'll emerge a deeper strategic thinker, poised to change and win all the games you play.

IN THIS SUMMARY, YOU WILL LEARN:

- How game theory informs everything from business to politics and more.
- The benefits of using game theory to plot business tactics and gain insights.
- The five key strategies for solving the Prisoners' Dilemma and how to use them in business.

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THE COMPLETE SUMMARY: **GAME CHANGER**

by David McAdams

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Introduction

"Games" are strategic situations, and "game theory" is the art and science of strategy, but the game-theory approach to business is much more than just being smart and savvy about strategy. As Raymond Smith explained in a 1996 *Fortune* magazine article, the game-theory approach to business requires "a different kind of corporate manager: flexible, intellectually rigorous, and highly tolerant of ambiguity" and "a special kind of company that nurtures a climate of open, frank and relentlessly objective discussion so that all the variables are scrutinized honestly and without political repercussions."

At the heart of the game-theory mindset is the recognition that *the game can always be changed*. "The wise win before they fight," wrote Zhuge Liang, the great statesman, scholar and military commander of China's Three Kingdoms period. The wise win before they fight by recognizing all the games that *could* be played, steering the strategic environment in their favor, and then fighting with confidence in their ultimate victory. By contrast, the ignorant just play the game that lies before them, their victory or defeat largely out of their control, a matter of luck and fortune.

Game-awareness helps protect you from the many dangers of not knowing what games you are really playing. Once you are truly aware of the games in your life, you can take steps to change them to your strategic advantage. Mastering this art will allow you to recognize and seize strategic opportunities that others do not see, giving you a significant advantage over your peers.

Game theory helps businesses plot tactics. The most obvious games in businesses are those played at the tactical level — how to set prices, how to launch a new product and so on. Management consultants the world over use game theory when formulating tactical strategic advice on how to win such games.

Game theory provides actionable insights. We are surrounded by games whose outcomes affect us, including many over which we have little control. Game theory provides conceptual insights that allow one to understand and predict, before others, what is likely to happen in such games.

Finally and most importantly, game theory can transform the culture of an organization. Firms are not simply players in games. They are also the milieu in which many games are played: among divisions, between workers and managers, between ownership and management, among stockholders and bondholders and so on. Game theory realizes its greatest business potential when leaders of a firm create the culture and organizational structures needed for everyone to thrive together. A game-aware management team can transform everything from how employees are motivated to how buyer and supplier relationships are nurtured, and much more. When used with wisdom and humility, game theory can be a powerful and positive transformative force.

Commit

Committing others to do what you want has an obvious appeal. If you are able to change what strategies others can play and/or change their incentives, then you can gain a strategic advantage by inducing them to take actions that benefit you.

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Commitments are only effective when made early enough (and visibly enough) to have an impact on what others choose to do. Thus, anyone who commits needs to "move first," in the sense of committing before others make their decisions. But what people typically mean when they speak of "moving first" is the notion of moving earlier or more quickly. But what does moving first really mean from a strategic point of view?

Influence the Timing of Moves

"The early bird gets the worm." That may be true for birds, but in business, there isn't always an advantage to being first into a new market space. Many companies that are widely believed to be pioneers were in fact late arrivals to their categories: Kodak in cameras, Procter & Gamble in diapers, Xerox in photocopiers and Apple in personal computers. These firms dominated their markets for years not because they did things *first* but because they did things *best*. Other times, being first is absolutely essential. Nowhere is this more true than in military battle, where the side that positions itself first (on more advantageous ground) often enjoys a decisive advantage.

In any battle, whether in business or war, the combatants' desire to win creates an adversarial dynamic that spills even into the question of who moves first. But not all games are like that. Sometimes everyone agrees who ought to move first.

Vacation Rental by Owner

HomeAway Inc. is the giant of the vacation rental by owner (VRBO) market, with many popular websites including HomeAway.com, VRBO.com, VacationRentals.com and BedandBreakfast.com. HomeAway.com alone offers "more than 325,000 vacation rentals to choose from." With so many properties, it is difficult to ensure the accuracy of every listing. Not surprisingly, some owners slip through the cracks with deceptive descriptions of their rental properties. There is even a term for this phenomenon: "SNAD" ("significantly not as described").

From a game-theory perspective, the fundamental problem here relates to the timing of moves: renters must pay to reserve a property *before* they can verify whether it has been described accurately. This gives unscrupulous property owners an incentive to post deceptive listings.

Fortunately, a new site called Airbnb.com has burst onto the scene with a radically different business model that solves this problem. Under Airbnb's approach, renters are not charged until 24 hours *after* their stay begins. This gives renters a chance to inspect the property and ensure that deceptive property owners aren't paid.

Everyone wins in a system like this, in which renters don't need to worry about scams or SNADs. The only potential loser is HomeAway, whose system fails to engender the same level of automatic trust and whose market is therefore potentially vulnerable to invasion by the Airbnb model. Perhaps HomeAway's CEO, Brian Sharples, should learn from what works at Airbnb and find a way to let HomeAway property owners "move first," so that vacationers can be even more confident in the quality of HomeAway rentals.

There are other situations in which the likely outcome of the game doesn't depend on the timing of moves. The most famous such game is the Prisoners' Dilemma.

The Prisoners' Dilemma

The police have arrested two criminals on charges that carry a prison term of up to five years, but strongly suspect that they also committed a worse crime (say, armed robbery) that carries a term of up to 20 years. The police interrogator puts them in separate cells and says to each, "It's time for you to confess to the armed robbery. How long you stay in prison will depend on who confesses. If you're the only one to confess, I will let you walk free today because of your cooperation. Otherwise, you'll spend five years behind bars if neither of you confesses, 10 years if both of you confess, and 20 years if you're the only one not to confess."

Each prisoner has a unilateral incentive to confess, regardless of the other's move. If the other prisoner confesses, confessing reduces your own sentence from 20 to 10 years. If the other prisoner does not confess, confessing allows you to avoid prison entirely. That is, each prisoner has a "dominant strategy" to confess. However, if both confess, both get a longer sentence (10 years, the third-best outcome) than if neither confessed (five years, the second-best outcome).

In its most general form, the Prisoners' Dilemma is defined as any game having the following two features:

- *Each player has a dominant strategy,* a move that maximizes that player's own payoff regardless of others' moves.
- *All players are worse off* when they all play their dominant strategies, compared to when each plays some other strategy.

The Prisoners' Dilemma encompasses any situation in which individual incentives conflict with the greater good, so much so that everyone is worse off when everyone pursues their own self-interest.

In this way, the Prisoners' Dilemma embodies the fundamental distinction between license and liberty and highlights the need, in some situations, to restrict our ability to make certain choices and/or to increase our personal responsibility for the consequences of our actions.

Fortunately, the Prisoners' Dilemma is an eminently *solvable* strategic problem. Indeed, game theory provides five distinct "escape routes" from the Prisoners Dilemma, each of which is broadly relevant in many other games as well:

1. Regulation
2. Cartelization
3. Retaliation
4. Trust
5. Relationships

Invite Regulation

In 1968, ecologist Garret Hardin coined the term "tragedy of the commons" to refer to any game in which individuals can freely choose how much to exploit an exhaustible resource. Each player has a dominant strategy to use as much of the resource as possible, but when everyone does so, the resource is overexploited and everyone suffers. So, the tragedy of the commons is an example of the Prisoners' Dilemma.

The idea of the tragedy of the commons, that resource exploitation is a game, has since been widely applied to understand many so-called common resource problems, such as pollution, overfishing and habitat destruction, highway traffic and spam email. Hardin famously argued that the only way to solve the tragedy of the commons is to restrict individuals' rights to use common resources. This perspective has had a profound impact, justifying major government interventions that restrict free usage rights.

Moves toward direct government control are often referred to as "greater regulation," while moves toward privatization are called "deregulation." From a game-theory perspective, however, government control and privatization are similar, as they consolidate the decentralized and often informal control that communities exercise over their common resources into the hands of a single third party, chosen by the government.

Much of the political debate between liberals and conservatives is really about which third party is likely to be a better (or less bad) steward of the commons and its fair use: a government agency or a for-profit business. In fact, there is a third option: rather than stripping communities of their right to control their own common resources, empower them to work together to use the commons in their own collective interest.

What Is "Regulation"?

The idea of regulation is to change players' payoffs, to give them the incentive to make different decisions than they otherwise would make. Every law passed by Congress, every action taken by the executive branch, and every ruling by the judiciary "regulates" the governed. Moreover, government isn't the only regulator. Administrators in schools, parents in families and trendsetters in society all "regulate" others by influencing their options and incentives. Perhaps above all, firms are at heart regulatory bodies, in the game-theory sense of incentivizing others to change their behavior, as they seek to motivate employees to work harder, entice customers to buy more and so on.

Regulation allows players to escape the Prisoners' Dilemma by changing their payoffs and thereby changing their incentives.

The Eliminating Neglected Diseases (END) Amendment

In 2007, Congress passed the END Amendment to incentivize pharmaceutical companies to develop new drugs to combat neglected diseases. Any company that develops such a drug receives a "priority review voucher" that gives its owner the right to skip to the front of the line for Food and Drug Administration review of any blockbuster drug in its portfolio. As Bill Gates noted, "If you develop a new drug for malaria, your profitable cholesterol-lowering drug could go on the market a year earlier. This priority review could be worth hundreds of millions of dollars."

The END Amendment could have a transformative effect on human welfare, if it encourages for-profit pharmaceutical firms to pursue game-changing new treatments and vaccines for neglected diseases. Several new drugs are already in the pipeline and may qualify for priority review vouchers in the near future.

Merge or "Collude"

Barbed wire reshaped the American West after its invention in the 1870s, as farmers finally had an effective way to enclose their land. The only problem for this new industry was the simplicity of the product and the ease with which firms could enter the market. Indeed, from 1873 to 1899, as many as 150 companies manufactured barbed wire. As the market matured, however, just a handful of the most

successful companies remained. These firms, whose founders were known as the Big Four, were aggressive competitors, each with an incentive to offer more attractive pricing to secure a larger share of the market.

Consider two of the leading firms, Barb Fence Co. and Southern Wire Co., as representative players. Each firm's best outcome is to be the only one offering a low price, since it can then capture the lion's share of the market, and the worst outcome is to be the only one offering a high price. Of course, if both charge the same price, both prefer a high price over a low price.

Note that each firm has a dominant strategy to price low. Why? If Southern Wire prices high, Barb Fence prefers to price low to capture the lion's share of the market (best outcome) rather than to split the market at a high price (second-best outcome). If Southern Wire instead prices low, Barb Fence again prefers to price low, though now to avoid its worst outcome in which Southern Wire gets the lion's share of the market.

Since both firms prefer to price low, regardless of the other's move, both have a dominant strategy. However, when both play that dominant strategy and price low, both are worse off than if both had set prices high. So, the Competitive Pricing Game is a Prisoners' Dilemma.

The Big Four were trapped in this state of intense competition, but not for long. In 1899, under the leadership of John Warne Gates, they merged to form the American Steel and Wire Company, instantly transforming barbed wire from one of the most competitive industries to one of the most profitable.

Cartelization allows players to escape the Prisoners' Dilemma of competition by merging into a single entity to look after their collective interest. Nowadays, all large mergers are reviewed by federal regulators and routinely blocked if these regulators fear they could hurt consumers by decreasing competition.

Collusion Isn't Always Bad

The term "collusion" brings to mind smoky backroom deals that stifle competition and harm consumers. Yet collusion can be viewed more broadly as cooperation among one set of players that just happens to harm another set of players. Indeed, collusion may even be desirable from a social welfare point of view.

Consider an industry in which firms primarily compete on research (say, to develop pharmaceutical drugs) but in which the greatest research success comes when *pairs* of firms work together. Once the first pair of firms teams up in this way, they will produce new drugs more quickly and thereby harm the other firms in the market. If left unchecked, these "colluders" could wind up driving everyone else out of business and, ultimately, harm consumers through higher prices.

Anticipating this, however, other firms are likely also to team up. In the end, the market could be transformed from one in which individual firms compete to one in which pairs of firms compete. Such an industry-wide transformation would increase the pace of discovery, making consumers better off as well.

Enable Retaliation

Jesse James and Billy the Kid, the two most infamous outlaws of all time, have each just moseyed into Dodge City, Kansas, during the heyday of the American Wild West. The town is holding its breath over what will happen next. Everyone knows that there's not enough room in one town for two such larger-than-life characters, and it's just a matter of time before there's a confrontation.

Finally it happens, in the Long Branch Saloon, when Billy and Jesse suddenly come face-to-face, only a few feet apart. In the blink of an eye, both gunslingers whip out their six-shooters and aim true. Both are so good — and so close — that any shot is sure to kill. But neither pulls the trigger. They just stand there, like statues.

Welcome, ladies and gentlemen, to the Mexican Standoff. Each outlaw in this imaginary game is driven primarily by a desire to burnish his own legend as a gunslinger and only secondarily to survive the day. In particular, each outlaw wants most to assume the mantle of "the greatest gunslinger who ever lived" and to avoid being forever relegated to second-best status. If only one outlaw survives the present contest, he will be remembered as the greatest. If both die or both survive, both will continue to be judged as coequal in their dastardly exploits.

Each outlaw has a dominant strategy to shoot. Consider Jesse James. If Billy shoots, Jesse prefers to shoot as well, to ensure that he doesn't fall to second place in the Gunslinger Hall of Fame. On the other hand, if Billy does not shoot, Jesse still prefers to shoot, though now to take first place. Of course, both are worse off when both shoot (tied and dead) than when neither shoots (tied and alive). So, the Mexican Standoff is a Prisoners' Dilemma.

Each outlaw has a dominant strategy to shoot, but neither pulls the trigger right away. Why not? Each knows that his own shot will not instantly kill and that, in fact, the other gunslinger will reflexively pull his own trigger in the moment of impact. Since shooting the other guy

is tantamount to pulling the trigger on yourself, each side refrains from starting a fight. Both sides are safe ... at least for a while.

Mutually Assured Destruction

The Mexican Standoff is an example of what's known as the Mutually Assured Destruction (MAD) Game. The crucial feature of MAD Games is that both sides can inflict devastating harm, even after suffering a devastating attack. The most famous MAD Game was played by the United States and the Soviet Union during the Cold War.

Mutually Assured Destruction Games are so-called "dynamic games." The defining feature of dynamic games is that they take place in real time, with each player capable of quickly observing and reacting to changes in the other's behavior. In the Cold War context, both the United States and the Soviet Union could observe and respond to any nuclear strike since (i) once launched, missiles are visible to radar and (ii) no preemptive attack could eliminate all missiles, especially those carried by each side's fleet of nuclear-attack submarines.

Another key feature of MAD Games is that they are "waiting games," continuing in a fixed status quo until someone finally "pulls the trigger." Not all dynamic games are like that. For instance, in the Dynamic Pricing Game considered next, each airline is capable of reversing its pricing move. This means that "mistakes" in dynamic pricing can be undone at little or no cost, whereas mistakes in MAD lead to assured mutual destruction.

Dynamic Pricing

Imagine that only two airlines (say, Delta and American) operate direct flights on some route (say, Chicago-Atlanta). Imagine further that customers interested in flying this route first check what prices the airlines are charging and then book with whichever airline is cheaper. Assume that customers only check prices once and that customers don't have any loyalty or preference between the airlines. Moreover, suppose that every traveler is willing to pay $200 for a ticket but that it only costs $100 to provide this service.

If Delta and American could form a cartel to maximize their collective profit, they would each set a price of $200 to capture every traveler's full willingness to pay for the flight. As competitors, however, Delta and American have an incentive to undercut one another on price. Yet, whether they will actually offer lower prices depends on the details of the game they play. Consider two alternative options:

- *Auction:* Each traveler requests secret price quotes from the airlines, who are not allowed to communicate with one another, and selects whichever airline has the lower price.
- *Posted Prices:* The airlines maintain public prices that travelers and the airlines can see. Each traveler views these prices and selects whichever airline has the lower price.

Consider first the auction. Assume, for simplicity of the exposition, that only prices $200 and $180 are possible. If one airline charges $200 while the other charges $180, the traveler is sure to go to the lower-priced airline, giving that airline a profit of $180 - $100 = $80. If both airlines charge $180, whether each airline makes a sale depends on the traveler's coin flip. So, each airline makes $80 half of the time and nothing the other half of the time. Each airline has a dominant strategy to price low, but when both price low, both are worse off than when both price high. So, this is a Prisoners' Dilemma.

Since the airlines offer secret price quotes in the auction, there is no way for them to use the threat of retaliation to escape this Prisoners' Dilemma. Not so with posted prices. Since travelers can check prices at any time, no airline ever wants to have the highest posted price. Should either airline lower its posted price, then, we can expect the other airline to match and to do so immediately.

Consequently, any move to lower one's own price is tantamount to lowering both airlines' prices in lockstep. With nothing to gain from undercutting the competition, both airlines will naturally sit content with a posted price set at $200, exactly *as if* they were a collusive cartel.

Build Trust

Issues of trust focus primarily on two questions:

- What can a trustworthy player achieve that an untrustworthy player cannot?
- How can trust be earned?

We live in a mostly lawful and ethical society, where people treat others honorably and well, just for the sake of doing so. But trust is never automatic. We must always decide whether to trust, knowing that there is a possibility that we might be betrayed. Fortunately, the deeper message of game theory is that trust is possible even in a completely selfish world. Furthermore, trust can powerfully transform our lives as it opens up strategic possibilities for all sorts of win-win outcomes that otherwise would be closed to us.

Trust in a Selfish World

Being a criminal isn't easy. Constantly on the lookout for law enforcement, you've also got to worry that your partners in crime may turn on you. Unlike businesspeople in the legal world, most criminals can't sign binding contracts or settle disputes in a court of law. So, cheaters really do prosper. Thus, much more so than in the legal world, trust must be earned in the criminal world.

This raises strategic challenges unique to criminal enterprise. However, the way in which criminals overcome these obstacles is instructive for us all.

Consider the strategic problem faced by criminals who would like to do a deal to trade 50 kilos of cocaine for $1 million. The buyer knows that, once he pays the money, the seller will have an incentive just to take it, walk away, and sell the drugs to someone else. Indeed, whether the buyer pays or not, the seller has a dominant strategy not to deliver the drugs. Similarly, the seller knows that once he delivers the drugs, the buyer will have an incentive just to take them and pay nothing. Whether the seller delivers the drugs or not, the buyer has a dominant strategy not to pay.

As long as both buyer and seller play their dominant strategies, however, no deal gets done, and both are worse off than if they had made the trade. So, the Coke Deal Game is a Prisoners' Dilemma.

Real-world criminals do plenty of deals, so they must have ways to overcome this incentive to cheat one another. First, criminals have internalized the lessons of cartelization and self-regulation, forming huge umbrella organizations and incentivizing good behavior among their "associates" with the threat of murder (or worse) for anyone who gets out of line. Moreover, even the most sociopathic criminal recognizes the benefits of (i) cultivating a reputation for being a trustworthy business partner and (ii) building relationships for repeat business, just as in the legal business world.

What If Only One Side Can Be Trusted?

What if only one side to a deal is trustworthy? Fortunately for criminals, it's possible to escape the Prisoners' Dilemma of illegal transactions as long as either side can be trusted, since that player can leverage its reputation to make a credible promise. For instance, a trustworthy cocaine seller can promise this to the buyer: "First, give me the money. I promise that I will then give you the drugs."

Put yourself in the shoes of the cocaine buyer, pondering this promise. If you don't give the money, you definitely don't get any drugs. If you do give the money, however, you will get the drugs as long as the seller honors his promise. And, as long as the seller's reputation is worth more to him than the value of this particular deal, you have reason to trust the seller to follow through. Of course, being a criminal yourself, you'd love to cheat the seller and get the drugs for nothing. However, by design, the seller's promise forces you to move first, so it's not possible for you to cheat.

With this example, we can understand that players can escape the Prisoners' Dilemma as long as either of them can credibly make the following promise: "First, you refuse to confess. I promise that I will then also refuse to confess."

There are two key ingredients in any promise, related to observability and credibility:

- Some player (the "last-mover") can observe and respond to the other's move.
- The last-mover can credibly commit to how it will respond.

It Pays to be Trustworthy

The fact that only one side needs to be trusted has important implications for how commercial transactions (legal and otherwise) are organized. As long as counter-parties to a trade have any doubt about each other's trustworthiness, there is a profitable niche for trusted third parties to coordinate deals. Moreover, trusted intermediaries can provide and charge for information that reduces uncertainty about the quality of a deal. For instance, Carfax reports help assure buyers that a used car for sale has never been totaled, flooded or sent back to the manufacturer as defective under state "lemon laws." Once there is less uncertainty, there is less to lie about and less need for trust to get the deal done.

Leverage Relationships

Your car has started to have some trouble, just a few weeks before you are set to drive off to a new home across the country. You take it to a local mechanic and, while explaining the situation, let slip the fact that you are about to leave town for good. Was it a mistake to tell him that you are moving? After all, the mechanic now knows that there's no prospect of repeat business or positive word of mouth from you, regardless of how good a job he does. Will he charge you more or, worse yet, not be as careful when inspecting and repairing your vehicle?

Henry Schneider, an economics Ph.D. student at Yale, came up with a clever way to find out. Schneider drove his 1992 Subaru Legacy L Wagon to 40 different repair shops in the New Haven area during the summer of 2005. He and his car were exactly the same during every

visit, with one exception: at half of the shops, Schneider claimed to be moving from Connecticut to Chicago, while at the other half, he claimed to be about to drive round-trip to Montreal. (The one-way distance to Chicago is about the same as the round-trip distance to Montreal and back.)

The "good news" is that the mechanics diagnosed about the same number of problems and recommended about the same number of unnecessary repairs, no matter whether Schneider claimed to be leaving town. The bad news is that they charged Schneider much more on average for the inspection when he claimed to be leaving town for good ($59.75) than when he said he would be returning ($37.70). Since Schneider randomly decided what to tell each mechanic and made sure to keep everything else exactly the same (even his clothing, always khakis and a polo shirt), this effect must have been caused somehow by the fact that he told them he was moving.

Mechanics, dentists and restaurants are just a few of the many types of businesses that rely on repeat customers. The prospect of repeated interaction is a powerful inducement for players to exert extra effort and cooperate in various ways.

Reputation Without Repeat Business

What if you only interact once with someone but need their trust to get a deal done? Fortunately, all the strategic benefits of repeat business can still be had if there is some way for others to verify how you have handled yourself in previous deals. For instance, online marketplaces such as eBay have introduced "reputation scores" to help address the problems of anonymity and non-repeat business over the Internet. By design, reputation scores transform anonymous eBay transactions into (at least somewhat) observable encounters that others can use when deciding with whom to do a deal. Thus, sellers know that how they treat each customer will affect not only whether that specific customer returns for repeat business but whether others will choose them as well.

How to Escape the Prisoners' Dilemma

Let's review the various ways to escape the Prisoners' Dilemma. First, are the players capable of *changing their payoffs*, either directly themselves or indirectly via the intervention of some third party? If so, obviously, they can change the payoffs so that the game is no longer a Prisoners' Dilemma.

Second, are the players capable of *merging or forming a "cartel"*? If so, again obviously, they can merge so as to look after their collective interest.

Third, does the game have *dynamic moves?* A game has dynamic moves if it occurs in real time and both players can observe and quickly react to changes in each other's moves. If so, a mutual threat to retaliate is enough to escape the Prisoners' Dilemma.

Fourth, does the game have *commitment moves?* A game has commitment moves if the players move in sequence and the last-mover can commit ahead of time to how it will respond to whatever the first-mover does. If so, a promise by the last-mover is enough to escape the Prisoners' Dilemma.

Fifth and finally, is this a *repeated game?* A game is "repeated" if the same players interact repeatedly in the context of a relationship, or, more broadly, if the outcome of the current game can be strategically linked to the outcomes of other games.

When any of these five conditions holds, there is a way out of the Prisoners' Dilemma. When none of them holds, however, there is no hope of escape. In the classic version of the Prisoners' Dilemma, all five escape routes are closed to the prisoners. Fortunately, these hopeless situations are more the exception than the rule.

Open Your Eyes!

Like anything of great value, game-awareness is not easily achieved. It's a habit that must be constantly cultivated and maintained, and reading alone won't get you where you need to be. So, when you finish reading, practice. Practice until you see the game in everything and everywhere, from the halls of Congress to the aisles of your local grocery store. Open your eyes!

RECOMMENDED READING LIST

If you liked *Game-Changer*, you'll also like:

1. ***Eat People* by Andy Kessler.** Taking risks is the name of the game — but how can you tell a smart bet from a stupid gamble? Kessler explains how the world's greatest entrepreneurs overturn entire industries.

2. ***Making Strategy Work* by Lawrence Hrebiniak.** Hrebiniak offers a comprehensive, disciplined process model for making strategy work in the real world.

3. ***12: The Elements of Great Managing* by Rodd Wagner, James K. Harter.** Using recent discoveries in the fields of neuroscience, game theory, psychology, sociology, and economics, 12 explains what every company needs to know about creating and sustaining employee engagement.

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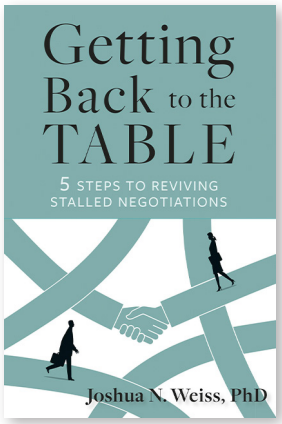
Getting Back to The Table

Joshua N. Weiss

Executive Book Summaries®

Getting Back to the Table

5 Steps to Reviving Stalled Negotiations



by **Joshua N. Weiss, PhD.**

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THE SUMMARY IN BRIEF

The dilemma we face when we fail in a negotiation is that we have to figure out what to do in the aftermath. How do we understand what happened? How much of the failure was due to our actions, and how do we cope with that? ***Getting Back to the Table: 5 Steps to Reviving Stalled Negotiations*** provides a five-step framework for turning failures into opportunities. Readers will learn to accept setbacks, analyze what went wrong, extract valuable lessons, unlearn unproductive habits, and return to the table smarter and more confident.

Negotiation is a multifaceted mix of the participants' actions and reactions, dealing with incomplete information, and numerous additional dynamics, some of which are in our control and some of which are not. So, we will fail. The key question is, how do we become resilient in the face of these failures and use them as an opportunity to grow and get better at this craft?

IN THIS EXECUTIVE BOOK SUMMARY:

- Understand seven types of negotiation failures and their causes, from minor missteps to significant breakdowns.
- Learn the four levels of failure severity to assess whether to persist or walk away.
- Identify and overcome obstacles like blame, bias, and loss aversion to grow from failure.
- Follow five steps to accept failure, analyze it, learn, unlearn, and return stronger.

Negotiation Failures and Their Magnitude

Generally speaking, when it comes to failure in negotiation most people want to know two things: what are the different ways I can fail, and how bad is it going to be?

Before we get to those two core questions, let's briefly define what we mean by failure in this context. For the purposes of this book, failure is defined as not meeting the objective or goal delineated at the outset of the negotiation process.

Seven Primary Types of Negotiation Failure

1. Take a Crack at It Failure

When the negotiation challenge is very difficult, but you try anyway and expect to fail in the short term. This type of failure is the least problematic; it occurs when we know that failure is actually more likely than success in the short term, but there's a strong opportunity to learn from the experience.

2. Slipping Through Our Fingers Failure

Not reaching an agreement when it is eminently possible. In other words, we did not reach an agreement that was achievable and would have met the parties' respective interests and needs when it was very possible to do so.

3. What Were You Thinking Failure

Not meeting one's negotiation objectives/interests. The goal of negotiation is not necessarily just to reach an agreement, but rather for negotiators to meet their objectives and interests as best as possible. Many agreements that are reached fail to meet a negotiator's objectives and, therefore, should be considered failures. In these cases it's fair to ask, "What you were thinking by agreeing to that?"

4. Penny-Wise and Pound-Foolish Failure

Reaching an agreement that damages the relationship. Some agreements are created in such a manner that they achieve the tangible objective—say, agreeing on a monetary amount—but in doing so they damage the relationship between the parties. The reason this type of failure is called Penny-Wise and Pound-Foolish is because a negotiator who is penny-wise tries to save a small amount in the short term at the expense of the long term.

5. Bad Agreement Failure

Reaching a bad agreement that is worse than your BATNA (aka Best Alternative to a Negotiated Agreement or walk away alternative). Many agreements that are reached are, simply put, bad, and should never have been consummated. Often negotiators reach these types of agreements because they have not done careful preparation, or they feel pressured. Whatever the cause, it is not uncommon for such agreements to fall apart shortly after the ink is dry.

6. Emotionally Unintelligent Failure

When emotions are not managed effectively, and the process collapses as a result. Emotions are an age-old challenge for any negotiator. Emotions will always play a role in negotiation, and they can do so in a productive manner if they are brought into the process with some control. But if emotions are not managed effectively, they usually overwhelm negotiators, often leading to an escalation in tension and ultimately a collapse of the process.

7. Under the Table Failure

When the parties fail to notice a hidden dynamic or intangible aspect driving the negotiation. In many negotiations, there are often various hidden dynamics and intangible aspects that hinge on a lack of information. These variables, which I like to say live under the negotiation table and out of initial sight, can often be the cause of failure.

Much of the time this happens because negotiators don't know to look for them, or miss clues that these "under the surface" elements are what are really driving the negotiation. So, they focus their efforts elsewhere and miss dealing with the essence of the challenge.

Magnitudes of Failure

When we negotiate there are bumps in the road. But are those bumps mere potholes that we can fill in and get through with some persistence, or are they more severe, where the entire road needs ripping up and repaving? There is clearly a big difference, which corresponds to the magnitude of the failure we are experiencing in our negotiation. This is something that must be determined as part of the analysis of failure.

To help us understand the nature and seriousness of the failure we are experiencing, there is a four-level magnitude scale that can help us determine whether it is worth our time and effort to try to revive a specific negotiation or come back to the table and attempt a new negotiation after some time has passed.

Level I: Intelligent Failure

This first level borrows the concept of intelligent failure

The answer is that experience can be the best teacher of all, but that requires a deep and honest analysis about what transpired in a particular negotiation.

from Sim Sitkin, who coined the term in his paper "Learning Through Failure: The Strategy of Small Losses." Sitkin defined intelligent failures as failures that are somewhat expected, due to the uncertainty of the process and the desire to push the envelope and see what happens, engaging in purposeful exploration that advances an idea or concept.

Level II: Temporary Setback

A failure at this level is the least significant type of negative failure. It manifests itself in the form of a temporary setback or the breakdown of a process, but definitely not a collapse. With this type of failure there is usually a relatively clear path back to the table; the deal still generally makes sense for the parties involved, and it is likely that they will reengage at some point in the near future.

Level III: Breakdown

Level III is a more severe form of failure, where there is a lot of uncertainty about what will happen going forward. This is characterized by a significant breakdown in the negotiation process, with the failure leading to the strong possibility that the process will not continue. It is possible for the talks to resume, but it will take a lot of work.

Level IV: Catastrophic Failure

These are the most severe type and are catastrophic scenarios where the process entirely collapses, the relationship between the parties is severely (and likely irreparably) damaged, and another effort to negotiate is highly unlikely unless something dramatic happens. This kind of failure is typically the hardest to come to grips with, because it means an almost certain end to any kind of negotiation process.

What Gets in the Way of Learning from Negotiation Failure

If we accept that failure is a reality we have to face, then the next question is, when we fail, why aren't we truly learning from those failures? Awareness is the key that opens our eyes and then our minds.

Blame

The most dominant reason we don't learn from failure is because we are too busy engaging in the blame game and rationalizing our behavior.

Biases and Heuristics

Another reason we do not learn from failure is the various psychological biases that we (often subconsciously) rely on to protect our image and reputation.

Experience and Self-Reflection

The next reason we don't really learn from our negotiation failures is because we think experience itself is a great teacher. But is it? The answer is that experience can be the best teacher of all, but that requires a deep and honest analysis about what transpired in a particular negotiation.

Loss Aversion

Another reason we don't learn from our failures is that we are naturally loss-averse. When we are loss-averse, we often bring to a situation a mindset that can prevent us from making the best decisions because we are desperately trying to avoid failure or risk—the fear of loss is simply too intense.

Lack of a Framework

The last reason we don't learn from failure to highlight is that we don't have a good framework for doing so that is not focused on blame, but rather on genuine learning.

You Failed, Now What?

The first step in the process is accepting the reality that the negotiation did not go as planned and dealing with the loss of failing. Any time we fail, it means we did not achieve our intended goal or outcome. With that new truth comes a need to cope with the loss and what it means going forward

The second step in the process is an in-depth analysis, focusing on both the Forest (the big picture) and the Trees (the minute details), to set ourselves up to truly learn from what happened and why.

The third element of the framework is learning the right lessons from a failed negotiation and how to recognize what might (and might not) be transferable to other negotiations in the future, based on the dynamics and other key dimensions.

The fourth step is to actively unlearn the behaviors and ideas that led us to our failure. The last step is to return to the table smarter and stronger, with a renewed sense of confidence because we know that we have improved on our weaknesses.

Step 1: You Failed - Accept It

When we experience a significant setback or fail in a negotiation, there is a process we need to undergo to deal with what transpired effectively. We must deal with our feelings of loss, be they related to our reputation, a missed opportunity, or, in more extreme cases, something much more onerous.

Step 2: Analyze the Forest and Trees - What Went Wrong

To genuinely understand why a failure has occurred, we must take the time to accurately analyze what happened. This analysis must happen at two levels, which we can call the Forest and the Trees. The Forest is the big picture: a high-level view of the problem that allows us to gain some broad insights. The Trees are the minute details, and they help us understand what is important to take away and to potentially apply elsewhere.

It is essential to go through this analytical process, or we cannot really learn what happened. It's also vital to conduct this step shortly after the negotiation concludes, so critical details can be recalled readily and most accurately. As time passes, our cognitive ability to distort what has transpired increases significantly.

Forest Questions

Beginning generally, we want to step back, consider the categories of failure laid out previously, and determine which one our negotiation failure falls into and why. Take some time to carefully determine the primary issue that derailed the process, and make sure you're not just looking in the comfortable places in the light.

Next, think about the magnitude of the failure. Was this just a temporary setback (a Level II failure), and can you think of ways of addressing the challenge and getting back to the table?

Or was it a bit more severe (a Level III failure), with people's reputations being tarnished and you being left quite unsure of how to restart the process? Or, even worse, was it a negotiation earthquake (Level IV) that did irreparable damage and where restarting the process is unequivocally not going to happen?

Tree Questions

After broadly assessing what went wrong, you need to get really granular in your analysis. There are two generally related negotiation concepts that are useful to consider here: critical moments and moves and turns.

There are a number of types of moves and turns in a negotiation that are made as part of a proposal or used to respond to a statement the other negotiator makes. These moves and turns include framing, reframing, diverting, interrupting, and naming.

Framing moves are very subtle and seek to take control of the negotiation by taking the first action and shaping the conversation.

A reframing move takes issue with a framing move or an assertion made by the other negotiator and presents a different way of seeing the problem or challenge.

A diverting move seeks to redirect and, to some extent, depersonalize the conversation by focusing on the substance of the problem.

The next kind of move that's commonly found in negotiations is an interrupting one. A short break, or reconvening the next day, can change the dynamic and flow of an unproductive process and help to reset the negotiation.

Finally, there is the move of naming, which is outwardly labeling a tactic or overall approach being used in a negotiation. This move points out to the other negotiator that you are aware of what is going on and what they are trying to do.

Step 3: Not Just Any Lessons - Learn the Right Ones

The previous learning step—conducting a big-picture and granular analysis—was designed with a very specific goal in mind. Applying the lessons we've learned, and making sure they're the correct ones, is tricky business. Each negotiation has its unique dimensions, and no two negotiations are ever exactly the same.

However, many negotiations do share a number of similarities, and there are lessons that can be drawn from one and applied to another if this is done thoughtfully and with great care.

Active unlearning means that we consciously recognize a problem with an idea or behavior and purposefully seek to change it.

The transferring of lessons learned happens at two levels. The first level is behaviors, in the form of tactics and skills. These are the easiest to correct and work with. The second level is attitudes, in the form of a negotiator's mindset and underlying beliefs.

These are influenced by what we have learned and internalized in the past, as well as the experiences that have defined our negotiations to this point in our lives.

When comparing two negotiations, ask yourself:

- Did they involve the same number of parties?
- Was one negotiation focused on a single issue, whereas in the other there were multiple topics to work through?
- Was one negotiation focused only on the short term, where the relationship did not matter (i.e., a one-time encounter), while the other had both a short- and a long-term dimension?
- Are there subtle similarities between the current negotiation and a previous one that did not go well that might be causing negative transference?
- Were the negotiation styles used by the parties involved the same or different?
- Were the dynamics in the negotiations the same or different?

The bottom line when it comes to learning and transferring the right lessons is comparability and understanding when our approach to negotiation and underlying mindset might be leading us awry.

Step 4: Actively Unlearn What Your Weaknesses Taught You

If we are going to learn from our mistakes and improve on our weaknesses, we need to look not only outward but also inward. It is certainly possible to unlearn something by accident or in a haphazard manner. However, active unlearning means that we consciously recognize a problem with an idea or behavior and purposefully seek to change it. Some of your weaknesses might be conscious and others subconscious. With the latter, we often have to really dig deep to uncover them.

After listing our weaknesses, we must ask ourselves why those weaknesses exist. How did we develop them, and what will we need to do to change those attitudes and behaviors?

That exploration will naturally lead us to a question that is critically important at this juncture: How can we actively unlearn the behaviors that have led us astray and change our mindset to something more productive?

To unlearn, we must begin by becoming aware of how our behavior is problematic, then question and challenge the assumptions we make, biases we hold, and underlying attitudes we possess that contribute to our thought processes and mindset.

Compromise is something negotiators need to unlearn, replacing it with problem solving and creative thinking. By focusing our attention on problem solving we make certain that we are addressing the heart of the issue, exploring our own and the other party's interests, and engaging in an inventive process to meet those interests in the best way possible. That formula has proven to be far more effective than reverting to less-than-optimal compromise arrangements.

Step 5: Return to the Table Smarter and Stronger

Confidence is an elusive concept in general, and an equally evasive one when it comes to the realm of negotiation. In negotiations, we possess confidence when we feel that we have a good command of the situation and what is being discussed. When the negotiation drifts into an area where we lack knowledge, are uncomfortable with the subject matter (or the other negotiator), or are otherwise mired in uncertainty, we begin to feel less confident, and self-doubt creeps in.

There are core elements that will help us return to the table confidently:

- Self-awareness in managing the emotional aspects involved

- Increased knowledge of negotiation in general and the specific process we are about to re-engage in
- A new way to think about uncertainty, and the mindset and skills to adapt to new information that comes our way.

Looking Back to Look Ahead

The process of getting back to the table begins with thinking through the different categories of failure and understanding the magnitude of the setback you have experienced.

Then, you can grapple with the obstacles that might get in the way of learning from it and make sure they don't influence your perspective in a manner that leads you astray. It is at that point that you will put the 5 steps into practice. In the first step, you have to genuinely accept that you experienced a significant setback or failure.

The second step is conducting a thorough big-picture (Forest) and micro (Trees) analysis to help you really understand what went wrong.

This third step requires a careful comparison, to help you avoid the classic mistake of transferring the wrong lessons from one negotiation to the next.

The fourth step is recognizing that your own weaknesses likely contributed to your failure.

This unlearning sets up the last step in the process: coming back to the table smarter and stronger. To do that, you need confidence; you need to learn to exist more comfortably in uncertainty and develop your ability to adapt to new information that comes your way.

Becoming a great negotiator is a journey, not a destination. Along that journey, as with most adventures, you will inevitably encounter many trials and tribulations, unexpected occurrences, and moments of joy, inspiration, and disappointment. However, in the end, if you embrace the ride, it will be one of the most rewarding endeavors of your lifetime.



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Getting to Resilient Mode

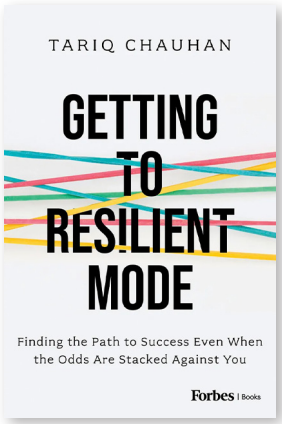
Tariq Chauhan

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Getting to Resilient Mode

Finding the Path to Success Even When the Odds Are Stacked Against You

by **Tariq Chauhan**



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THE SUMMARY IN BRIEF

Building or scaling a business in today's rapidly evolving landscape takes more than just capital. It demands the right strategies and a generous doze of resilience.

The book ***Getting to Resilient Mode: Finding the Path to Success Even When the Odds Are Stacked Against You*** unpacks powerful insights and actionable steps to help entrepreneurs succeed in a world of business that comes with countless challenges every step of the way.

By recounting insightful personal anecdotes, author Tariq Chauhan tells us what truly goes into creating a sustainable and successful business. By navigating the pages of this book, we acquire the mental toolkit to build high-performing teams, untangle complex business challenges, and take our leadership skills to the next level.

IN THIS SUMMARY, YOU WILL LEARN:

- What goes into building a sustainable and successful business.
- How to incorporate a people-first approach in your organization.
- How to prepare for creating quantum leaps in business.
- How to stay resilient regardless of the challenges ahead.

Introduction

This book is a true reflection of my introspection about the errors I made in life and the learnings therein. It brings in discourses and influences of some extraordinary people who touched my life. Here, I concentrate on the lessons learned from my mistakes. I have tried my best in this book to connect to all those I view as my target readers, who can apply my learning to their own insights when experiencing hardships. I am sure these readers will find opportunities to resonate with my experiences, as well as use these perspectives to manage their challenges and triumphs.

Part 1: Leadership

Chapter 1: Personal Lifestyle and Behavioral Attributes

Discipline and positivity have been the two most significant attributes that have guided me throughout my life journey. These important behaviors have helped me navigate through the most challenging of times. Working always with these attributes in the forefront of my mind, I was able to maintain a mindful state that would allow me to rise above all adversity.

Chapter 2: Demonstrating Ethical Leadership Is a Necessity

Having lived in the midst of a society with hypocritical and complex conventions, I have found it necessary to always keep my core values at the forefront. It's essential to ensure that all actions we take as leaders can be seen as aligned with the set of ethical values that we profess to follow. In pursuit of our goals and ambitions, we as leaders must remain mindful of our ethical values and commitments and let them reflect in our work and decisions. Deviating from these can be disastrous for morale, as this will create a trust deficit with your stakeholders.

Chapter 3: Altruism Must Not Just Be Professed but Practiced

I was aware that to achieve the true impact of my altruistic beliefs throughout my career, I had to go the extra mile by building a bond of trust with my employees where they could see me "walking my talk." In this context, I ensured my actions were well communicated, understood by all stakeholders, and informed of the benefits of those actions that would transform their lives. I was very emphatic in driving my ideology that employees' personal and professional good will eventually increase the organization's larger good.

Chapter 4: Diversity and Inclusion Are Business Sustainability Needs

The wisdom gained from research demands that organizations ensure diversity by including different interest groups, religions, casts, and social classes to build a robust and tolerant culture. diversity and inclusion have evolved as a necessity to create an environment where equality begins to flourish, and biases are removed. Leaders must work tirelessly to create this just and fair environment in their organizations.

Chapter 5: Transforming Mistakes into Success

The most significant gift I achieved from the low points of my life was my resilient mode, where I did not dwell on my failures but applied deep introspection from the lessons learned. This is an achievable goal for any leader who aspires to excel. I have always worked to correct my path, using my learning to rise above my previous mistakes. This is the most important lesson of resilience, one that every leader must learn.

Chapter 6: Truth and Fairness Must Prevail

A leader's biggest asset is the trust that they have gained with the people who work in the organization. It is critical that people see the leader as fair and transparent in his or her actions and decisions. The leader must enable trust and effectively communicate the reasons for his or her decisions at all times. Justice and fairness are what differentiate an ethical leader from an opportunistic leader.

Chapter 7: Leaders and Managers Must Ensure Communication That Touches the Heart

Leaders must make an effort to touch people's hearts. This can only happen if they build a deep commitment and conviction that is driven by their own hearts. Their intentions should demonstrate sincerity and selflessness, ensuring a purity of purpose that will create trust. The purpose should not have a self-driven agenda, and the communication therein must convey the spirit of the purpose that offers compassion and holistic good for all.

Part 2: The People-First Approach

Chapter 8: Blue-Collar Workers, the Real Unsung Heroes – Their Engagement and Inclusion

Being the CEO of a company with an eighteen-thousand-strong facilities management workforce, with two-

thirds of it being a blue-collar workforce, my work to ensure the success of our employee engagement process has been intense and rewarding. However, it is a complex task to manage the expectations of these employees and to gain their trust.

In the beginning, I could see that the state of blue-collar workers had its issues and needed a fresh review. I was surprised to see that these employees were never addressed by their real names but were called workers, laborers, blue collar, or trades. However, in reality, these people require respect like any other employee, because each has their own worth and intrinsic value. What seemed to matter most were only their productivity parameters, basic needs, salaries, and facilities but not their holistic needs. I realized this fundamental disconnect had to change.

To correct this long-term anomaly, it's important for company stakeholders to first understand the general mindsets of blue-collar workers and their world outlook. These people have difficulties to confront, as well as a trust deficit with the social system itself. Some have deeply embedded grievances derived from lifelong hardships. Business leaders have to make conscious efforts to push for reforming their organizations to address these issues.

Chapter 9: In Pursuit of Building a Value-Based Organization through Team Chemistry

To build a sustainable enterprise, businesses must look beyond performance, annual budgets, financial performance, and bonus or dividend payouts and instead must look at all stakeholders' perspectives as well. During team engagements, it is critical to engage the team to first buy into the leadership through the virtue of respect, as well as respect for their own tangible contribution to the purpose at hand.

Chapter 10: A Business Case Made for Happiness at the Workplace

If we implement happiness and Wellness initiatives into our corporate culture, our businesses' productivity and job satisfaction will see a significant increase. This will then directly impact the economy's growth and corporate profitability.

Money remains a prominent driver in the happiness of employees, be it salary, annual increments, or bonuses; Employees respond to this more positively. For instance, adjusting living index parity in annual wage reviews is a must for companies to build employees' trust and promote fairness.

Chapter 11: Building the Business Case for Progression

While most business leaders understand the benefits of progression, only a few organizations accord the needed attention to ensuring it. Progression helps build service excellence and staff motivation and brings the organization financial benefits. It creates an environment of learning and development that prompts people to work to move up in the organization, resulting in financial restitution and a feeling of recognition, plus rewards that spike higher motivation levels.

Chapter 12: Motivating a Diverse Workforce

Most people in organizations often get lost in salary and compensation issues when looking at the motivational needs of their core workforce. They seldom look at other critical drivers of workers' engagement. For example, you might pay well, but all other efforts are in vain if you don't pay people on time. In addition, companies must not use corporate social responsibility as a checklist to tick off; Instead, they must seek to build a culture that encompasses its real impact on all stakeholders.

Part 3: Business

Chapter 13: A Values-Based Organization Is a Fundamental Must

In the course of business and especially in context organizational realignments, the organizations' stakeholders, culture, processes, policies, and procedures must embrace and embed values. Values, be it honesty, integrity, mutual respect, courtesy, discipline, transparency, compliance, or governance areas, are not singularly driven beliefs but a force to be reckoned with, one that is to be backed by a collective resolve across all facets of the organization.

Chapter 14: The Company's Strategy and Vision Needs Mainstream Engagement

Every business, whether it is a small entity or a large public enterprise, needs a vision and mission statement. Visionary leadership is a critical business need, much more so than a leader's grandstanding. There are three significant factors to operate by: Who do we do business with? What do we do for them? What do we achieve with the value proposition?

Chapter 15: Businesses Need to Adopt Structure, System, and People Alignment

People, systems, and structures need to be incorporated to

build a resilient business. It's important to ensure that all stakeholders, employees, shareholders, clients, and suppliers' expectations are aligned with the people responsible for the execution. For example, clients need good service delivery; shareholders want a higher and stable return; employees need greater motivation in terms of salary, perks, and work environment; and suppliers wish to achieve the scalability of increasing business.

My business strategy has always been to ensure risk diversity, and therefore no single contract, country, or business vertical would exceed the acceptable risk diversity standards. These considerations must apply across all business aspects, from receivables to suppliers to employees' ethnic mix.

Chapter 16: Business Scaling Needs Specific Checks and Balances

Business scalability demands that enterprises undertake adequate scrutiny of their preparedness to manage the upside. Business science has taught us about enterprise risk agility. Entrepreneurs need to master their foresight by incorporating multiple checks and balances when deciding whether to take any quantum leaps, as ambitious projects must not interfere with smoothly running a business.

Chapter 17: Planning and Building a Sustainable Business

In any business pursuit, especially in the context of amateurs, the drive to accomplish business goals must not be based on gut feeling and emotions. Money is not the only prerequisite for starting a business however big or small it may be. To start a business, one has to have an idea or concept, the resolve to follow it through, the road map, and the resources, both financial and otherwise. Questions about mental preparedness, the ability to take risks, overcoming the fear of failure, patience to deal with unforeseen developments, and, above all, belief in one's self should be addressed. Creating a solid business plan demands a feasibility study to ascertain its commercial viability. Finally, a financial plan is something that can make or break your business. Follow the golden rule: be conservative with revenue assumptions and generous with expense estimates.

Chapter 18: Quantum Leaps in Business Growth Need Preparedness, Not Just Prospects

Dreams, grand plans, and ideas do not make success a reality but rather provide a micro review of the company's SWOT (strengths, weaknesses, opportunities, and threats) analysis. First and foremost, a company must have the ability to cope with the impending needs of its growth. During this buoyant phase, the stakeholders must map the scalability needs. To manage any quantum growth well in advance, it is critical to build appropriate technology capability.

Chapter 19: Business Growth and Scalability

Growth and business scalability are important elements of business sustainability. Over the years, in businesses I built, scalability was always integral to my vision. When I joined EFS, I wanted to build a USD 1 billion company. For this journey, I built and executed my business plans in short-, medium-, and long-term segments. Initially, in the first year, I concentrated on stability and then moved on to transformation within three years to prepare for my quantum leaps. At EFS, from 2010 to 2022, I added more than USD 2 billion worth of contracts from iconic projects in the region.

Chapter 20: A Concept of Corporate Governance Emboldens Self-Discipline and Disclosures

For companies of all shapes and sizes, the basic principles of corporate governance are accountability, transparency, fairness, and responsibility, so it matters to all. Corporate governance is about transparency and the discipline that every organization must maintain with its stakeholders. It is not about shareholders alone but about all employees, clients, bankers, auditors, regulators, and suppliers. Good corporate governance protocols and frameworks ensure outstanding organizational sustainability.

Chapter 21: The Role of The Board of Directors, Auditors, and Internal Controls

When analyzing the root cause of any corporate debacle, it's not fair to focus on the management's actions alone but also to make a holistic review of the firm's "governance ecology," as no outcome can be contemplated without first understanding the structural reasons for the failure. When undertaking a diagnostic review of financial statements, understand the application of the governance policy on the treatment of doubtful or bad debts, compliance with principles of revenue recognition, and potential impairment of receivables.

Chapter 22: Technology and Innovation

Companies must exercise caution when undertaking ambitious technology projects. They must also stay protected from any technology-driven obsolescence. An effective obsolescence management process must be put in place as an integral part of the organization's software and systems

lifecycle management. This entails the upkeep of inventory, databases of the components in use, and how they should be managed through their lifecycle.

The advent of new technologies empowers the day-to-day life of a facility manager. These are revolutionizing operations both in terms of process optimization through the telephony platform and CAFM optimization supported by tool and machine automation.

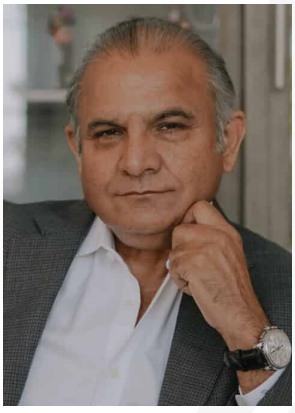
Chapter 23: Learning and Development

Besides building HR development systems on performance management for assessment, companies must also invest in dedicated L&D organizations, with in-house faculty who are competent enough to develop and run relevant curriculums. Such setups will also need education management systems that can successfully administer these programs.

The training must not be deployed as a hopeful motivational boost. Its assessment must be based on the review of an individual's SWOT analysis and the company's desired goals that will be impacted by that employee. The new learning approach must empower individuals and teams to transform their personal and professional goals and not just exist as a ruse to escape the workplace! Employees need to be engaged in upskilling as the next step towards their professional development and not just as a means to ensure job security.

Conclusion: Ready to Build Resilience?

This book is a pure, organic version of my real-life journey. The events and experiences I've recounted here have significantly shaped my thought processes and helped me articulate my management style, shaping my transformation and the successes many people believe I have achieved. It is my sincerest wish that the experiences I have offered to my readers will make a difference in their lives and the lives of their employees.



Tariq Chauhan is an investor, philanthropist, and entrepreneur based in the UAE. As the co-founder & group CEO of EFS Facilities Services Group in Dubai, he has established himself as a prominent figure in the industry. A Harvard alumnus, he was recently named one of the most powerful businessmen in the UAE by Forbes in 2021. Additionally, Tariq holds key roles on the boards of UAE- India Business Council (UIBC) – UAE Chapter and Emerge Workforce Development Edtech Advisory.

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Glad We Met

Steven Rogelberg

Executive Book Summaries®

Glad We Met

The Art and Science of 1:1 Meetings



by **Steven G. Rogelberg**

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THE SUMMARY IN BRIEF

Nearly half of 1:1s are rated as suboptimal by team members. Compounding the problem, leaders' self-ratings of their skills in conducting 1:1s appear to be inflated, suggesting that leaders think they are doing a better job at leading 1:1s than they actually are. The book, ***Glad We Met: The Art and Science of 1:1 Meetings*** deeply explores the "whats," "hows," and "whys" of 1:1s by highlighting challenges, pain points, opportunities, and areas for customization.

There is an incredible opportunity to fill this gap in leadership skills and to maximize the return of investment for this critical workplace activity. The problem is that despite 1:1s filling leaders' calendars, meaningful guidance on how to conduct 1:1s is quite sparse. Managers are left to rely on what feels right to them, repeating practices they have experienced by their current and former managers, and guesswork. The purpose of this book is to fill that gap, and to provide guidance on how to balance the scales between structure and flexibility, addressing short and long term topics, solving problems and building relationships.

IN THIS EXECUTIVE BOOK SUMMARY:

- The importance of 1:1 meetings between managers and direct reports
- Ways to conduct effective 1:1 meetings via planning, frequency, agendas, and listening.
- The benefits of 1:1 meetings that can lead to improved employee performance and development
- Additional tips about skip-level meetings and how to deal with meeting overload

Section 1: Do I Really Need to Do 1:1s?

Yes, you need to have 1:1s with your directs.

1:1s are a regular and recurring time for you, as a manager, to meet with your directs to discuss a variety of topics. 1:1s go beyond regular team meetings, having an open-door policy, or informal interactions. Instead, 1:1s are an intentional, dedicated time for you to support your directs.

1:1s are leadership in action.1:1s are not an add-on to a manager's job, they ARE a manager's job. These meetings help ensure that your directs are in the best position to succeed and that you create a healthy working relationship with each member of your team.

1:1s are not performance appraisals. Performance appraisals are important, but they are not synonymous with 1:1s. Instead, 1:1s should be used to inform the performance appraisal process.

1:1s relate to various positive outcomes. Some of these outcomes include improved engagement levels, team member and manager success, diversity and inclusion, relationship development, direct report growth and development, and life satisfaction.

Won't Team Members Be Fearful of 1:1s?

Communication is key for starting 1:1s with your team. To do so effectively, set up a meeting with your entire team. Give them a rundown of what 1:1s are and why you will be having them.

Make it clear that all directs will be having 1:1s, tie the meetings to broader organizational and personal values, and stress that these meetings are not about micromanaging or control. Emphasize your desire to give your directs face time to address what is on their minds on a regular and consistent basis.

Encourage directs to ask questions. Ideally, answer these questions in a team meeting so that everyone receives the same answers, limiting the need for you to repeat yourself.

Can't I Just Meet When I Have Something I Need to Say?

Establish a 1:1 plan for your team. This ensures that you are actually having 1:1s with all team members and will help mitigate biases that could result in unconsciously favoring certain directs.

Find the right cadence. Avoid having an ad hoc (as-needed) approach to the cadence of your 1:1s. Research supports weekly 1:1s as the best option in most cases.

Assess what's reasonable. To help navigate which plan is the best fit for you and your team, consider what is possible and reasonable. Things to consider include: whether you have remote team members; the preferences, experiences, and tenure of your directs; your tenure with the team; and the size of your team.

Get feedback and adapt. Recognize that when a direct indicates a lack of interest in 1:1s or seems interested in reducing their number, this could be a sign that 1:1s are not being conducted effectively.

How Should I Schedule 1:1s—Same Day, Clustered, or Spread Out?

Find a scheduling approach that works for you. While research suggests that clustering meetings tends to be most optimal to promote uninterrupted time, limit task-switching, and achieve greater flow, managers differ in whether they desire this approach.

Pick the schedule that aligns with your needs and preferences while also giving your directs some agency in this decision.

Understand that how meetings are scheduled can affect you and your directs, and plan accordingly. Build in microbreaks so you can digest information from the previous meeting and prepare for the next.

Schedule 1:1s during natural transition times to limit task-switching and cognitive demands. Last, if you want to have all of your 1:1s on the same day, that is fine. But be cognizant of your meeting load and how that may affect you and your 1:1s.

Very rarely cancel 1:1s. Doing so may be experienced by your direct that they are not a priority to you.

Shall We Take a Walk?

Space matters. Where you meet can affect how productive 1:1s are. Ensure that wherever you decide to have your 1:1s, the space is conducive to having an effective meeting.

Location options exist. There are both traditional and nontraditional location choices for 1:1s. Based on the research, traditional choices, like a manager's office or a private conference room, are great options. However, nontraditional locations exist too. Just be mindful of the pros and cons of each location. Virtual 1:1s are another great option that most employees are very open to.

”How are you?” is not enough. Asking a question like this is not thought-provoking or helpful in eliciting meaningful conversations.

Find what works, but also switch things up at times. Discuss with your direct reports what works for you both and consider switching the location up from time to time to prevent 1:1s from becoming stale.

Is a Good “How Are You” Enough?

“How are you?” is not enough. Asking a question like this is not thought-provoking or helpful in eliciting meaningful conversations.

There are so many good questions to consider. Ask more nuanced questions to create high-quality dialogue in your 1:1s.

Sample thoughtfully from these six categories:

1. Relationship-Building
2. Engagement
3. Check-In
4. Productivity/Challenge
5. Giving/Receiving Feedback
6. Development, Growth, and Career.

It may be overwhelming to decide what questions to use in your 1:1s, given how many options are available. This will take some prep work for you, but will boost the effectiveness of your 1:1 conversations and demonstrate your care, thoughtfulness, and support to your directs.

Switch up the questions you ask. Avoid asking questions from just one category. Also, make sure to switch up the specific questions you ask over time.

Do These Meetings Need an Agenda?

Agendas support effectiveness. Whether or not to have an agenda in 1:1s is a divisive question, but the data support their use. While setting up agendas will take some time, they can improve the effectiveness and value of 1:1s.

Directs must contribute to the agenda. Agendas support 1:1 effectiveness and value, but only if the direct contributes to them.

Two models of agenda creation are most recommended by managers. The listing approach has both you and your direct write down a list of topics to discuss. These items are then compared, and a final agenda is created. The core question approach starts with a list of questions managers bring to their directs, which are broad enough to let the direct take control of the meeting content.

Avoid the status update trap. You fall into this trap when 1:1s are focused on highly tactical, short-term topics—essentially asking your direct for a status update each meeting. You can avoid this trap by dedicating part of every 1:1 or all of some 1:1s to future-oriented topics, or by integrating these topics into the meeting agenda via a template.

Track metrics sometimes. Metrics can provide both you and your direct insight into how your direct is performing. However, you don’t want to track these in every 1:1 because it can take away from their purpose and feel like micromanaging.

Section 2: Carrying out 1:1s

Is There a General Model for Conducting 1:1s?

Separate practical versus personal needs. Practical needs are tactical, focusing on how directs can successfully accomplish their work and advance their career. Personal needs are relational, focusing on how directs feel coming out of 1:1s Both are needed for effective 1:1s. The key is to balance them within your meetings.

Use an integrated model. While there isn’t a secret formula for conducting effective 1:1s, there is a general model you can use. Four stages embody this model: pre-start, start, the heart, and the end. The structure of the model helps address directs’ practical needs.

Throughout each step, managers must also enact the five key relational behaviors to meet directs’ personal needs. When combined, this integrated model can support your 1:1 effectiveness.

Note-taking is helpful. Taking notes during 1:1s creates accountability and documentation to increase the effec-

tiveness of your 1:1s, helps you better organize what is discussed in 1:1s, and increases the chances you don't miss anything. Notes can also allow you to follow up on action items or cover topics not discussed.

Ask for feedback. While this is an optional process step, asking for feedback from your directs periodically can further enhance 1:1 value.

What Do I Do to Meet the Personal Needs of Others?

Satisfying personal needs is critical. While 1:1s are meant to address directs' practical needs, they must also be conducted in a way that meets directs' personal needs.

Five Key Behaviors Are Needed to Meet Personal Needs

1. Listen and Respond with Empathy
2. Communicate Authentically and Transparently
3. Involve Directs
4. Be Kind and Supportive
5. Demonstrate Appropriate Vulnerability.

Each behavior is needed to support both 1:1 effectiveness and your relationship with your direct.

How Do I Start and End 1:1s—And the Middle Stuff Too?

Four Steps of 1:1s:

1. Pre-Start
2. Start
3. The Heart
4. End.

Each step is central to how 1:1s are conducted. The Pre-Start and Start Phases Set the Tone. The Pre-Start of 1:1s ensures you prepare for the meeting and show up with the right mindset. The Start of the meeting should begin with light topics and then dive into heavier topics such as discussing roadblocks or providing feedback.

The heart is central to 1:1 effectiveness. This is the core of the 1:1.

Five key phases happen in this phase:

1. Expressing
2. Clarifying and Understanding
3. Solutioning
4. Crafting Next Steps
5. Monitoring the Agenda.

These phases do not need to happen in a step-by-step manner. Let the conversation flow and proceed through the stages in a manner that makes good sense for the particular agenda topic.

End positively. The end of the 1:1 is a critical opportunity to review and informally document key takeaways. Always make sure to end on time, with gratitude, a reiteration of your support.

The Direct's Job During the 1:1 Is to Do What?

1:1s are a dance. Directs play an active role in making 1:1s work.

The 10 Direct Behaviors that are Critical:

Directs need to take an active role in your 1:1s to get the most out of them.

Ten key behaviors are critical in this respect:

1. Know What You Need
2. Be Curious
3. Build Rapport
4. Actively Engage
5. Communicate Well
6. Problem Solve
7. Ask for Help (Constructively)
8. Ask for Feedback
9. Receive Feedback Well
10. Express Gratitude.

These behaviors are also relevant for managers. While directs should enact these behaviors to increase the effectiveness of their 1:1s, they are also relevant for managers. For example, managers need to be actively engaged in 1:1s too.

Directs can give feedback, but in a considerate way. While it

The value of a 1:1s comes from their perception of whether the meeting is going well.

may seem daunting to do, you and your manager can benefit from providing upward feedback. However, it's important for you to go about it in a thoughtful way.

Section 3: After the Meeting

The Meeting Is Done, Now What?

Follow through on commitments. After the meeting ends, it is critical for both you and your directs to follow through on the action items they committed to. Breaking commitments hurts trust, hurts the working relationship, and makes it harder to have effective 1:1s in the future.

Broken commitments are usually avoidable. There are many reasons why commitments are broken, and they are often not because the person avoided accomplishing the task.

Set commitments up effectively. Several tactics can be used to make sure commitments are kept. Focus on creating clarity of what the action item is so people understand what they are to accomplish. Find ways to spark motivation and reduce barriers to success. Follow up with the other person on their progress and your own progress.

Did the 1:1 Work?

Our perceptions of 1:1s can be skewed. Our minds are powerful. They can work with and against us. You may think your 1:1s are going great, but your direct may think they are subpar.

Apply strategies to align perspectives. When reflecting on your 1:1s, identify specific areas that are going well and not well. Take the perspective of your direct when gauging whether your meetings are effective. Last, focus on your specific behaviors during the meetings and how they may support or hinder 1:1 effectiveness.

Ask your direct for their perspective. The value of 1:1s comes from their perception of whether the meetings are going well. Ask them for feedback and their thoughts on how your 1:1s are going.

Lagging indicators exist. The best way to see the long-term success of your 1:1s and their effectiveness is with various lagging indicators. Are your engagement numbers for the team going up? Is performance rising and turnover dropping?

Section 4: Special Topics

Wait, There Are Skip-Level 1:1s?

Skip-levels are helpful. Skip-level 1:1s are meetings between you and your directs' directs. While these meetings aren't meant for you to take over as their manager, skip-levels are a great way for you to gain insight "on the ground" and to provide higher-up support to the team.

These 1:1s are used to get a pulse on what's happening in your team and those you oversee, build trust between different levels of the team, and share information and counsel. They aren't as frequently held but can provide insight that your regular 1:1s might not fully reveal.

Don't just start having skip-levels. Your first step in setting these meetings up for success is to let your immediate directs know that you plan to have them and why. Field any questions or concerns they may have, reiterating the true purpose of these meetings.

Then do the same with your skip-level directs. If you fail to do these steps, your skip-level 1:1s may be experienced like micromanaging, or may give the impression that there is a problem with their manager, or that the team is in trouble.

Set skip-levels up for success. Make sure you set up agendas and focus on developing rapport, especially early on. Hear what your skip-level direct would like to talk about and go from there, but have your standard questions ready to go. End the meetings by praising skip-level directs where you can and follow up on any action items you have committed to accomplishing.

Don't undermine your own directs. Skip-levels are a great way to get insight about your directs as managers, but don't undermine them. Listen with an open mind and ask if your skip-level direct has talked to their manager about the idea.

What do you do if you are drowning in meetings? Eliminating meetings is not the solution.

While employees often complain about the number of meetings they have, meetings are still an essential piece of organizational democracy. There are strategies to reduce the number and increase the effectiveness of meetings to combat the negative effects of too many meetings.

Have a conversation with your team. As a leader, you control your meetings. Start by having two conversations about your meetings.

First, set expectations around when meetings are warranted and when they are not. Second, talk about cutting back the time meetings are held for, such as by holding what has been a 60-minute meeting for 50 minutes. Having these conversations will reduce the number and time spent in meetings.

Increase meeting effectiveness. Rather than eliminating meetings, the goal is to make meetings more effective, which will save rework time and allay fatigue and frustration.

There are various tactics you can use as a leader that can help with this, which can be broken down into pre-meeting, during-the-meeting, and end-of-meeting practices. Examples of such practices include creating compelling agendas, actively facilitating the meetings to boost energy, experimenting with different strategies such as silent brainstorming, and having a proper close to a meeting to assure action.

Organizational strategies exist. These range from requiring approval for larger meetings to including meeting metrics on engagement surveys. While these may be harder for you to influence and these tactics vary by organization, they do help in the pursuit of lowering the number of overall meetings.

Final Thoughts—It's About Values

1:1s embody your values. Our behaviors signal our values, and our values tell others what is important to us. 1:1s are a critical way for you to support your people, demonstrate your leadership abilities, and improve key outcomes for your team and organization. Therefore, while 1:1s may be seen as a choice, they should be seen as an obligation.

1:1 meetings are essential for building strong working relationships, ensuring your directs have the support they need, and achieving positive outcomes for both your team and the organization.

This book has equipped you with the knowledge to set up successful 1:1s, from establishing a cadence and agenda to conducting the meetings themselves and following up afterwards. Remember, 1:1s are an investment in your people and your team's success. By prioritizing these meetings and approaching them with intentionality, you can create a space where your directs feel heard, valued, and empowered to do their best work.



Steven G. Rogelberg is Chancellor's Professor at University of North Carolina, Charlotte, for distinguished national, international, and interdisciplinary contributions. He has well over 100 publications and has received the highly prestigious Humboldt Award for his research on meeting science. His work has been profiled in the Harvard Business Review, CBS News, Wall Street Journal, Washington Post, Chicago Tribune, NPR, Guardian, National Geographic, and Scientific American Mind, among other outlets.

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Good Boss, Bad Boss

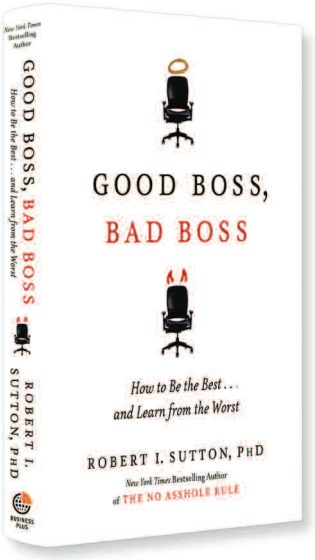
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Management

Good Boss, Bad Boss

How to Be the Best … and Learn from the Worst



by Robert I. Sutton, Ph.D.

THE SUMMARY IN BRIEF

If you are the boss, are you a good one? How can you keep honing your skills as a boss — and stir your people to give their all and be proud to work for you? Are you in tune with how your words and deeds (and those little looks on your face) affect your followers? What do they really think of you — are you aware of how they see you, or do you live in a fool's paradise? Would your employees — if given the choice — ever want to work for you again?

In *Good Boss, Bad Boss*, professor of management science and author Dr. Robert I. Sutton weaves together real-life case studies and pertinent behavioral science research to deliver a precise and sometimes startling account of what the best bosses do.

Good Boss, Bad Boss delivers a definitive manifesto for anyone who has ever been elevated to a position of authority — and a blueprint of salvation for those who suffer because their bosses just don't seem to get it.

In *Good Boss, Bad Boss*, Dr. Sutton applies his commonsense approach to show how the great bosses in our world differ from those who are just so-so or, worse yet, downright inept.

IN THIS SUMMARY, YOU WILL LEARN:

- What you need to accomplish day after day to be a Good Boss.
- What to do about it if you have a Bad Boss.
- How to adopt the hallmarks of a Good Boss.
- How to survive the worst flaws of a Bad Boss.

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THE COMPLETE SUMMARY: **GOOD BOSS, BAD BOSS**

by Robert I. Sutton, Ph.D.

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Preface

The prevalence of bad bosses is confirmed by careful studies. A 2007 Zogby survey of nearly 8,000 American adults found that of those abused by workplace bullies (37 percent of respondents), 72 percent were bullied by superiors.

Stories about the damage done by bully bosses are bolstered by systematic research. University of Florida researchers found that employees with abusive bosses were more likely than others to slow down or make errors on purpose (30 percent vs. 6 percent), hide from their bosses (27 percent vs. 4 percent), not put in maximum effort (33 percent vs. 9 percent) and take sick time when they weren't sick (29 percent vs. 4 percent). Abused employees were three times less likely to make suggestions or go out of their way to fix workplace problems. Abusive superiors also drive out employees: More than 20 million Americans have left jobs to flee from workplace bullies, most of whom were bosses.

Yet when people look for (or dream of) a great boss, they want a civilized boss who does many things well. Take the young professor who described her escape from a nasty and sexist department chairman. She landed a job with a new chair who was not just a delightful human being; he was renowned for getting resources for faculty and protecting them from petty and time-consuming political battles.

Whether you are the CEO of a Fortune 500 company, a head chef or a basketball coach; manage a Starbucks; or lead a product development team, your success depends on the nitty-gritty of dealing with the people you work with most closely; who see you in action up close; and you are expected to personally guide, inspire and discipline.

Being a boss or having a boss is about dealing with the confidence, comfort, warmth, resentment, confusion, and flashes of anger and despair that pervade any relationship where one person wields power in an up-close and personal way over another.

Greatness comes only through dogged effort, doing many small things well, getting up after each hard knock and helping your people press forward at every turn. The best bosses don't ride into town, save the day with a bold move or two, declare victory, and then rest on their laurels.

There are no magic bullets, instant cures or easy shortcuts to becoming a great boss. Anyone who tells you otherwise is a liar. The best bosses succeed because they keep chipping away at a huge pile of dull, interesting, rewarding, trivial, frustrating and often ridiculous chores.

Devoting relentless attention to doing one good thing after another — however small — is the only path to becoming and remaining a great boss. ●

Part I: Setting the Stage

Bosses matter. Bosses matter because most employees have bosses, are bosses or play both roles. There are at least 21 million bosses in the United States, with estimates running as high as 38 million. More than 90 percent of U.S. employees have at least one boss, someone who presides over them in the local hierarchy. Bosses work in more than 50 occupations, from top executives to military officers, to ship captains, to head cooks, to

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew B. Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Chris Lauer**, Contributing Editor

funeral directors. Bosses matter to everyone they oversee. But they matter most to immediate followers, those just beneath them in the local pecking order, whom bosses guide and evaluate at close range and who tangle with their virtues, foibles and quirks day after day. The success or failure of every boss hinges on how well or how badly he or she navigates these vexing and all-too-human relationships.

The Difference a Boss Can Make

Corey Billington went to work for Hewlett-Packard. Corey joined the SPaM group, which uncovers and invents ways to improve HP's supply chains. The group leader (let's call him Hector) wowed executives with big ideas and flashy presentations. Unfortunately, Hector spent hardly any time talking to his people and showed little interest in their work or careers. Hector ignored his team for long stretches and then — at seemingly random intervals — rushed in and demanded that everyone work on some urgent project. To paraphrase one SPaM member, "Every now and then, he would ride in on his white horse, lead a charge, kill the enemy, declare victory and gallop away. Then we wouldn't see him for a while." People at SPaM got fed up with Hector's antics and gave him low marks on the employee attitude survey. To management's credit, they moved Hector to another job and made Corey the boss.

Corey used a different style. He listened to his people, worked with them to uncover their skills and hopes, and labored to land projects they would enjoy and that would bolster SPaM's reputation. The first years were tough. SPaM had trouble getting good work, an early project failed, Corey made a hiring mistake and some executives questioned whether HP needed SPaM at all. But Corey persisted, helping his people develop new skills, learn from setbacks, and grow a group of loyal clients both inside and — eventually — outside HP.

Under Hector, SPaM's consultants were paid much less than people who did similar work elsewhere, and he made no effort to raise their pay. Corey fought for them, because "not getting paid based on our value sucked. I had to create a job family for my organization, which was no small amount of work." Life slowly got better at SPaM. Within five years, they were doing high-profile work and were named "the best strategy group" by INFORMS (a prestigious academic society) — and about 15 percent of their work was done at "remarkably high rates" for clients outside HP.

Bosses Matter

The punch line of the SPaM story — that the difference between a bad boss and a good boss matters a lot — is bolstered by a pile of studies. Gallup's surveys of more than 100,000 employees in more than 2,500 diverse businesses show that "managers trump companies." Employees' immediate bosses have far more impact on engagement and performance than does whether their companies are rated as great or lousy places to work. Related research shows that good bosses are especially crucial to employee performance in otherwise lousy workplaces. As leadership researcher Robert Hogan concludes from numerous careful studies, including the Gallup surveys, "People do not quit organizations, they quit bad bosses."

Bosses shape how people spend their days and whether they experience joy or despair, perform well or badly, or are healthy or sick.

Great bosses work relentlessly toward two general kinds of goals — but whether or not they persistently achieve them is best judged by others:

1. **Performance.** Does the boss do everything possible to help people do great work?
2. **Humanity.** Does the boss do everything possible to help people experience dignity and pride? ●

Part II: What the Best Bosses Do

If you want to be a successful boss, you have to convince people that your words and deeds pack a punch. If they don't believe you are in charge, your job will be impossible to do and your life will be hell.

Bosses matter, especially to their immediate followers and in small teams and organizations. Yet they are not all-powerful.

Even though most of us realize that leaders have limited powers, we can't resist treating their words and deeds as the main drivers of performance. Research by James Meindl on "the romance of leadership" shows that leaders get far more credit and blame than they deserve from followers, bosses and outsiders. Meindl found that most journalists, management experts, consultants and employees attribute superhuman powers to the top dog regardless of the facts. This ingrained "cognitive error" happens because it is less taxing and more emotionally satisfying to treat leadership as the primary cause of performance than to sort through a convoluted hodgepodge of factors.

The Truth

The truth is that bosses of everything from small groups to Fortune 500 firms don't matter as much as most of us believe. They typically account for less than 15 percent of the gap between good and bad organiza-

tional performance, although they often get more than 50 percent of the blame and credit. Even when bosses have no influence at all, we still heap on the credit and blame.

The best bosses recognize they can't reverse the romance of leadership, but they can use it to their advantage.The strange twist is that by enhancing the *illusion* they are in control, bosses increase their *actual* control over what their followers do, how they feel along the way and how glowingly their work is evaluated by outsiders. Bosses do small things to create confidence that they are in charge and then spread it to others.

Tricks for Taking Charge

Here are nine tricks for taking charge:

1. **Talk more than others — but not the whole time.**
2. **Interrupt people occasionally — and don't let them interrupt you much.**
3. **Cross your arms when you talk.** Crossing your arms sends yourself a message to crank up the grit and confidence — but beware that doing it too much and too intensely can make you look like an uptight jerk.
4. **Use positive self-talk.** People who make encouraging statements to themselves enjoy higher self-esteem and performance.
5. **Try a little flash of anger now and then.** Used in small doses and with proper precautions, flashes of anger can help you seize control. But spewing out constant venom undermines your authority.
6. **If you are not sure whether to sit down or stand up, stand up.** Standing up signals you are in charge and encourages others to accept your authority.
7. **Ask your people what they need to succeed and then try to give it to them.**
8. **Tell people about your pet peeves and quirks.**
9. **Give away some power or status, but make sure everyone knows it was your choice.** ●

Strive to Be Wise

The best bosses dance on the edge of overconfidence, but a healthy dose of self-doubt and humility saves them from turning arrogant and pigheaded. Bosses who fail to strike this balance are incompetent, dangerous to follow and downright demeaning.

Consider a talkative senior executive who led a project team meeting at a large corporation. Let's call her Roberta. She joked that a key to her success was that although she appeared to be listening to others, she usually wasn't. Rather, she used the time to "reload," to prepare what to say next. Roberta's joke described her behavior all too well. She spent much of the day spewing out short speeches that were irrelevant to the team's task or to what team members had been talking about before she interjected (after all, she wasn't listening, she was "reloading"). At one juncture, an exasperated underling leaned over to a colleague and whispered a list of the company's canned PowerPoint presentations that Roberta had been regurgitating at seemingly random intervals — and added, "As usual, Roberta is all transmission and no reception."

Roberta not only didn't listen, she asked few questions. This blabbering boss learned little from the smart people in the room, gave them no useful direction and undermined their dignity, as none felt heard or respected. Roberta should have heeded coach John Wooden's advice: "Listen to those under your supervision. Really listen. Don't act as if you're listening and let it go in one ear and out the other. Faking it is worse than not doing it at all."

As Roberta demonstrated, bad bosses sometimes come in bodies that can't listen. She was plenty smart but lacked wisdom.

Know What You Don't Know

Wise bosses are devoted to knowing what they don't know. They act boldly on facts they have right now but search for signs they are wrong — seeking a healthy balance between courage and humility. Roberta didn't suffer from excessive insecurity and self-doubt (as some unwise people do); she swerved toward arrogance.

Roberta never expressed uncertainty, asked questions, really listened, asked for help or challenged her own beliefs. Roberta's opinions were so strongly held that it was impossible to penetrate them with opposing opinions, logic or facts. In contrast, to steal a phrase from futurist Paul Saffo, wise bosses have strong opinions that are weakly held — so they can update when confronted with contrary facts. ●

Stars and Rotten Apples

Rotten apples are so destructive because "bad is stronger than good." A study that tracked employees' moods found that the impact of negative interactions with bosses and co-workers on employees' feelings were five times stronger than positive interactions. Negative interactions (and the bad apples who provoke them)

pack such a wallop in close relationships because they are so distracting, emotionally draining and deflating. When a group does independent work, rotten apples drag down and infect everyone else. Unfortunately, grumpiness, nastiness, laziness and stupidity are remarkably contagious.

The upshot is that as a boss, you can't wait very long to see if these destructive characters will mend their ways. You need to intervene quickly. If pointed and persistent feedback fails, do everything you can to expel the bad apple.

Smart People Tricks

Here are four smart people tricks:

1. Show Them the Love. Organizational life is filled with time-consuming and distracting routines that burden every boss. In the crush of satisfying deadlines, going to meetings and plowing through red tape, more important things can fall through the cracks.

Many bosses spend endless hours preparing evaluations but don't take even a few moments to make people feel appreciated.

2. Assume the Best. Too many bosses forget the power of the human touch, which also entails conveying confidence to followers. The power of believing that good things will happen to your people, and communicating that to them — the self-fulfilling prophecy — is supported by much research.

3. Cut Loose the Real Losers. The self-fulfilling prophecy doesn't always work. You can bring in people who seem like talented stars, devote massive attention to them and give them every chance to succeed. Yet their performance may still suck. The challenge for bosses — as for all human beings — is that they see what they believe. Psychologists call this confirmation bias: selective thinking where "one tends to notice and to look for what confirms one's beliefs, and to ignore, not look for or undervalue the relevance of what contradicts one's beliefs."

Confirmation bias can cause bosses to make excessively glowing judgments about people they have invested a lot of time and money in or whom they simply find to be likable or admirable. Even if your judgment is generally sound, confirmation bias can blind you to mediocre or even downright rotten performance displayed by your favorites.

4. Keep Teams Together. Bringing in people with connective talents and celebrating stars that help others succeed are powerful means for accomplishing interdependent work. But even if you get the best people and put them in the best systems, learning to work together takes time.

A little experience together helps: In 1994, the National Transportation Safety Board reported that 73 percent of the mistakes made during commercial airline flights happened during the first 24 hours of the (typically) 72-hour stint that a cockpit crew spent together. They also found that 44 percent of these errors happened on the crew's first flight together. ●

Link Talk and Action

The "smart-talk trap" happens when bosses and their people know what needs to be done and keep talking about it, writing about it, studying it — yet all that blabbering becomes an end in itself rather than a stepping-stone to action. Somehow, the pile of words (and numbers and pictures) generated via glib talk, brainstorming sessions, protracted arguments, presentations, strategic planning, scenario planning, board meetings, mission statements, budgets and sales forecasts can be weirdly comforting even when it has no impact on what people actually need to do to succeed.

Don't Be a Clueless Blabbermouth — or Let Them Rule the Roost

As a boss, you need to establish a pecking order where people who know the most about a problem wield the greatest influence over what is done. You especially need to watch who talks the most (and least). Don't let your people fall prey to the blabbermouth theory of leadership.

At least in Western countries, people who talk first and most frequently usually wield excessive influence over others — even when they spew out nonsense. Some bosses make this problem worse by rambling on and stifling underlings and insisting they are right even when they are dead wrong.

Taking action and seeing what you can get done (and learn) as you muddle forward is among the most effective antidotes to the smart-talk trap. Talking, brainstorming and doing research are not a waste of time; they're all extremely useful — but only when used as steppingstones to action, not as ends themselves.

Steppingstones for Can-Do Bosses

Here are nine tips and tricks for eradicating impediments to action:

1. **When your people suggest a promising idea, say (as often as possible): "Great! Do it!"**
2. **Assign your worst smart talkers to shadow your best doers.** Reward both parties if the smart talkers become more action-oriented.

3. **Fire or demote incurable smart talkers — and let your people know why you did it.** Beware of creating a climate of fear, so give people feedback and warnings first. But if you let these rotten apples stick around, they will infect others and produce vile consequences for all.
4. **Say the same simple and good things again and again until the message shapes what people do.**
5. **Tell juicy stories about destructive things to stop doing — and simple things to start.**
6. **When in doubt, throw it out or don't add it in the first place.** Follow Steve Jobs and try to explain to one another — and customers — the differences among your products and services. If you can't do so easily, perhaps it is time to get rid of a bunch.
7. **Fight the Otis Redding problem.** List all the performance metrics you use. No matter how long it is, pick the three most important. Do you really need the rest?
8. **Ask yourself — and your people — if you have practices that "everyone else" uses but are a waste of time or downright destructive.** What about your performance evaluations? Would you be better off not doing them at all — or at least cutting 75 percent of the questions on your form?
9. **Link hot emotions to cool actions.** Crank up your people's fears and hopes to get their juices flowing, then direct that energy to effective and concrete behaviors. ●

Serve as a Human Shield

The best bosses let the workers do their work. They protect their people from red tape; meddlesome executives; nosy visitors; unnecessary meetings; and a host of other insults, intrusions and time wasters. The notion that management "buffers" the core work of the organization from uncertainty and external perturbations is an old theme in organization theory.

A good boss takes pride in serving as a human shield, absorbing and deflecting heat from superiors and customers, doing all manner of boring and silly tasks and battling back against every idiot and slight that makes life unfair or harder than necessary on his or her charges.

Fight for Followers

The main test here is whether or not followers believe their boss has their backs.

Robert Townsend could have been a poster child for the boss as a human shield. Townsend held a host of management jobs including CEO of Avis Rent-a-Car and wrote the inspired and outrageous book *Up the Organization*.

In Townsend's mind, a boss's job was to "work for your people," which meant being a defender and warrior on their behalf. He once refused to provide an Avis board member, David Sarnoff, with a complete tally of all the cars that Avis owned. Weeks of work would have been required to assemble such information; Townsend believed his people's efforts were better spent elsewhere. So he shot back at Sarnoff: "If I don't need it to run the company, you sure as hell don't need that information as an outside director."

Earlier in Townsend's career at American Express, the firm's chairman stopped him in the hall to praise a "good bond swap" by his group. Townsend replied that he didn't know about it, because he was devoting his time to scrounging for resources and better pay for the undervalued "peons" doing this magnificent work. Townsend used the encounter with his superior to fight for his people, not to bask in the reflected glory of their accomplishments.

A big part of a boss's job is shielding followers from unnecessary and destructive worries, hassles, procedures, indignities, and intruders and idiots of every stripe.

Don't Waste Their Time

If you are determined to be an effective shield, start by working on yourself. Great bosses avoid burdening their people. They invent, borrow and implement ways to reduce the mental and emotional load they heap on followers.

At Amazon.com, bosses take little heat when their people try things that fail or when their people act without asking for permission. Amazon's most prestigious employee award is called the "Just Do It." Employees win it from CEO Jeff Bezos for taking actions to help the company and doing so without getting their boss's permission first.

Employees don't need much protection from above under these conditions. As a rule, the less idiocy that rains down from above, the less shielding a good boss needs to do. ●

Don't Shirk the Dirty Work

Every boss must do things that upset and hurt people. If you are the boss, it is your job to issue reprimands; fire people; deny budget requests; transfer employees to jobs they don't want; and implement mergers, layoffs and shutdowns. If you can't or won't perform such unpleasant chores, perhaps you shouldn't be the boss. Or if you still want the job, you better recruit someone else to do your dirty work.

The best bosses don't delay or duck difficult deeds. Consider a study by Charles O'Reilly and Barton Weitz on how supervisors handled problematic sales employees — those with poor productivity, lack of punctuality, bad attitudes and other misdeeds. Bosses of the most productive work groups confronted problems directly and quickly, issued more warnings and formal punishments, and promptly fired employees when warnings failed. These no-nonsense bosses inspired team performance because their words and actions made crystal clear that they would not tolerate crummy work.

Bosses sometimes initiate dirty work because they believe it is the right thing to do. When Ann Rhoades was head of the People Department at Southwest Airlines, she helped make the decision to fire fellow executive David Neeleman, who had joined Southwest as part of a merger with Morris Air. Neeleman's quarreling and complaining about Southwest were undermining the dynamics of the senior team, along with their famously warm and cooperative culture. Rhoades agreed that Neeleman had to go and helped break the bad news to him.

How You Do It

There are times when every boss must do things that hurt others. *But there is a big difference between what you do and how you do it.* Rhoades' history with Neeleman illustrates the point: He wasn't happy about getting fired, but Neeleman was sufficiently impressed with how Rhoades handled this and other chores at Southwest that he hired her as head of human resources several years later when he founded JetBlue Airways.

Research by behavioral scientists shows that dirty work does less harm when bosses add four antidotes into the mix:

- **Predictability.** Predictability is all about creating realistic expectations. When bosses take harsher actions than in the past, they need good answers to this question: "Why are you doing this to us now?"
- **Understanding.** When people are freaked out, skilled bosses make their explanations as simple as possible and repeat them over and over — and do so through multiple communication channels.
- **Control.** Great bosses help followers feel powerful rather than powerless — especially during rough times.
- **Compassion.** The best bosses convey empathy as they make and implement tough decisions — which bolsters performance and humanity.

Squelch Your Inner Bosshole

What drives so many bosses to be seen as so cruel by so many followers? Many bosses are buffeted by forces that bring out insensitivity and nastiness. These include:

1. Toxic Tandem and Power Poisoning. Professor Dacher Keltner has studied power dynamics for more than 15 years. He reports, "When researchers give people power in scientific experiments, they are more likely to touch others in potentially inappropriate ways, to flirt in a more direct fashion," to "interrupt others, to speak out of turn, to fail to look at others when they are speaking," and to "tease friends and colleagues in hostile and humiliating fashion." Another of his studies shows that when people get a little power, it dampens how much compassion they convey and how much distress they feel when listening to others talk about painful things such as a dying friend or personal failure.

Bosses who successfully enlist others to help them avoid and reverse power poisoning usually have a history of treating people with respect and listening to and learning from criticism rather than getting defensive and shooting the messengers.

2. Extreme Performance Pressure. Although all bosses risk focusing on performance too much and humanity too little, this balance gets especially out of whack when performance pressure becomes intense — a feature of countless bosses' jobs.

After a round of performance evaluations where his direct reports seemed overwrought by even minor criticisms, one imaginative boss put things in perspective by taking his charges to a hospice, where they met dying patients and their families. He reminded them that their performance evaluations really don't mean much in the larger scheme of things and then did their next evaluations right there in the hospice.

3. Sleep Deprivation, Heat and Other Bodily Sources of Bad Moods. Research on sleep deprivation shows that a lack of sleep causes people to make lousy decisions and turns them into impatient jerks —

and when deprivation is severe, people turn irrational and fly into wild rages. Naps dampen such negative effects and also help people who are not sleep-deprived to be more effective and civilized. A 15- to 60-minute nap bolsters creativity, alertness, error detection and mood — for people who don't usually nap.

When people are physically hot, they turn mean. Folk sayings like *hot under the collar* and *steamed* are bolstered by research on temperature and aggression: Countries with hot climates suffer higher murder rates and more political violence than do countries with cool climates. More violent crimes occur in hot years than in cool years.

4. Nasty Role Models. It is difficult for any person to avoid imitating teachers and authority figures. When everyone around you acts like a jerk and admires the creeps in charge, there is no good behavior to copy and refraining from nastiness is often treated as a weakness. Yet when aspiring bosses band together to create countervailing social pressure against imitating demeaning mentors, they can avoid following in their vile footsteps.

Part III: The Upshot

If you are a boss, your success depends on staying in tune with how others think, feel and react to you. Bosses who persistently promote performance and humanity devote considerable energy to reading and responding to followers' feelings and actions and those of other key players like superiors, peers and customers. Of course, there is no single magical or simple thing that defines a great boss. Anyone who promises you an easy or instant pathway to success is either ignorant or dishonest — or both. The moves that great bosses make are too complex, varied, messy and unpredictable to be captured by any single theme, slogan or set of steps.

Yet some skills and aspirations are more important than others. Developing and sustaining self-awareness ought to be at the top of the list for every boss.

David Dunning of Cornell University shows that a hallmark of poor performers is a lack of self-awareness; they consistently overestimate their skills in just about any task that requires intellectual and social skills, such as debating, having a sense of humor or interviewing others. In contrast, Dunning finds that self-awareness is a hallmark of the best performers — they are especially cognizant of their strengths and weaknesses and fret about overcoming pitfalls that can undermine their performance. The best bosses reduce the risk of self-delusion by seeking and responding to hints and hard data about how others read their moods and moves. They urge followers to challenge them with enlightening — and disconcerting — questions. They want their followers (and bosses, peers and customers too) to keep feeding them such information, no matter how unpleasant and unflattering, because they are obsessed with how their words and deeds are interpreted by others.

Smart Versus Wise Bosses

Smart bosses have the *confidence* to act on what they know, but feel and express *little* doubt about what they believe or do. They make definitive statements; answer questions; talk well; and give help, but don't ask for help and refuse it when offered.

Wise bosses have the *confidence* to act on what they know and the *humility* to doubt their knowledge. They make statements (often "backstage") that reveal uncertainty and confusion, ask questions, listen well, give help, ask for help and accept it when offered.

The upshot is, to be a great boss you've got to think and act as if it is all about you. Your success depends on being fixated on yourself. On the surface, this conclusion clashes with advice from many gurus and experts. Former General Electric Co. CEO Jack Welch and Stanford's dean of the Graduate School of Business, Robert Joss, for example, implore managers, "It's not about you." The spirit of that advice aims to discourage bosses from falling prey to their most selfish and destructive instincts. Yet most bosses, like most human beings, are remarkably self-obsessed — and that isn't necessarily a bad thing. Yes, the worst are selfish, are oblivious to their charges and cling to dangerous delusions about their magnificent leadership skills. The best are equally self-obsessed but have different motivations. Their obsession isn't for egotistical or for selfish reasons. On the contrary, they focus on controlling their moods and moves, accurately interpreting their impact on others, and making adjustments on the fly because they want their people to produce work that others will admire — and to feel respect and dignity along the way.

RECOMMENDED READING LIST

If you liked *Good Boss, Bad Boss*, you'll also like:

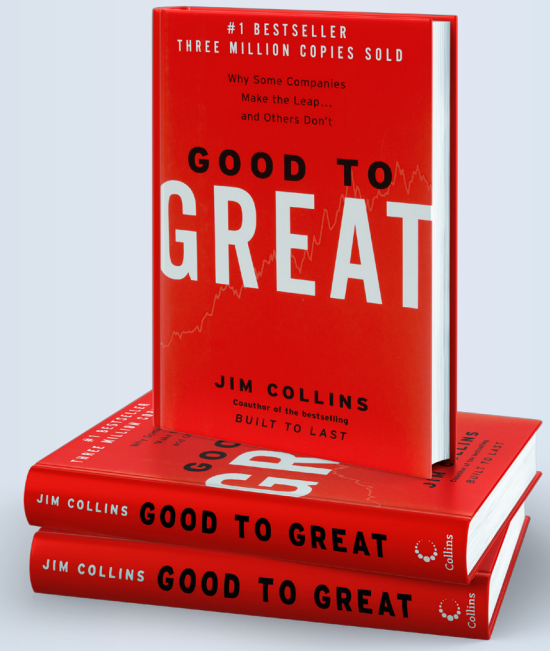
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3. ***How the Best Leaders Lead* by Brian Tracy.** In *How the Best Leaders Lead,* Brian Tracy reveals the strategies he teaches top executives to achieve astounding results in difficult markets against determined competition.

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Good to Great

Jim Collins

BOOK SNAPS™
Zooming In On Your Next Read



Good to Great

Why Some Companies Make the Leap . . . and Others Don't

by Jim Collins

Jim Collins is a student and teacher of what makes great companies tick and an advisor to leaders throughout the corporate and social sectors. He has authored or coauthored six books that have sold in total more than 10 million copies worldwide. In 1995, he founded a management laboratory in Boulder, CO, where he continues to conduct research and engages with CEOs and senior-leadership teams. In 2017, Forbes selected him as one of the 100 Greatest Living Business Minds. www.jimcollins.com

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What's Keeping Your Company Good When It Could Be Great?

Jim Collins begins with a simple assertion: society has few companies, schools, and individuals that become great, because so many of them are good. It's fairly easy to become good and even easier to stay that way. The point became clear to Collins after a casual conversation about Collins' previous book, *Built to Last*, with Bill Meehan, the managing director of McKinsey & Company's San Francisco office. Meehan posed the question: "But what about the vast majority of companies that wake up partway through life and realize that they're good, but not great?" This question planted a seed in Collins' mind that grew into the basis of *Good to Great*. "Can a good company become a great company and, if so, how? Or is the disease of 'just being good' incurable?" Inspired by this line of inquiry, Collins assembled a research team devoted to finding the answers.

Over the course of five years, the group identified eleven companies that went from having good results to having great results and managed to sustain those great results for a period of at least fifteen years. They compared the companies that fit the great criteria with a carefully chosen control group of companies that failed to make the same leap or failed to sustain the great results over time. From those comparisons the team filtered out the essential factors that distinguished the great companies from the good ones.

Level 5 Leadership

Collins and his team came to describe the kind of leaders found at the top of every great company as Level 5 leaders. These leaders direct their egos away from themselves and towards the bigger goal of building their company. They are very ambitious but "their ambition is first and foremost for the institution, not themselves."

Good-to-great executives appeared to be "cut from the same cloth." Regardless of the industry or what state the company was in, a Level 5 leader was at the helm during the company's transition from good to great. Further, the comparison companies that never reached great always lacked a Level 5 leader. In

fact, nearly two-thirds of the comparison companies had big egos in key leadership positions that actually "contributed to the demise or continued mediocrity of the company."

What sets Level 5 leaders apart from others? Collins describes them as both "modest and willful, humble and fearless." They typically come from inside the company rather than being an outsider recruited to save the day. They never let their ego get in the way of the greater cause, which is the company. Their values push them to continue on their path, even when it is extremely difficult. In the age of celebrity CEOs, the Level 5 leader shies away from the spotlight, gives credit to others instead of taking it, and surrounds him or herself with potential successors that have the potential to carry the company into the future with or without the leader.

Collins reports that those who work under Level 5 leaders, describe them with words such as "quiet, humble, modest, reserved, shy, gracious, mild-mannered, self-effacing, understated, and so forth." Level 5 leaders do not become "larger-than-life heroes." They never aspire to sit atop a pedestal or to become icons. They are "seemingly ordinary people quietly producing extraordinary results." Level 5 leaders have fierce resolve and an unwavering determination to do whatever it takes for the good of the company.

Studying Level 5 leaders revealed a pattern that Collins and his team called *the window and the mirror.* Level 5 leaders "look out the window" to give credit to factors outside of themselves, including plain good luck, when things go well. When things don't go well, they "look in the mirror" and take responsibility, never blaming bad luck. Leaders in the comparison group did the exact opposite. They look in the mirror to thank themselves when things go right and blame others when things go wrong. Collins believes that Level 5 leaders are all around us if we know what to look for in finding them. Further, many leaders have the potential to become Level 5.

First Who...Then What

Collins assumed that the first step towards transitioning from good to great would be to determine a destination. Good companies would set a new vision, create a strategy, and then direct their people towards that destination. But what they discovered was that the good to great executives first got the right people on (and off!) the bus and then they figured out where to drive it. These leaders essentially said, "Look, I don't really know where we should take this bus. But I know this much: If we get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then we'll figure out how to take it someplace great."

These good-to-great leaders had an understanding of three truths:

- You can better adapt to a changing world if you begin with "who" rather than "what." If people get on the bus primarily because of where it is going, they will jump off if the bus changes direction. If people get on the bus because of who else is on the bus, they will stay on the bus no matter where it goes.
- If you have the right people, the need to tightly manage or motivate goes away. The right people are self-motivated with the drive to get results and be part of something great.
- If you have the wrong people, your company will never be great. Great vision without great people is meaningless.

Distinctive Forms of Disciplined Thought

The good-to-great companies that Collins and his group studied showed two "distinctive forms of disciplined thought." The first is that they always faced the "brutal facts of reality."

Great companies have a climate where the "truth is heard, and brutal facts are confronted," Collins writes. When companies face facts and make decisions based upon them, they end up stronger and more resilient. There is also exhilaration to be gained when you face hard truths and decide to never give up. Great companies face the truth and find a way to prevail anyway.

The second form of disciplined thought presented by Collins is called The Hedgehog Concept. In his famous essay "The Hedgehog and the Fox," author Isaiah Berlin divided people into two groups: foxes or hedgehogs. Foxes look at the world and see complexity. They are scattered and pursue many objectives at the same time. Foxes are cunning but cannot win over the simple defense of a hedgehog. Hedgehogs have a basic guiding principle that always beats the fox. They roll up and become a spike-covered ball, thwarting the fox's attack every time.

People who are foxes don't integrate their thoughts into a "unifying vision." People who are hedgehogs organize the complex into a single idea that guides everything. No matter how complex the world, a hedgehog "reduces all challenges and dilemmas to simple ideas." Good-to-great companies have hedgehog leaders that develop a Hedgehog Concept. They "developed a simple, yet deeply insightful, frame of reference for all decisions."

A Hedgehog Concept is "a simple, crystalline concept that flows from deep understanding about the intersections of the following three circles: What can you be best at in the world? What drives your economic engine? What are you deeply passionate about?

A fully developed Hedgehog Concept encompasses all three circles. It is not "a goal to be the best, a strategy to be the best, an intention to be the best, a plan to be the best. It is an understanding of what you can be the best at." Collins asserts that this is a crucial distinction.

A Culture of Discipline

Collins says that when companies grow and become increasingly complex, they begin to trip over their own success. Suddenly there are "too many new people, too many new customers, too many new orders, too many new products." In order to make sense of this newfound chaos, the board brings in new management. "Processes, procedures, checklists, and all the rest begin to sprout up like weeds." Where there used to be independence, there is now hierarchy.

> . . . greatness happens as a cumulative process. Every step, every action, and every decision 'adds up to sustained and spectacular results.'

Collins points out that bureaucratic rules are established to manage the wrong people on the bus. This in turn drives some of the right people off the bus. This results in an even higher percentage of wrong people on the bus who need more management to compensate for lack of discipline and incompetence. In a downward spiral, it goes on and on. But Collins says there is an alternative. Bureaucracy and hierarchy can be avoided when a company has a culture of discipline.

Companies must hire self-disciplined people and create a culture around freedom and responsibility. People in good-to-great companies will "take disciplined action within the three circles while being fanatically consistent with the Hedgehog Concept." The company should build a system that allows people to have freedom and responsibility without the need for close management. The system should be managed, not the people working within it. Everyone within adheres to a simple mantra: "Anything that does not fit with our Hedgehog Concept, we will not do." Great companies don't do things that don't fit. Period.

Technology Accelerators

Through periods of great change, great companies adopt and endure. There are many examples of companies doing so over a period of a hundred years or more. Some can trace their roots back through many generations of technological advancements such as electricity, television, or the internet. Collins says, "Technology-induced change is nothing new. The real question is not, 'What is the role of technology?' Rather, the real question is, 'How do good-to-great organizations think differently about technology?'"

What Collins sees is that great companies don't adopt new technologies simply for the sake of saying they have them, nor do they do so in fearful reactions of being left behind. Instead, they use technology to accelerate their momentum after a breakthrough rather than using technology to create momentum. They do not jump on technology bandwagons. Instead, they carefully choose which technologies to integrate. A great organization's use of technology is always tied directly to the company's Hedgehog Concept.

No Miracle Moment

Collins' next point is about cumulative effort and effect. He asks readers to imagine a flywheel, a huge metal disk mounted on an axle. To get the flywheel moving, it takes an incredible amount of initial effort. As you keep pushing, though, it gets a bit easier. Push after push, the flywheel moves faster and faster. Eventually, there is a breakthrough. The flywheel's momentum starts to work for you. You don't have to push harder, but the flywheel "builds upon work done earlier, compounding your investment of effort."

If someone came along and asked which push got the flywheel to move so fast, it would be impossible to say. It was every push, "added together in an overall accumulation of effort applied in a constant direction." This is what it was like for the companies that went from good to great. Their transformations did not take place because of one grand push.

Collins asserts that greatness happens as a cumulative process. Every step, every action, and every decision "adds up to sustained and spectacular results." These transformations were not named. They were not celebrated with launch events or promotions. In fact, many of the executives who led the companies through these transformations were not entirely aware that they were taking place. It was only in hindsight that they released how far they'd come.

Collins reports that there was no single miracle moment for these companies. "It was a quiet, deliberate process of figuring out what needed to be done to create the best future results and then simply taking those steps, one after the other, turn by turn of the flywheel."

In the densely populated genre of business books, *Good to Great* stands out and stands the test of time. Collins' findings are simple, accessible, and digestible but his process for reaching them is far from that. The fact that he assembled an entire team and spent five years working through highly detailed, empirical evidence sets the work apart from other books in the niche.

Executives, managers, and rising stars will find Collins' analogies relatable and relevant. For example, Collins hits home the idea that hiring and firing choices make all the difference by comparing a company to a bus. In order to become great, leaders have to get the wrong people off the bus, the right people on, and further, put the right people in the right seats. The company can go in any direction necessary and the right people will stay on and even enjoy the ride.

Readers will quickly note the inclusion of some "great" companies that have since fallen far from greatness and the references to the internet as a recent technological advancement. Although the impactful lessons of *Good to Great* can be readily applied to modern companies, the content could benefit from an update to reflect the monumental changes that have occurred since its original publication in 2001.

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Green to Gold

Daniel C. Esty and Andrew S. Winston

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Daniel C. Esty and Andrew S. Winston

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GREEN TO GOLD

THE SUMMARY IN BRIEF

Forward-thinking business leaders see the Green Wave coming and want to profit from it.

This summary explores what every executive must know to manage the environmental challenges facing society and business. Based on the authors' years of experience and hundreds of interviews with corporate leaders around the world, this summary shows how companies generate lasting value — cutting costs, reducing risk, increasing revenues and creating strong brands — by building environmental thinking into their business strategies.

Authors Daniel C. Esty and Andrew S. Winston provide clear, how-to advice and concrete examples from companies such as Toyota and IKEA that are achieving both environmental and business success. The authors show how these cutting-edge companies are establishing an "Eco-Advantage" in the marketplace as traditional elements of competitive differentiation fade in importance. Esty and Winston not only highlight successful strategies but also describe why environmental initiatives sometimes fail despite the best intentions.

This summary is written for executives at every level and for businesses of all kinds and sizes. Esty and Winston guide leaders through a complex new world of resource shortfalls, regulatory restrictions and growing pressure from customers and other stakeholders to strive for sustainability.

In addition, you will learn:

- ✓ ***How to keep a sharp focus on execution while using an environmental strategy.***
- ✓ ***Ways to cope with environmental pressures and responsibilities.***
- ✓ ***How to spark innovation that will drive long-term growth.***
- ✓ ***How to anticipate and manage serious business risks.***
- ✓ ***How to be good stewards of the Earth while simultaneously building the bottom line.***

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GREEN TO GOLD

by Daniel C. Esty and Andrew S. Winston

— THE *COMPLETE* SUMMARY

The Environmental Lens

In the weeks before Christmas 2001, Sony faced a nightmare. The Dutch government was blocking Sony's entire European shipment of PlayStation game systems; more than 1.3 million boxes were sitting in a warehouse instead of flying off store shelves.

Why was Sony at risk of missing the critical holiday rush? Because a small, but legally unacceptable, amount of the toxic element cadmium was found in the cables of the game controls. Sony rushed in replacements to swap out the tainted wires. It also tried to track down the source of the problem — an 18-month search that included inspecting more than 6,000 factories and resulted in a new supplier management system. The total cost of this "little" environmental problem was more than $130 million. Sony executives refer to their PlayStation disaster as the "Cadmium Crisis."

Four Lessons From Sony's Stumble

Sony has been a business powerhouse for years and the company is also generally perceived as an environmental leader. Nothing foreshadowed the PlayStation stumble, yet it happened. Why? Three lessons can be drawn from Sony's difficult experience:

- **Even the best companies can be surprised by environmental issues.**
- **The environment is not a fringe issue — it can cost businesses real money.**
- **Real benefits can come from seeing things in a new light.**

Looking at all the ways environmental issues affect a business can frame thinking and strategy in a new way. By examining their business through an environmental "lens," managers can avoid expensive problems and create substantial value. Thus, a fourth lesson can be drawn from Sony's experience — and this is the fundamental one:

- **Smart companies seize competitive advantage through strategic management of environmental challenges.**

Business and Natural Resources

The business world and the natural world are inextricably linked. Our economy and society depend on natural resources. The environment provides critical support to our economic system — not financial capital, but natural capital. And evidence is growing that we're systematically undermining our asset base and weakening some of our vital support systems.

An environmental lens is not just a strategy tool or a feel-good digression from the real work of a company. It's an essential element of business strategy. It provides a way for businesses to contend with the problems of pollution and natural resource management. Mismanaging these issues can drain value out of a company quickly — and damage brand reputations built up over decades of careful cultivation. ■

Eco-Advantage

In a speech to shareholders, Wal-Mart CEO Lee Scott lays out his definition of "21st Century Leadership." At the core of his new manifesto are commitments to improve environmental performance. Wal-Mart will cut energy use by 30 percent, aim to use 100 percent renewable energy (from sources like wind farms and solar panels), and double the fuel efficiency of its massive shipping fleet. The company will invest $500 million annually in these energy programs.

Why are the world's biggest, toughest, most profit-seeking companies talking about the environment now? Because they have to. The forces coming to bear on

(continued on page 3)

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Eco-Advantage

(continued from page 2)

companies are growing. Industry groups are facing an unavoidable new array of environmentally driven issues. Like any revolution, this new "Green Wave" presents an unprecedented challenge to business as usual.

The Evolving Challenge

Environmental worries used to center on "limits to growth" and the prospect of running out of key natural resources like oil and industrial metals. A second line of concerns focused on pollution and has proven to be more enduring. We now know that humans can overwhelm the capacity of nature to absorb pollutants or to provide the essential "ecosystem services" we need, such as fresh water, breathable air, a stable climate and productive land.

Environmental missteps can create public relations nightmares, destroy markets and careers and knock billions off the value of a company. Companies that do not add environmental thinking to their strategy arsenal risk missing upside opportunities in markets that are increasingly shaped by environmental factors. ■

Natural Drivers of the Green Wave

In the mid-1990s, executives at consumer products giant Unilever saw a big threat to one of their product lines. Supply for the frozen fish sticks business was at risk because the oceans were running out of fish.

The Business Case for Environmental Thinking

Here are three basic reasons for adding the environmental lens to core strategy:

1. The potential for upside benefits. The "gold" that smart companies mine from being green includes higher revenues, lower operational costs and even lower lending rates from banks that see reduced risk in companies with carefully constructed environmental-management systems.

2. The management of downside risks. Efforts to cut waste and reduce resource use, often called "eco-efficiency," can save money that drops almost immediately to the bottom line. Redesign a process to use less energy and you'll lower your exposure to volatile oil and gas prices.

3. A values-based concern for environmental stewardship. Doing the right thing attracts the best people, enhances brand value and builds trust with customers and other stakeholders.

In partnership with World Wildlife Fund, the company set up the Marine Stewardship Council, an independent body to promote sustainable fisheries around the world. The Council certifies fisheries where the total catch is limited so that fish populations do not diminish over time. To create specific incentives for fishermen to seek certification, Unilever committed to buying 100 percent of its fish from sustainable sources by 2005.

Long-Term Issues

Issues such as global warming and loss of species can seem physically remote, long-term and not very pressing. Compared to the immediacy of the air we breathe or the water we drink, it's hard to get worked up about consequences that are far off. But long-term problems can prove intractable when they do arrive.

As the business world realizes that natural resources are finite, a second reality is emerging: Limits can create opportunities. Companies that manage nature's bounty and boundaries best will minimize vulnerabilities and move ahead of their competitors.

Top 10 Environmental Issues

Here are the top 10 environmental issues facing humanity:

1. Climate Change. This catch-all includes rising sea levels, changes in rainfall patterns, more severe droughts and floods, harsher hurricanes and other windstorms and new pathways for disease.

2. Energy. For big energy users — those in heavy manufacturing or transportation, for example — resource and energy productivity may become a major point of strategic advantage. Companies selling goods and services that promise to improve energy efficiency will claim market share.

3. Water. Companies around the world now face limits on access to water. For business, a number of complementary factors create both water quality and water quantity challenges.

4. Biodiversity and Land Use. Biodiversity — a catch-all term for the spectrum of plant and animal life — preserves our food chain and the ecosystem on which all life depends. It also holds prospects of new drugs, foods and other products. A key factor in the decline of biodiversity is habitat loss. Many companies face pressure about their contribution to sprawl.

5. Chemicals, Toxics and Heavy Metals. Part of what makes air pollution more dangerous is the presence of toxic elements. Exposure to chemicals like dioxin, a byproduct of production processes such as papermaking, and heavy metals such as lead and mercury can create severe public health risks. The legal liability surrounding toxics can be virtually unlimited.

(continued on page 4)

Natural Drivers of the Green Wave

(continued from page 3)

6. Air Pollution. Significant air-quality controls on factories, cars and other emissions sources have reduced air pollution over the past 30 years in the United States, Japan and Europe. But the air is still not clean.

7. Waste Management. The EPA estimates that the 1,200 Superfund sites across the country will require about $200 billion to clean up over the next 30 years. Under the liability provisions of the Superfund law, anyone found responsible for the waste at a site can be held liable for the full cost of cleanup, even if the toxics were legally disposed.

8. Ozone Layer Depletion. With a thinned ozone layer, the world becomes a more dangerous place, with reduced agricultural productivity, higher risk of skin cancer and other health problems.

9. Oceans and Fisheries. More than 75 percent of the world's fisheries are over-exploited and beyond sustainability. For those whose livelihoods depend on fishing, recreation and tourism, the effect of declining fisheries may be severe.

10. Deforestation. Every company that uses wood, paper or cardboard packaging has a stake in, and responsibility for, the state of our forests. When McDonald's realized 15 years ago that litter was an issue, it began working with a New York-based NGO (non-governmental organization), Environmental Defense, to reduce packaging. ■

Who's Behind the Green Wave?

Here are five core categories of stakeholders who care about the environment:

- **Rule Makers and Watchdogs**, such as government regulators and environmental groups.
- **Idea Generators and Opinion Leaders**, including think tanks and academics.
- **Consumers and Community**, including local officials and the general public.
- **Investors and Risk Assessors**, such as stock market analysts and bankers.

How Do Companies Create an Eco-Advantage?

1. WaveRiders cut operational **costs** and reduce environmental expenses — like waste handling and regulatory burdens — throughout the value chain.

2. They identify and reduce environmental and regulatory **risks** in their operations, especially in their supply chains, to avoid costs and increase speed to market.

3. They find ways to drive **revenues** by designing and marketing products that are environmentally superior and meet customer desires.

4. A few companies, most famously British Petroleum and General Electric, create **intangible brand value** by marketing their overall corporate greenness. ■

Managing the Downside

Over the last 15 years, chemical giant DuPont has cut its contribution to global warming by 72 percent. Half of the cuts came from changing one process: the production of adipic acid. This modification eliminated emissions of nitrous oxide, a potent greenhouse gas that causes far more warming than carbon dioxide.

The company also vowed to hold flat its energy use — the primary source of its greenhouse gas emissions — no matter how fast the company's top line grew. The company found 100 ways to meet its energy targets. Over the past decade, this strategy has saved DuPont $2 billion.

Green-to-Gold Play 1: ***Eco-Efficiency — Improve Resource Productivity.*** WaveRiders get the same output with lower inputs. In improving resource productivity, their actions stand out as the classic win-win environmental strategy.

Green-to-Gold Play 2: ***Eco-Expense Reduction — Cut Environmental Costs and Regulatory Burden.*** This Green-to-Gold Play centers on the time and money consumed by pollution control and environmental management. In addition to millions of dollars or euros spent on waste disposal and pollution-control equipment, this includes the managerial time and money spent filling out forms, the sometimes crippling cost of fines for mismanaging environmental issues and the general business slowdown caused by jumping regulatory hurdles.

Green-to-Gold Play 3: ***Value Chain Eco-Efficiency — Lower Costs Upstream and Downstream.*** Many companies have found ways to lower value chain costs by cutting the environmental and financial expenses of product distribution. IKEA is proud of its "flat packaging." Efforts to squeeze millimeters out of every box have allowed the company to pack its trucks and trains tighter. That saves up to 15 percent on fuel per item.

Green-to-Gold Play 4: ***Eco-Risk Control — Manage Environmentally Driven Business Risk.*** WaveRiders find issues before problems find them. They examine not only the supply chain, but the entire value chain. Identifying enterprise risk means understanding exactly how a company affects the environment and how the constraints of nature affect the company. ■

For additional information about Cost Reductions at Interface, go to: http://my.summary.com

Building the Upside

Environmental strategy has been on a long march for the past 40 years, from a tactical focus on compliance, to an additional — but still tactical — emphasis on costs and efficiency, to a more strategic view centered on growth opportunities. More and more companies now see the top-line potential from artfully managing the pressures of the Green Wave.

The following Green-to-Gold Plays are about growth — of sales, of brand value and of stakeholders' trust:

Green-to-Gold Play 5: ***Eco-Design — Meet Customer Environmental Needs.*** Identifying customer needs or desires and designing a product to meet them is never easy. With growing environmental consciousness, the opportunities to seize Eco-Advantage through green marketing are expanding. Companies can avoid the worst stumbles by following a few simple lessons: Meet a need that exists; don't ignore other needs of the customer; and pay attention to your own costs.

Green-to-Gold Play 6: ***Eco-Sales and Marketing — Build Product Position and Customer Loyalty on Green Attributes.*** Every day more consumers are including environmental factors in their buying equation. In parallel, companies are finding that there is money to be made from meeting the growing demands for green products.

Green-to-Gold Play 7: ***Eco-Defined New Market Space — Promote Value Innovation and Develop Breakthrough Products.*** Toyota saw the Green Wave coming and responded with the energy-efficient "hybrid" Prius. The company promoted value innovation and ended up with a breakthrough product that enhanced profits and sustained shareholder value.

Green-to-Gold Play 8: ***Intangible Value — Build Corporate Reputation and Trusted Brands.*** Positioning a brand as environmentally friendly only works if it's true. The 1980s and 1990s saw a flurry of bogus green claims. Some were just plain laughable. Hefty's highly touted biodegradable garbage bags broke down in sunlight, but not in the landfills where they would actually end up. ■

The Eco-Advantage Mindset

WaveRiders build a foundation for Eco-Advantage by reframing how everyone in the company looks at environmental issues. For these companies, environmental thinking is not always the final word on strategy, but it *is* always a consideration.

WaveRiders use an environmental lens to change the way they think and sharpen their business strategies. Deeply embedded, the **Eco-Advantage Mindset** arises naturally at every opportunity.

Here are some basic rules to get you there:

- **Look at the forest, not the trees.** WaveRiders think broadly about the time frames involved in investment and strategy decisions; the full range of potential payoffs from those investments, including hard-to-measure intangible gains; and possibilities for adding value across the full chain of production.
- **Start at the top.** Companies leveraging Eco-Advantage have a commitment to environmental thinking at the very top of the organization.
- **Adopt the Apollo 13 principle — "No" is not an option.** In leading companies, management gives the organization bold environmental goals and seemingly impossible tasks — and refuses to accept failure.
- **Recognize that feelings are facts.** Top performers know that what NGOs, employees, customers, communities and other stakeholders feel about a company's environmental performance and reputation can be much more important than the reality.
- **Do the right thing.** WaveRiders make choices based on core values, including caring for the environment, even when it might not pay off in the short run. ■

Eco-Tracking

The Eco-Advantage Mindset is a powerful motivator and the core of the environmental lens that helps companies step up to challenges and find opportunities for seizing advantage. But it's just the beginning. Companies need tools to get going. They should start with the elements of the toolkit that help them understand where they are.

This requires thinking and analysis that might not come naturally. Eco-Tracking helps to answer fundamental but sometimes unfamiliar questions:

- What are the company's big environmental impacts?
- When and where do those impacts arise? During manufacturing? During shipping and distribution? Upstream in the supply chain? Or downstream in the hands of customers?
- How do others view the company's environmental performance?

These questions can be difficult to answer. But leading companies use a core set of Eco-Tracking tools to develop an environmental self-portrait and help them manage for Eco-Advantage. To follow their lead, you should:

- **Trace your environmental footprint.** The more resources it uses or pollution it produces, the bigger a company's footprint. Understanding its footprint can help a company engage in pollution prevention, find new opportunities to serve customers, avoid problems with stakeholders and gain a leg up on the competition.

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Eco-Tracking

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● **Capture data and create metrics.** The Toxics Release Inventory program started many WaveRiders toward environmental leadership. After being required to measure and report their emissions of toxic substances, companies saw how big their footprints were.

● **Set up environmental-management systems.** Environmental issues are now considered part of the potential liabilities that companies must include in accounting. An environmental-management system (EMS) is thus essential for companies of all sizes.

● **Partner for advantage.** There is no better way to track what outsiders think of your company on an emotional level than by partnering with, and really listening to, outside organizations. These include NGOs, local communities and other companies. ■

Redesigning Your World

Green architect Bill McDonough sees vast opportunities to redesign products or even reconceive how and why we use them. He envisions a world where, after customers are done with them, products are broken down into either biological parts that can be safely disposed of, or technological parts that can re-enter the industrial system and become new products. Only design that supports this vision, he says, will lead us toward sustainability in the deepest sense.

Redesigning products, processes and even whole value chains is the second section of the Eco-Advantage Toolkit. To make environmental gains and benefits from reduced waste and increased resource productivity, companies need to fundamentally change how they do things.

Pollution Prevention Hierarchy

For most companies, the state of the art in environmental thinking can be summed up with the slogan, "Reduce, Reuse, Recycle." The best pollution-control option is to **reduce** the use of resources and eliminate waste. The next best option is to refurbish or **reuse** items. Then **recycle** what's left. As a last resort, throw something out.

The pollution-prevention hierarchy has two further levels. Before reducing, companies should explore ways to **redesign** what they do and how they do it. And even before that, they should try to **reimagine** their products or processes. Just as companies have learned it's generally cheaper to reduce than to reuse, recycle or throw out, now they are discovering that it is often more profitable to redesign and reimagine.

The Eco-Advantage Bottom Line

WaveRiders move beyond merely tracking environmental issues to change products, processes, their workplaces and even their supply chains. To carry out their redesign efforts, they deploy various tools, including:

● **Design for the Environment (DfE).** Once a company has a feel for where environmental issues arise in the value chain, it can redesign to avoid those problems.

● **Closed-Loop Systems.** In the business setting, waste is costly. It often means you're squandering valuable inputs like metals, chemicals or energy. WaveRiders seek to recapture these resources by recycling waste water, reusing materials and stripping valuable gases from exhaust. In doing all this, they reduce their footprint, improve resource productivity and often save money.

● **Industrial Ecology.** Some waste products can be useful inputs for other industries.

● **Green Building and LEED Certification.** The U.S. Green Building Council awards points for using recycled materials, incorporating energy efficiency into design and other environmental benefits when it scores buildings for Leadership in Energy and Environmental Design (LEED) certification.

● **Supply Chain Audits.** In today's networked, blog-happy world, a problem with any supplier, even a small one, can quickly tarnish a big brand. ■

For additional information about Industrial Ecology in the Dutch Flower Industry, go to: http://my.summary.com

Inspiring an Eco-Advantage Culture

Culture comes from more than just a high-minded mission statement. It's built with a conscious effort and incentives to shape people's behavior.

In his book *Good to Great*, Jim Collins talks about a proverbial flywheel that gets moving slowly but, with constant nudges in the right direction, gains speed and inertia. Building a corporate culture that promotes environmental thinking is a flywheel project.

The right tools help create the flywheel and get it spinning in the direction of Eco-Advantage. Everything from executing Green-to-Gold Plays to cultivating an Eco-Mindset to using Eco-Tracking and Redesign tools adds momentum.

Culture-Building Tools

WaveRiders use four basic culture-building tools:

● **A vision, reinforced by stretch goals.** WaveRiders ask their organizations what's achievable, then set stretch goals beyond that to unleash creativity, drive innovation and build Eco-Advantage.

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Inspiring an Eco-Advantage Culture

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● **Practices that fold environmental thinking into every strategic decision**. WaveRiders fold intangible benefits — such as lower risk, brand building and reputation protection — into their investment calculations.

● **Incentives for engagement with and accountability for the environmental agenda.** WaveRiders drive real environmental engagement by placing ownership for environmental strategy with management at an operational level, by cross-fertilizing executives between line operations and environmental positions and by establishing incentives for environmental success.

● **Communications aimed at both internal and external audiences.** A good environmental report should discuss the important aspects of the company's footprint. It should use quantitative metrics and cover core issues such as air emissions, water pollution, hazardous waste disposal, energy consumption, greenhouse gas emissions and notices of legal violations. Failure to review all aspects of the company's footprint signals to stakeholders that a company has something to hide. ■

External Audiences

Companies can use communications as both a shield and a sword. Touting the green qualities of a business can ensure that NGOs, regulators, the media, and ultimately, the public see the company as a responsible corporate citizen. 3M developed a simple process for managing these issues. Its Environmental Marketing Claims Committee is a cross-functional group that draws from public affairs, EHS and product responsibility and legal affairs. It checks every marketing claim, from ads to packaging, and thinks about how a particular claim will fly in the marketplace. The point, the team says, is partly legal but mainly about reputation.

Why Environmental Initiatives Fail

As vast as the opportunities for Eco-Advantage are, successfully exploiting them is not easy. Here are 13 common reasons environmental initiatives fail and some thoughts on how to avoid these pitfalls:

1. Seeing the Trees But Not the Forest. Ford committed substantial sums of money to making the River Rouge factory green, but manufacturing is not the core environmental problem in the auto industry. Instead, the company should have studied its environmental footprint and taken a hard look at its products. While Ford focused on planting grass on the River Rouge roof, Toyota was rolling out its hybrid gas-electric technology and taking the auto world by storm.

2. Misunderstanding the Market. Eco-products hold up the promise of capturing new markets while making the world a better place. But the process of deciding whether a green initiative makes business sense should be fundamentally the same as for any other new product.

3. Expecting a Price Premium. Green premiums are hard to pull off. Don't pitch only the green attributes of a product. Look closely at Toyota Prius ads and see the dual message. The car has an award-winning power train that will give you some zip, and it's got cool technological features. It also helps to save the planet. The environment is the third "button" pressed.

4. Misunderstanding Customers. When an environmental initiative depends on changing customer behavior, be careful. If the change doesn't save people time or money — and sometimes even if it does — they may resist. Know your customers' limits.

5. Middle-Management Squeeze. CEO leadership and stretch goals are still success factors, but they can also cause irreconcilable conflicts for the people caught in between — the ones actually running the company's operations and trying to meet sales goals, keep costs down and hit profit objectives. Deal directly with the multiple pressures on middle managers with incentives and training.

6. Silo Thinking. If pollution is a cancer on the earth, abatement is chemotherapy — a treatment after the problem exists. Design for the Environment (DfE) is like quitting smoking and eating right. It's preventive medicine for environmental problems.

7. Eco-Isolation. Integrating the concerns, needs and incentives of those on the company's operational front lines into the game plan is essential. The larger goal is breaking down the barriers between environmental and business strategy.

8. Claims Outpacing Actions. In eagerness to be green, sometimes companies make promises before they've taken action. To avoid getting ahead of yourself make sure everything you say is true.

9. Surprises: Wasp Stings and Unintended Consequences. Expect the unexpected. Take a systemic view and be careful about forecasting potential gains.

10. Perfect Is the Enemy of Good. Sustainability depends on long-term economic success. It's the only way to fund whatever degree of environmental commitment a company chooses to make. The quest for perfection too often leads to inaction. Successful companies often find incremental solutions that steadily improve

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Why Environmental Initiatives Fail

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environmental performance, while minimizing the burden in other areas.

11. Inertia. Moving people into a new way of thinking won't happen without a healthy push. Vision is critical. Every sweeping vision needs to be brought down into actionable steps.

12. Ignoring Stakeholders. Companies, especially multinationals, need permission from society, employees, regulators and many others to grow — even to exist. Knowing your stakeholders is essential. Start by mapping out which groups focus on particular issues. Listen to outside perspectives.

13. Failing to Tell the Story. Eco-Advantage comes from taking action — and getting credit for it. Companies need to tell their own employees what they're doing. Companies need to leverage clear wins. ■

Taking Action

The plays, the mindset, even the tools for building Eco-Advantage mean little until they are translated into action. Many companies have pieces of an environmental strategy in place, but few are systematic about driving environmental thinking into their approach to business.

Because no two businesses are the same, every company has to plot its own Eco-Advantage path. However, the pace of progress is greater if certain things get done first. Broadly speaking, the agenda is:

- **Short term:** Find out where you stand and launch pilot projects. The short-term focus is systematic analysis. Clarify who and what to think about in the environmental realm. Gap analysis — knowing what you don't know — can be a big first step.
- **Medium term:** Track performance and build an Eco-Advantage culture. In over-the-horizon scanning, look for items on the public agenda that seem to be increasing in intensity, even if they are only tangential to your business. Tracking second- and third-order connections can help you spot emerging business drivers.
- **Long term:** Drive environmental thinking deep into the business strategy. Long-term actions should center on making environment a core element of strategy. This will require advanced Eco-Advantage tools and exercises, including supply chain auditing, rethinking products and re-examining markets and stakeholder management and partnerships. ■

Eco-Advantage Strategy

Eco-Advantage has a twin logic. On one hand, the strategic gains are based on hard-edged analysis. In a world of constrained natural resources and pollution pressures, the business case for environmental stewardship grows stronger every day.

Pressures on companies now come not only from eco-radicals, but also from traditional bankers and others asking tough-minded questions about environmental risk and liability. Those who offer solutions to society's environmental problems both mute their potential critics and find expanding markets.

In parallel, there's a strong values component to the case for corporate environmental care. The WaveRiders have made money — lots of it — by refining their business strategies to incorporate environmental factors.

But as much as they are driven by profits, they also are aware that their stewardship helps more than the bottom line. When short-term gains don't justify green initiatives, they are willing to look for long-term value for themselves and their workers, for their communities and for the planet. The gold they've discovered by going green is not only about money.

Green to Gold

More and more people in the business world see corporations playing a major role in solving the world's environmental problems. Business, they know, is our most powerful mechanism for creating a functioning society and matching needs with goods and services.

Companies can and should be a force for good, leading the charge on caring for the environment and protecting our shared natural assets. Financial and environmental success can be achieved together. With the right mindset and tools, companies can handle the hard trade-offs.

In the end, Eco-Advantage is about a new way for inspired people — executives, managers and workers — to build companies and industries that are not just innovative, powerful and great … but good, too. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Green to Gold*, you'll also like:

1. ***The Triple Bottom Line*** **by Andrew W. Savitz with Karl Weber.** The authors make a case that no company or manager can afford any longer to ignore the world around them.
2. ***The Sustainability Advantage*** **by Bob Willard.** The book identifies seven benefits of corporate responsibility, and argues that businesses stand to profit from development strategies that are socially and environmentally responsible.
3. ***Investing in Nature*** **by William J. Ginn.** According to Ginn, the key to saving the land is bringing together the business world and conservation.
4. ***The New Economy of Nature*** **by Gretchen C. Daily and Katherine Ellison.** The authors describe the interplay of science, economics, business and politics that is involved in establishing new approaches and examine what will be needed to create successful models and lasting institutions for conservation.
5. ***The Sustainable Company*** **by Chris Laszlo.** Laszlo provides relevant case studies to demonstrate that corporate responsibility can increase business advantage.

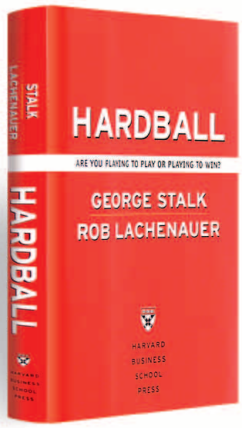
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Hardball

George Stalk and Rob Lachenauer

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By George Stalk
and Rob Lachenauer
with John Butman

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HARDBALL

THE SUMMARY IN BRIEF

Master strategists George Stalk and Rob Lachenauer predict that business competition will become so fierce over the next 10 years that marginal victories and short-term advantages will not be enough to keep a company thriving. In Hardball, *they explain that winning will require relentless strategic execution focused on turning competitive advantages into decisive advantages that neutralize, marginalize and even punish rivals.*

The world of hardball competition is a place where the players are zealously committed to winning and relentlessly driven to strengthen their competitive positions, creating a virtuous cycle that puts them far out of the reach of competitors. Stalk and Lachenauer turn the experience they have developed during 25 years advising and observing a wide range of companies into a game plan for using hardball techniques. With these techniques, companies can achieve decisive victories over competitors — without bending the law or compromising their obligations to stakeholders. Hardball competitors can unapologetically play rough, yet they are also adept at the "soft" side of management — rallying talent and building culture through a determined focus on the few issues that are most critical to their success.

Hardball *presents detailed case studies of companies from many industries to outline seven hardball strategies: unleash massive and overwhelming force, exploit anomalies, threaten competitors' profit sanctuaries, take it and make it your own, entice competitors into retreat, break industry compromises, and hardball M&A.*

What You'll Learn In This Summary

✓ Who uses hardball strategies and how have they helped?
✓ Under what circumstances does each hardball strategy work most effectively?
✓ How can a company orchestrate a hardball attack?
✓ What is the meaning of competition for the new generation of business players?
✓ Why do great companies stumble when they lose their competitive advantage?
✓ What new ideas and strategies do veteran executives have to learn to compete in today's global marketplace?

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HARDBALL

by George Stalk and Rob Lachenauer with John Butman

— THE *COMPLETE* SUMMARY

The Hardball Manifesto

When companies play hardball, they use every legitimate resource and strategy available to them to gain advantage over their competitors. When they achieve competitive advantage, they attract more customers, gain market share, boost profits, reward their employees and weaken their competitors' positions. They then reinvest their gains in their businesses to improve product quality, expand their offerings, and improve their processes to further strengthen their competitive advantage. When they continue this cycle of activity for a prolonged period, they can transform their competitive advantage into a position even more powerful and desirable — they can achieve decisive advantage. They can use their decisive advantage to bring about fundamental change to an entire industry, put their competitors into a reactive position, cause their partners and suppliers to make adjustments, and deliver so much value to their customers that their market share grows larger still.

Five Hardball Principles

Hardball players live by the following five principles:

1. They focus relentlessly on competitive advantage. Hardball players strive to continually widen the performance gap between themselves and competitors. They are not satisfied with today's competitive advantage — they want tomorrow's. They know what their advantage is and exploit it relentlessly. They don't deceive themselves or cheat. They measure their competitive advantage and differentiate theirs from their competitors.

Wal-Mart began playing hardball by creating a distribution system that reduced transportation costs, increased inventory turns and gave it a competitive advantage. Then it went to "every day low prices" to stabilize demand, further reduce costs and build volume. Next it leveraged its huge sales volume to gain influence over shipments from suppliers and to dictate merchandising and product mix, reducing prices further and adding yet more volume.

2. They strive to convert competitive advantage into decisive advantage. Decisive advantage is systemically reinforcing and puts you out of the reach of your competitors. The better you get at it, the harder it is for competitors to compete against it or take it away. For example, as you get bigger than your competitors, your costs go down further, enabling you to further your market share.

Toyota's decisive advantage — which is built on its superior production system — has enabled Toyota to grow its global market share from 5 percent in 1980 to 11 percent today, with each point of market share worth about $10 billion in revenue. Toyota's market capitalization in 2003 was greater than that of GM and Ford combined.

3. They employ the indirect attack. Hardball players often avoid direct confrontation with competitors. "The indirect attack is by far the most hopeful and economic form of strategy," writes B.H. Liddell Hart, a military historian. "The most consistently successful commanders when faced by an enemy in a position that was strong naturally or materially have hardly ever attacked it in a direct way."

Southwest Airlines launched a classic indirect attack. It chose not to compete head-to-head with the major airlines at the biggest city hubs where the majors were strongest. Rather, Southwest built up operations in secondary airports. In the Washington, D.C., metropolitan region, for example, Southwest started operations from the Baltimore-Washington airport, the third largest airport in the region, with 12 flights a day. Now it has 163 departures from BWI.

4. They exploit their employees' will to win. To achieve competitive advantage, people must be action oriented and impatient with the status quo. Fortunately, the will to win can be fostered; softball players can be transformed into hardball players. But as your competitive advantage grows, it gets harder to exploit your employees' will to win. "The

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The Hardball Manifesto

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number-one threat is us," Herb Kelleher, the former CEO of Southwest Airlines, told his people at a big company meeting. "We must not let success breed complacency, cockiness, greediness, laziness, indifference, preoccupation with nonessentials; bureaucracy; hierarchy, quarrelsomeness; or obliviousness to threats posed by the outside world."

5. They draw a bright line in the caution zone. To play hardball means being aware of when you are entering the "caution zone" — the area of possibility that lies between the place where society clearly says you can play the game of business and the place where society clearly says you can't. Before you enter the caution zone, you have to know where the unacceptable area is and draw a bright line for your company that marks the edge, the limit beyond which you will not venture. It is the leader's responsibility to draw the line and make it very bright and clear. Get legal and accounting counsel to help you determine what you can do and what you can't. Hardball players never engage in illegal practices. ■

Unleash Massive and Overwhelming Force

Although the indirect attack is the preferred hardball strategy, there are times when a company has such superior resources that it can use them to overwhelm its competitors with a direct onslaught. GM did so in 2001 when it used its massive financial strength and low costs to offer a zero financing scheme that forced Ford and Chrysler to respond and, ultimately, did those competitors damage. In the early 1990s, Frito-Lay unleashed its extensive resources, especially its killer distribution system, to overwhelm an upstart competitor, Eagle Snacks.

Overwhelming force is not a sure bet. The company that intends to use force must be sure it actually has the resources it thinks it has, and they must be readily accessible. A company must also have the will to deploy its resources with sufficient commitment.

Fat and Sluggish Leaders

The upstart competitor, bent on attack, can see when the leader has gotten fat and sluggish. The upstart will quickly deploy its attack strategy and penetrate the leader's customer base. If the leader does not respond, the upstart pushes the attack even harder. By the time the leader notices the attack and takes it seriously, it might be too late to marshal its overwhelming resources and force the competitor into retreat. Suddenly, the upstart has the competitive advantage and the leader is trying to hit hardballs with a softball bat.

The use of force can sometimes backfire. It can be a dangerous strategy, for example, if the company deploying it does not have a cost advantage over its competitors, and does not have at least product parity and, preferably, product advantage, as well. Without those advantages, competitors can blunt the forceful attack with attractive, new customer offers, better products or price cuts.

Undesirable Consequences

The use of force can also go too far, creating undesirable consequences for the attacker. If the force is so overwhelming that the competitor ends up as roadkill, it may be able to take cover in bankruptcy protection. Then it will have the time and ability to renegotiate contracts on favorable terms and shed unproductive assets. It may emerge from bankruptcy fitter and leaner than ever, ready to fight back or make its own direct attack. It is often best to use just enough force to weaken a competitor, but not obliterate it.

The market leader that deploys massive strength can also become a natural target for competitive protest, bad press, and legal investigation. Overwhelming force is an appropriate strategy only for the company that is willing to take the time to gather good market intelligence and make a plan that avoids any taint of the abuse of market power. If you are charged with wrongdoing, even if you are eventually found innocent, defending against a legal action is its own form of distraction, can eat up resources and can have a negative impact on a brand's reputation. Don't let that happen. ■

Exploit Anomalies

Sometimes a growth opportunity lies hidden in something — such as an idiosyncratic customer preference or a seemingly aberrant employee behavior — that, at first glance, seems to have no relevance to strategy, the business or growth. Hardball players know that such anomalies can contain the seeds of a new business idea, and they look for ways to exploit them.

An anomaly is an irregularity, a departure from the norm. Most anomalies go unnoticed or are ignored. Organizations try to contain or suppress them, precisely because they are departures from the norm and to embrace them might disrupt standard operating procedures.

Nooks and Crannies

Anomalies can sometimes reveal what your customers really want from you. They can also provide a glimpse of what your organization is capable of achieving. Paying attention to anomalies may point you to major opportunities to grow your business by doing on a broad scale what you are already doing in some aberrant nook or cranny.

Exploiting an anomaly can be difficult — taking a limited phenomenon to a much larger scale may require that business processes and systems be adjusted in order to

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Exploit Anomalies

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sustain and encourage the new behavior and to achieve competitive advantage in cost, quality, time and value.

But hardball executives do not ignore or dismiss anomalies. They dig into them and look for ways to exploit them, asking: What's really going on? How can we learn from this? Is there an insight buried here that can move the business to a whole new level?

Anomalies, such as a large market share in a single city, exist in all businesses, but you are more likely to find them in businesses that are characterized by high complexity — those that have a diverse customer base with many segments, defined by volume, product variety and customer type. The more diverse your customer base, the more likely it is that the standard process cannot be forced to fit all possibilities and that one or more customers will present an anomaly. The diverse base, however, will also make it more difficult for management to see the anomaly because so much information is available. There may be many inconsistencies and aberrations.

Mature Businesses

Mature businesses, complex or not, are also fertile breeding grounds for anomalies. Companies in mature businesses are often set in their ways, resist change and have become prisoners of existing customer relationships.

Hardball companies go looking for anomalies in an organized way with a team that looks for anomalies, analyzes their causes, estimates the profit potential they represent and comes up with recommendations for exploiting them. Once an anomaly with likely potential for building strategic advantage has been identified, the work begins. The anomaly must be thoroughly tested and explored before the strategy can be implemented. You must understand the economics of the anomaly, and the potential sources of growth and increased profitability need to be made explicit.

Taking advantage of an anomaly is an opportunity to inject into your company some of the spirit of experimentation that is characteristic of startups. By capitalizing on anomalies, you can harness the same kind of creative energy and put growth back on your company's agenda. ■

Three Types of Anomalies

Here are three examples of the types of anomalies that might catch the eye of a scouting team:

✓ Medeco, a manufacturer of high-security locks, has average sales per household in major Canadian cities that are twice the average of its sales per household in the United States, even though Canadian cities are generally safer than those in the United States. Why? What drives those sales in Canada?

✓ MEC, a consumer electronics brand, is considered a commodity in Japan, where its products sell at a discount to Sony and Matsushita. In the United States, MEC products sell at a premium through specialty retailers. Why?

✓ Steetley Industrial Distributors has a branch in Oshawa, Ontario, whose gross margins are the lowest of all Steetley's branches, but the branch's sales per employee and return on investment are the highest. Why?

For additional information on the anomaly of the prayer cards, go to: http://my.summary.com

Threaten Your Competitor's Profit Sanctuaries

You can influence the behaviors of a competitor if you can determine where its profit sanctuaries are. Profit sanctuaries are the parts of your competitor's product, service and geographic portfolio where it makes the most money. Every company has one or more profit sanctuaries, and they are important not only because they deliver healthy profits to the bottom line, but because they usually fund other — weaker or developing — parts of the business.

There are many ways to put pressure on a competitor's profit sanctuaries. You can compete aggressively on price on selected products or in selected geographies where you go head-to-head with your competitor. You can offer products with new features, or special combinations of features, at prices that will suck volume away from its products. You can increase service, while holding prices, on a portion of your offering where your own profitability is fairly minor but that provides a major source of your competitor's profitability.

The goal of devastating a competitor's profit sanctuaries is not to force your rival out of business or to create a monopoly within your industry for yourself. Rather, the goal is to choke the flow of cash from your competitor's profit sanctuaries, forcing it to change specific actions or behaviors that are detrimental to you. If it doesn't, it risks an incursion into its profit sanctuaries that will, in turn, put pressure on other areas of its business.

Japanese Automakers Attack

In the early 2000s, the leading Japanese automakers — Toyota, Nissan and Honda — took aim at an important profit sanctuary of the Big Three North American automakers: light trucks.

The initial attempts of the Japanese to move up from compact trucks to full-size trucks were only modest successes. Gradually, North American consumers accepted the Japanese light truck offerings, and the Japanese automakers

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Threaten Your Competitor's Profit Sanctuaries

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steadily grew their share of the market. From 1980 to 1995, the major Japanese light truck manufacturers had a nearly constant share of 10 percent. The North American producers held the rest of the share. By early 2000, the Japanese leaders had grown their share to almost 25 percent and Detroit's share had fallen to 75 percent.

This is a straightforward example of an entire class of competitors, the Japanese automakers, attacking the profit sanctuaries of established leaders. The result is that Toyota, Nissan and Honda now indirectly control the cash faucets of GM, Ford and Chrysler. For years to come, the strategies of the Big Three will be what Toyota allows them to be.

The use of hardball pricing to threaten a competitor's profit sanctuary and get it to change a behavior sounds straightforward, but execution is difficult. Insight and good planning are key. The management team must be willing to take risks and have the courage to press the attack even when the going gets rough. It is essential that you have good legal counsel throughout the process of planning and executing your strategy.

An attack on a profit sanctuary, especially through pricing, will very likely cause a fierce competitive reaction. It should not be undertaken by the faint of heart. ■

Take It and Make It Your Own

Many businesses achieve success by recognizing the value of an existing idea, practice or business model and making it their own. Ray Kroc didn't invent the fast food restaurant or the assembly line burger. He recognized the potential of Dick and Mac McDonald's Southern California burger joint, cut a deal to franchise it, built the McDonald's Corp., and eventually bought out the founding brothers. Similarly, The Home Depot founders Arthur Blank and Bernie Marcus didn't invent the first warehouse hardware chain. They borrowed the big box concept from their earlier employer, Handy Dan, evolved it into an even bigger box and expanded it throughout North America.

Hardball players are always on the lookout for ideas they can adopt or adapt. They look at competitors in their own industry for trade practices, pricing schemes, product designs, technologies, employee hiring and development methods, approaches to supplier management, and customer focus tactics that are better than their own. They also look in other industries for innovations — such as time and quality management methods, alternative channels and supply chain management tactics — that have not yet appeared in their own.

But hardball players do not infringe on copyrights or steal patents. When they identify a good idea, they find a way to improve it. The founder of Kmart claimed that Sam Walton, founder of Wal-Mart, "not only copied our concepts, he strengthened them. Sam took the ball and ran with it."

Hardball players know that good, proven ideas are hard to come by and are not shy about taking them for their own. In doing so, the hardball company is often able to create a competitive advantage, often faster than it would otherwise, and sometimes even decisive advantage. Hardball competitors seize on a good idea when they see one and then they add something to the model — improve it, adapt it or interpret it. Soon enough, what might have been seen as copying looks like innovation. ■

The Risks of Attack

There are many things you cannot do when attacking your competitor's profit sanctuaries, because they involve pricing practices that may be seen as anticompetitive and therefore will raise substantial risks of civil and criminal liability. U.S. federal and state laws, as well as the laws of many countries, for example, prohibit predatory pricing, which is generally defined as selling goods or services at an unreasonably low price with the intent of driving a competitor out of business. Other statutes make price discrimination criminal where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce. These laws define areas that lie well beyond the caution zone, and leaders must draw a very bright line at a safe distance from them.

Entice Your Competitor Into Retreat

In certain circumstances, it is possible to entice your competitors into retreat from competing in a business area that is important and highly profitable for you. This can be done by taking actions that are likely to lure your competitors into a different business area where you also may both compete, but that is less important and profitable for you.

One of the best ways to entice a competitor to retreat from your main area of interest into another area is to leverage your superior knowledge of the costs of your business activities. If you can lure your competitor to compete in an area that it believes (because of its inferior knowledge of its costs) is highly profitable for it, but is not, you might be able to nudge it out of the area of your greatest profitability, and also cause its costs to go up, its margins to shrink and its share to decline. You have, in effect, led your competitor to a business area that it convinces itself is the entrance to a gold mine but, is, in fact, a rabbit hole. This form of indirect attack is the most complex and subtle of all the hardball strategies, and requires a superior understanding of both your own and your competitors' costs and pricing.

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Entice Your Competitor Into Retreat

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Japanese Manufacturers Lure Others to the Brink

Japanese manufacturers masterfully used a version of this strategy to attack and gain power in many industries in Western markets in the 1970s and 1980s. The Japanese company would build a base in the high-volume segment of the market, typically the low end. Its Western competitors, thinking that the low end of the market was not profitable to fight for, would respond by adding features to their offerings that would justify a price increase, rather than by trying to cut their own prices or lower their costs. Eventually, they would abandon the segment altogether and focus their efforts on the higher-end products, which generally resulted in their losing overall market share.

Two industries where Japanese companies gained decisive advantage by raising the competitor's costs are:

- **Ball bearings.** Koyo Seiko, Nippon Seiko (NSK) and Toyo Bearings led the Japanese assault on Western manufacturers, including Sweden's SKF and Germany's FAG, by focusing on a narrow product offering in the high-volume automotive market.
- **Motorcycles.** Honda, and later Yamaha and Suzuki, gutted the markets of Western manufacturers such as Norton, Triumph and Harley-Davidson by starting with small, low-priced motorcycles and then progressively moving upscale as the Western manufacturers retreated to bigger and higher-priced products.

If you have not examined your costs, in detail, within the past five years — or if you believe your competitors have not — it is very likely that there exists, lurking somewhere in your cost structure, a major opportunity to improve your profits, weaken your competitor and expand your influence.

There are limits to cost-raising strategy. As important as price is to your customers, they care about other things as well, including product features, quality, time and status. ■

For additional information on other industries where Japanese manufacturers gained advantage, go to: http://my.summary.com

Break Compromises

Breaking compromises is the most powerful hardball strategy for companies seeking breakaway growth.

The Home Depot broke the compromises inherent in the do-it-yourself home-improvement business and achieved annual growth as high as 27 percent in an industry that had become accustomed to less than 5 percent growth. By breaking compromises in air travel, Southwestern Airlines has grown seven times faster than the industry over the past decade and is among the most profitable airlines. In 1984, Chrysler introduced the minivan, breaking compromises in the auto industry, and over the next 10 years, the minivan segment grew eight times faster than did the industry overall. Chrysler maintains its leadership today.

Senior managers at The Home Depot, Southwest and Chrysler had the wisdom, curiosity and the perseverance to identify, explore and break the compromises their industries had forced customers to endure. By doing so, they released so much trapped value that they stimulated significant sales and profit growth.

What Are Compromises?

To understand compromises, they must be differentiated from choices. Customers are accustomed to, and want, choices. They want to be able to choose from among a variety of products or services with different features, characteristics and prices. In textiles, for example, the customer can choose from a huge range of fabrics, differentiated by such characteristics as thread count, type of yarn, color and pattern. Customers understand that the price will vary depending on the features and quality of the product choice they make.

A compromise, by contrast, is a limitation on customer choice made by the industry. In fabrics, for example, the customer rarely has a choice about the width of the fabric. It is governed by the capability of the looms that are standard in the industry. When such a compromise is endemic to an industry, customers don't see them as compromises. They accept them as "the way the industry works."

Most compromises don't have to be. Compromises creep into industries in various ways. Some are imposed by standard operating practices that few industry insiders or customers question. Others stem from decisions that might make marginal economic sense for the company, if customers adjust their behaviors. The most important compromises are caused when companies lose touch with their customers. They think that because customers can't see the compromise, or don't complain about it, that they are satisfied.

Then some smart company comes along, sees the compromise and finds a way to break it. And customers suddenly see the compromise, too, and are delighted they now have a choice.

Exploit Compromise-Breaking Opportunities

Here are several ways in which companies can find and exploit compromise-breaking opportunities in any industry:

- **Shop the way your customer shops.** Develop more than a rudimentary understanding of why customers behave the way they do.
- **Know how your product or service is really bought and used.** In all industries, customers devise ways of buying and using products and services so they get what they want, which is not necessarily what the company offers.

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Break Compromises

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- **Try to make a change to your product/service delivery mechanism.** Redesigning your organization presents a difficult and potentially painful challenge, yet the size of the prize is so large that some company, if not you, will step up to it.
- **Create new ways for your product/service and its delivery system to create value for customers.** Saturn dramatically changed the car-buying experience by creating a no-haggle, low-pressure sales process that placed the emphasis on the wants of the customer rather than on the needs of the manufacturer.
- **Test the limits of your imagination.** Can you find a compromise to break that could result in a radical change to your industry?
- **Relentlessly pursue the breaking of key compromises.** When a strategy breaks industrywide compromises, speed of execution becomes the ultimate differentiator. ■

Hardball M&A

Despite their high failure rate, mergers and acquisitions can be a powerful means of pursuing a hardball strategy much faster, or on a much larger scale, than could be done organically. Mergers made without a strategic rationale and acquisitions pursued on the whim of the CEO are softball moves. A good M&A deal creates competitive advantage; a great deal can help a company achieve decisive advantage, enabling it to lock up critical assets or build superior economics, making the company (almost) untouchable.

Mergers and acquisitions can be used to further any of the hardball strategies previously discussed. Companies often pursue M&A activity to rapidly expand, nationally or globally, or annex a rival and reduce competition. There can be so much strategic benefit in merging or acquiring companies that some hardball players become serial acquirers.

A Warning

There is a danger, however, in such continuous M&A activity. It can appear to be a strategy, when in fact it is only a tool that supports a strategy. M&A as a strategy unto itself does not necessarily create competitive advantage or competitive leadership. Too often, serial acquisition becomes a game, a way to gain the appearance of growth, hike share price, exploit tax loopholes, chase nonexistent synergies, gain political or social favor, settle a personal score for the CEO, or avoid fixing chronic or fundamental problems in the acquiring companies. The house built on a stack of unrelated or nonstrategic acquisitions will eventually topple.

Hardball serial acquirers — such as Partners Healthcare, Cisco, Newell, and Premdor (now Masonite International) — have a clear idea of how to build competitive advantage, and have the capabilities to consummate deals and digest acquisitions for maximum strategic benefit. Companies often begin their M&A activity as a way to pursue a modest strategic goal, but end up achieving decisive advantage.

Cisco Acquires Capability

Cisco Systems is one of the best examples of an accomplished hardball player that uses M&A to acquire capability.

Cisco was founded in 1984 as a provider of data routers but, early on, made a decision that enabled it to quickly become a major player in data networking. Cisco decided that it would purchase any capability it needed and that it could not quickly develop internally. Cisco became expert at the process, acquiring and integrating 82 companies (and shutting down a few that didn't work out) and dramatically expanding its business. Each of the acquisitions was undertaken to support a strategy that would strengthen Cisco's competitive advantage. Cisco has been successful at hardball M&A for several reasons:

- **The thoroughness of its search.**
- **The expertise and skill of its M&A team.**
- **The speed with which it executes deals.**
- **The intensity of its efforts to integrate acquisitions.**
- **Its willingness to "cut bait."** Cisco will quickly dump an acquisition or terminate an operation that does not help create or build competitive advantage.

Cisco has used its ability to identify, close deals with and integrate companies to build worldwide leadership in computer networking.

How to Win at Hardball M&A

Hardball players apply focus, speed and intensity to all stages of M&A. They are better at identifying the specific asset or capability needed to achieve competitive advantage and deciding whether it is best to develop it internally or obtain it externally. They excel in identifying and assessing targets, calculating the maximum price to be paid, negotiating deals fast in a disciplined fashion, and then integrating acquisitions quickly and efficiently in order to achieve strategic objectives.

The lessons from serial acquirers that use M&A to carry out their hardball strategies are straightforward in concept but difficult to execute:

- **Acquire only if the opportunity fits with the strategy.** Mergers and acquisitions should be pursued only if they will help you attain or strengthen competitive advantage.
- **Do not be tempted to step outside your proven process.** When the business model based on acquisitions works, especially when it has continued to work through a series of acquisitions, be wary of deviating from it.
- **If you're going to change the acquisition criteria, you might need to change the acquisition process, too.**
- **Build an internal M&A capability.** Develop your

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Hardball M&A

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own M&A capacity, build a team that can generate M&A ideas, explore and analyze them, do your own due diligence and negotiate the deals.

- **Seek outside advice and assistance.** Companies contemplating an acquisition can often benefit from the assistance of outside experts in a particular industry or business area, or from the counsel of an adviser who does not stand to gain from the acquisition.
- **Take a rigorous approach to valuation.** When assessing the value of a proposed acquisition, analyze how the purchase will affect the value of your company as well as how much it is worth on the open market.
- **Invest in post merger integration capability so you have the capacity to successfully integrate acquisitions.** ■

Changes in the Field of Play

The game of hardball is dynamic and always evolving. New barriers to achieving competitive advantage emerge and new roadblocks to building decisive advantage are erected. There are several issues that will affect the way the game of hardball must be played in the future and that change the rules for players who wish to be winners, especially on the global field:

Playing the China Card

China will be the biggest and most contentious issue in the next decade for hardball players, even if they are not global companies themselves. China will be the source of tough competitors, and as thorny an issue for all companies as Japan was in the 1980s. Now is the time for business leaders to recognize that they will have to play the China card or be played by it. Here is how hardball players will do so:

- **Drive down costs.** The first move is to drive down your costs faster than your competitors can, and use the cost saving to upset their strategies.
- **Win the Chinese domestic market.** The leaders will be those companies that are not just the leading suppliers to Western brands but are also the leading brands in the Chinese market itself.
- **Use the supply chain wisely.** Time is the greatest trade barrier of all. When U.S. companies rely on Chinese suppliers, they are stretching their supply chain over the greatest possible distance the world allows.
- **Bluff when you have no China card to play.** If you have developed a competitive advantage with customer-driven products in the U.S. market, and believe that your business will not benefit by playing the China card, you may be able to strengthen your advantage by influencing your competitors to source their products in China. ■

The Hardball Mindset

Hardball players possess a number of admirable characteristics. They have an intellectual toughness that enables them to face facts and see reality. They have an emotional awareness that means they know themselves, and their people, well. They are always dissatisfied with the status quo, no matter how fine things might seem, and they have the will to catalyze change. They're tough, but they're not bullies. They're serious about their business, but they also have fun playing the game. They have such an intense passion for winning that it rubs off on others.

The hardball player needs all of these qualities and more to accomplish its most important task: to get to the heart of the matter and stay there. The heart of the matter is that set of fundamental, often systemic, issues that is limiting the growth and success of the business.

The only way to get the firm to focus on the heart of the matter is for the senior leader to define the issues, talk about them and attack them first. Leaders who personally live in the heart of the matter have three common traits:

- **They live at the rock face.** They are physically and personally connected to the market — to customers, consumers, competitors and suppliers. Hardball players love being their own customers.
- **They have the courage to ask simple questions.** Saying "I don't know" can lead to breakthroughs. Leaders lose their edge and value when they assume too much.
- **They build a truth-telling network.** Hardball is a team sport. To play hardball you must develop your own truth-based network, or you will never be sure what the heart-of-the-matter issues really are. ■

Don't Tolerate Failure to Deliver More Than Once

A great threat to a turnaround comes from people who fail to deliver anything but excuses. Many a turnaround has been slowed or derailed because a key player fails to deliver, not just once, but two or three times. Hardball leaders in a turnaround have low tolerance for failure. Time is too precious. One failure may be understandable, even unavoidable. Two or three failures to deliver suggest a lack of will, incompetence or even subversion. This expectation for successful execution must be stated and made painfully clear to everybody at the beginning of the turnaround effort; they should understand that there may well be casualties. People who don't deliver need to be counseled, cautioned, moved or fired. Colonel John Boyd, head of the U.S. Air Force Weapons School for many years, is famous for criticizing his top officers in Europe for their low casualty rate during training. He believed it indicated that the pilots were not being pushed hard enough.

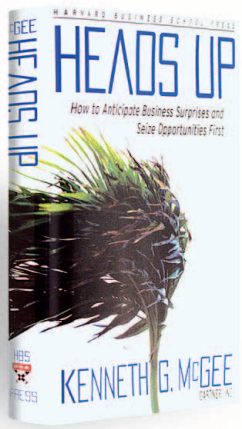
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Heads Up

Kenneth G. McGee

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Kenneth G. McGee

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How to Anticipate Business Surprises and Seize Opportunities First

HEADS UP

THE SUMMARY IN BRIEF

In 1900, Galveston, Texas, was destroyed and 8,000 people were killed when a Category 4 hurricane passed directly over the city. By the time anyone knew the hurricane was descending on them, it was too late to react.

In 2000, a financial hurricane wreaked havoc on stock valuations, mutual funds and retirement portfolios. Unlike the Galveston hurricane, the end of the meteoric rise in the NASDAQ Composite Index arrived after many years of warnings.

Today, supercomputers and satellites constantly monitor emerging weather patterns in real time and warn the United States of approaching hurricanes well in advance. The business world, on the other hand, is not much better at forecasting than in 1900. Business "surprises," such as the bursting of the Internet bubble, occur with alarming frequency and take a considerable toll.

According to Kenneth G. McGee, however, even the worst business catastrophes rarely happen without warning. In this summary, McGee describes how managers can break the pervasive pattern of surprises that are often followed by desperate responses. Instead of trying to predict the future, McGee explains, managers need to master predicting the present — understanding what is happening right now and how these current events and outcomes will impact future success. The result: Potential disasters are turned into opportunities.

What You'll Learn In This Summary

✓ Data already exist that can be used to avoid surprises, to capitalize on opportunities, and to make midcourse corrections.

✓ Although many businesspeople are concerned about "infoflood," the amount of data that is *material* is relatively small and can be determined.

✓ Capturing and monitoring material data allow departments and organizations to "predict the present," or use material information about the present to predict everything else happening in the present.

✓ Departments and organizations can anticipate events and changes so they can adjust tactics and strategies to ensure that goals are met, opportunities are maximized, and disasters are avoided.

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HEADS UP

by Kenneth G. McGee

— THE *COMPLETE* SUMMARY

PART ONE: ENDING BUSINESS SURPRISES

Turning Business Disasters Into Opportunities

Heads Up is about predicting the present. Predicting the present means taking raw empirical information, analyzing it, and determining its meaning and implications. However, managers don't need to know *all* the operational data to understand what the present situation is. Predicting the present is gathering enough information to answer the question, "Where are we *right now* in meeting our corporate goals?"

By recognizing that there is always warning, and therefore monitoring progress on a daily basis, managers can turn what would have been surprises into a whole new world of opportunity.

Opportunities to Improve Good Results

In the hands of a capable manager, current information about the state of the business always shows opportunities to improve good results or, at a minimum, to act to mitigate the impact of poor results. Therefore:

1. If you acquire the ability to capture, receive, monitor and analyze information about certain events, when those events occur, you can predict the present.

2. If you predict the present and identify the always-present early warnings of difficulties or successes, you will have identified an opportunity for better performance.

3. If you take effective action based on these opportunities, you will be engaged in real-time opportunity detection.

Real-time information is valuable because it gives the manager the most possible response options. Response options are actions that may be taken to mitigate the negative impacts or accentuate the positive aspects of an event before the impact of the event is felt. For example, if sales volumes are falling (event), a response option is to increase advertising to improve sales volume before quarterly revenue targets are missed (impact). As time passes after an event occurs, however, there are fewer and fewer responses that a manager can make to the event before the impact occurs.

Right Time Versus Real Time

When discussing real-time information there is an unfortunate tendency to mistake real-time information for real-time response. It is critical to understand what parts of the process need to occur in real time and which need only to occur at the "right time." In the ideal business context, the following processes happen in the background between an event happening and the impact of the event being felt:

1. Monitoring of information related to the event.
2. Capturing a change in the information.
3. Analyzing the information.
4. Reporting the information.
5. Responding to the information.

When discussing real-time information, the goal is to move the capture, monitoring, analysis and reporting steps not just earlier in the process, but into real time. Moving these steps into real time allows the most possible response options and enables choosing the best response from among them. A real-time response without due deliberation can sometimes be more harmful than the original situation. A "right-time" response can be far superior to a real-time response.

Although real-time information on events is always helpful, real-time response has shown in a number of cases to do more harm than good. Overly aggressive

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Turning Business Disasters Into Opportunities

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responses to real-time information may yield no better results than those achieved without any real-time information at all. Monitoring, capture, analysis and reporting of critical information must move to real time so predicting the present and real-time opportunity detection can take place. They will determine the "right time" for a response to achieve maximum positive results.

Opportunities Versus Disasters

There are different types of events that occur in business: surprises, opportunities and disasters. The difference between an event we call an opportunity and one we call a disaster most often depends on which of the categories the event falls into. These categories include:

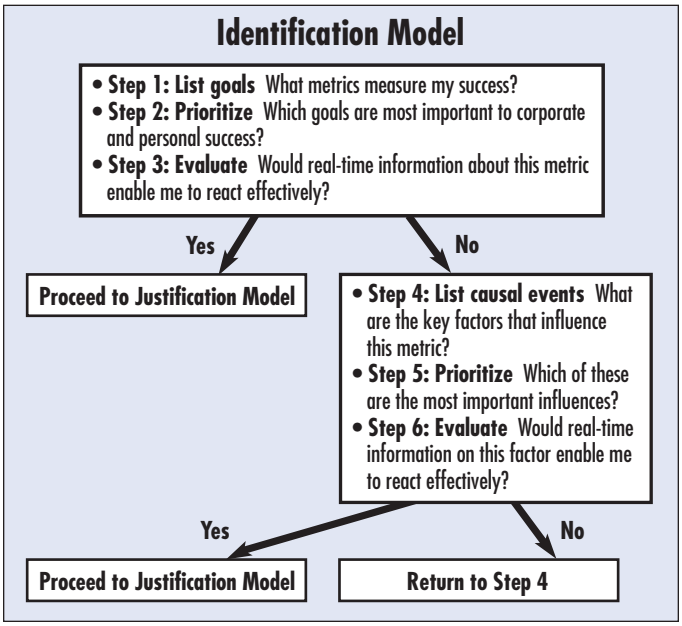
- **Surprise event:** The event is not reported, in some cases because it was not monitored, captured or analyzed. Three Mile Island, *Challenger,* and September 11 are examples of surprise events.
- **Suspected event:** The event is monitored, captured, analyzed and reported but too late for effective action. The Galveston hurricane and the Internet investment bubble were suspected events.
- **Surmounted event:** The event is reported in time and effective action is taken.

To end business surprises, managers must receive a heads-up about the present — a few vital elements of data about what is happening right now in their business. Using this information, a manager can successfully understand the big picture at any given moment and predict the present. Using this real-time understanding of what is happening in his or her business, any manager has the chance to take action to prevent surprises and turn them into opportunities. ■

Identifying and Justifying The Right Real-Time Information

A manager looking to guide his or her business to the successful attainment of goals needs real-time information about *some* but not *all* aspects of operations. There are far better ways to utilize limited resources than monitoring every operational variable in real time, even though advances in technologies such as radio frequency identification, portals, wireless communications and Web services are driving down costs. Over time, the resources that are limited will become less financial and technological and more time-based.

Managers will not have the time to track all the information they can affordably monitor. Only a small percentage, perhaps 5 percent, of the potential operational



data is required to predict the present and begin real-time opportunity detection. The difficult part of choosing real-time information candidates is determining which 5 percent to monitor.

Identification and Justification

Given that every attempt to monitor any piece of information in real time costs resources, the manager must identify what information should be monitored in real time and whether the effort required to obtain and monitor the information in real time is justified.

To determine which of the wide variety of influences on reaching goals is necessary for predicting the present and worthy of being monitored, captured and reported in real time, managers must filter all the possible information candidates through the Identification and Justification Models to determine which are worth monitoring in real time. The Identification Model includes:

The Identification Model

- **Step 1: List Goals.** Determine and list the goals for the planning period and determine the metrics by which achievement of the goals will be measured. (See graph above.)
- **Step 2: Prioritize.** Look at the list of goals and ask, "If I could reach only a few of these goals, which ones would be most likely to ensure corporate and personal success."
- **Step 3: Evaluate.** Ask of each candidate: "Would real-time information on this metric enable me to react differently?" Assess the relationship between the event-impact lag (the amount of time separating an event and its impact) and the response options available.
- **Step 4: List Causal Events.** If it is determined that the response options for the event in question do not fit

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Identifying and Justifying The Right Real-Time Information

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in the event-impact lag, the manager must determine the causes of the event originally considered.

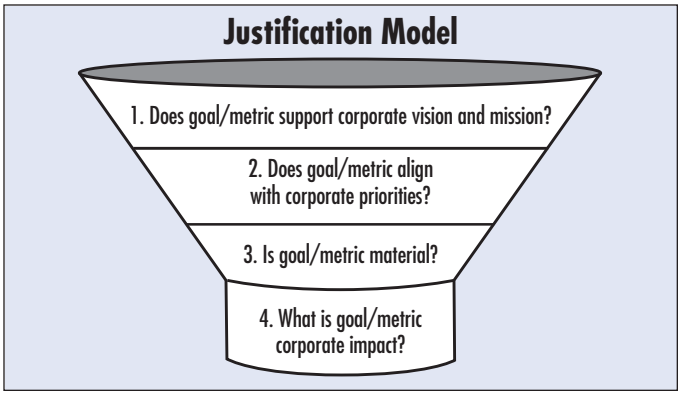
- **Step 5: Prioritize.** The manager must take all the relevant causal events and prioritize them. The desired outcome is to choose only the causes that are crucial.
- **Step 6: Evaluate.** The manager must ask whether real-time information about the cause would enable him or her to respond effectively.

The Justification Model

Each candidate generated by the Identification Model must pass through a further series of tests — the Justification Model. (See graph on right.) The Justification Model acts like a funnel, further narrowing down candidates from the Identification Model. Each step is a more stringent test that fewer candidates pass.

- **Question 1:** Does the goal the information will help you achieve support the corporate vision and mission?
- **Question 2:** Does the goal align with current corporate priorities?
- **Question 3:** Is the information material to the goal, *or* would this information alone propel you to take action?
- **Question 4:** What is (or the rank of) the corporate impact of achieving (or not achieving) the goal?

Having completed both the Identification and Justification Models, the manager will have a list of the very few metrics that should be monitored in real time properly prioritized. Having used the Identification Model to determine what should be monitored and the Justification Model to determine whether the items are worth monitoring, the cloud of information will have been reduced to the 5 percent that will enable predicting the present and real-time opportunity detection. ■



PART TWO: REAL TIME IN THE REAL WORLD

Surprise Events: Missing the Warning

On Feb. 24, 1994, the nation was shocked at the arrest of Aldrich Ames on charges of espionage. Ames was a fairly high-ranking CIA officer who, it was later revealed, had been spying for the Soviet Union and Russia for more than nine years. While we may never know the full extent of the damage to U.S. intelligence caused by Ames, the director of the CIA told congress that at least nine U.S. clandestine agents in the Soviet Union were executed, the identities of many U.S. agents were disclosed to the Soviets, and many sensitive intelligence reports were handed over.

The CIA not only missed capturing evidence of the risk Ames presented before he reached a position of significant responsibility in the counterintelligence department, but it also did not monitor the very clear evidence of Ames's spying once it began. That evidence included a house Ames bought for more than $540,000 cash, and the fact that he spent $1,397,300 between April 1985 and November 1993, even though his salary during that period totaled only $336,164.

WorldCom

While spying dominated the national news in February 1994, allegations of business fraud and images of former corporate executives in handcuffs dominated the business news for much of 2002. The largest bankruptcy in U.S. history, that of WorldCom, precipitated by fraud committed by senior executives, was one of these stories. As the Ames case was clearly an unnecessary surprise brought about by an absence of monitoring or reporting of key information about an employee of the CIA, WorldCom and other cases of corporate fraud can hardly be considered surprise events.

Business fraud usually originates because of the surprise of disappointing quarterly or annual results and the exhaustion or absence of legal response options. This is exactly how fraud played out at WorldCom. First, reserves allocated for line costs were reduced. When results continued to fall below expectations for several quarters, line costs, which according to generally accepted accounting principles must be booked as operating expenses, were shifted to capital expense accounts, changing WorldCom's reported results.

Earnings Expectations

The role of earnings expectations in this discussion is critical. Fraud is often inseparably linked to the belief that expected goals must be achieved at all costs. Although real-time opportunity detection has no influence over the belief, it can have a marked influence on:

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Surprise Events: Missing the Warning

(continued from page 4)

- the expectations that are set in the first place, and
- the response options available for ensuring that expectations are met.

When any company decides to raise capital in public stock markets by selling shares, it not only prepares to meet regulatory requirements, it hires an investment bank (or banks) to represent it in the financial markets. The analysts of the main underwriting investment bank or of other banks involved often assist in the selling of the company's stock by issuing a research report that reviews the prospects and other data about the company and most important, enumerates future revenues and earnings of the company in the opinion of the analysts.

If the stock becomes widely traded, more analysts from more firms issue reports. These reports are heavily influenced by the stated expectations of the company's management as well as the analysts' confidence in the expectations in the face of prevailing market conditions. The research reports are often blended together to determine the *consensus earnings estimate* for a company.

Changing the Game

Real-time opportunity detection *can* influence the earnings and expectations that are set and the response options available for ensuring that expectations are met, thereby reducing the number of times an executive has to report the potentially devastating news of not reaching earnings estimates. The critical first small steps toward fraud are brought about by the combination of the market power of earnings estimates with the surprise actual results are to most executives. They do not know what their final results will be until well after the quarter has closed because real-time monitoring, capture and analysis of the elements that make up the results are not taking place. By this time, other response options are impossible.

Real-time opportunity detection cannot guarantee the absence of fraud, but it can reduce the likelihood of fraud as revenue-related surprise events are eliminated. Companies that engage in real-time opportunity detection can also achieve significant market valuation advantages over competitors as the market rewards these companies' ability to consistently meet expectations.

The Airline Industry

Many recent problems in the airline industry, including announced losses of tens of billions of dollars, are the result of the industry not monitoring the right information in real time. Many expenses in the industry are fixed, such as labor contracts, airline purchases, and jet fuel. In 2001, contracts were signed to increase pilot, flight attendant and mechanic pay while evidence indicated that the most profitable group of customers was cutting back. Due to the fixed cost structure, operating revenue in real time did not provide adequate warning for the industry. By the time operating revenue decreases were evident, cost increases were already locked in.

Ending business surprises depends on determining the right information to monitor and setting up the processes and procedures for monitoring, capturing and analyzing changes in that information. The airline and financial industries arguably monitor more real-time information than all other industries combined, yet they are still victims of surprise events. Although the case for real-time information is relatively straightforward, these examples clearly show that simply making the case for real-time information is not enough. Monitoring the right information is the only way to end business surprises. ■

For Additional Information on how the airline industry tracks information, go to: http://my.summary.com

Suspected Events: Reporting Too Late

Imagine if Henry Wadsworth Longfellow's famous poem "Paul Revere's Ride" was written with a slightly different scenario. Revere had arranged for real-time monitoring, capture and analysis of British troop movements in Boston. However, once he received this real-time information, rather than acting immediately, he spent several hours shoeing his horse and dressing for his ride. If Revere had behaved this way, by the time he reached the towns of Middlesex County, his warnings of the approaching British would have come too late. Or imagine that rather than crying out a warning to the inhabitants of each town, he had simply nailed a letter to the door of the town church for the townsfolk to read in the morning. Each of these scenarios, although seemingly ridiculous, is not far from reality.

A rider named William Dawes set out from Boston at the same time as Revere with the same news, but did not stir the famous response that led to the battles at Concord and Lexington. Why? Because he failed to report his information to the right people.

The imagined delays and Dawes's experience are similar to the situation encountered by many organizations today: Even when enterprises have the facilities for monitoring, capturing and analyzing the right real-time information, many do not report it to the right people in real time. These companies are tracking critical business information in real time but are still the victims of unanticipated problems or lost opportunities.

Sears

Sometimes executives are aware of changes around

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Suspected Events: Reporting Too Late

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them but a suspected event still occurs, as it did in October 2002 at Sears. In 2001, Sears's credit division accounted for 60 percent of operating income. The large credit division was at the root of Sears's fall 2002 earnings surprise when it not only missed expectations for profitability, but it announced a loss due to the need to write off $222 million of bad debt from its credit card business. Since Sears does not write off debts until they are 240 days old, too late for the credit division president to take action to change operating income for the positive, his only course was to increase reserves for delinquencies that would negatively effect operating income. Sears decided that the damage caused by inadequate monitoring and reporting on the credit portfolio had surprised the company too many times, and in July 2003, got out of the credit card business entirely.

The Contingent Road Map

One key strategic planning tool for situations where the future is uncertain and estimates are required is the contingent road map. A contingent road map specifies several possible courses of action with specific triggers for taking one course rather than another as time passes and actual information replaces estimates.

Suspected events are the most maddening of surprises — the data to stop the surprise were there; they were just not in the right hands. Real-time reporting plays a critical role in ending these types of surprises. All managers must seek information that already exists in their organization that may give them a heads-up about an approaching disaster or opportunity that would otherwise be a surprise. Information sharing is crucial to successful real-time opportunity detection.

To end surprises not just for individual managers but for the corporation as a whole, traditional silos of information must be broken down and real-time data shared. ■

Surmounted Events: Getting It Right

The notion of monitoring, capturing, analyzing, reporting and responding to critical information is not an alien concept in our day-to-day activities. From clocks, thermostats and fuel gauges to tachometers, smoke detectors, and gas pump meters, we are surrounded by examples of real-time monitoring, capturing, analyzing, reporting and responding to events.

Despite the damage caused by business surprises attributable to an absence of real-time information and the prevalence of real-time information in our personal lives, little is being done to change the culture and processes that tolerate surprises and to begin using real-time opportunity detection. However, in companies across the economy, managers are predicting the present, detecting opportunities in real time, and what were once surprise events or suspected events are becoming surmounted events.

eBay Uses Real-Time Information

On Sept. 11, 2001, five minutes after the North Tower of the World Trade Center collapsed from a terrorist attack, several listings were entered on eBay's site offering rubble from the scene.

Although the listings were probably fraudulent, the impact of the public revulsion for such crass profiteering would have reflected negatively on eBay. But eBay's reputation remains unscathed because, although many of us heard that rubble was listed, we also heard that "someone tried to auction rubble from the World Trade Center." The word "tried" makes all the difference. eBay remains trusted because it acted quickly to remove the items within minutes of the listings becoming available to users.

Amberwood Homes, a large custom builder in Arizona, has made some significant changes to its processes and culture to eliminate scheduling surprises. Over the years, each construction superintendent at Amberwood had developed his or her own process for tracking progress on a house and setting subcontractor schedules. In fact, according to Dan Johnson, Amberwood's construction manager, many subcontractors maintained no schedules at all. Johnson saw the opportunity to significantly improve operations by centralizing progress reports and making real-time adjustments to schedules.

Today, each of Amberwood's superintendents and more than 50 subcontractors use a real-time scheduling system to ensure that no unnecessary trips are made and everyone on a job knows what the current status is at each house under construction — typically 20 to 25 at any given time. Superintendents update progress on a job site as each step of the process is completed. A new schedule is generated as adjustments are made. Each morning, subcontractors check the schedule to ensure they are going to the right houses at the right time. Amberwood's savings from the program have boosted margins approximately 20 percent.

Real-Time Technology in the Retail Industry

In retail, margins are tight, and the emphasis is on inventory management. Success or failure is often measured by no more than having the right products in the right store at the right time. Selling out of a product means lost revenue, often with no chance to recover. By the time inventories can be restocked, most customers will have found the item elsewhere. Protecting against

(continued on page 7)

Surmounted Events: Getting It Right

(continued from page 6)

inventory shortfalls by overstocking leads to significant margin erosion as the goods left over have to be marked down or shipped to an overstock dealer. Wal-Mart's use of technology for efficient inventory management has set benchmarks for every industry and has put particular pressure on every company in the retail business, whether it is a direct competitor of Wal-Mart or not.

These companies provide clear evidence of the business benefits of ending surprises and capitalizing on real-time information. They rely on technology to differing degrees to accomplish real-time opportunity detection, but they are focusing on a limited range of information about the present to ensure that surprises are avoided and opportunities are exploited. Each company is applying real-time opportunity detection to only a limited part of their business, and although they are enjoying the results of their current real-time efforts, there is more they can do to expand real-time opportunity detection to become Real-Time Enterprises. ■

PART THREE: FROM REAL-TIME OPPORTUNITY DETECTION TO REAL-TIME ENTERPRISE

Following Through: Deploying Real-Time Opportunity Detection Across the Enterprise

Amberwood and eBay are both doing a great job of real-time opportunity detection. They have identified areas of their business where capturing real-time information and delivering it to the right managers can have an immediate impact in improving business results. Despite early success, they still have a long way to go to reach the ultimate goal — ending all business surprises by being Real-Time Enterprises.

The initial deployment of real-time opportunity detection is just the first of three steps on the road to becoming a Real-Time Enterprise. Real-Time Enterprises both move the detection of any event that affects their most critical business processes into real time and improve their ability to respond to these events when they occur.

To become a Real-Time Enterprise, follow these steps:

- **Step 1: Begin real-time opportunity detection.**
- **Step 2: Deploy real-time opportunity detection across the enterprise.**
- **Step 3: Overhaul processes to improve the organization's ability to respond.**

Although the three steps to becoming a real-time enterprise are logically distinct and appear linear, in practice the lines between the steps are not nearly so clear. Steps 1 and 2 can be combined by immediately looking at real-time opportunity detection from the corporate perspective. Steps 2 and 3 can be taken simultaneously — in fact, it will be necessary for many companies to do so as processes are redesigned to generate real-time information so that real-time opportunity detection can be implemented.

Deploying Real-Time Opportunity Detection

In the second step, executives and managers spread real-time opportunity detection throughout the enterprise so all critical business processes and functions are being monitored in real time. When deploying real-time opportunity detection to the entire enterprise (driven by senior executives rather than individual managers) so that all the corporation's most critical business processes are being monitored, several modifications of the Identification and Justification Models have to be made to properly direct resources.

Just as a manager cannot acquire real-time information on every important metric simultaneously, so too it is highly unlikely that any organization can undertake real-time monitoring of all its most critical business processes simultaneously. Therefore, prioritization is essential. One of the key functions of the Identification and Justification Models is to prioritize information to be monitored in real time. Specifically, in the models, the manager goes through at least two prioritization filters, the first in step 2 of the Identification Model, where the manager prioritizes his or her various goals, the other in question 4 of the Justification Model, where the candidates for real-time monitoring are prioritized by their corporate impact.

Modifying the Models

Corporate prioritizing, however, requires a slight modification to the models. In this case, rather than considering corporate impact as the last step, corporate impact is the mechanism for prioritizing goals in step 2 of the Identification Model. The easiest way to perform this step is simply to examine the firm's 10 largest expense-generating or revenue-producing processes. Information that affects the "top 10" should be the highest priority by far and is the most appropriate place to begin spreading real-time opportunity detection.

The second modification to the Identification and Justification Models involves choosing the right metrics for measuring the prioritized corporate goals. This change is necessary because the point of reference is no longer obvious. When deploying real-time opportunity detection across the enterprise, a specific manager or executive needs to be chosen as the point of reference for each prioritized goal. The proper metric to measure

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Following Through: Deploying Real-Time Opportunity Detection Across the Enterprise

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follows from that choice.

The final step looks at the process of responding as a whole and focuses on removing all unnecessary and costly delays. While real-time opportunity detection will enable individual managers to have a positive impact on their organizations, for the organization as a whole to realize the maximum opportunities for success, the real-time capture of critical data elements must join with revamped organizational structures, new management styles, and in many instances rebuilt business processes. The competitive advantage of Real-Time Enterprises will be the combination of the power of timelier monitoring and reporting of business events with the ability to respond to the events far more rapidly.

More Harm Than Good

It can't be said often enough that even in the Real-Time Enterprise, responses are not necessarily made in real time since overly quick responses can be more harmful than helpful. The real change that happens in becoming a Real-Time Enterprise is that the ability to make a decision about the proper response and to implement that response is vastly improved.

As part of improving its ability to respond, a Real-Time Enterprise does not just re-engineer response processes for efficiency: It redesigns them to both take advantage of and generate real-time information that will allow even more real-time opportunity detection.

General Motors

General Motors is one of the first companies to begin experiencing the power of bringing together the use of real-time opportunity detection across the entire enterprise and enabling much faster responses. The results, even at this early stage, are dramatic. On top of growing market share, General Motors has increased quality and productivity simultaneously, cut costs, and introduced an average of one new vehicle per month in 2003.

The best evidence of GM's success so far is the 2002 Harbour and Associates (an independent consultancy located in Troy, Mich.) report on automobile manufacturing. Here is an excerpt from that report:

"GM, with a 4.5 percent overall improvement, led the domestic manufacturers in assembly, engine and transmission productivity, which marked the first time in the history of the Harbour Report that GM finished ahead of Ford in the assembly and overall hours per vehicle (HPV) measures. Also for the first time ever, a GM plant (Oshawa #1, with a 16.79 HPV) led all North American car and truck plants in assembly productivity." ■

Solving the Challenges Of Deploying Real-Time Opportunity Detection

As companies begin to take the second and third steps toward becoming a Real-Time Enterprise, deploying real-time opportunity detection in all their most critical business processes and improving their ability to respond to the events detected, they will run into issues that are beyond their scope more and more often.

Even with a majority of managers engaging in real-time opportunity detection, some events that are critical to the organization's success may not be monitored. Although some managers may be monitoring events in real time, crucial information may not be passed to all relevant parties. In other organizations, the intersection of processes governed by real-time opportunity detection with those that are not yet real time will cause confusion and inefficiency.

Providing Up-to-Date Feedback

Changing a company's critical business processes to operate in real time, to provide up-to-date feedback on progress when necessary to end all business surprises, requires that the most senior executives of a corporation take an active role in the transformation. It requires that they take on three new roles to successfully navigate steps 2 and 3 of the path to becoming a Real-Time Enterprise:

1. Real-Time Enterprise change leader. In many cases, this function will begin to evolve as an extension of the duties of an existing senior executive, most commonly chief operating officer, chief information officer, or chief financial officer.

2. Long-distance lookout. The function of long-distant lookout will call for focus on following event-impact chains much further back than the average manager can or has the time to do.

3. Internal monitor and reporter. In companies struggling because of internal shocks, a new function will most likely emerge first. This new function will focus primarily on ensuring that corporate targets are measured accurately and reported truthfully to the rest of the organization, especially other senior executives.

A New Executive Officer

In many firms, a new governance structure will involve the creation of a new executive officer of the firm to take on all three functions, an executive we call the chief monitoring officer (CMO). The CMO will benefit the firm by single-mindedly focusing on the tasks described and these tasks alone, with the time to perform them well. ■

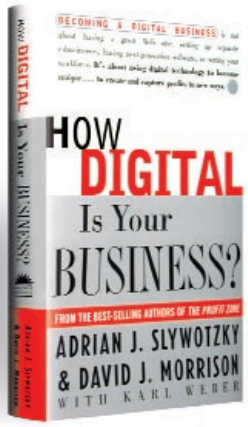
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How Digital Is Your Business?

Adrian J. Slywotzky and David J. Morrison

SOUNDVIEW Executive Book Summaries®



By Adrian J. Slywotzky and
David J. Morrison
with Karl Weber

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HOW DIGITAL IS YOUR BUSINESS?

THE SUMMARY IN BRIEF

The biggest, most important issue facing business today is going digital. That's true whether you are an old-economy giant or an Internet start-up. You will go digital.

But going digital is not about wiring everyone in the company, converting your research and development departments to CAD/CAM, selling your products through your Web site, or letting your employees telecommute. Instead, going digital is about creating a great Digital Business Design (DBD) that lets your company expand its strategic options. It's really about using digital technologies to craft a business model that's superior and unique.

In this summary you will learn how to make your company a digital company. You will see that:

- ✓ **Digital Business Design** means creating unique value propositions for your customers and your employees, having a robust profit model and finding a way to protect the profitability you create.
- ✓ **Managing Bits Not Atoms** is key to DBD. You will learn how managing information (bits) instead of physical assets (atoms), lets you sell to and service customers faster, cheaper and better.
- ✓ **Creating Choiceboards** lets your company move away from guessing what customers want to letting them tell you exactly what they want, and delivering it to them faster than ever before.
- ✓ **Practicing 10X Productivity** lets your company leverage digital resources and frees employees to engage in higher level work for even greater productivity.
- ✓ **Creating a Digital Organization** lets your internal talent effectively use the information digitization makes available to everyone at every level. A digital organization is fast, accurate, morphable and has an external focus.

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Getting Started In Digital Business Design

Until recently, the probability that any organization would enjoy long-term success was determined by a single factor: **the quality of its business design**. Today, a second crucial competitive factor has been introduced: **the degree of relevant digitization**. Based on its level of digitization and its business design, a company can fit into one of four categories:

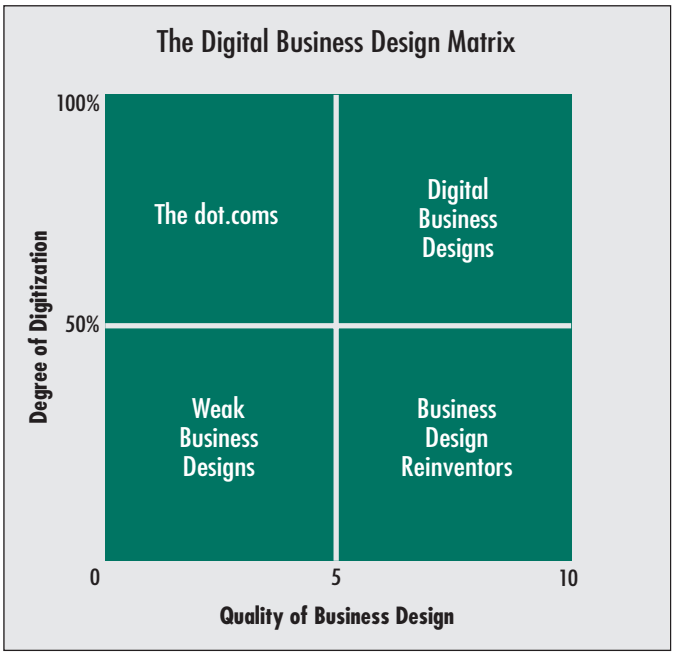
- **low digitization, bad business design;**
- **high digitization, bad business design;**
- **low digitization, great business design;**
- **high digitization, great business design.**

Digital Business Design (DBD) — using technology to create a unique and better business design — will ensure that your company fits into the last of these categories.

How to Create a DBD

The process of designing your digital business begins with asking and answering five questions. These questions provide the most effective entry point to thinking digitally about your business. They are:

- **What are the most important business issues facing your organization today?**
- **What are the smartest business design choices for responding to those issues?**
- **Which of your company's key business activities involve managing atoms, and which involve managing bits?**
- **How can you replace atoms with bits?**
- **How can you develop bit engines that will manage the bits electronically?**



Strategic Focus

Notice that the first two questions don't have anything to do with digital technology. Instead, they concern issues of strategic focus. That's because going digital won't save a bad business idea or ill-conceived strategic business plan.

Before you do anything, therefore, you must identify the crucial factors that will determine the success or failure of your company in the next few years. The issues your company faces could include lack of innovation, difficulty finding and keeping top-notch people, competing for fast-changing customers, or inability to meet increasing service demands.

Once you have identified the issues you face, you must choose smart business designs to address them. You must decide what your business will and will not do to create unique value propositions for your customers and employees, be a robust profit model, and be capable of protecting the profitability you have created. Your company's business design will include customer

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Getting Started In Digital Business Design

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selection and creating unique value propositions for those customers and for your employees. It will describe how you will make money, how you will keep those profits and customers, how you will add value, what culture and organizational structure you will create and how you will manage and distribute the intelligence in the system.

A Cement Company Goes Digital

The giant Mexican cement company Cemex is a seemingly unlikely candidate for the digital way of doing business. Yet, Cemex is at the forefront of Digital Business Design.

By developing an information system linked worldwide in real time, Cemex can deliver cement where it is needed, when it is needed — all with little delay, downtime or waste. Unlike its competitors, Cemex never has to worry about its cement hardening in its trucks because customers are ready to take it as scheduled. Cemex's trucks are linked worldwide via GPS; its information is never more than 24 hours old; and it continues to add local cement companies to its worldwide network.

The results are impressive. It is the world's third largest cement manufacturer, but outstrips its major rivals in productivity and profitability, with a cash flow 50 percent greater than that of its biggest rival.

Think Atoms and Bits

As you design your digital business, you need to understand the difference between managing the atoms and the bits in your company.

When you manage atoms, you are manipulating physical assets: stockpiling inventory, shipping products, buying equipment, installing machinery and building factories. When you manage bits, you are manipulating information by gathering, analyzing, modeling, sorting, sharing and replicating data. Managing atoms is costly, slow, cumbersome, imprecise and risky, while managing bits correctly is cheaper, faster, more efficient, more accurate and safer.

Digital Business Design is the art of developing bit engines that will manage information digitally for the maximum business benefit. Your company's bit engine can include a wide array of technological tools and systems, from internal product databases to e-commerce switchboards and electronic marketplaces. Remember, DBD is never about the technology for its own sake. It's always about using technology to enhance what you offer customers and employees while strengthening your profit model and strategic control. ■

Managing Atoms in the Auto Industry and Bits in the Computer Industry

The automobile industry is a classic example of an industry that still largely manages atoms instead of bits. Manufacturers guesstimate the number of cars that will be purchased and which models will be popular, then physically manufacture and distribute them, hoping they will sell. The lack of reliable data (bits) about what customers want forces everyone along the chain to produce and handle at great expense millions of profitless products (atoms). Dealers and manufacturers end up spending an average of $1500 per car on incentives and rebates to move cars consumers don't want.

Dell Computer, on the other hand, manages bits rather than atoms. Customers select the configuration they want for their computers at the Dell web site. Only after the specs have been determined and the customer has paid does the production system get to work, assembling the system for shipment. Dell manufactures only products that customers want and have paid for. By managing bits first, Dell reduces the need to manage atoms. And both profitability and customer satisfaction win.

The Choiceboard: A DBD Tool

One of the most effective bit engines companies can use in their digital business design is the choiceboard.

Most buyers get too little of what they want and too much of what they don't want. Customers purchase products with features they don't want or need because they have no opportunity to customize the purchase; companies create fixed product lines representing their best guess at what customers want.

When you change from *guessing* what customers want to *knowing* what they want, you will have gone a long way toward reversing this frustrating experience.

Enter the Choiceboard. A Choiceboard is an interactive online system that allows individual customers to design their own products and services by choosing from a menu of attributes, components, prices and delivery options. The customers' selections send signals to the supplier's manufacturing system that set in motion the wheels of procurement, assembly and delivery.

Some Choiceboards already at work in various industries include:

● Mattel's My Design Barbie, which lets customers select hairstyle and color, complexion and eye color.

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The Choiceboard: A DBD Tool

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● De Beer's Design Your Own Engagement Ring, which lets customers choose from 189 unique combinations of cuts, bands and side-stones.

● Cisco's Marketplace, which is an online configurator of network gear.

● Charles Schwab's Mutual Fund Finder, which lets investors design their own portfolios.

Before you plunge headlong into Choiceboard design, a word of caution is in order. Choiceboards will only work if your company and your customers are digitally ready. Start with your customers. How many own and use personal computers? Do they only use them at work or do they use them at home? Next, does your company have access to suppliers who can deliver components as needed? Without the necessary supply systems to support it, the Choiceboard model won't work. ■

10X Productivity

Digital Business Design redefines the potential for productivity improvement and business performance. It often produces tenfold improvement in business performance.

This is 10X Productivity, with productivity defined as the ratio of value created to resources used. When an organization is able to create more value while using fewer resources, productivity grows. Digitization is beginning to produce the same scale of productivity growth as steam and electricity did during the Industrial Revolutions of 1780-1820 and 1880-1920.

Potential productivity benefits from DBD fall into three main areas: Capital, Costs and Cycle Time. All three are valuable resources that are always in scarce supply. Digital Business Design can dramatically improve the efficiency with which all three are used.

But not all 10X improvements are equal. When mapping out a strategy for going digital, it's crucial to focus on the right functional areas.

Charles Schwab Goes Digital

Charles Schwab has used Digital Business Design to move from managing atoms to managing bits very effectively. More than half of its customers' trades now take place online, and customers have access to all the information they need all the time, every day. All this frees employees from low-value work. As competition for online investment dollars continues to rise, the company will continue to develop its DBD to remain its customers' first choice.

The Customer Context

Productivity outside the customer context is self-defeating. It's what customers want that matters, not your company's business objectives. If productivity gains lead to customer irritation, you lose. Take Barnes and Noble, a bookseller in a rapidly digitizing industry. If the best customer wants a book today, she takes the time and effort to drive to one of the bookstores and makes the purchase. Other times, she might be willing to wait a day or two if weather or time mean she doesn't want to visit the store. She can order online. Barnes and Noble gives her that choice, by maintaining 800 superstores complete with cappuccino bars and an online store at B&N.com.

Capital, Costs and Cycle Time

At one time, capital assets like land, machines and factories, were regarded as the keys to productivity, so much so that the free enterprise system still bears the name "capitalism." But the current focus is to reduce fixed assets, inventory and accounts receivable dramatically. In large part, digital companies will not carry huge inventories, and will in fact be paid before they manufacture the product they have been paid for.

In Dell Computer's case, customers who pay for products before they are produced are actually financing the company's growth.

Another example is Amazon.com, which does not need vast real estate holdings to sell books. It holds minimal stock and buys books and CDs from wholesalers as they are ordered, keeping inventory costs low. Accounts receivable are always lower than accounts payable since customers pay Amazon before Amazon pays its suppliers.

Costs, especially labor costs, are cut when companies digitize. Take, for example, customer service calls. The more inquiries that can be handled through self-service, the better — so long as hands-on, high-touch service is available when needed.

Digitize services that don't require in-person assistance, and the overall cost structure is improved, customers get better service and profitability is greater. For example, a typical bank transaction costs $1.25 when handled by a traditional teller, 54 cents via telephone, 24 cents at an ATM, but only two cents over the Internet. The digital improvement is more than 60X.

Cycle time is another area where digitization can reap rich rewards. A quick turnaround of inventory brings greater return on investment while speed pays cash divi-

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10X Productivity

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dends.

UPS has moved from manual to digital tracking of customer information, so that a parcel can be located wherever it is in the world. GE now can deliver spare parts ordered on the Internet within three days rather than in 100 days. Weyerhauser can deliver a custom-made door in an hour instead of two weeks.

In mapping your digitization strategy, ask yourself which of the three areas — Capital, Cost or Cycle Time — is most crucial to your business and your customers. Begin there. ■

Hybrid Power: The Incumbent's Advantage

There are few purely digital companies in business today — appropriately so. Not all customers are ready to transact all, or even most, of their business online. Nor is the technology in place to provide in digital form every kind of service customers demand. The smartest businesses are organized along hybrid lines — in other words, their organizational structures combine characteristics of both dot-coms and bricks-and-mortar companies.

A traditional business can establish a profitable beachhead on the Internet while a new dot-com can gain a bricks-and-mortar presence by building or buying it or partnering with an offline company. Success with customers will involve the ability to manufacture high-quality products, distribute them, educate customers, answer questions, accept return and perform maintenance and service.

The truth is that despite the hype over dot-com startups, it is the bricks-and-mortar incumbents who stand to gain the most from the Internet. If done well, integrating the Internet into a seamless hybrid has these advantages:

- **Channel multiplication:** A hybrid model extends your company's reach to new sets of customers.
- **Wider, deeper access to customer data.** Hybrids can track customer behavior online and off.
- **High-tech plus High-touch.** Hybrids can combine speed, convenience, accuracy and flexibility with personal contact, touch and the sense of permanence a physical presence creates.
- **Customization.** A hybrid allows for more precise customization.
- **Assets.** A hybrid model can leverage an offline brand quickly for the Internet; it does not have to create a Web site and a brand at the same time.

Land's End's Hybrid Approach

Land's End, a leading clothing retailer, combines the best of its telephone customer service interaction and online service. It offers two options for receiving real-time, interactive customer service. Customers can link to an online chat area where they can ask personal shoppers questions. Customers can also request a call back from a personal shoppers. The software automatically connects the two by phone and Internet browser, so they can talk while viewing the web site. There is also a digital tool called **"Your Virtual Model"** which shows shoppers how clothing will look on a 3D model with their coloring, height and measurements. Along with catalog and store sales, the web site is helping Land's End prosper. The online store is now the No.1 site for selling apparel on the Internet, and accounts for 10 percent of the company's revenue.

For a company branching into e-commerce, a key decision is how to position the new online operation relative to the existing organization. Managers can choose from four basic structures. Each offers trade-offs. When an **entirely separate** structure is chosen, the online and offline businesses operate as independent companies. Many investors and industry experts support this approach because it allows capital markets to value the online business as a pure play.

If a **shared resources** structure is chosen, the online company leverages the capital, infrastructure, brand and content of the offline parent. For example, PetSmart took this approach when it bought PetJungle.com and used its digital infrastructure to launch PetSmart.com.

In the **separate to combined** structure, the offline company incubates an online entity separately and later folds it in.

Finally, in the **combined at inception** structure, the offline company incorporates online activity from the start.

Each approach has its advantages and its drawbacks. The choice depends on how your company is paying for the online initiative, how fully integrated the digital and physical operations will be, and how quickly your industry is incorporating digital technologies into daily business activities.

Only you can decide which is best for your business. However, remember that incumbents have a massive advantage over dot-coms. This advantage includes products, a customer base, physical plants, storefronts, history and brand. All these are difficult, if not impossible, to rapidly duplicate. Incumbents have the edge in the hybrid world, if they use it in time. ■

The Active Customer

Digital services let customers be proactive in solving their own problems. A few minutes online and a few keystrokes gets customers where they need to be, with much less pain and aggravation than working through a complicated voicemail system and hoping to talk to the right person.

Customers have changed across three dimensions: power, specificity and activity.

Take power. Three decades ago, many products were unique, and demand grew faster than supply. Suppliers held the upper hand. Then came rapid imitation and widespread overcapacity. Customers have more choices and more power, and they know it. Competition is keen.

Specificity is also important. Customers are getting used to customized products, and are beginning to expect them. They want a perfect, no compromises shopping experience.

Let Customers Help Themselves

Then there is activity. Customers used to be passive, but no more. Customers are informed and active, demanding products rather than passively accepting what was offered. Your company will only succeed with this new customer if it makes it easy for customers to help themselves.

> ***Customers are getting used to customized products, and are beginning to expect them. They want a perfect, no-compromises shopping experience.***

In other words, why should a company continue to do a bad job of providing customer service when digitizing the process can mean that customers can do a perfect job themselves at far lower cost to them and your company?

To get the greatest benefit, create a Digital Business Design that lets your customers perform for themselves those tasks for which they are best suited. Some of these tasks may include:

- **finding general and detailed information;**
- **configuring and placing an order;**
- **checking order status;**
- **answering technical questions;**
- **scheduling repairs and purchase service contracts;**
- **downloading software, read and post reviews.**

The fewer of these tasks your customers can accomplish on their own, the more likely there is inefficiency, waste and frustration in your customer service model. ■

Obstacles to Going Digital: Beating the Odds

Many business leaders get excited when they learn about the potential benefits of going digital, only to become discouraged when they consider the practical difficulties of moving a traditional company into the digital era. The reality is that there will be Fortune 500 companies that won't make the transition. However, virtually any company can overcome the obstacles if it proceeds with both insight and courage. The obstacles are many, but they boil down to a lack of one or both of these qualities.

Common Excuses

Is your company refusing to make the shift for one or more of the following perceived obstacles?

- **We're doing too well financially, so there is no sense of urgency.**
- **Change is too difficult.**
- **We have too many other priorities.**
- **We're in the midst of a turnaround and can't refocus now.**
- **It's not part of our business plan.**
- **It's not in our budget.**
- **We don't want to alienate our customers.**
- **We don't want to upset our sales and distribution channels.**
- **Our customers and workers aren't digital-ready.**
- **Our management team doesn't understand technology.**
- **We're already too late.**

Running the Marathon

To move ahead, you have to take all the excuses you hear and counter them.

Retain the focus on customers as you come up with countermeasures. Answer objections about customer readiness, for example, by pointing out that they don't all have to be ready to begin, but that putting the processes in place means they will be there when customers are ready.

The fact that the competition isn't digital isn't a good argument either. Nor is complacency about current high profit levels, or allegations that employees aren't ready. Remember that every company has to continue to reinvent itself all the time in order to remain competitive.

It helps to realize that going digital is more like running a marathon than a sprint. In fact, the reality is that even those companies that have already made the transition took a long time to do so, an average of four years. Allow four years, but begin working on the process today. ■

GE: A Digital Case Study

Only a handful of businesses today have made the transition to digital. One established company on its way is General Electric. GE is reinventing itself as a digital business. Although a few years ago, CEO Jack Welch was quoted as saying he didn't have a computer and didn't need one, he has changed his mind. He traces his digital epiphany to the 1998 holiday season. The Welch family was immersed in Christmas shopping, but Jack noticed that they hadn't set foot outdoors. They were all shopping online. Suddenly, the practical power of the Internet became clear. What had changed was that the PC was no longer a computer; it had become a communicator and a transactor. Welch acted quickly. In January, 1999, he announced four GE initiatives, ranked as follows:

- **The Internet and e-commerce.**
- **Globalization.**
- **Services.**
- **Six Sigma.**

Globalization, service and the quality control system Six Sigma had been on the GE agenda for a while, but the Internet and e-commerce jumped to the top.

Because GE has been one of the world's most persistent reinventors, it is moving into Digital Business Design from a position of strength. GE's sales, market position, profitability and company value are at historic highs. But Welch wants to keep it that way. The campaign he devised was code-named "Destroyyourbusiness.com." Welch then e-mailed his top managers with a directive to deploy under-25-year-olds whose sole task is to figure out how the Internet could be used to destroy GE's existing businesses. Each division recruited a team of three to seven e-commerce experts who reported directly to the president. Within six months, the teams had identified every major threat GE faced and begun crafting responses to them. The campaign has now been transformed into "Growyourbusiness.com."

Among the changes GE is initiating are:

- **digital selling;**
- **customer productivity tools that use the Internet to deliver free analytic, design and modeling tools for customers;**
- **information destination sites that deliver value-added information for customers;**
- **remote diagnostics to capture real-time information that helps deliver fix-before-fail services.**

The end result is a new customer value proposition offering information, tools and actions. The more customers work with GE digital technologies, the more digital they will become, and the more closely tied to the GE systems they become.

Dot-Coms on the Move

Starting out as a digital business would logically seem to be an advantage. Unfortunately, few start-up companies have figured out that true Digital Business Design requires the integration of digital technology with sound business design. The challenge for the vast majority of today's dot-com businesses is not to keep up with the latest technology, but to develop a viable and sustainable business design.

During the first half of 2000, the fact that the bloom was off the rose of the Internet business boom was apparent. Share prices for many high-profile dot-coms were down from their highs by 80 percent and more. Nearly all dot-coms were losing money. Does it mean that the business potential of the Internet space was a cruel illusion?

The Internet is becoming a genuine business revolution. And as with any business revolution, there will be many initial players, but in the end, only a few will be left standing.

The answer is, "No." The Internet is becoming a genuine business revolution. And as with any business revolution, there will be many initial players, but in the end, only a few will be left standing. Some Internet businesses will achieve profitability within a few years, while others never will. They are simply bad businesses that happen to be online.

Since barriers to becoming a dot-com are low, with very little effort, a half-dozen twenty-somethings can create a site as impressive as one created by a Fortune 500 company. But the ease of entry also guarantees lots of competition.

In sum, there are enormous fortunes to be made in e-commerce. But that doesn't translate into easy or automatic profits for the first companies to stake claims on the Internet. As in any business, sustainable shareholder value is key. This will be produced by the same forces that govern traditional business: growth, stability, customer alliance and profitability.

Succeeding on the Internet

To make a business work on the Internet, you must remember that Digital Business Design is about business first, design second and digital third.

The companies that win are the ones that regularly deliver outstanding value to customers and thus create sticky online relationships. These companies have also found a way to monetize their customers.

America Online, Yahoo! and eBay are three dot-coms

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Dot-Coms on the Move

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that have managed to turn profits by creating truly superior Digital Business Designs.

Both AOL and Yahoo! have taken mass media business designs to the digital arena. Each has developed customer value propositions with profitable revenue streams. The key ingredients for success in traditional mass media, which they have applied to the Internet, are:

- **intense focus on the customer;**
- **ubiquitous brand-name promotion;**
- **continual refinement and addition of content;**
- **value capture through monetizing users.**

Hiding the Technology: The Story of AOL

AOL focused on computer users who were more interested in the information and personal connections they could make online than on the underlying technology. AOL's interface was developed to be as simple and friendly as possible. It also put substantial effort into building its brand name. Free trials and free software were offered everywhere. Deals were bundled with the sale of computers.

Content was also crucial to AOL's plan. It partnered with content providers, developed its own, signed up retailers and created communities through chat rooms, discussion groups and e-mail. When others began offering unlimited access to the Internet, AOL designed its site so that its members could also enjoy the rest of the Internet as well as the content on AOL. Money flows in from advertisers, access fees and partnership agreements.

Yahoo! Simplifies Searches

Yahoo!'s DBD also focuses on satisfying its customers and aggressively promoting its brand name. It provides customer-focused content and attracts a wide audience, in turn attracting top-notch advertisers and merchants.

Started as an online directory, the company turned a profit within two years of launch. Yahoo! essentially serves as a search engine ferreting out relevant information for users. While other search engines may provide more "hits" for users, the company claims its searches provides fewer false leads or irrelevant results.

Advertising generates 70 percent of Yahoo! profits. E-commerce is also becoming a part of its profit mix, as it brings along 10,500 merchants who pay a percentage of sales to the portal.

Ebay Invents Online Auctions

Ebay started out as a way for the founder's wife to trade information about her collection of Pez candy dispensers as well as the dispensers themselves. Six months after the launch of the Internet exchange, eBay began charging a small listing fee and commission on the selling price of each item sold. Today, more than 400,000 new items are listed every day. ■

The Digital Organization

The development of the digital organization is still in its early stages. It's too early to tell how it will look in finished form, but already, some characteristics are emerging.

First, companies that are innovators of Digital Business Design are generally headed by a CEO who is business-centric rather than technology-centric, and who is working in close partnership with a CIO who understands the principles of good business design. Together, they focus on the customer and the elements of good business design first, and technology second. They share a clear vision and focus as to key business issues and how to address them, and they communicate in a common language about concerns, problems, needs and plans.

Even with a collaborative team of top managers, Digital Business Design can't succeed unless the entire organization is aligned behind it. The key is internal marketing — the process of changing the thinking, attitudes and behaviors of your people. You must invest the time and energy to communicate your strategy and business design so clearly and continuously that every member of your organization is on the same page as the CEO. Everyone must know why they have to change the way they do business, what they must do to accomplish the new agenda, and what's in it for them.

Don't stop after delivering the message once. In fact, a good rule of thumb is to estimate how often you will need to communicate your message and then multiply the estimate by 10. The effort will take at least one, and more likely two, years.

Continue Developing Your Talent Base

As you begin to see changes within the organization, you must continue to develop your talent base. Fortunately, digitization creates great benefits, since it frees your employees from low-level work and allows them to perform higher-level tasks. Workers become more engaged and can begin thinking like owners instead of employees. For example, sales reps will move from being order takers to being customer problem solvers, marketers shift from being data trackers to being opportunity pursuers, and managers shift from being troubleshooters to being coaches and mentors.

A process of change management that begins with partnering at the top, invests in internal marketing and provides leveraging of talent increases the odds of making the transition to a Digital Business Design successfully. It also creates the type of organization that can compete in tomorrow's economy. ■

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How Excellent Companies Avoid Dumb Things

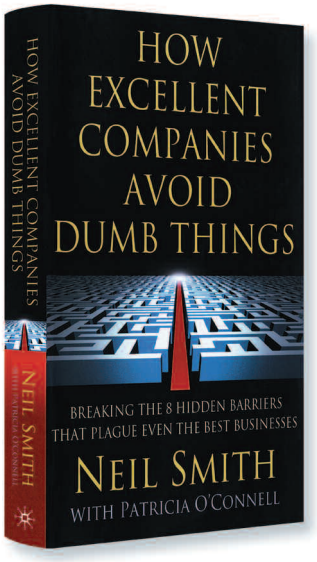
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Management

How Excellent Companies Avoid Dumb Things

Breaking the Eight Hidden Barriers that Plague Even the Best Businesses



by Neil Smith
with Patricia O'Connell

THE SUMMARY IN BRIEF

Every day, seemingly intelligent and successful leaders and their companies make headline news because of poor decisions that can cause their businesses to stumble, making many of us scratch our heads in wonder: Why would such a successful business make that strategic decision?

The reason: A series of natural barriers exists in every organization simply because of the way all companies are organized and do business. These are called structural barriers. Other barriers exist because of human nature — these are behavioral barriers. All barriers, individually and collectively, prevent employees from taking actions that are in the best interests of the company. In short, barriers are the reason a company does dumb things, not the employees themselves.

How Excellent Companies Avoid Dumb Things highlights the ways in which the eight hidden barriers can interrupt your business, and author Neil Smith outlines a fast, and proven, process in which 12 principles of business transformation can break down the processes that hold companies back.

IN THIS SUMMARY, YOU WILL LEARN:

- How to identify and break down the eight barriers.
- How to apply the 12 principles to bring about change in your organization.
- How to implement the 100-day change process for breaking barriers.
- The three results of the change process and how they improve your company.

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THE COMPLETE SUMMARY: **HOW EXCELLENT COMPANIES AVOID DUMB THINGS**

by Neil Smith

The author: Neil Smith, CEO of Promontory Growth and Innovation (PGI) has focused on helping large corporations improve performance and profitability by growing revenues and reducing costs for the last 20 years.

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Introduction: Hidden Gold

Great leaders are men and women with vision — individuals who know exactly the direction an organization should strive toward and who have the skills to take it there.

But the organizations they lead, which are often large and complex, also strive for simplicity and efficiency. Great leaders want to become as efficient as possible in a way that is fast, does not distract from the prime focus of the business, produces very significant results and has the complete buy-in of the organization.

So what is stopping these leaders? A series of natural barriers exists in every organization simply because of the way all companies are organized and do business. We call these structural barriers. Other barriers exist because of human nature. These are behavioral barriers. In short, barriers are the reason a company does dumb things, not the employees themselves.

I have identified the eight hidden barriers that cause excellent companies to do dumb things. Understanding the barriers is only the first step in breaking them down.

The leading letter in each of the eight barriers forms an acronym: "A Promise." This makes the barriers easy to remember and identify:

Avoiding Controversy

Poor Use of Time

Reluctance to Change

Organizational Silos

Management Blockers

Incorrect Information and Bad Assumptions

Size Matters

Existing Processes

One of the important elements to breaking down the barriers is culture change. Culture is about the way companies do things. It is about what is expected, tolerated, encouraged and supported. Culture change is important because it is the key ingredient in breaking down behavioral barriers. It's also key to making sure the barrier remains broken down.

Barrier 1: Avoiding Controversy

Controversial ideas exist and issues are left unresolved because dealing with them would cause too much disruption. Politics, personalities, alliances and appearances are all factors in why controversy is avoided. Usually these ideas for change have surfaced within a company over and over again because they resolve obvious problems and the issues are often large and strategic.

The solution: Neutralize controversial ideas by making the resolution part of the larger process for change that is not about any one person or project.

Barrier 2: Poor Use of Time

Even in organizations where people are very busy and long days are the norm, employees use their time very poorly. There are three aspects to this barrier: you and your colleagues do not have the time to do things ("the management of time"); companies use their employees' time very poorly ("the use of time"); and time isn't valued appropriately ("the value of time").

The solution: When breaking this barrier, the first aspect is addressed by changing the way people think and behave. Changing processes addresses the second aspect. Assigning a monetary value to time — something that is often missed — addresses the third aspect.

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Barrier 3: Reluctance to Change

Of all eight barriers, this is one of the most widespread and damaging. People are creatures of habit, and when there is no urgency to change, they will not. Change is stressful because people do not know how it will affect them.

The solution: A good change process will reveal where this barrier exists and will provide a one-time fix by liberating ideas. Sometimes a crisis will provide the impetus to force change to happen. Some barriers are harder to fix than others; there is no easy, long-term solution to this barrier. The real answer comes in creating a culture that expects change to happen.

Barrier 4: Organizational Silos

Organizational silos create a natural barrier that is tricky to break down because the silos themselves are a necessary evil. Organizations need the structure silos provide — but that same structure prevents the outward flow of information, focus and control.

The solution: Because you cannot always do away with silos, you have to devise ways to connect them. The goal of breaking this barrier is not to smash the silos, but to "turn towers into tunnels" and get people to cooperate across the organization.

Barrier 5: Management Blockers

Good ideas can get shot down not for perceived lack of merit, but because a manager feels threatened in some way:

- Fear of a boss' reaction.
- Fear of underlings shining.
- Fear of losing power and influence.
- Fear of having to do work.

Employees are generally powerless in such situations. When Management Blockers are at work, employees feel frustrated and good ideas never get proper consideration.

The solution: Companies have to ensure there are processes that allow ideas to be surfaced and considered in an objective way. But the true long-term solution to breaking this barrier is to force a culture change within the organization that discourages the Management Blockers' behavior. Breaking this barrier is not so much about changing processes as it is about changing people's minds.

Barrier 6: Incorrect Information and Bad Assumptions

The right information to make a decision can be difficult to get because:

- It does not exist.
- There is too much information so it becomes lost.
- Collecting it is difficult, perhaps because access is limited.
- You have to rely on others to provide it, leading to delay or inaccuracy.
- It may not be timely.

When information is too hard to get, it will be ignored or overlooked and, as a result, assumptions are made. Decisions made using incorrect information or bad assumptions will always yield poor results.

The solution: Make sure that people are basing their decisions on facts — fact-based information should be a company mantra. Do not accept "I guess" or "I think so."

Barrier 7: Size Matters

This barrier shows up in a number of ways. A great challenge for companies is to manage the economies related to smaller (less-profitable) customers. Transaction size also matters where small transactions result in a loss. Companies also don't think about the potential impact that can result from even simple size-based changes in the way they do things.

How Poor Use of Time Forces Companies to Do Dumb Things

An investment firm gave customers the option of getting monthly statements online only as part of the firm's "going green" initiative. When the company saw more than 30 percent of its customers chose to get electronic statements, it expected to reduce complexity and improve customer service while saving money. Yet six months later, senior management realized the company was spending just as much money on monthly statements as before.

Why? The investment firm never stopped printing, processing or mailing the statements. Instead, for customers who switched to electronic statements, it resorted to a simple fix: It changed the customers' mailing address to its own headquarters. This was done because to stop customer statement delivery required a system-wide reprogramming and the technology department didn't have time to do it without shifting priorities. The real problem was not solved because of "management of time" in the technology department.

The solution: Examine every aspect of your business through a size-based lens. With the Size Matters barrier, not every opportunity is immediately obvious. The approach needs to be this: Look at everything and ask where small sizes cost you money.

Barrier 8: Existing Processes

This barrier prevents ideas from being implemented, even if they are simple and well-known, and people want to do them. It is caused because there is no process in place to change other processes. The problems to be solved are often not complex; determining how to resolve them without a process to do so, however, is. This causes frustration in customers and employees alike.

The solution: A good change process provides the platform to allow this barrier to be changed and simple ideas to be implemented. But this is the toughest barrier to break in sustainable fashion. A continuous change program, implemented after a change project and run from the CEO, has been shown to work in keeping this barrier at bay.

Twelve Principles for Breaking Barriers

In order to break down the eight barriers, apply the following principles to bring about change and make it last.

Principle 1: The CEO must personally lead and support any change process carried out across the entire organization and a majority of senior management must also support it. This is not to say that the CEO has to be involved in every meeting and decision, and it doesn't imply a major time commitment on the CEO's part. But the CEO must declare that change is expected, that the change initiative is his or her project and that it is important. The CEO's subsequent words and behavior must demonstrate that commitment.

This principle gives the project focus, and without that focus, the project will not work. If the CEO does not take the change project seriously, neither will anyone else.

Principle 2: The entire organization must be engaged in the change process. You might wonder what the point is of having even the most junior people contribute ideas if those suggestions aren't going to have a big impact on the bottom line. There are five critical reasons for involving everyone:

1. Involving the entire employee base provides a huge psychological benefit. Everyone feels invested in the change process, has ownership of it and feels included in designing the new organization.

2. It demonstrates that there are no "sacred cows." Every party of the organization is expected to contribute to the change. This sense of equality and fairness is important for getting organizational buy-in for making any changes.

3. Middle management may provide the big-dollar ideas, but small-impact ideas matter. Ideas that have smaller financial impact also tend to be the ones that help the company run better.

4. Taking the entire organization through the change process at the same time creates a cross-organizational momentum. This allows ideas to be considered and quickly resolved by the right people — it introduces a common priority.

5. Occasionally there is a brilliant idea hiding in the work force.

Principle 3: The project must be guided by "stars" who are willing to challenge the status quo. Use a small team of internal change agents — the Catalyst Team — who are pulled full-time from their normal roles in the company to work solely on the project. Typically these are people who cannot be spared, not those looking for their next role. They are deliberately assigned to work in areas they are not from and know nothing about.

This creates an interesting dynamic. Because of their everyday roles within the organization, they have the instant credibility that an outsider could never have. They quickly form an independent view of the area they're working in, and they challenge the leader of that area to consider and come up with ideas for improvement.

In selecting a Catalyst Team, look for these four qualities:

1. Intelligence.
2. The ability to be a team player.
3. A passion for change.
4. The ability to get things done.

Principle 4: There must be no up-front targets for the company as a whole or the individual departments within it. There are four reasons for not setting targets, all of which have to do with integrity:

1. The amount of change depends on the good ideas that are released when barriers are removed. Before a project starts, no one has any idea what the amount of change is likely to be.

2. The amount of change differs by area. There is no room for a one-size-fits-all approach that comes with

setting a target. A target that may be right for one department will be wrong for another.

3. When you give managers a number, that is exactly what you'll get out of them — and that is *all* you will get out of them. Some of the opportunity to do things better may be left on the table.

4. Any change brought about by setting targets rather than changing the ways things are done is not sustainable. Within a couple of years, those departments subject to the targets typically return to doing things the same old way.

Principle 5: Those who will implement an idea must own the idea. These people may not do so at the start of the process; in fact, these managers, or their departments, may not even be the source of the ideas. But a good change process gives them the chance to become the champion for those ideas, and change comes when people truly believe that they are responsible for implementing it.

Principle 6: It must be easy to put ideas into the change process but hard to remove them. To gather ideas and to avoid them from being shot down early, use the mantra that "every idea is a good idea." That's not to say every idea will be implemented, but that each idea will be fully considered.

Go against the norm of decision making: Instead of someone having to prove why an idea has merit, someone has to prove why it does not. The idea will be implemented unless someone makes a persuasive argument against it.

Because of this principle and rules governing the process (such as lack of inquests), employees feel more comfortable about offering suggestions, asking dumb questions and thinking creatively. And good creative ideas are hard to dismiss without very good reason.

Principle 7: Consideration of ideas must be based on facts and analysis, not opinion. A good change process raises the bar for proof. Managers cannot say, "I think it's a bad idea." They need to be armed with facts and information before they can shoot something down. Because beliefs and opinions about a course of action can be wrong, they should be independently tested if possible.

Principle 8: Consensus must be built. Of the 12 principles, if there is a "secret sauce" for ensuring 100 percent implementation, then building consensus is it. Consensus is built around an idea by upgrading the idea to include the views of all who consider it. This sometimes requires a compromise to the original idea.

In the consensus-building process, not everyone will agree on everything — and that isn't the goal. But you cannot move forward with any idea until and unless you have consensus among the people affected by it.

Principle 9: There must be a focus on increasing revenue, not just reducing expenses. You must pay equal attention to opportunities that allow for increasing revenue. Often these ideas will be among the most creative ones from your team. There are four types of ideas for generating revenue:

1. Stop leakage. Leakage occurs when you give away your services for free or at a discount, even though the price has already been agreed with your customer and the customer expects to pay the price.

2. Price for value. Companies are not very good at understanding the true value of the products and services they deliver to their customers. This is particularly true when there is a premium in delivering the product either very quickly or at a certain time.

3. Employ behavioral pricing. A company has behavioral pricing opportunities when it wants to discourage its customers from acting in a certain way. This includes charging a premium for custom services.

4. Employ market-based pricing. With certain products or services, it's possible to charge one price in one geographic market and another price in a different one. Pricing becomes very complicated, as there are multiple price points for the same service. In these cases, companies are not always charging what the market will bear. They can increase prices just to match those of the competition.

Every company has opportunities to increase revenues. You often find employees are more willing to come forward with expense-reduction ideas when a project focuses on both revenues and expenses. So, paradoxically, adding revenues to the equation means increased opportunity for reducing expenses.

Principle 10: The change process must not disrupt normal business. Managers will have to delegate more, unnecessary activities may be cut and some people will have to put in some extra work over the course of the project. But it's critical to commit to this principle because most businesses don't have the luxury of shutting down for a period of time while a change process takes place.

Companies keep this promise to themselves because they realize they have to keep moving. Delegation to a trusted No. 2 is certainly possible for the short time it takes to do a project, but it's clearly not sustainable.

Principle 11: Implementation must be nothing less than 100 percent. There are six reasons why expectations about the results should be so high:

1. The ideas have been decided using fact-based analysis, so the costs and implications of any decision are already known before an idea is implemented.

2. The ideas are owned by the managers of the departments who are affected by them, so there is not only buy-in, but also championing of the ideas.

3. The ideas have been publicly committed to.

4. The ideas are tracked by a system that not only keeps managers honest and focused, but also provides an early warning if an idea starts to go off track.

5. The impact of the ideas has been conservatively estimated so that many of the ideas actually produce more impact than was planned.

6. If a particular idea goes off track, a manager is expected to replace the value of the idea. Managers commit to the impact of an idea, even if that idea is derailed through no fault of their own. They have ways to do this readily at hand, either by capturing more impact than planned from other ideas, or by implementing extra ideas on which consensus had not been built or that were previously considered too risky. Managers have an idea bank to dig into if the value of their ideas falls short of expectations.

Once people commit to ideas, they are not allowed to change their minds.

Principle 12: The change process must be about culture change, not just a completed project. This is perhaps the most difficult principle to execute against because it's about changing the way people do things not just during the course of the project, but also once it's completed. If culture change does not happen, the behavioral changes that occurred during the project are not sustainable. Here are seven things a senior management team needs to do to drive culture change in an organization:

1. Stress the importance of the project to the organization.
2. Emphasize the logic behind the change in culture.
3. Communicate expectations continuously and frequently.
4. Lead by example.
5. Expose good and bad examples — of both simplicity and complexity — in the organization.
6. Introduce new organizational language that describes the new culture.
7. Change compensation systems. Think of ways of rewarding the results of new behavior, either through regular compensation and bonus systems, or with ad hoc programs. ●

It's All About Psychology

You might think the most difficult part of the change process is getting enough good ideas out on the table, but, in fact, that turns out to be the easiest. The real challenge is completely different. Companies are made up of human beings, given specific roles and responsibilities, who have many different personalities. Companies benefit hugely from this diversity, as weaknesses in some employees are made up for by the strengths of others. What a good change process is really about is getting all of these different people to share the same focus for long enough to "play the game." They cannot be spectators to this change process.

"Playing the game" in the context of change means the following:

• Everyone must be included in the process; no part of the company can be allowed not to play.

• Managers can't delegate the process because it's not a high enough priority for them.

• Managers can't ignore the process, thinking or hoping it doesn't really apply to them.

• Managers can't present to play while actually working against the process.

• Good ideas can't be hidden.

• Good ideas can't be undervalued.

The 12 principles provide the rules of the game while the process itself provides the framework. But the real challenge is managing behavior. A good process seeks to identify early any of the errant behaviors just described because each has the potential to undermine it. And then the change process seeks to correct the behavior. ●

A 100-Day Process for Breaking Barriers

This process is called the PGI Promise and builds directly from the 12 principles. It is designed to create the environment necessary for change. The process has three major steps — as well as preplanning and implementation phases — and each one culminates in a review meeting before senior management.

Step 1: Focus on surfacing ideas and putting together a comprehensive portfolio of ideas, organized into themes. This leads up to the first review.

Step 2: Focus on valuing risk rating and debating those ideas. This leads up to the second review

Step 3: Focus on building consensus around ideas that

the company wants to move forward with. This leads up to the third and final review at which a decision is made.

Step 1 lasts four weeks, while Steps 2 and 3 last for a combined 10 weeks. After the final review following Step 3, a two-week implementation planning period transitions into the implementation phase.

Preplanning (Step 0)

One of the first steps in preplanning is to develop a communications plan to explain to the organization what is going to happen and to enlist everyone's help. The first thing to develop, if it does not naturally exist, is a rationale for doing the project. The first draft is created by the communications team for discussion with Steering Committee Members. Employees will want to know why the project is important to the company and why it is important now. The best rationale is crafted in such a way that a barrier-breaking project is seen as the next logical step for the company to take.

During this phase, the Steering Committee Members also design the Groups and select the Catalyst Team Members and Group Leaders. Also, the small finance team establishes the initial baselines for each Group Leader. The Group Leaders will have the chance to question the baselines later, but the initial round of forming the Groups' baselines takes place during the preplanning stage. The Human Resources team assigns organizational positions to each of these Groups as well.

Surfacing Ideas (Step 1)

In Step 1, the activity is focused around collecting and organizing ideas. The goal is a clean portfolio of ideas that covers all costs or revenues of the group. Surfacing ideas is the easiest part of the change process — rarely is there a shortage of ideas.

By the first Steering Committee Review — at the end of the first four weeks — a Group Leader's goal is to have developed a complete portfolio of ideas with the promise of financial savings and changing the way the Group does business. Group Leaders and their teams will have:

- Confirmed that their baseline is correct.
- Generated hundreds, if not thousands, of ideas that affect their Group.
- Removed duplicates and organized those ideas by topic.
- Attached rough value and assigned initial risk rating to each idea.
- Figured out which key analyses they need to do.

During the first Steering Committee Review, Catalyst Team Members assist each Group Leader to present their initial ideas for review. The Steering Committee Members have been primed by the Catalysts Team Members about the Group Leaders' progress and about any missing ideas. The Steering Committee Members also use the first review to test the Group Leaders' commitment. After the first review meeting, Group Leaders need to identify analysis that will be needed to support ideas going forward.

Valuing, Risk Rating and Debating (Step 2)

The goal of Step 2 is to: accurately value all the ideas in the portfolio; coordinate ideas across groups; learn about the risks of the ideas from those potentially affected by them; and debate how to overcome those risks.

Following valuation — in which each monetary gain from each idea if implemented is estimated — and coordination across the groups, all people affected by an idea participate in risk rating it, based on how risky they perceive it to be: low, medium or high. Anytime an idea is rated medium or high, the risk rater must explain, which allows debate to begin. During this step, the Group Leaders and Catalyst Team Members begin to understand who is opposed to each idea and why. This is the first stage in beginning to build consensus.

Step 2 is followed by the second Steering Committee Review. By the end of this step, there will be coordination across the Groups, savings will be calculated accurately and much of the risk rating will have been completed. This review is also the time when Steering Committee Members fully understand the ideas and begin to debate them. The goal for the Steering Committee is to encourage Group Leaders to be as aggressive as they can be in thinking about ways to change their business without introducing unnecessary risk to the organization.

Building Consensus (Step 3)

Consensus isn't about selecting the lowest common denominator of an idea — the place where everyone accepts there is no risk. It isn't about everyone being in perfect agreement and harmony. It's about reducing the risk associated with an idea to a level that all affected parties are comfortable with while not compromising the idea's value. The benefits must outweigh the risks.

By Step 3, the number of ideas still in play will have been dramatically reduced: duplicates will have been removed, similar ideas will have been consolidated and truly high-risk ideas will have been put onto the back burner.

A key aspect of building consensus is "upgrading" ideas — moving as many ideas to the low-risk category as possible. Upgrading can be about splitting ideas and figuring out what its low-risk and high-risk components are. It can be about changing an idea to accommodate a specific concern. And it can be about reducing the scope of an idea if it's overextending.

The main part of the Catalyst Team Members' job at this stage is to find creative ways to think about ideas and ferret out opportunities for compromise and brokered solutions. Out of all their responsibilities, the Catalyst Team Member's role in building consensus is the most vital. It is better to abandon an idea than to commit to one without consensus because objectors will find a way to kill it eventually.

Step 3 is followed by the final Steering Committee Review. The goal of this review is to make decisions. At this point the Steering Committee have debated the major and controversial ideas at least twice. At this stage it is very clear which ideas will be approved and which will be rejected.

Implementation Planning

First, approved ideas must be gathered into projects, then each project is assigned to a Project Manager who is responsible for the implementation of the ideas within the project. The Group Leader then assigns timing to the ideas. Implementation can occur over 36 months; the Group Leader is asked to assign a preferred completion time to each idea. While the group implementation plan is being formed, other areas, such as HR, technology, finance and more, are also planning and preparing for implementation.

As implementation begins and people see change happening, they expect not only rapid change, but continuous change going forward. People expect their ideas to be listened to in the future, not ignored. The process has changed the culture of the organization. ●

Mining Gold: The Results to Expect

Making the way you do things simpler is one of the key results coming out of a barrier-busting project. The results fall into three categories: 1) Reducing complexity; 2) Financial impact; and 3) Culture change.

Reducing Complexity. Change ideas that are most often approved involve reducing complexity within an organization and making life simpler for employees. The types of approved ideas also range from very large strategic business ideas to small ideas that change the way a process works. Big, controversial ideas get raised in a safe environment. But smaller ideas are equally important and you cannot lose sight of them. While their financial impact may be low, they contribute hugely to reducing complexity.

Financial Impact. By far the most staggering result of a good change process is the financial impact. It is one of the measures of success and one that cannot be argued with. Not all of the financial impact needs to be taken to the bottom line — the company can choose how much it saves and how much it spends. The large size of the results allows companies to reinvest some money for growth, as well as to improve shorter-term profits.

Culture Change. The culture change that a project brings about is just as important as the financial change. Culture change is critical to breaking the three behavioral barriers: No. 1, Avoiding Controversy; No. 3, Reluctance to Change; and No. 5, Management Blockers. And it is an important to fixing elements of two other barriers: No. 2, Poor Use of Time and No. 8, Existing Processes. It's also the key in ensuring new ideas are surfaced rather than hidden going forward.

Organizations need to make sure that they don't revert to their old way of doing things. If companies don't take extra steps to preserve the culture change, the danger is that there will be no ongoing pressure on the managers to continue to change their behavior. In that case, behaviors will revert to previous patterns, barriers will reappear and good ideas will be left unimplemented once more.

What Are You Waiting For?

The results of the change process include more invigorated, more efficient employees; happier, more satisfied customers; millions of dollars realized in increased profits or for investment; and a simpler way of doing things. Nirvana? It sounds like it. What do you have to lose? Why wouldn't your company undertake a project like this? ●

RECOMMENDED READING LIST

If you liked *How Excellent Companies Avoid Dumb Things*, you'll also like:

1. ***Great by Choice* by Jim Collins and Morten T. Hansen.** In this Soundview Featured Book Review, the authors enumerate the principles for building a truly great enterprise in unpredictable, tumultuous and fast-moving times.
2. ***Who's in the Room?* by Bob Frisch.** How do companies really make choices? Frisch provides perspective on the true nature of decision-making.
3. ***Taking People With You* by David Novak.** Novak offers a step-by-step guide to setting big goals, getting people to work together, blowing past your targets and celebrating after you shock the skeptics.

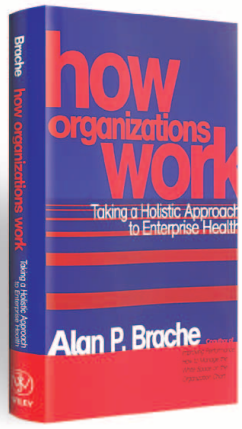
· Book 129 of 304 ·

How Organizations Work

Alan P. Brache

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Alan P. Brache

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Taking a Holistic Approach to Enterprise Health

HOW ORGANIZATIONS WORK

THE SUMMARY IN BRIEF

Change management initiatives or organizational wellness fads can oversimplify the process. They are noble ideas, but do they address the unique needs of your organization or company? Do they cover all the variables influencing the success of your situation? Are they sustained long enough to achieve their objectives?

Organizations are like humans. Each organ, muscle, bone and nerve plays a unique part within the whole. A strong contribution from one component can't make up for deficiencies in others, and understanding each component doesn't explain the health of the whole person. Body functions are integrated and their interactions are as important as their individual roles. So are the different functions in an organization. By influencing these factors, managers can strive for organizational wellness.

This summary shows you how to take a holistic approach to organizational wellness by identifying the different parts that make up the whole.

What You'll Learn In This Summary

✓ **How to look at the whole organization.** *How Organizations Work* introduces managers to a new, integrated Enterprise Model of the organization. This model provides a 360-degree picture of organizational dynamics; managers can see all of the parts of an organization and how they fit together.

✓ **The features and healthy functions of each variable of the organization.** You'll learn the roles that each variable (or "part") of your company.

✓ **Examples of how the variable can go wrong.** This summary includes illustrations of managers working on the variables in their companies.

✓ **How to improve the functions of the variables.** The summary offers step-by-step processes for fixing each variable.

✓ **How to pull all of the variables together into a well-functioning whole.** You'll learn where to look first when addressing organizational problems.

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The Parts of an Organization

The diagram on the opposite page presents the Enterprise Model, which includes all of the variables (or "parts") of a business enterprise.

There are four kinds of variables: external variables, or the context in which the organization exists; structural variables including business processes, goals, information management and organization structure; human variables including leadership, culture and human capabilities; and variables that are both structural and human such as strategy and issue resolution. All of these variables work together; to solve any complex issue, you cannot address only one. Successful managers of healthy organizations understand that these variables must be treated regularly and holistically to effect change and improve performance.

In this summary, we examine each of the variables, one by one. ■

Understanding the External Business Environment

Good physicians and psychologists need context. Before they can examine your inner person, they need to understand the environment in which you function — your work setting, your job responsibilities and demands, your pressures at home, and so forth.

The external business environment is the context in which your business operates — both the areas that you can and cannot control. Before focusing on your internal variables, you must first assess and manage these external variables.

The Value Chain

The first step in addressing the external variables is to identify your industry's value chain (notably your suppliers and customers) and your organization's current and future place in that value chain. Specifically, you need to ask questions such as: In which steps of the current value chain do we participate? What are the likely future steps in that value chain? What are the Critical Success Factors in each step in the likely future value chain?

Assessing the value chain includes clearly identifying

- **Your current and potential markets and customers and their needs;**
- **Your customers' customers, their needs, and whether your company can meet those needs directly;**
- **Your suppliers and potential suppliers, especially their influence on your effectiveness and efficiency;**
- **Your suppliers' suppliers, their strategies and status as potential competitors.**

Identify Other External Valuables

The next step in addressing the external variables of your company is to identify the other external variables that will have the most influence on your business. These external variables include the following:

- **Your resource providers who do not provide tangible materials or components for your products, but who provide money, work, technology and non-core functions.**
- **Competitors, whether they are direct, indirect, or root-need customers.**
- **Shareholders, or owners of the business, who are not interested in the daily operations of your business, but are interested in strategy and returns.**
- **The government and its regulations.**
- **The economy and its shifts.**
- **The society and community within which your organization exists.**
- **The parent company.**

Monitor External Environment

Once you have identified your company's value chain and the other important external variable that affect the success of your business, you need to establish an environmental monitoring system. In other words, be sure

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Understanding the External Business Environment

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that you have supplemented your internal performance monitoring with external performance tracking. For example, you should monitor industry, competitor, technological, legislative and economic trends.

Based on information gathered from your environmental monitoring, determine future eternal threats and opportunities and use them to design strategy. We'll examine in more detail how to address strategic issues (see article page four) and business or tactical issues (see article page eight). ■

Leading the Enterprise

Leadership is setting an organization's direction and motivating people in that direction. Though all Enterprise Model variables are critical, leadership is "first among equals" and required for development and implementation of all the other components.

Addressing the Leadership Variable

To address weaknesses in your organization's leadership variable:

1. Identify areas in which your organization most needs leadership. For example, Westbrook Plastics is a contract-manufacturing firm that operates steadily but is generally unexceptional. With many opportunities to improve, the new CEO is unable to choose which specific direction for growth he should pursue.

Westbrook's outside directors identified a clear need for a more focused strategy, a more motivated work force, and a different customer profile.

2. Define your organization's current leadership profile and identify the gaps between that and your needs.

For example, Westbrook's directors realized that though the current executives were competent managers, they lacked vision, motivating skills and communications ability. None had the intangible qualities that inspire followers.

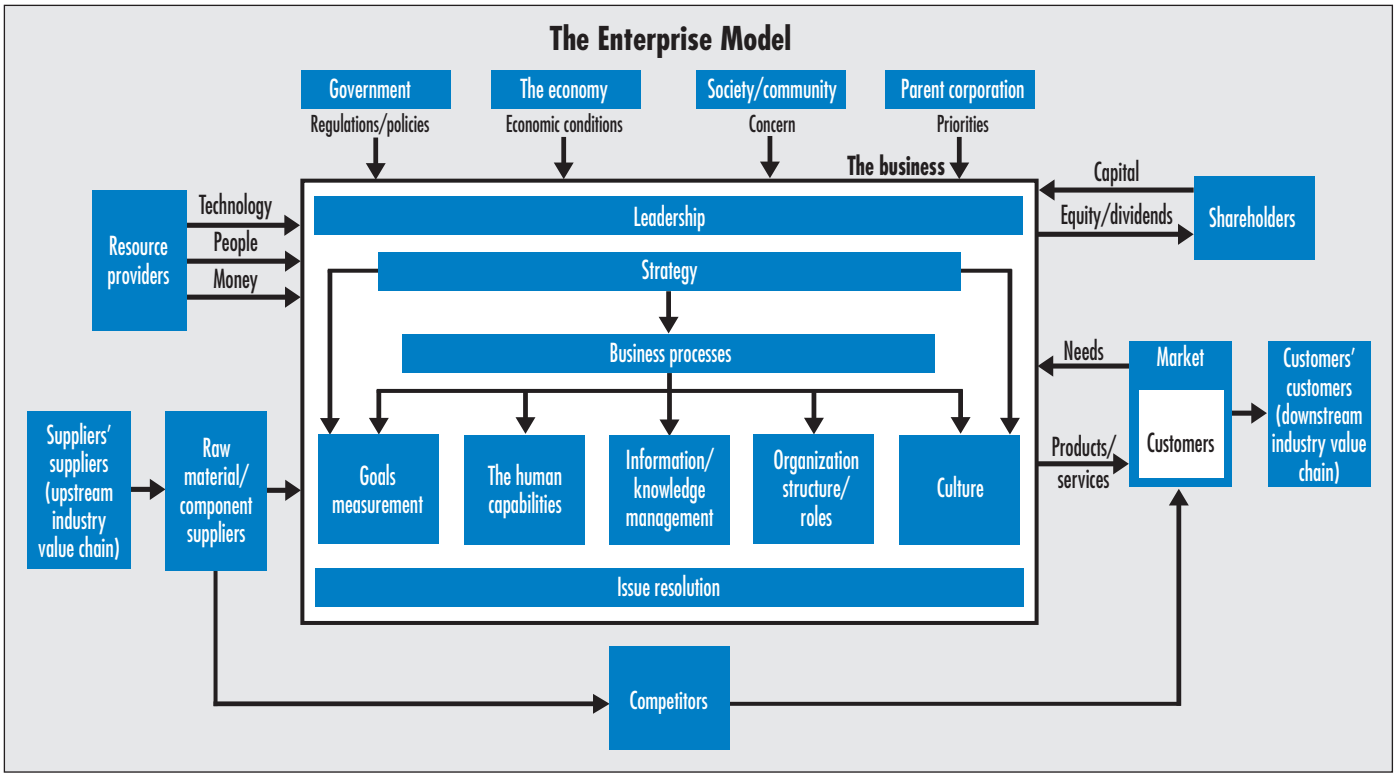
3. Close the leadership gap by establishing clear expectations and consequences for executives. Promote individuals with demonstrated leadership into higher-impact positions, and recruit leadership talent from outside.

Instead of replacing the management team, the Westbrook board expressed new leadership expectations individually to the executives and encouraged them to adopt them. They also urged the executive to recruit outside fast-track leadership talent.

4. Fill the leadership pipeline by identifying individuals with leadership traits, closing leadership ability gaps in potential leaders, and cultivating leadership ability in those without intrinsic leadership traits.

At Westbrook the board implemented just such a leadership development program to be reviewed over time. ■

For a list of questions that will help you assess all of the organizational variables in this summary, go to: http://my.summary.com



Creating Strategic Alignment

Strategy is the framework of choices that determine the nature and direction of an organization. Top management must take the time to develop strategy to position the organization in its external environment and focus decisions such as whom to hire, priority of product development projects, capabilities to build into business processes, the structure of the organization, as well as daily decisions.

A strategy must stand up to two reality checks: Will it work? Can we implement it?

Addressing the Strategy Variable

To address the strategy variable, the book offers a five phase plan.

Phase 1. Collect and analyze information on the external and internal environment. The internal environment includes current strategy, performance information, culture, employee perception, and product/market successes and failures.

Phase 2. Establish the time frame for the strategy, articulate values, and make tough choices about what products and services you will and will not offer, competitive advantages, capabilities, goals, and critical issues. The output of this phase will be the strategy.

Phase 3. Develop a plan to communicate the strategy to lower levels of the organization, align the culture and policies, and determine how to monitor the strategy.

Phase 4. Work at all levels of the organization to carry out the initiatives of Phase 3. This phase will require the greatest investment of time and money.

Phase 5. Continually monitor the strategy in terms of its viability, underpinnings, and implementation. ■

For a case study in creating strategic alignment, go to: http://my.summary.com

(Re)designing Business Processes

Whether you like them or not, business processes are the way work gets done. Recently they have been relegated to back-burner status because of a focus on strategy, and the belief that processes were inflexible and uncreative. But a well-designed process can stimulate creativity.

Steps in Process Design (or Redesign)

The process for designing or redesigning your organization's business processes includes the following steps:

Step 1. Identify the process to be improved or designed.

Step 2. Structure a process improvement project that sets goals, identifies boundaries, and designates a process design team.

Step 3. Document and analyze the current process.

Step 4. Design the future process.

Step 5. Develop process metrics and goals.

Steps 6 and 7. Develop an implementation plan, and put the plan into effect.

Step 8. Manage the new process, including establishing process plans and budgets, building a measurement system around the process metrics, and conducting process reviews. ■

Designing Business Processes: A Case Study

Jorge Sanchez is president of the Resorts Division of Wethersfield Hotels. He is happy with his new strategy to drive growth in the hot market of luxury resorts, but he is not looking forward to the daunting task of implementing this new strategy.

Jorge and his team used the framework in this summary to redesign his business processes.

They identified the process to be improved or designed. Jorge Sanchez decided he could not handle everything at once, so he focused on the acquisitions process, market research process and the end-to-end customer service process.

They structured a process improvement project. Jorge created a team to develop an acquisitions process. Wethersfield established process goals, such as having one acquisition by the end of the year and two in the pipeline.

They analyzed the current process. Since the Resorts Division had only had one acquisition, it examined the steps and determined which worked and which did not.

They designed the future process. The acquisitions process design team benchmarked other companies, and with the lessons learned from their past acquisition, developed a new process.

They developed process metrics and goals. New metrics included financial targets and cycle time from candidate identification to assimilation.

They developed an implementation plan, and put the plan into effect. The team created a list of steps to implement the plan and determined the maximum cost and time for each step.

They managed the new process. Wethersfield appointed the team leader as the process owner and designated a permanent cross-functional process management team. A three-year process plan and budget was developed.

Setting Goals and Measuring Progress

Setting goals and measuring performance ranges from activity-based costing to the resurgence of Six Sigma. Goals are objectives that reflect what your customers and other external constituencies need so that your organization can thrive. Measures answer the question "as evidence by what?" about reaching your goals. Goals and measurement should be established at five different levels: strategic, business-wide operational, process, departmental, and team or individual goals.

Perhaps you are like Ellen Robbins, who wishes the corporate Performance Enhancement (PE) staff would just go away. As district manager of 15 Fill Your Tank convenience stores, she takes a dim view of the mantras "What gets measured gets done" and "If it is not being measured, it is not being managed." She believes:

- **Organizations measure what is easy, not what is important.**
- **Measurement systems can always be beaten.**
- **Employees are encouraged to work the metrics like educators teach to the test.**
- **Measurement is often used as a club to punish managers who go astray.**
- **Even legitimate goals take too much time to collect, document and report.**

Addressing Goals and Measurement

There are four steps to a successful goal/measurement process.

First, **identify the performance dimensions that are important to measure.** At Fill Your Tank, the top executive team reviewed and updated the corporate strategy, and came up with some goals such as 20% annual same-store sales growth, six new stores opened per year, and shrinkage of less than 0.5%.

The next two steps involve **selecting the most informative units of measurement,** and **selecting a goal for each measure.** After identifying inventories management, staff scheduling and customer service as core processes, the executive team at Fill Your Tank identified dimensions, measures and goals for each process. For instance, for cycle time, the measure was order-to-receipt time for impulse-buy products, while the goal was less than six business days. A series of defined measures and goals like these allows management to tie information back to strategy.

The greatest challenge is the fourth and final step, **developing a measurement system that tracks actual performance.** To ensure the goals were realistic, Ellen and her peers participated in developing the system. They developed metrics to assess store and individual job performance. The PE team developed an automated measurement system using the staff's input, and were careful to balance completeness with practicality, to ensure appropriate access to the system, and to link job performance measures to HR processes, such as performance evaluation. ■

Good Measurement Systems

- ✓ **Maximize information accuracy**
- ✓ **Optimize information volume**
- ✓ **Maximize usefulness as a performance management tool**
- ✓ **Maximize timelines (not too delayed to be actionable)**
- ✓ **Maximize ease of understanding**
- ✓ **Minimize information collection cost and time**
- ✓ **Minimize opportunities for "beating the system"**

Reframing Culture

Culture describes how businesses are run, and influences strategy formulation and implementation as well as employee satisfaction. It includes the values, rules, practices, rituals and norms that conduct business and how they are communicated, and is determined by a company's current leadership, founders, strategy and customers.

Addressing the Culture Variable

The following steps will help you tackle the cultural dimension of your enterprise:

1. Profile the culture that best supports your strategy, particularly the parts of your strategy that cover values, competitive advantage, sources of growth, and capabilities.

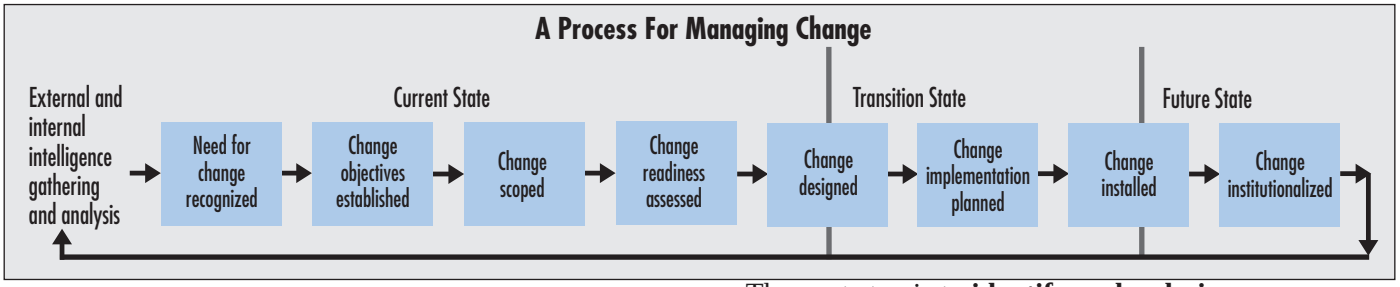
2. Use surveys, interviews and observation to define your current culture.

3. Identify the highest-priority gaps between the culture you have and the culture you require.

4. Identify the key positions in your organization as evidenced by your strategy and business processes. (For example, does your business revolve around your field service engineers? your call center personnel? your ad copywriters? your product managers?)

5. Diagnose the cultural influences on these key positions. The cultural influences of an organization can be grouped into five categories: *strategy and leadership* (do employees understand and support the strategy and leadership of the organization?); *the job itself* (do the employees' jobs fit their skills and do they find their jobs satisfying?); *inputs* (do employees get the training and

(continued on page 6



Reframing Culture

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resources they need to do their jobs well?); *work setting* (are the day-to-day practices and physical surroundings acceptable to the employees?); and *feedback and incentives* (do the employees get regular feedback and find the incentives and benefits encouraging and rewarding?)

6. Determine what actions will be required to turn all the no answers in Step 5 to yes.

7. Lay out a plan, including responsibilities and realistic time frames for taking the actions identified in Step 6.

8. Test your plan against the gaps identified in Step 3. Add gap-closing actions for needs that are not addressed.

9. Implement the plan, making midcourse corrections when needed.

Changing an organization's culture is very difficult and will be measured in years, not months. The diagram above offers a structured framework for managing change. ■

Managing Human Capabilities

Human capabilities are the skills, knowledge and personal values and beliefs of those performing tasks in the organization. They are determined by the strategy, which in turn sets the business process requirements, department requirements, job requirements and, finally, the human capability requirements.

An example is a company having a strategic requirement to offer only differentiated products. The business process requirement — in this case, the process involved is inventory management — is to eliminate inventory of commodity products. The departmental requirement, which involves the finance department, is to manage the balance sheet impact. The job requirement is for the financial analyst to calculate write-offs. Finally, the human capabilities required are write-off policies, basic math, depreciation formulas, accounting rules and spreadsheet skills.

Address Human Capability Weaknesses

To deal with human capabilities, it is first necessary to **develop a business strategy** (see the article on page four).

The next step is to **identify and redesign your strategic and key support processes** (for example, inventory management). Then **define the outputs required of each department and its contribution to each key process** (for example, managing the balance sheet impact of inventory). Based on the department outputs, **identify the outputs expected from individuals or teams** (for example, calculating write-offs).

It is then possible to **identify the skills, knowledge, and personal values and beliefs that are required by each job output.** You should pinpoint the physical, intellectual and psychological capabilities needed for each skill, and the intellectual capabilities essential for each knowledge requirement.

After determining the human capabilities you need, **assess and document your current capabilities** in terms of the requirements established in the previous steps. I**dentify and set priorities on the gaps between your current and required capabilities,** including skills or knowledge that are missing, possessed by too few people, or are misplaced.

Develop a human capability plan describing how to close the gaps through skill development, succession planning and career development, mentoring, retention and acquisition.

Use your measuring system to determine which performance gaps are being caused by human capability deficiencies.

Finally, **monitor and update your plan regularly.** ■

Leveraging Information and Knowledge

People believe that information technology will take business to the Promised Land, but most gains from IT are in quality and speed, not value. The goal is not to store information, but to turn it into knowledge and wisdom, because all variables that affect an organization are only as effective as the information that drives and sustains them.

The first step in addressing information systems is to **develop an overall business strategy and an e-business strategy,** which will provide the compass for information management.

(continued on page 7)

Leveraging Information and Knowledge

(continued from page 6)

Next, **identify your different information needs,** including strategic, business process, measurement and issue resolution needs.

Your *strategic* information needs include external intelligence for strategic decision making, information to fuel your competitive advantage, and information to monitor performance of products, markets, and competitive advantages.

Your *business process* information system needs include information related to customers and suppliers, electronic links that would facilitate that information flow, and the process steps where automation could improve quality, reduce cost or cycle time.

Your *measurement system* needs allow you to track business performance metrics and compare them to goals.

Finally, your *resolution* needs include ways to electronically capture problem resolutions for future use and how to make that information readily available to all who need it.

You are now ready to **make decisions regarding architecture, hardware, software and database for information capture.**

You must also **determine how best practices will be shared across the organization.**

The final step is to **install the information and knowledge system you've developed,** including pilot testing and training where needed. ■

For a case study on addressing information systems, go to: http://my.summary.com

An E-Business Strategy

To create an informed e-business strategy, remember that e-business is first about business, then about "e." The following questions will help:

- ✓ **What parts of the overall strategy should be digitally enabled?**
- ✓ **Can you prevent the Internet from taking your place in the value chain?**
- ✓ **How will you protect your customer base in the digital world?**
- ✓ **How will e-business help you to attract new customers?**
- ✓ **How will you interface electronically with customers, suppliers and yourself?**
- ✓ **What role will your Web site play?**
- ✓ **How can technology improve your business processes?**
- ✓ **How can technology improve knowledge management?**
- ✓ **How can technology improve measurement?**
- ✓ **How can technology improve speed and effectiveness of issue resolution?**
- ✓ **How will you ensure that you have the systems and technology to implement the vision?**
- ✓ **What is the priority of each digital initiative?**
- ✓ **What is your implementation plan?**

Redesigning the Organizational Structure

Redesigning the organizational structure is the most common executive response to trouble, because it is highly visible and quickly implementable, at least on paper. But beware. If the underlying causes of organizational problems aren't addressed, reorganization of structure will not solve them. Reorganization is only justified when the current structure impedes implementation of strategy and disrupts the flow of key business processes.

Anthony Harrison, CEO of computer hardware manufacturing Giddings Technology, has to make an impact because growth has plateaued, customers are complaining, competitors are encroaching, and shareholders are selling. He has many options, including redefining strategy, bringing in consultants, and modifying compensations systems. But should he restructure the organization?

Steps to Restructuring

The following steps will help you determine whether you need to reorganize your organizational structure, and if so, which structure will best fit your company's needs.

The first step, as always, is to **evaluate and refine your business strategy.** For example, what products and services are you going to offer? Which markets will you serve? Anthony decided the company would offer a wide variety of computing appliances, but not software or peripherals. It would also target corporate markets and commit to winning based on custom features, quick delivery, and ease of use. He assessed its performance in terms of revenue growth, profitability, and repeat business.

Next, **identify the business processes most critical to successful strategy implementation.** At Giddings, core processes were customer-need identification, product customization, order fulfillment and technical support.

Develop a set of decision criteria or objectives and then define the characteristics of a structure that supports your strategy and core processes. Use the criteria to compare strengths and weaknesses as you decide among alternative structures. Anthony decided that the structure should allow Giddings to identify customer needs quickly and accurately, configure solutions to needs, minimize order fulfillment time, and resolve customer problems quickly.

(continued on page 8)

Redesigning the Organizational Structure

(continued from page 7)

Also **define any other objectives to be met** by the organizational structure, such as administrative, cost, and people needs. Giddings decided that its structure should also motivate employees, minimize cost, support career development and maximize role clarity.

Generate alternative organization designs in enough detail to assess them against the decision criteria. Anthony and his team decided the company could organize by product, market, geography, function, process, project (i.e. Asian expansion team), or a hybrid structure using both product and projects.

Select the best structure by using the criteria to assess relative strength of each alternative. Anthony and his team decided that a market-based structure was best.

When you have decided on a structure, **develop and carry out an implementation plan** that takes into account technical and human factors, as well as the other variables in the Enterprise Model. ■

Putting It All Together

After examining each variable in the Enterprise Model, remember that they are an integrated system. While not every variable needs to be fixed to solve every problem, you cannot adjust one variable and expect that the others will not be affected.

There are four ways to use the process for addressing each of the Enterprise Model variables.

First, **use the process as a comprehensive diagnostic.** Assess each variable to discover weaknesses. Customize and weigh the criteria in considering which lever to pull first. Take action to address priority needs, following the process for each variable. Consider which other Enterprise Model variables to address to influence the success of your intervention.

Second, **use the enterprise model in response to an issue.** Determine what issue type you have (see box). Follow the process for that type of issue, and as you do, identify the Enterprise Model variables that you will address. Follow the directions for treating those variables, being alert to influencing other variables.

Third, you may need to **use the summary in response to a change** someone has suggested for your organization. Identify the businesses needs that the change is intended to address. Use the Enterprise Model framework, questions, and guidelines to determine if the recommendation addresses the appropriate variables. Request a cost benefit analysis to evaluate the merit of the recommendation, and if it is approved, make sure the implementation plan addresses all the variables that will influence success.

The final way to use the framework is as a **change management tool.** Make sure that the change initiative is focusing on the correct variables. Assure that the change plan is addressing the variables in the right sequence. Be alert to the possible need to address unforeseen needs in the variables that will influence success. ■

For three in-depth case studies illustrating the interaction of all the variables, go to: http://my.summary.com

Resolving Business Issues

Issue resolution is a necessary support system for all other variables in the Enterprise Model. Even if everything else going well, business issues arise continually and they require a response. An issue may be a threat, an opportunity or both. Although business issues come in all shapes and sizes, they can be grouped into seven types. The seven types of issues, along with steps to address them, are listed below:

1. Where We Are Going? This occurs when the organization's direction is unclear, questionable or not viable. These issues can be addressed through strategy formulation.

2. Why Did This Happen? Describe the problem, identify possible causes, evaluate each possible cause, and confirm the true cause.

3. Which Way Should We Go? To address this type of issue, clarify the purpose of the decision, evaluate each alternative, assess the risks associated with each alternatives, and, then, make the decision.

4. How Do We Get There? Here, it is necessary to successfully implement a decision in response to a problem or opportunity. Define the project, plan the project out, and then, implement the project.

5. How Can We Avoid Serious Problems? First, identify potential problems, then, identify likely causes of those problems, take preventative actions against these causes, and plan contingent actions.

6. How Can We Take Advantage of an Opportunity? Identify all potential opportunities, identify likely causes, take promoting actions to maximize the probability that the opportunity will present itself, and plan capitalizing actions to maximize the benefits you will receive.

7. How We Find Our Way Through This Thicket? This issue involves a complex situation that might actually be a mix of other types of issues. To address this issue type, identify and clarify concerns, set the priority of your concerns, plan next steps and identify which types of issues each concern represents, and plan the involvement of those who will be involved in the resolution of the issue.

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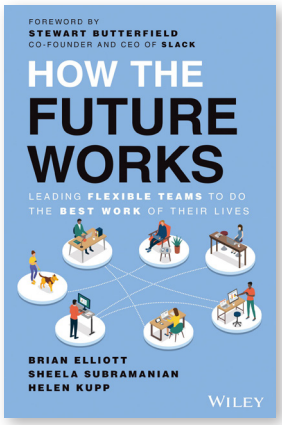
How the Future Works

Brian Elliott, Sheela Subramanian, Helen Kupp

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How the Future Works

Leading Flexible Teams To Do The Best Work of Their Lives



by **Brian Elliott, Sheela Subramanian, Helen Kupp**

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THE SUMMARY IN BRIEF

When the pandemic hit, offices basically closed overnight, and everyone was forced into a kind of grand experiment. Just like we have seen with company after company, in industry after industry, the nature of work changed. In the beginning, most companies–and most people, in fact–thought the shift would be temporary, but as lockdowns were extended, most workers began settling into a rhythm.

These new, more flexible work practices were shown to actually *increase productivity*. Flexible work offers a real opportunity, not just to attract and retain talent, but to transform the way people work and unlock their potential. In ***How the Future Works: Leading Flexible Teams To Do The Best Work of Their Lives***, authors and members of Slack's Future Forum consortium Brian Elliott, Sheela Subramanian, Helen Kupp embrace the notion that that 9-5 is a concept that just doesn't resonate with most knowledge workers today and lay out a seven-step process for getting to how the future works.

IN THIS SUMMARY, YOU WILL LEARN:

- Why flexible work works
- The competitive advantage of flexible work
- The seven steps to making flexible work successful
- How to focus on outcome over activity

Why Flexible Work Works

Flexible work is more of a mindset than a specific set of rules or policies. It's about freeing oneself from the outdated notion that work = office and the workweek = 9-to-5.

Instead we can push the boundaries of how we think about the ways in which we can work together and offer people more freedom and autonomy to get things done in ways that suit them better. We can choose to focus on which model is going to drive the best outcomes for our business, rather than on where and when work takes place.

This requires some flexible thinking.

For example, the reason why Working From Home is generally not the most beneficial version of flexible work is because the *when* is actually more important than the *where*. You see, most of the time when people talk about flexibility, they talk about location. But schedule flexibility is actually far more important.

A Future Forum survey of more than 10,000 knowledge workers across six countries found that 76% want flexibility in *where* they work but a whopping 93% said they want flexibility in *when* they work.

Because the vast majority of workers are asking for it might be reason enough to consider changing how you work, but it's hardly the only reason. When done right, flexible work offers numerous benefits that can give your organization a real competitive edge.

The Competitive Advantage

Flexible work helps companies win the battle for talent, engage employees, and build better results by having a proven positive impact in the areas of:

- Recruiting
- Retention
- Productivity
- Creativity
- Innovation
- Customer Engagement
- Diversity
- Your Bottom Line

Given all the potential benefits to flexible work, one has to ask: Why isn't everyone doing this? One of the biggest reasons why flexible work hasn't always worked in the past, and can still fail today, is because companies don't always get it right. *How the Future Works* is going to show you how with 7 steps to getting there.

Step 1: Stand for Something: Agree on Purpose and Principles

Flexibility will only succeed if you are willing to set aside outdated conceptions of how work should be done and think differently. But with so many different ideas about what flexibility can mean to each person, team, and company, it can be hard to band together and create this kind of shift.

Too many organizations have jumped into defining a flexible work strategy without understanding WHY they're implementing it, other than the fact that their employees want it or they want to keep up with peer companies who are already doing it. To move forward, your leadership team needs to talk through the real business purpose behind flexible work. Purposes may vary somewhat from company to company, but your main Flexible Work Purpose will almost surely center on your people.

Flexible Work Purpose: A statement explaining the main purpose behind your flexible work strategy. It should clearly articulate *why* flexibility is important to your company and be compatible with your organization's overall purpose and values.

Flexible Work Principles: Similar to company values, principles are core beliefs and values that support the organization's flexible work purpose. They are not specific mandates or rules, but guidance to help communicate how you expect people to behave, how they can make decisions that align with your intentions, and generally bring your *why* to life.

Your Flexible Work Principles: How Can You Support Your Purpose?

Principles don't look too different from core company values in some ways. They're not focused on the tactical how (like how many days you should be coming into the office), but more on the mindset required to make a significant shift in how you do business. Principles are meant to be shared across an organization in order to provide direction, consistency, and inspiration as people make the big changes required to enable flexible work. Allow for flexibility in the execution of your strategy, and enable individual department and team leaders to decide what works best for their

It's time to rethink the meeting. Leaders need to get a lot more intentional about the time they are taking up on people's calendars.

group–but within a framework and with top-level guidance. Any decision that gets made at any level–about how often a team will meet, for example, or how to measure team or individual success–should be consistent with those principles.

Step 2: Level the Playing Field: Create Guardrails for Behavior

Principles guide executive decision-making, but principles at the executive level are not enough: You also need guardrails to make sure those principles can be translated throughout your organization in ways that are effective and keep the playing field level so you can get the best out of all your people.

What Are Guardrails?

Guardrails are agreed-upon guidelines or parameters for behavior that will keep your principles in place. They will help people translate your principles into day-to-day habits and practices that support your flexible work strategy.

There are three main areas where they are needed most:

1. Leadership guardrails:
2. Workplace guardrails
3. Culture guardrails

Leadership Guardrails: Leaders set the tone from the top by modeling the right behaviors.

- Lead by Example: If you, as a leader, are still coming into the office on a typical 9-to-5 schedule every day, then you're sabotaging the strategy and undermining its principles (even if you don't mean to). No matter what you say, not matter what your official policy states, if employees see you in the office regularly, they will believe they need to do the same if they want access to growth and opportunities.
- Show Vulnerability: Normalize flexibility and help people feel more comfortable with it. You can do this by saying hi to the kid who accidentally interrupts a video call–or better yet, by bringing your own family on to wave a quick hello.

Workplace Guardrails: Redesign the role of the workplace to keep people from reverting back to old habits.

- Shared Space is for Teamwork First: Showing up to the office is no longer the default; it's the exception. Be intentional about the role of the office, getting teams together for a purpose that is planned in advance.
- Keep a Level Playing Field: Avoid "in-person favoritism" by enabling remote participants to be equally present and part of the discussion. Slack adopted the guardrail of "one dials in, all dial in," meaning that either everyone gets together in a room for a meeting or everyone participates remotely, even if that means logging on to a video conference from a desk in the office.

Culture Guardrails: A flexible work culture is going to be different than an in-office one, naturally. But more than that, it provides companies with the opportunity to address some challenges that have long been part of traditional workplace cultures.

- Move Beyond Meeting-Driven Culture: There are real questions about whether meetings are necessary to get things done, or if they are getting in our way far too often. It's time to rethink the meeting. Leaders need to get a lot more intentional about the time they are taking up on people's calendars. Dropbox uses their "3D" model for planning meetings: debate, discuss, decide. Slack would add a fourth D for "develop." If a meeting doesn't achieve at least one of those four objectives, then it doesn't need to be a meeting.
- Challenge the Role of the Brainstorm: Numerous studies show that the often lauded brainstorming session is a waste of time, at best; at worst it can lead to the dreaded groupthink and even harm productivity. So-called "brainwriting" has been shown to be a better way to generate new ideas, and it requires a kind of hybrid approach that flexible work is particularly well suited for. Brainwriting starts with individual work, allowing time and space for people to think deeply and freely about ideas. You ask everyone to commit their ideas to paper, and only then are they shared and debated.

Step 3: Commit to How You'll Work: Develop Team-Level Agreements

The Team-Level Agreement (TLA) takes your principles and guardrails and puts them into practice. To get started, you can use a starter template, based on Slack's own Digital-First efforts. It has five categories to kick things off:

1. Values
2. Schedules and Meetings
3. Accountability
4. Relationships
5. Checking In

Values: What Do We Value in Our Working Environment as a Team?

If your flexible work purpose is to unlock potential in your people, then start with what's important to those people. What do *they* value? To spur discussion on this topic, you may find that your company's flexible work principles are a useful guide.

Schedules and Meetings: How Will We Collaborate?

A flexible schedule is not the same as having no schedule at all. Rather than having set "working hours," what works best in most cases is for teams to set what's called "core collaboration hours."

This is generally an agreed-upon three-to-four-hour timespan during the day when team members can expect to be "live" and available to one another for things like meetings and feedback. By focusing on shorter bursts of collaboration time, you unlock a lot more productivity as a team.

Better meeting hygiene is a universal need to make all work, not just flexible work, more successful. Start by rethinking your meeting culture. Meetings should be for when team members need to engage in the Four Ds–discuss, debate, decide, develop. If you're not doing that, the meeting should be canceled. Depending on your team members, it might also be important to consider how (or if) you use videos for meetings. Reducing the use of video can help reduce fatigue but also helps level the playing field for individuals who might not have the ideal video-on situation at home.

Accountability: How Do We Hold Each Other Accountable?

For flexible work to be successful, teams need to measure success by outcomes, not by how many hours someone works in a day, or by how many meetings someone attends. To do that, teams need to focus on defining outcomes, roles, and responsibilities upfront and communicating as changes and different needs arise.

Relationships: Coming Together as a Team

While executives need to be thinking about how to build connection across a flexible organization, individual teams can play a part too by being explicit about what will help build relationships among their fellow team members. As a team, consider things like committing to celebrating one another's successes both publicly and within the team and to being honest about when you are overloaded or need support, both personally and professionally.

Checking-in: Evolving Out Team Agreements Over Time

The TLA should be reconsidered regularly to ensure that the norms team members agreed on actually support their work, instead of getting in the way of it. Teams may find they need to add more norms as they go and discover what works. Or, they may end up simplifying, finding that too many norms are counterproductive.

The Process: How to Use a Starter Template to Get Agreement

Take the Slack starter template and use it to create a flexible TLA that's specific to your company and makes clear its objectives, while still providing teams with relevant examples and options, as a framework in which they can make decisions. Follow these best practices to create your organization's own template TLA and then cascade it from there:

1. Customize the Slack starter template for your organization
2. Create early champions for change by piloting with a few teams
3. Disseminate to additional teams with context and guidance
4. Create a way for teams to give feedback and share best practices

A digital HQ means that digital space, rather than a physical office building, is the primary place where people can access information, opportunity, and each other.

Step 4: Experiment, Experiment, Experiment: Normalize a Culture of Learning

How do you make a shift this significant happen, especially when some people–especially those in decision-making positions–are personally happy with how things were before? It will require a process of experimenting, learning, and making adjustments in both behavior and thinking if you want it to stick, and not everything is going to work perfectly from the start.

There will be no perfect data point or external benchmark that will convince everyone that flexible work will work. Radical change can be scary, so you need to build evidence that it can work locally. It takes a mix of a little leap of faith to allow experimentation, executive support to prototype new ways of working, and a willingness to learn your way toward habits and practices that work for your people.

You have to experiment and learn, stay agile and make adjustments (because not every experiment is going to work on the first try), and communicate every step of the way to bring people along. It won't happen all at once–you need to build momentum and support as you move forward and figure out how to make it work.

We recommend that all organizations form a diverse task force to drive this change. The following guidance will help:

- Your task force should be composed of respected leaders and change agents, as well as people willing to ask hard questions.
- Both company leaders and task force members need to recognize this work as a real investment. It requires a sizable dedication of time and resources.
- Task force members should identify and draw from teams that are already trying new ways of working or willing to experiment.
- Those who are working to create this change need to be supported by dedicated resources from core groups–like internal communications, learning and development specialists, and executives who can scale the effort and allocate resources.

Whether it's small experiments or high-level decisions about the principles behind your flexible work strategy, a good rule of thumb for leaders to always keep in mind is to *do your work in public*. It's important that executives and task force members don't sequester ideas, decisions, and thinking for months on end. Giving a sense of where you're going, the progress you're making along the way, and transparently sharing everything you can generates trust and builds momentum.

There is no "done" when creating a better way of working. You're never done experimenting. You're never done learning. And you're never done communicating with people about what you're aiming for and how it's going.

Step 5: Create a Culture of Connection from Anywhere: Reimagine Your Headquarters

There are a wider range of options than just showing up every day at the traditional corporate headquarters. In fact, if done right, flexible work can provide an opportunity to create a more connected and inclusive culture than ever before. This step is about what we can do to start building connections in new ways, ones that support flexible work and forge better, stronger bonds.

Make Digital Your New Headquarters

Flexible work requires companies to reconceptualize the "workplace." It should no longer be thought of as merely a building, but as a network of equally important forums where work can take place and connections can be made. One of these forums could be a video conference, or a Slack project channel just as easily as it could be a conference room. It could be a shared collaborative document like Google Docs, Quip, or Notion, just as easily as it could be an in-person gathering for a PowerPoint presentation.

Communication can happen via platforms, emails, chats,

phone calls, huddles, direct messaging, social media, or in person. And people can engage in those communications form home, their car, while traveling, or in an office building. The place and the method matter much less than the quality of interaction taking place. That means thinking about digital with the same level of intentionality and investment as office space has gotten in the past.

The best way to break old habits and reconceptualize the workplace is to make digital space your new headquarters. A digital HQ means that digital space, rather than a physical office building, is the primary place where people can access information, opportunity, and each other.

Step 6: Train Your Leaders to Make it Work: "Soft" Skills Matter More than Ever

Throughout this era of uncertainty, at least one workforce reality hasn't changed and it is unlikely to change anytime soon: the critical role that managers play in your business and in the lives of employees. But here's the harsh reality: Most of your managers are not equipped to embrace flexible working arrangements or lead distributed teams. Managers need to shift from gatekeepers who conduct status checks to coaches who lead with empathy. They need to get to know the people on their team, not just the skill sets to get the work done. In short, the role of a manager needs a new definition. This step will guide leaders in helping managers regain their footing and equip them for this new way of working.

We would like to propose a new definition and purpose for managers to replace the old views. The role of today's manager is to do three things: inspire trust, create clarity, and unlock the potential within their teams. In practice, this means:

1. Being transparent about the purpose, measurements, and expectations as a way to build trust.
2. Providing clarity for team members on their responsibilities and goals through direct (and two-way) feedback.
3. Unlocking potential for team members to do their best work through equitable practices and saying "no."

Soft Skills Managers Need to Support this Redefinition

- Building psychological safety
- Communicating transparently
- Leading with empathy
- Offer regular feedback, including career growth conversations
- Accept and own mistakes, creating a culture of acceptance
- Model inclusive practices and reset practices that create exclusion
- Show how to build boundaries to avoid burnout and allow for focused work
- Permission to say "no"

Leaders can invest in reskilling managers to make this shift and enable flexible work through coaching, structured feedback, and celebrations of managers doing it right.

Step 7: Focus on the Outcomes: Avoid the Doom Loop and Embrace the Boom Loop

Companies that are successful in adopting flexible work strategies are also implementing new strategies for measuring how it's working. Flexible work arrangements have a tendency to bring to the surface common challenges around trust. Some leaders feel like they won't be able to know if their teams are working if they're not in the office or if they're unable to monitor when they're online.

The issue with monitoring, however, is that it's ineffective at best; at worst it undermines trust, hinders performance, negatively impacts employee satisfaction and overall morale, and contributes to burnout. Leaders at all levels who try monitoring tactics run the risk of getting caught up in what we call:

The Doom Loop: an unhappy cycle of *monitoring*, which leads to *meaningless metrics* and time wasted on reporting, which leads to effort wasted on checking the boxes or *avoidance* of the monitoring systems, which leads to talent attrition, which compounds a *loss of trust*, which tend to lead to more *monitoring*. And on and on it spirals.

Organizations must focus on outcomes over activity.

Quantity should never triumph over quality. Success requires clear goals set at both the company and team levels. This is important, not just to meet business outcomes, but

also to foster the kind of culture you want to build–the kind that will help you win the war for talent.

It's through this kind of reorientation that companies can avoid The Doom Loop. Instead, trust gets built by being clear about shared goals and giving people the support and room they need to meet them. We call this The Boom Loop.

The key roles of managers and leaders is to build trust, create clarity, and unlock potential as outlined previously. In this context, that means figuring out which outcomes matter, how those translate into deliverables, and how to set expectations to timeframe and quality.

In other words, people need to understand what's expected of them (clarity), they need to believe that their work is measured fairly (trust), and they need freedom within these clearly articulated parameters to do their best work (unlock potential). These things are essential for driving outcomes-based measures.

We believe that flexible work is the future, and there are a lot of reasons why businesses need to start embracing the future now. Your people want it. It's a competitive advantage that opens up your hiring pool far beyond commuting distance from the office. It helps unlock potential, fostering inclusion that leads to better business outcomes. But there's another reason, too, that we think is worth considering before we send you on your way: Flexible work can make a real difference in people's lives, including your own.

Because none of us are *just* workers after all. We're all human beings who work. What we have all seen during this grand experiment that the pandemic has forced upon us is that being given the power and the freedom to do our best work together can be transformative–for people *and* for the companies they work for.







Brian Elliott is the Executive Leader and Senior Vice President of Future Forum, a consortium launched by Slack to help companies reimagine work in the new Digital-First world. Sheela Subramanian is a Vice President of Future Forum. Prior to this role, Sheela spent five years at Slack in several leadership roles, including as the Head of Global Enterprise Marketing, where she led the company's shift to a B2B organization. Helen Kupp is the Senior Director of Product Strategy & Partnerships of Future Forum, where she leads membership program development, and strategic partnerships.

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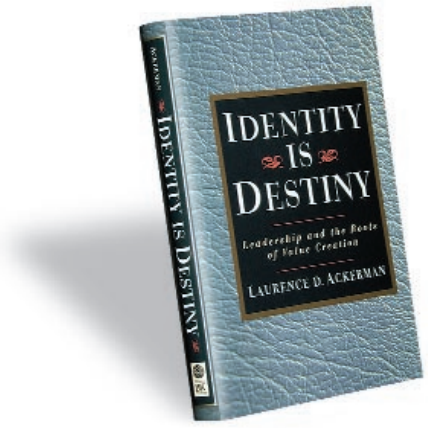
Identity Is Destiny

Laurence D. Ackerman

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FILE: STRATEGIC MANAGEMENT



Leadership and the Roots of Value Creation

IDENTITY IS DESTINY

By Laurence D. Ackerman

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THE SUMMARY IN BRIEF

According to corporate identity expert Laurence Ackerman, the true strength of an organization is reflected in its identity — the traits and actions that make it a unique being unto itself — and in its ability to leverage that identity into creating products and services that provide value to customers. The wealth that is generated from this transaction feeds back into the organization's identity, thus creating a never-ending value creation cycle of identity, products and services and wealth.

This is the ultimate result of what Ackerman terms the Laws of Identity, which, taken individually, form a compelling set of value-identifying guidelines for any organization. These laws of identity, which will be explored in detail in the following pages of this summary, are as follows:

- **The Law of Being.** Any organization composed of one or more human beings is alive in its own right, exhibiting the distinct capacities of the individuals who make up that organization.
- **The Law of Individuality.** An organization's human capacities invariably fuse into a discernible identity that makes that organization unique.
- **The Law of Constancy.** Identity is fixed, transcending time and place, while its manifestations are constantly changing.
- **The Law of Will.** Every organization is compelled by the need to create value in accordance with its identity.
- **The Law of Possibility.** Identity foreshadows potential.
- **The Law of Relationship.** Organizations are inherently relational, and those relationships are only as strong as the natural alignment between the identities of the participants.
- **The Law of Comprehension.** The individual capacities of the organization are only as valuable as the perceived value of the whole of that organization.
- **The Law of the Cycle.** Identity governs value, which produces wealth, which fuels identity.

The Laws of Identity can light the path to greater value creation. The first question to answer: Do your organizational activities reflect your corporate identity? Your self-analysis begins on the next page ...

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IDENTITY IS DESTINY

by Laurence D. Ackerman

— THE *COMPLETE* SUMMARY

The Identity Credo and Laws of Identity

Identity contains its own logic. Many of the most memorable events in the lives of individuals or organizations can be explained in relation to who or what they are and who or what they are not. In recognizing this logic — and the insights that it yields — people and companies will find not only the red flags and stop signs that guide the direction and speed with which they pursue their goals, but also the flashing opportunities waiting to be seized along the way.

The logic of identity actually flows from a definable set of laws that clarify much of what works and doesn't work in life and business. These laws exist in a certain pattern, which form a credo — an "identity" credo — that organizes everything we are and do. Here is this credo, which speaks to both individuals and companies:

I am alive, I am unique, and I am immutable, even as I grow and evolve. To truly live, however, I must express myself fully, and in this regard, have much to give. But to do so, I need others, and am most productive with those who need me in return. To establish these relationships, I must first be recognized for who I am, and it follows then that I will receive in accordance with what I give.

This identity credo flows from the laws as follows:

The Law of Being ("I am alive ...")

The Law of Individuality ("... I am unique...")

The Law of Constancy ("... and I am immutable, even as I grow and evolve.")

The Law of Will ("... To truly live, however, I must express myself fully ...")

The Law of Possibility ("... and in this regard, I have much to give.")

The Law of Relationship ("But to do so, I need others, and am most productive with those who need me in return.")

The Law of Comprehension ("To establish these relationships, I must first be recognized for who I am ...")

The Law of the Cycle ("... and it follows then that I will receive in accordance with what I give.")

In the remaining pages of this summary, we will explore each of these eight laws in turn. ■

The Law of Being

The Law of Being speaks to the need for separation from all others as a prerequisite to understanding who you are; in other words, you cannot rely on others to define your capabilities, set your course, or tell you about what you must be truly passionate. Parents, friends, counselors, managers — everyone has their own agenda, some quick advice, or an erroneous suggestion that assumes they know something you don't.

The Law of Being

Any organization composed of one or more human beings is alive in its own right, exhibiting distinct physical, mental and emotional capacities that derive from, but transcend, the individuals who make up that organization over time.

The Law of Being reveals that organizations, by virtue of the fact that they are comprised of human beings, are alive. They are self-directing beings with minds of their own. The life of a company can be described in ways that illuminate its value on multiple levels. Specifically, a company's "being" can be described in terms of its

- **Human value.** A company's life derives from the thousands of people who make up the organization over time and, thus, it is a true reflection of the organization's aggregate skills and expertise.
- **Business value.** A company makes a distinctive contribution to the marketplace, in the products and ser-

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The Law of Being

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vices that flow from and reinforce identity, or in joint ventures that build upon the unique, value-creating characteristics of the partners.

- **Societal value.** A company, as a life force, brings about social improvement, impacting not just the people who comprise the organization, but also the greater world outside the walls of headquarters.
- **Economic value.** It is only in combining the effects of these three forms of value creation — human, business and societal — that leaders can assess the basic financial worth of the company, including long-term stock performance and portfolio turnover.

The Law of Being requires managers to practice the art and science of value creation on all four levels — human, business, societal and economic. The key for you as a leader is to liberate your company's identity and give it room to run. In practical terms, this means clarifying your company's innate strengths and working with those strengths to create value. ■

The Law of Individuality

It's one thing to know that you are alive; it's another thing entirely to live according to who you are. Yet the defining leaders of this and previous generations have exhibited an authenticity as individuals that effortlessly draws others to them. Likewise, the Law of Individuality asserts that every organization, like every individual, is unique. Corporate leaders must recognize that true and sustainable differentiation is not only achievable, but also necessary. If an enterprise is to thrive, its unique, value-creating characteristics must be known.

The Law of Individuality

An organization's human capacities invariably fuse into a discernible identity that makes that organization unique.

Leaders must thus look deeply within the organization to find the root and full extensions of the company's identity by doing the following:

- **Commit to finding out.** Get to know the institution as the individual it truly is. Determine what makes the company special by soliciting input from the people — customers, suppliers, employees and the like — who interact with and within the company every day. How do they perceive your organization creates value, both for them and with them? How does the company contribute to the enhancement of their welfare and that of their customers? To the productive evolution of their enterprise? To the betterment of society as a whole? Dig deep and proactively pursue the core components of your organizational individuality.
- **Assume nothing.** Most responses you receive will be multi-layered, although they may not seem so at first.

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Alcoa and the Law of Being

In the mid- and late-1980s, Alcoa was meeting new economic and competitive pressures by shrinking (while strengthening) activities inherent to its core aluminum business. For example, it was reducing smelting by 25 percent while continuing its search for new, significant uses for aluminum in industrial and commercial products.

At the same time, Alcoa was pursuing acquisitions and mergers designed to broaden the company's appeal beyond aluminum, developing new technologies, products and markets in areas such as ceramics and separations. The company was even considering buying an aerospace and defense organization.

For Alcoa's leaders, the company's identity was in transition as a result of this diversification. Author Ackerman was brought in to help redefine and communicate the identity of the "new Alcoa." Discerning the company's identity in the midst of such considerable change (the company diversification moves were coupled with management's efforts to decentralize) provided a unique challenge. Ackerman had to slice through these familiar business markers by searching for answers to one key question: If you strip away what the organization makes and sells, and if you regard its 55,000 employees as one individual, what was this "individual" really good at? From where does it derive its value?

The answer, Ackerman found, was *a genius for transformation*. Transformation — of new technology into new products or new products into new markets — was at the heart of Alcoa's identity. Alcoa even transformed society. For example, Alcoa transformed the aviation industry by allowing airplanes to be wrapped in aluminum instead of cloth. This development, in turn, helped the growth of the passenger aviation industry at the expense of the railroads.

If a genius for transformation was what defined Alcoa's identity — what set it apart from every other company — then transformation needed to be at the core of future corporate strategy or activities.

Alcoa pulled back from its diversification strategy and refocused on aluminum, thus ensuring that transformation remains key to the company's activities. Ackerman believes a diversification strategy could have also worked — as long as it remained guided by Alcoa's identity.

The Law of Individuality

(continued from page 3)

Such obvious, pat answers as low cost, service, speed, quality and innovation may actually only comprise the most superficial of layers to the true answer; peel back those layers and see what rests beyond them.

- **Celebrate individualism.** Look closely at your organization and find the capabilities and passions that make your company the individual that it is — these elements have very likely always been there. They must be drawn out and celebrated in order to make the discovery of your organizational identity that much more credible.

Fidelity Investments

Fidelity Investments wanted to make certain investors recognized the value in doing business with the company, not just with its myriad funds. The problem was that Fidelity's own employees, from managers on down, were inattentive to the institution as a whole, paying homage (as did their customers) instead to the company's various funds. The whole was, in essence, lost among the sum of its parts; there existed no real institutional glue to bind up the company's high-octane, entrepreneurial fund managers and marketing executives who had pushed the organization's growth projections to stunning heights.

What made this so astonishing was that, to a large extent, the company was driven by its need to celebrate individuals, as reflected in its commitment to private ownership; passion for innovation and invention; fierce reliance on personal skill and judgment as the foundation for the company's growth; and an almost organic organizational structure based on self-contained units or cells. Fidelity's need to celebrate individualism had been a part of its culture for as long as it had been in existence; no one within Fidelity knew that identity existed.

A commitment to individualism was the core of Fidelity's identity. Recognizing this identity, Fidelity managers took steps *not* to coordinate or control the company's activities, but rather to enhance the company's "individual to individual" connection with customers. One example: creating a company online database that provided daily fund information to all customers with personal computers and modems. ■

The Law of Constancy

In the past decade, no issue had occupied leaders more than change — specifically, the need for change and how to achieve it. Wholesale change is often viewed as the path to salvation in a corporate environment in which nothing is sacred. This is an incorrect point of view — it is identity, not change, that is sacred. For all managers who realize that life doesn't stand still and that their companies must change, this law demands a sharply counter-intuitive response — "change" initiatives, if they are to succeed, must be made in concert with the identity of the institution.

The Law of Constancy

Identity is fixed, transcending time and place, while its manifestations are constantly changing.

After all, change is really built into identity — both individually and in the context of the corporation. The challenge is to use outside forces — economic, competitive, technological and societal — to spark new ways of interpreting identity, rather than as reasons to change it.

Korn/Ferry International

Korn/Ferry International, the widely regarded executive search firm, met this challenge head-on. While most of its competitors focused solely on searches for senior-level executives, Korn/Ferry drew criticism for focusing on mid-level executives, a tactic that expanded its revenue base and influence with clients, but which ran counter to virtually every other like-tasked business in their market.

Rather than roll with the familiar or the accepted, Korn/Ferry went even further against the grain when it launched FutureStep, an online career management program that reviewed, categorized and tracked credentials submitted by mostly mid-level candidates. The initiative

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The Law of Constancy and Brand Management

The Law of Constancy tells us much about the corporate brand:

- ✓ Its definition resides within the identity of the enterprise and cannot simply be fabricated.
- ✓ It is not transitory — not simply a statement of today's corporate features — but timeless in terms of the benefits it yields.
- ✓ It requires constant reinterpretation.
- ✓ It is (or should be) "of the moment" in how it is interpreted.
- ✓ It must be established by companies as their own "turf" and defended vigorously against fads, fashions, and competitor's standards or views.
- ✓ Its strengths must develop over time and, to be fully known, must be viewed through the lens of history as well as current events and future aspirations.

The Law of Constancy

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was based in using technology — in this case, the "downscale" forum of the Internet — to create a cutting-edge, contemporary expression of the organization's bias toward multilevel, multifunctional searches. This "new" idea was actually based in an attitude and aptitude the company had held all along, one firmly rooted in its unwavering identity: a need to build leadership capital. ■

The Law of Will

The Law of Will can manifest itself in many ways — the will to break a world record in a sport, to scale Mount Everest, to be one of the most admired companies in the nation, to build the fastest, the sleekest, the most of every good thing. The Law of Will drives people and companies to be the best at whatever they do. There is, however, a danger hidden in this Law — the danger lies in attempting, or "willing" yourself, to be something you are not, something that doesn't spring naturally from your identity.

The Law of Will

Every organization is compelled by the need to create value in accordance with its identity.

A company must have a deep-seated need to create value on its own terms — it must express itself fully. Managers must make it their business to know the identity of their organization before they attempt to set the direction for that organization. They must either recognize the will of the institution as a central, value-creating force or be prepared to see their company falter.

The Upjohn Company

The Upjohn Company, a giant in the pharmaceuticals industry, spent a great deal of time dealing with a conflict within the organization, between the will of those who would tie the company's future to a relatively narrow path and the will of the institution itself, whose method of value creation was much broader.

This conflict was apparent in the uncompromising way the company approached quality — everyone in the organization took great pride in making drugs that were superior in quality to those of competitors. This admirable approach contained hidden problems. First of all, people outside the organization — customers and investors — did not view quality as an overt advantage. The other problem stemmed from the way quality was defined, valued and lived on a day-to-day basis; indeed, the company was operating in line with three very clear but unspoken definitions of quality:

- **Quality of products.** The ways in which Upjohn ensured the quality of its products seemed ritualistic, in some ways, unnecessarily so — its products regularly exceeded FDA standards.
- **Quality of life.** The environment in which employees worked was immaculate, but the value of such a setting influenced the enterprise to a surprising extent. Form reigned over substance; the comfort it generated led to a somewhat genteel pace of business.
- **Quality of people.** Although Upjohn held employees to the highest ethical standards, the company's resources weren't always deployed to the service of improving business performance or enhancing the company's ability to compete on a global scale.

With such an importance placed on quality — quality products, quality people — why couldn't Upjohn reach its full potential? The answer lies in a comment made by the company's marketing manager — "Risk taking is too risky." The company's push for quality and high ethical standards bred employees who were aggressive go-getters — creative, passionate people who could create value in a way that played off the strengths of their collective identity. The company's conservative business practices, however, stymied the energy of its employees; its insistence on creating value its way, not theirs, created discord with the true identity of the organization. Upjohn's merger with Pharmacia — its demise as an independent enterprise — is a direct result of this conflict between the company's identity and the company's practices and strategies.

Identity precedes strategy. If the direction of a company is to have staying power — whether it is referred to as vision, mission, strategy or purpose — leaders must ensure that it flows from identity. ■

The Law of Possibility

The Law of Possibility becomes a window on the future of an organization in ways that reveal its potential for timeless value creation. The richest avenues with the greatest potential for growth lie in understanding the natural drive of the organization. Managers who chase new markets solely because they are "high growth" and those who seek diversification simply to smooth the ups and downs of business cycles are focusing in the wrong places. They must first look at the value-creating potential inherent in the identity of their institutions if they want to grow in ways that are both natural and profitable.

The Law of Possibility

Identity foreshadows potential.

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The Law of Possibility

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Westinghouse

Westinghouse ensured its own demise by failing to make this connection. Its obsession with short-term financial performance — seen in microcosm in the many foundering divisions of its Advanced Industrial Systems (AIS) unit — never put Westinghouse in the same league as Caterpillar, IBM and Marriott, as the company's senior management insisted it would. Its plan to reach "greatness" was based on strategies to achieve a greater return on equity (ROE), not to create value for its customers or partners.

AIS, however, could and did create value through the collective sharing of four distinct capabilities:

- **A problem-solving approach to customer interaction**
- **A holistic view of their customer's needs**
- **An obsessive concern with the customer's welfare**
- **A deep regard for technology in general, and for engineering in particular**

To articulate the identity of AIS was to reveal its potential to create value as a single, optimally integrated organization. In the ROE-obsessed culture of Westinghouse, however, such value creation could not help the unit turn a profit. As a result, AIS never came close to "greatness," as defined by management, and was dissolved — a tragic result of Westinghouse's ignorance of its productive potential as an organization.

While leaders certainly must keep economic requirements in mind, they must also rethink what constitutes reasonable payback time horizons and acceptable ROE. They must employ identity as a guide to growth, keeping in mind that their organization as a corporate being must strive to exercise and deepen its own identity as a means by which to achieve that growth. ■

The Law of Relationship

Organizations are most productive with those who need them in return; this interdependence yields an entire framework for leading on the strength of relationships. Leaders must manage relationships with stakeholders as a whole system, not as a portfolio

The Law of Relationship

Organizations are inherently relational, and those relationships are only as strong as the natural alignment between the identities of the participants.

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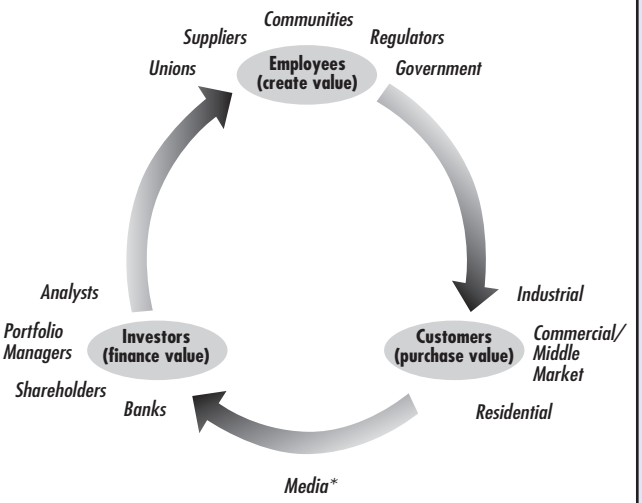
The Value Circle

The Law of Relationship supplies a model called the value circle, which addresses value creation through the eyes of all stakeholders, revealing the inviolable cause-and-effect relationship among employees, customers and investors. In accordance with the Law, companies do not have a collection of stakeholders; they have a system of stakeholders, with a natural order that manifests itself in the following ways:

- ✓ Employees create value through their ideas, innovations, talents, experience and skills, and through the products and services they build, market and sell.
- ✓ Customers purchase value to the extent that they like the offerings (or the value) that they see. Revenues, sales and profits are at stake here.
- ✓ Investors finance value, putting capital back into the organization as they "approve of" the earnings that flow from the value "purchased" by customers. This act closes the loop on the value circle, fueling its constant momentum.

It is important to note that, in the value circle, no one stakeholder group is more important than any other. Investors are not, as one may think, the primary focus of the circle; this risks future growth for the sake of the present. Investors are best served by seeing themselves as beneficiaries of the value created through the interaction between employees and customers.

Exhibit Two



The Law of Relationship

(continued from page 6)

of separate, distinct relationships. The work of an organization must thus be organized in ways that put the value circle in motion (see sidebar on previous page), thus building momentum and creating a relationship advantage that will stand the test of time.

New York State Gas and Electric

That organizations are most productive with those who need them in return suggests something else no leader can afford to ignore — the fact that *need* is determined by *identity.* New York State Electric and Gas is driven by a need to "shape energy environments." This need governs the company's relationships with all stakeholders, implying value in many forms:

- For employees, NYSEG creates and sustains energy around the goal of improving the efficiency and quality of its customers' lives and businesses.
- For customers, the company focuses on boosting productivity and competitiveness (for business customers) and contributing to health, ease and reliability (for residential customers).
- For investors, NYSEG builds its brand franchise and its ability to improve earnings by modularizing its approach to identifying and meeting the needs of its customers.

Taken together, these messages form the basis of a new contract with NYSEG's most important stakeholders, aligning its approach to meeting the needs of its three core constituencies, using the value circle to simultaneously enhance its relationships with all three. ■

The Law of Comprehension

One of the underlying themes of identity is that we must take responsibility for ourselves, both as individuals and as organizations, to build productive relationships, pursue personal and professional goals, and accept the good and the bad that result from our actions. We have the need to be known for who we are as a prerequisite for building potent relationships with others. On an organizational level, managers must be certain that their organization's capacity to create value is likewise understood.

The Law of Comprehension

The individual capacities of the organization are only as valuable as the perceived value of the whole of that organization.

Again, we refer to the value circle (first referenced in the Law of Relationship) and how the needs of the three main stakeholders are affected by the Law of Comprehension:

- Current and future employees must know the identity of the enterprise they help form if they are going to live it, keeping it fresh, vital and relevant.
- Investors must know the company's identity, because identity is the key driver of wealth.
- Customers must be made to experience identity at every turn, regardless of whether they can articulate that identity.

Indeed, the role of the leader is to find every conceivable way to ensure identity is woven into the day-to-day operations of the enterprise. The Law of Comprehension is, first and foremost, fueled by how employees speak of the company and how they behave during and after work. These actions reinforce the work that is done and how that work results in products and services that are (or should be) the natural expression of identity. On an organizational level, the Law of Comprehension is reinforced through the policies and practices of the company toward the communities in which it lives, through its recognition of the whole organization and more than just the sum of its parts, and the visibility of value throughout the entire enterprise. ■

The Law of the Cycle

The final Law of Identity notes that companies will receive in direct accordance with what they give. The Law of the Cycle is expressed in another circle, not unlike the value circle. The things we believe we are (as workers and practitioners of our various interests) prescribe our sense of self and foreshadow the gifts we share with family, friends, clients and business associates. The wealth we receive in exchange for sharing those gifts a) depends on how well we blend those two intrinsically connected roles, and b) ever more fuels the expression of our identity. For companies as well as individuals, wealth is not only about money, but also the things that, like a magnet, draw people back to us over and over again.

The Law of the Cycle

Identity governs value, which produces wealth, which fuels identity.

Maytag

Home appliance conglomerate Maytag asked Laurence Ackerman to clarify the meaning of the venerable company — how its goals and practices dovetailed

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The Law of the Cycle

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with its identity. What he found was that the external perception of the organization as merely "a collection of pieces and parts" had been taken to heart within the company as well. One could tell this from the way Maytag introduced itself in its annual reports: "Maytag Corporation ... consists of x companies with y manufacturing operations in z countries and approximately xx,000 employees." Only the numbers changed from year to year, reflecting the year's acquisitions, expansions and layoffs. Maytag's management had no real definition of the company's unique role as a corporate being and, thus, explicated its identity and purpose in terms that were as quantifiable as it could make them.

... the external perception of the organization as merely "a collection of pieces and parts" had been taken to heart within the company as well.

Ackerman's analysis revealed the core of Maytag's identity: the need to improve the quality of home life. Maytag wasn't an appliance company nor a manufacturing conglomerate. It was a home management enterprise. The many brands of Maytag — including Hoover, Jenn-Air, Magic Chef and Maytag — were just the bridges that connected customers to this home management enterprise. Helping customers improve the quality of their home lives — not selling customers more brands — was the value that Maytag created. The better Maytag helped customers improve their home lives, the more value the company created and, thus, the more wealth it generated. ■

In conclusion ...

Organizations must recognize identity as the invisible, immortal core that governs organizations just as it governs people. What we do with this knowledge — how we respond to the Laws of Identity as individuals, professionals and business leaders — is a challenge each of us must meet on our own terms.

The only real prerequisite to engaging identity as life's center of gravity is believing deeply in the potential of people and organizations to create value for others, and to realize wealth in return. This is the imperative of true leaders. For individuals and organizations fueled by this belief, the Laws of Identity are there as a guide. ■

Managing by New Criteria

The Laws of Identity can be applied to all facets of day-to-day management which, when practiced in the light of identity, will help ensure the creation of value and wealth over time. This new criteria for management affects a broad swath of executive and managerial level leaders in every identity-centered organization:

- ✓ For board directors, identity may suggest the criteria for choosing chief executives, including such factors as servant leadership, insight into organizations and insight into the external environment.
- ✓ For CEOs, in turn, identity provides criteria for the composition of the board, specifically in the congruence of the candidates' world views with the value-creating characteristics of the organization. It also supplies a frame of reference for picking business partners with similar congruent goals and identities.
- ✓ For CFOs, identity provides an expanded framework for stock valuation, identifying the companies and income statements that reflect commitment in investiture and operations in accordance with identity.
- ✓ For strategic planning executives, identity provides the source of competitive differentiation and sustainable growth.
- ✓ For marketing managers, identity provides criteria for market expansion — identifying those markets where the company believes it can make a proprietary contribution based on its identity.
- ✓ For line managers, identity provides the framework for planning and running a business, clarifying the value-creating role of the unit.
- ✓ For HR executives, identity dictates how and who you recruit, hire and train. It also provides vital criteria for performance appraisals, compensation and employee recognition, establishing a framework for effective employee performance and involvement.
- ✓ For communications executives, identity is the message — the cornerstone of all communications, internal and external, now and in the future. The identity of the organization and how it affects the company's relationships with all stakeholders is inviolable.

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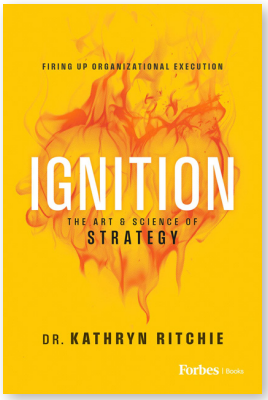
Ignition

Dr. Kathryn Ritchie

Executive Book Summaries®

Ignition

The Art & Science of Strategy



by **Dr. Kathryn Ritchie**

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THE SUMMARY IN BRIEF

Many organizations' strategies look sound on paper but fail to produce meaningful change. Leaders often sense that something is misaligned, yet continue to project confidence while execution stalls, teams disengage, and initiatives lose momentum. The core pain point is not a lack of ideas, but the inability to translate strategy into coordinated action, accountability, and sustained results.

Ignition: The Art & Science of Strategy addresses this gap by offering a practical framework for turning strategic intent into measurable execution. It places leadership accountability at the center of this translation. It shows leaders how to move beyond vision statements and embed strategy into daily operations. By focusing on alignment, accountability, and the human dynamics behind execution, organizations can energize teams, foster shared ownership, and adapt quickly without losing strategic clarity. The approach is designed to work across different organizational sizes and industries, emphasizing strategy as a living system rather than a static plan.

Drawing on more than two decades of global advisory experience, Dr. Kathryn Ritchie blends strategic rigor with behavioral insight, providing tools she has used to help leaders align people, priorities, and purpose. Her approach is grounded in real-world application rather than theory alone. ***Ignition*** positions strategy as both an art and a science, one that drives innovation, accountability, and lasting transformation.

IN THIS EXECUTIVE BOOK SUMMARY

- Get valuable insight into how to turn strategy from a plan into aligned action
- Understand how to engage teams and create shared ownership
- Find out how to embed strategy into everyday decision-making
- Acquire the necessary skills to lead adaptive, sustainable transformation

Introduction

Strategy has been a part of my life since I was a child. It is in my veins. I live and breathe strategy in all its guises and contexts. Part of the reason I love working in strategy is that I'm comfortable with change and uncertainty. I also love learning. All these aspects are present and play a significant role in the successful development and execution of strategy.

Humans are wired to solve problems and create certainty and stability. That said, our brains are most activated when we face uncertainty. This is why uncertainty should be embraced and seen as a time for learning, when possibilities beyond the known emerge. These are times for reflection and growth and are key ingredients for successful strategy—both its development and its execution.

As a business leader and strategy consultant for over thirty years, I have helped companies double in size, ignite teams to achieve new levels, and navigate transformations, exits, and uplifts. Across this work, I see a landscape of inspiring effort and outcomes as well as missed opportunities, wasted effort, and misused resources. The possibility of learning and improving constantly sits before us.

The Three Enoughs

My foundational business model and thesis posit that we just need enough to drive strong performance and execution.

- Enough clarity – centers on the "what" of the business and strategy.
- Enough cohesion – focuses on all things people, team, and culture.
- Enough discipline – the tools and techniques that will allow the people to lock in the strategy, execution path, and momentum to deliver.

You only need *enough*. Otherwise, you are overinvesting or removing the opportunity from some uncertainty and dissonance. You do need enough of each of these factors.

Why Do Many Miss Out on Their Growth Potential?

Maybe it's because strategy is elusive when it is genuinely in flow in an organization, when the art and science of strategy are in sync. Perhaps it is because strategy is too frequently disconnected from its execution path and equated with a presentation needing approval.

Strategy is both complex and simple, yet not easy. It is about problem-solving and is a function of both art and science. The science of strategy is all about identifying a need or want that represents a viable market opportunity, and you need evidence of this. The art is the complex part and is embodied in execution.

This is where the "ignition" really shows up. It is about observing and reading the organizational system, seeing the patterns, and finding ways to ignite the system and establish execution momentum.

CHAPTER 1

Why Organizations Fail at Strategy

While the concept of strategy has existed and been applied successfully for thousands of years, its execution still falls short in many organizations, across all organizational types. Too many leaders still struggle to fully assess what a strong competitive strategy—that is, how an organization positions itself to win—truly looks like and, more particularly, what is required to successfully unleash its full potential day-to-day.

It is often seen as a difficult and highly technical area of expertise that must be handled by those with superpowers. Perhaps this misconception is why so many leaders over the past century and a half have outsourced strategy development to consulting firms, typically large and expensive ones. However, overusing large and often costly consulting firms has dramatically slowed the building of a strong strategy muscle in the global business landscape across organizations of all shapes and sizes.

Competitive strategy can be understood, embraced, and evolved throughout your organization. Only when it is fully democratized will you unleash the true firepower of the organization you are leading.

But democratizing competitive strategy requires more than participation; it requires clarity about what strategy actually demands—understanding and embracing it as both an art and a science.

The science aspect means that there are real technical and analytical demands associated with arriving at the point of having made a robust set of choices that support your competitive positioning. The art of strategy embraces that strategy and its execution are iterative by nature and depend on taking some risks, testing, and learning. You can have the best strategy in town, but it will go nowhere without the hearts, minds, and hands of your people. These team members question, experiment, challenge, learn, and align to bring your organization's strategy to life.

> You can have the best strategy in town, but it will go nowhere without the hearts, minds, and hands of your people.

People, Systems Thinking, and Alignment

To broaden the strategy's focus, we must incorporate the human element. This involves the disciplines of sociology, philosophy, behavioral science, group dynamics, neurology, psychology, economics, and more. Understanding the impact of these disciplines is how we build our understanding of what we need to do to create and foster the conditions for people to feel inspired to do their best, learn, and grow.

Second, we must account for systems and subsystems when considering our organizations. The systems are dynamic and constantly interact on multiple and varying levels. They cannot be controlled, only shaped.

Third, we should systematically integrate and link all activities within our systems that support our competitive strategy. Once we can connect the various interdependencies to the strategy, activities and work programs can have their "oxygen" and remain aligned.

Strategy development and execution are joined at the hip, ever dynamic, and must be in the blender together. They cannot be detached. No amount of engagement or cascading will fill this void.

CHAPTER 2

Strategy Is Messy

Given that strategy is born in what the Harvard Case Method describes as a wild environment, good strategy is much more than doing the analysis, mapping it on a whiteboard, and documenting a rational story in PowerPoint. Strategy cannot be neatly packaged into boxes of information ready to hit the execution production line. Good—and certainly great—strategy serves as a rudder for your business decisions. It is iterative; the next step or question is informed by the outcome of the last.

When we try to force a mapped-out strategy development process that doesn't assume a wild environment, we'll likely miss out on a business's true potential. The magic happens when we dare to embrace this messy process.

Embracing the mess means stepping away from rigid control to allow for more speculative thinking. It involves asking questions such as:

- What might happen?
- What could we do?
- What if we tried this?
- What would need to be true for specific outcomes to occur?

How to Think About Competitive Strategy

Think of competitive strategy as an ongoing, disciplined journey rather than a slick PowerPoint deck. Michael Porter, a titan in the field of strategy, identified core generic strategies for achieving competitive advantage in his 1980 book *Competitive Strategy:*

- The strategy of cost leadership is when a company aims to be the lowest-cost producer in its industry.
- Differentiation is when a company seeks to stand out by offering unique features, qualities, or services.
- Focus, which splits into cost focus and differentiation focus, targets specific market segments with tailored low-cost or unique offerings.

Three Ways to Stand Out

When it comes to differentiation, there are three ways to stand out in the eyes of your customers:

- Have the best product to win in product leadership.
- Win based on customer intimacy—be responsive to their needs and solve their problems.
- Ensure operational excellence, where you win by being the most efficient at doing the job.

Strategy Needs to Drive Your Business

Strategy, targets, and plans are all important in driving business performance. The relevant question is: What should have priority?

In the entrepreneurial setting, strategy drives the business, whether articulated in words or writing. The risk is that the strategy and its momentum can be lost in transitions. This risk is greater if the strategy is not explicitly articulated and worked with knowingly. And this risk is further compounded if the new owners overweigh the role of financial

targets, driving purely short-term decision-making that undermines the competitive strategy.

Overweighing financial targets outside of the associated strategy gives rise to what I call target-driven strategy. It is the most common—and often dangerous—alternative to an organization being strategy-driven.

CHAPTER 3

Getting into Strategy and What Makes It Work

If a business is making money, then a strategy is in place. It might not be articulated and is likely not optimized. However, an offer in the marketplace is being presented to attract buyers over other offers.

If the business makes a profit, the strategy can be strengthened into something with real, sustainable competitive potential. If the business has reached some level of scale for its industry, there is likely to be a strong strategy foundation and much more potential through more systematic development and planned scaling.

At its core, competitive strategy is about identifying opportunities in the marketplace, choosing the best opportunities given your business, and then addressing them uniquely and superiorly so that the customer perceives higher value from that offer.

Strategy development and execution go hand in hand in a dynamic dance where each informs the other. Separating these two forces is risky for any organization.

The way these dynamics come together is different in every organization. There is no one-size-fits-all. A rolling diagnosis to understand potential blockers and opportunities helps evolve your winning position.

This allows you to get ahead of the curve, mitigate slowdowns, anticipate and address misunderstandings and a lack of ownership, build upon enthusiasm and commitment, and reduce resistance.

Strategy development is the first and most critical role of the CEO and their leadership team, and it requires continual attention. While external advisors may provide incredibly valuable input to inform an organization's strategy, strategy is the last thing a leader should hand off to external parties. Strategy is so much more than documentation. The leader's role is to embody the strategy, lift it off the page, and make it relevant to everyone.

Mindset Matters

Despite significant academic research, writings, and improvement throughout the business world, there is still considerable upside to be realized from strategy development and execution. One driver may be that organizations tend to operate in a linear and controlled manner. This worked to a greater extent when the world moved more slowly.

However, today, overvaluing a linear approach and using it in the wrong places will constrain good strategy. The process of strategy development and strategy execution involves both systems and linear thinking. The critical message here is that the *right thinking style* needs to be applied at the *right time*.

Systems Thinking

This is at the heart of strategy development. It involves exploring and mapping complex interactions within a system and appreciating the dynamic interconnections among its elements. It allows us to identify and explore various possibilities, opportunities, and risks—all essential aspects of the strategy development process.

Linear Thinking

This focuses on creating defined and sequenced pathways, something core to the planning process. It is the classic one step after the other—first this, then that, and then this. Creating a strong plan is critical to translating a competitive strategy into executable form.

In simple terms, strategy development is best approached using systems thinking. When we let go of controlling the content and thought path, patterns and connections through and across a system of possibilities can be seen. This is the place of deeply explorative and speculative thinking and is essential in developing, reviewing, and refining your competitive strategy.

Finding the right balance is key. Certain functions in organizations tend to draw upon one style over another. For example, successful sales functions usually result from a more linear approach than marketing, which is often fueled by systems thinking. Good leaders know how to toggle between different ways of thinking. They spot these style preferences in their team and harness them effectively.

CHAPTER 4

The Importance of the Human Element of Strategy

Successful entrepreneurs have extraordinary talents and connect very tightly with the initial circle of people who stand

> Strategy without culture is hollow,
> and culture without strategy is aimless.

up for their organizations. They're like the heart of a business, pumping life and direction into everything, and people follow them naturally. It's not because these entrepreneurs haven't encouraged independent thought. They are just deeply involved in steering the ship.

Yet there is typically a ceiling to how much an entrepreneur can scale their business. There comes a point where the business can't grow without new investment or leadership talent. Often, it's only after an entrepreneur leaves a company that we recognize the extent of their impact.

These businesses can reach great heights precisely because the team syncs with the entrepreneur's beat. They've been dedicating themselves to that entrepreneurial vision. They're not just working a job but are on a collective mission. Their commitment and loyalty are all tied to that inspirational force. They're doers of the highest caliber, but without the entrepreneur's guiding voice, they can run adrift.

Leadership Transitions During Growth

An important stepping stone to mitigating this risk is for founders to externalize their deep strategic understanding of their business—how they position to win, what choices must be made and executed to align with this, and what lead indicators give them a pulse check on how they are performing.

This is something first-generation entrepreneurs in particular must guard against. It's not just about losing a leader; it's about losing the person who instinctively filled every space with purpose, passion, and direction.

This transition is best done with the entrepreneur in place and usually requires the introduction of a strong COO from the outside who, in essence, has the skills of a CEO and can create the bridge between the entrepreneur and the organization's capability to develop and execute strategy on a rolling basis. This is best accompanied by thoughtful education of all key leaders in situ and involves learning the theory through the lens of real-life strategy in action in that company.

Reading the Room

David Kantor's work in providing leaders with a way to work with this is groundbreaking. He is a systems theorist and psychologist known for his contributions as a researcher, author, and organizational consultant for understanding human dynamics in group settings.

Kantor argues that, while there has been significant progress over the past couple of decades in finding good to great leaders and coaching them to even greater success, experts and high-placed leaders have tended to overlook a fundamental skill—face-to-face talk, in person and online. Kantor would say that the key to being the best leader you can be depends on this skill.

Kantor described four distinct positions individuals can take during interactions as part of his foundational research. All are required, and they are neither right nor wrong, good nor bad.

1. **Mover** – initiates the dialogue and moves all others into action or sets the direction in the group. The mover gets us going with an idea using a statement, observation, or question.
2. **Follower** – supports or follows the mover's lead and progresses the mover's idea down the path of action.
3. **Opposer** – constructively challenges or resists the direction being set.
4. **Bystander** – observes and may provide perspective or keep a neutral stance. This role feeds back the patterns it notices and helps the group understand where it is in the conversation.

Kantor also introduces the communication domain, which essentially considers our focus during conversation and indicates what issues, topics, and content naturally gravitate to us. Listening to this domain in action is almost like listening to three different languages. Once understood, it can transform how you, as the leader, can bring it all into play.

- **Power** – the language of accountability, competence, and completion. In short, getting stuff done.
- **Affect** – the language of the connection, emotion, and the lasting impact decisions have on relationships, trust, and motivation.
- **Meaning** – the language of logic and sense of purpose, focused on how ideas fit together, how they work in practice, and what they ultimately signify.

There are no right or wrong communication preferences. We need them all, in different amounts, depending on the pur-

pose of the conversation. Our styles are the combination of all the various elements.

The art here is to *read the room*—assess the efficacy of the dialogue and ask what might need to be done differently to be more effective. Teams with well-developed dialogue skills do this well. It becomes a habit and a competitive advantage. If you, the leader, know how these dynamics play out, you can be a more effective facilitator of conversations, including negotiations, with all groups and teams and in all settings.

Bringing Your People into Your Strategy

If your business is to thrive over time, your approach to competitive strategy must ensure that every team member can understand the strategy as well as where their role fits and how it contributes to the business's success. This dynamic has been demonstrated repeatedly in the world of sports—a championship team with a winning system consistently outperforms teams with only extraordinary individual champions.

Getting everyone on the same page with your strategy may take longer and be more cumbersome in the short term. You might even grow frustrated with those who can't climb as fast or grasp key concepts that seem so basic to you.

However, as you get everyone on the same page, you see the real magic begin to happen. This isn't about getting people to nod along to show agreement; it's about achieving a shared understanding. It's ensuring everyone is reading from the same script, has the confidence to question and challenge, and feels responsible for making it happen.

CHAPTER 5

Your Competitive Strategy

Competitive strategy is the heart of any business, no matter its size. While it is not the only factor in your business's success, it informs the other elements, particularly the culture and your execution focus. Different landscapes present different opportunities and ways to win. Pursuing these will involve hard work, the right skills, and discipline.

My favorite definition of competitive strategy is that it is a set of choices about winning—an integrated set of choices that uniquely positions a firm in its industry to create sustainable advantage and superior value relative to the competition.

While many frameworks can guide the development of competitive strategy, I typically use, with a few modifications, the approach set out in the book *Playing to Win: How Strategy Really Works*. Competitive strategy in the Playing to Win approach comprises five questions:

1. What is your winning aspiration?

This defines the overarching goal for the relevant period you are considering. In most instances, I would suggest three years as an appropriate timeframe.

2. Where will you play?

This allows you to call out where you can win. This includes geographies, product categories, target market segments, channels, and vertical stages of production.

3. How will you win?

This question requires you to call out how you position your business to win. What aspects of your offer make your proposition distinctive and sufficiently attractive for enough of your target market to purchase your offer over the competition so that your business is financially viable?

4. What capabilities must we have in place?

The winning capabilities shouldn't belong to a single person. They must be institutionalized and embedded deeply so they belong to the organization.

5. What management systems are required?

This question deals with translating strategy into actionable steps. This is the beginning of the bridge to a well-structured, relevant, executable plan.

CHAPTER 6

Translating Strategy into Executable Form

Why do around 70% of projects and initiatives fail to deliver on their promises? I learned that leaders, often CEOs, feared that acknowledging what hadn't worked might draw negative attention to their leadership and could even cost them their jobs. So instead of addressing the issue of poor delivery, they swept these challenges under the rug.

Understanding the drivers of the problem and exploring what could turn it around has been a passion of mine for the past three decades. Research and practice, particularly working in the trenches with leaders globally, have revealed the importance of the **Middle Ground**.

The Middle Ground is what sits between the meta-thinking of your competitive strategy and the micro level of doing. This connects, activates, and aligns organizational effort across the whole system. If done well, it focuses on choice

> The critical gap lies in the connection between competitive strategy, governance, and execution.

and filters out the noise—that is, those activities that aren't sufficiently aligned with the strategy—and clarifies what is needed to deliver on your strategy.

The Middle Ground comprises six key areas, all critical to successful execution. They support each other and work together in a way that will unleash your organization's performance operating system:

Step 1: Build out the plan

The task here is to ensure that the competitive strength is not diluted in a rush to identify action.

Step 2: Engage the team members

Engaging the hearts, minds, and hands of team members across the organization is more complex than scheduling quarterly town halls.

Step 3: Run everything through the portal of culture

Your culture will be shown in how things are done across the organization in choices, behaviors, and decisions.

Step 4: Understand the magnitude and nature of change

Change is implicit in every strategy and can encompass structural, operational, behavioral, and cultural change.

Step 5: Measure, track and report

Establishing a meaningful way of governing your efforts is core— measuring, tracking, and reporting on performance and progress are necessary disciplines to stay the course and make the required adjustments for successful execution.

Step 6: Build institutional know-how

This ensures that an organization's strategy remains strong daily and is independent of any person or team.

CHAPTER 7

More on Building the Middle Ground Plan

Effective planning is difficult, but it is absolutely essential in driving strategy execution and achieving your business's best performance over time.

Planning skills must be learned, particularly the skills that allow you to build a strong Middle Ground plan. Focusing here has the potential to unlock significant margin and value for many businesses.

How to Start Building Out Your Plan

The art of planning depends on defining initiatives and activities at the right elevation and within the right hierarchical structure, effectively creating stepping stones from the competitive strategy to relevant, aligned action at the front line. Businesses tend to be better at defining conceptual activities and micro tasks, often doing so without these intermediate links. When thoughtfully constructed, they preserve the strategic intent and power of your competitive strategy.

The development of a good plan requires strong linear thinking. Well-thought-through initiatives sequenced over time serve as the base. The question becomes, which initiatives? How do you surface those activities that will have the most consequential impact on executing your strategy?

To sharpen your thinking, we suggest you undertake an envisioning exercise to support this process and help in the inevitable prioritization and trade-off decisions.

CHAPTER 8

Change

Our environment—physically, socially, technologically, and more—is in perpetual motion. Therefore, we are in a state of constant change.

This is the business context. The ability to work with change, embrace it, and adapt to new circumstances is core to all we do, particularly our ability to learn and lead successful strategy development and execution.

We distinguish two broad categories of change:

- **Continuous change** – includes the day-to-day change such as the technology upgrade, resignation, or misplaced order.
- **Extraordinary change** – a significant change that requires planning, such as a structure change, a location move, an acquisition, or a new platform or process. It demands thoughtful planning to ensure that performance is not disrupted.

The Cynefin Framework, developed by Dave Snowden, is a useful conceptual framework to aid decision-making and problem-solving. It categorizes change situations into five domains based on the nature of the relationship between cause and effect:

- **Simple (obvious)** – cause and effect are clear and easily predictable. Solutions are straightforward and can be applied universally. Best practices and standardized procedures are effective in addressing issues in this domain.
- **Complicated** – cause and effect relationships are not immediately apparent but can be determined through analysis and expertise. Problems require a deeper understanding and expertise to solve, often involving multiple factors and variables.
- **Complex** – cause-and-effect relationships are nonlinear and emergent, making them difficult to predict. Solutions are not evident and may require experimentation, adaptation, and exploration of different approaches. There are no right answers but a range of possible responses.
- **Chaotic** – no clear relationship between cause and effect, and situations are rapidly changing and unpredictable. Immediate action is necessary to stabilize the situation, followed by a transition to a more stable, ordered domain.
- **Disorder** – represents a state of ambiguity where it's unclear which domain a situation falls into. It serves as a starting point for understanding and categorizing the nature of a problem before determining the right and appropriate approach.

This framework helps individuals and organizations navigate complexity by providing a structured way to understand and respond to different types of change circumstances that cause problems. It encourages embracing uncertainty, experimenting with solutions, and adapting approaches based on the situation's context.

CHAPTER 9

The Power of Culture

Culture is the way things are done in an organization. It matters because it sets the tone for everyone. It shows everyone how things are done. Newcomers look for signals to figure this out so they can fit in.

A strong culture shows up with strong messages and predictability. People understand what specific behaviors and decisions mean and what they reinforce. The cultural signals are clear.

With a weak culture, the meanings of cues are not clear. This leaves people guessing. Confusion and a lack of stability ensue. It could be the case that in the ever-dynamic and changing environment in which we operate today, and as our strategy evolves, our organization's culture will need to change and grow with the strategy.

A strong culture is much easier to change than a weak one simply because it is clear. Trying to change something that is loose and unpredictable is very hard. Strong cultures will serve your strategy more powerfully if aligned.

Culture eats strategy for breakfast often comes to mind when we think about the relationship between strategy and culture because everything goes through the portal of culture. Still, it won't make it to dinner if the strategy doesn't robustly carve out the organization's purpose and winning positioning.

Strategy without culture is hollow, and culture without strategy is aimless. Both must be developed harmoniously to ensure the organization can successfully navigate internal and external challenges and sustain competitive advantage across market cycles. Strategy provides the direction, and culture offers the means to execute and sustain that direction.

CHAPTER 10

Creating Momentum Through Systems

The shift from one-dimensional governance, where risk assessments are seen as separate documents and presentations to demonstrate performance, to a true system of governance is critical. Risk assessments should inform how risks are mitigated, which is built back into the plan.

These should function as part of an integrated learning, diagnosing, and iterating system that creates momentum and enables effective strategy execution and performance.

Governance isn't a one-size-fits-all playbook. It's about understanding what the organization needs to govern itself properly, maintain transparency, and keep those who are accountable informed while enabling rather than constraining effective execution.

Having worked with all structures and organizations at all stages of development, I can tell you that overdoing governance can be as damaging as doing too little. It can potentially stifle an organization to the point of failure.

CHAPTER 11

Your Strategic Leadership ToolKit

Strategy development is improving across many organizations. Most know (or assume) they have a good strategy, and if the business is making money, some form of strategy is clearly in place. Strong earnings before interest, taxes, depreciation, and amortization (EBITDA) often signal that a solid strategy is operating. Governance is also receiving increased attention. However, the critical gap lies in the connection between competitive strategy, governance, and execution.

Leadership is the lynchpin of your organization's success. *Your* leadership. No matter your success and path thus far, we all have blind spots and over-indexed superpowers that mask our blind spots. Your opportunity is to explore what might be holding you back and, consequently, the execution of your company's strategy. Whether you are a CEO or a team member, your leadership still counts.

Get clear about your strengths; perhaps have a reliable playbook that supports your success. Know it, grow it, and continue to employ it.

The 3 Pillars of Execution Excellence

Execution excellence rests on three key pillars:

- **Clarity** – encompasses how clear you are about where you're going and how you will get there. This includes strategic direction and operational clarity about roles, responsibilities, and expectations at every level of the organization.
- **Cohesion** – addresses how well your organization and its culture are aligned with the strategic direction. It's about ensuring that the various elements of your business—from culture to capabilities to operational systems—work together rather than at cross purposes.
- **Disciplines** – refer to the systematic practices and behaviors that ensure consistent execution over time. These are governance systems, planning and measurement practices, and leadership behaviors that sustain performance.

Reading the Environment Continuously

One of the most critical capabilities for ongoing success is staying connected to your operating environment. This is not a one-and-done exercise. This is critical in today's high-paced, complex, and dynamic environment, likely accelerating in importance with AI, quantum computing, and other emerging technologies.

People throughout your organization often possess sediments of knowledge—insights and intuitions about what's happening that may not yet show up in formal data. Creating mechanisms to surface and examine these insights can provide early warning signals about changes that require strategic attention.

CONCLUSION

Implementation Starts Now

There's already a strategy in place and activity happening. Your role is to assess where you are, identify what needs attention, and begin systematically strengthening the connections between strategy, execution, and governance.

Start with the self-assessment questions. Be honest about gaps. Then prioritize the areas that will have the greatest strategic impact on your ability to execute your competitive strategy effectively.

The goal isn't perfection—it's systematically improving your organization's capability to translate strategic intent into sustainable competitive advantage.

Your competitive strategy provides the foundation. Your execution capabilities determine whether that strategy creates the value you intend. Your governance systems ensure you stay on track and adapt as needed. Together, they form the integrated approach that separates successful organizations from those that are average and "kinda" survive, and those that struggle despite having good ideas.

The journey from strategy to sustainable competitive advantage isn't linear and is never complete. But with the right intention, mindset, behaviors, framework, and discipline to address what you discover and learn, you can build an organization that survives and thrives in whatever environment it faces.



Dr. Kathryn Ritchie is the founder and CEO of Ignition Institute, a consulting firm that guides leadership teams through holistic, performance-driven transformations worldwide. Known for her expertise in strategy execution, she helps organizations move from planning to measurable growth by building accountability and alignment at every level. Ritchie previously held management roles at Macquarie Bank and served on nonprofit and university boards. Trained initially as a speech pathologist, she brings a distinctive understanding of human performance and change. She holds an MBA from the Australian Graduate School of Management and was named one of *Women's Leader Magazine's* Most Inspiring Women Leaders of 2022.

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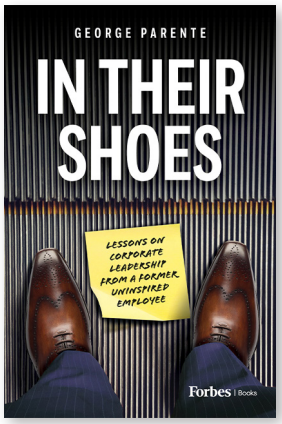
In Their Shoes

George Parente

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Executive Book Summaries®

In Their Shoes

Lessons on Corporate Leadership from a Former, Uninspired Employee



by **George Parente**

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THE SUMMARY IN BRIEF

Leadership goes beyond just ensuring your team completes a list of tasks or accomplishes a set of goals. Great leaders prioritize empathy and understand the value of putting people first.

The book ***In Their Shoes: Lessons on Corporate Leadership from a Former, Uninspired Employee*** urges us to explore the question, "Will I want to be treated the way I treat my subordinates?" Throughout the book, you explore different leadership styles, learn to lead by example, empower your team through transformation, extend support by thinking beyond yourself, and ultimately become the leader you wished you'd had.

By blending insightful personal anecdotes with a set of action steps directed toward bringing positive transformation in the workplace, the author inspires us to lead our teams from a position of empowerment and empathy.

IN THIS SUMMARY, YOU WILL LEARN:

- About Contingency, Situational, and Transformational leadership.
- How to cultivate trust and lead by example.
- How to encourage team participation through servant leadership.
- How to empower, motivate, and support your team.

Introduction

The reason for me to write this book was to highlight the importance of leadership – not only in business but also in our everyday lives. Looking at my life, I noticed a lack of effective leadership in the education system, among our political leaders, and among the management in the different companies where I worked during my first decade in the workforce. I hope anyone who reads this book is inspired to become the leader they always wished they had in their life. On the following pages, I give you a behind-the-scenes look at my leadership evolution, and I share why concepts such as contingency leadership, situational leadership, and transformational leadership have made a profound impact on my life.

During our journey together, I hope to help you see the only way a leader can effectively lead others is if they have walked in the shoes of those they lead.

Part 1: Contingency Leadership

Chapter 1: It's All About People

As someone who had always been fascinated with psychology, I realized the only way I would ever last at an organization was if it was built around people and not just profit.

As CEO, I'm always looking for opportunities to set my employees up for success. I want to help them get the best contracts and increase their salaries so they can have more time to do what they love outside the office. Almost every one of our seventeen employees has been with DTG Consulting Solutions for over 10 years. As a result, there is a sense of camaraderie and trust we have with one another. If you're reading this book, chances are you, like me, long to be a part of something bigger. We want to work in an organization that makes people the number one priority. We want to work for people who have walked in the shoes of those they lead.

Chapter 2: Different Leaders for Different Seasons

Because business is all about relationships, our approach to leadership must shift based on the personalities we lead and the situations we face. This is what many refer to as contingency leadership.

Contingency leadership is both relationship and task-based, and it focuses on what type of leader would be the best match for different circumstances or settings. The three variables of contingency leadership include the degree of confidence that followers have in their leader, the degree to which the structure of the task is clearly identified, and the amount of authority a leader has to discipline or reward followers.

But how can you know if you are the right leader to lead your team through your current situation? The answer comes down to whether you are willing to adapt to the situation before you. Adapting isn't always enjoyable. But it's the only sustainable way to lead an organization forward. Effective leadership is not always easy. It takes a lot of work. But the key is accountability. By taking accountability for your work, you can build a culture people trust and value.

Chapter 3: Lead by Example

Leadership starts with how we lead ourselves. Leading an organization well starts with approaching each workday with positive energy and the attitude of a professional. Part of leading by example is knowing our limitations. It is about following the positive examples of those who have walked before us.

Leading by example is not natural for some. While leadership is wonderful, it can sometimes feel very uncomfortable. Often, it doesn't feel "natural" to move into a managerial setting, and people are unsure how to respond to the change. When I encounter someone like this, I encourage them with that timeless sentence of wisdom, "Fake it till you make it."

The best leadership happens through empowerment. As we learn, grow, and develop, we empower those around us to do the same. One of the ways I empower others is by telling them where I want the company to go and letting them tell me how we will get there.

Part 2: Situational Leadership

Chapter 4: The Importance of Situation Leadership

Situational leadership is when a leader uses a different style to adapt to a situation. Contingency leadership means the effectiveness of a style is contingent upon the situation.

When you have the right leader for the situation, the next step is to ensure the leader is using the right leadership approach with each person they approach. The situational leadership model often rests upon the leader's ability to appeal to the maturity level of their followers. "Maturity" refers to the subordinate's capabilities and willingness to focus on a particular task or objective.

The success of a situational leader depends on their ability to recognize whether their subordinates require more task-

based or relational-based guidance and to adhere to those needs by adjusting their leadership style. The six styles of situational leadership include:

- Coercive leadership, where a leader sees a problem and needs it fixed instantly.
- Authoritative leadership, where the leader paints a compelling vision but lets the team choose the specific route they want to accomplish that vision
- Democratic leadership, where everyone has a voice
- Pacesetting leadership, which is all about leading by example
- Coaching leadership, where leaders work with their employees one-on-one to produce the best results.

Trust is one of the most important elements of situational leadership. Employees need to know that leaders have their best interests in mind.

Chapter 5: Encourage Partnership Through Servant Leadership

A large component of situational leadership is encouraging worker participation through servant leadership. This leadership style begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead.

Having the heart of a servant is critical. The primary focus of servant leadership is providing support to those who follow, thus motivating these followers to engage with those they lead in a similar fashion. The idea behind servant leadership is that leaders sacrifice their own needs for those of their followers. When a leader practices servant leadership, they are spreading leadership throughout their organization by putting a subordinate in the role of a leader and the leader in the role of a subordinate. When this happens, the company's culture changes as the subordinates increase their confidence and knowledge. Thus, new leaders emerge within the organization.

Chapter 6: Empower Through Transformation

The transformational style of leadership is one of the most popular theories of leadership today, in part because of its ability to translate across cultural boundaries while being applied to more situations than many of the other studied theories of leadership. The main premise of transformational leadership is to formulate a vision for subordinates to focus on a higher order of intrinsic needs and organizational goals. This is accomplished by having transformational leaders who inspire followers through motivation to become engaged in their work- thus sharing in the vision of the organization.

Transformational leaders use four components to empower people on their teams: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Because the transformation leadership theory creates a strong bond between leaders and subordinates, this leadership leads to long-lasting benefits between leaders and subordinates.

Chapter 7: Support Through Thinking Beyond Yourself

After you have empowered people on your team, the next step is to make sure you provide them with the support they need. One of the primary ways to support subordinates is by getting out of their way and trusting them to make the right decisions. This empowers people to grow at a faster pace because they don't always have someone looking over their shoulders. They feel the freedom to operate without a sense of fear.

When it comes to supporting people on your teams, it's not one or two major action steps that make a difference. It's a series of strong decisions that show your team members you value them and you're willing to back up what they say. Leaders who support their teams well embody what it means to walk in the shoes of those they lead.

Chapter 8: Be the Leader You Wished You Had

Much of what motivates my style of leadership stems from the lack of leadership models I've had in my life along the way. People have no problem working hard for someone who cares. But they have little time for those who misuse the trust they place in them.

In most organizations, employees learn to walk on eggshells around their boss and say all the right things because if they don't, they'll suffer the consequences. Being the leaders we wished we would have had is one of the driving motivations that allows us to lead others as though we are walking in their shoes. It's seeing a team member's present situation, doing some personal reflection, and thinking about how we would like to be treated if we were in their position.

One of the reasons leaders struggle to lead in the shoes of those on their team is that they have short memories. They forget those times when they were treated poorly and how

an inconsiderable boss made them feel. But strong leaders never forget where they've come from and lead their teams from a position of empathy and understanding.

Part 3: Transformational Leadership

Chapter 9: It Starts with Trust

Trust holds an organization together. The reality of trust is that it can take years to develop but moments to lose. When trust is lost, it is seldom regained.

Trust starts with ethical leadership. When we talk about being a person others can trust, we're talking about the importance of being an ethical person. More than ever, we need leaders who are governed by a set of ethical principles they will not violate.

Ethical leadership encompasses the duty to perform the job functions morally to avoid negative behaviors and encourage praiseworthy behaviors. Leaders and organizations are potent sources of influence due to their positions and authority. When developing a corporate culture, leaders must emphasize creating a culture centered on high moral values. They must create a culture in which employees act with integrity, take responsibility, and are held accountable for their actions.

Chapter 10: How to Think Like a Servant Leader

While the concept of servant leadership is often espoused by business leaders today, the real value of servant leadership is only realized when it changes the way one thinks, acts, and leads. Servant leadership as a theory alone results in a lot of nice rhetoric about putting others first, but the underlying motivations are often self-serving. Every business manager is for being a "servant leader"- as long as it gets others to do what they want them to do. However, the essence of servant leadership is serving others in ways that are beneficial to them. It's about looking out for the general well-being of those on your teams.

Leaders with the hearts of servants are always willing to do things that aren't glamorous to make their world a better place. Being a servant leader is a 24/7 responsibility. It's who you want to be all the time, not just during the moments you are in front of your team. If you want to be a strong servant leader in the workplace, my suggestion is to start by being a servant leader at home and in your community. Pick up trash. Make the morning coffee. Do those tasks that are below others. And before long, you will condition your reactions to be those of the heart of a servant.

Chapter 11: Create a Transformational Leadership Culture

When you walk in the shoes of those you lead and have the heart of a servant, the culture in your organization starts to change. The key to a great culture is to find great people. If you don't have people of character and competence, you'll end up spinning your wheels as you attempt to create a strong culture. You need great people, and then, you need to get everyone on the right seat on the bus.

Be beyond hard skills, and focus on evaluating the soft skills of your applicants. These skills are hard to measure and are closely related to an individual's personality. They include communication skills, work ethic, and the ability to work with others on the team. The seven characteristics to watch out for prospective team members include past work experience, ambition, cultural fit, clean social media accounts, positive attitudes, employee referrals, and employee value.

A leadership role requires you to put on many hats at once. It requires you to make tough decisions that can shift the direction of an entire organization. Great leaders must fully utilize their knowledge and skills to make suitable decisions for their firm's growth. You must be skilled at assigning tasks and assessing your team's performance. This responsibility also includes the allocation and management of resources.

Fear of failure is one of the most significant barriers that can stop you from settling into a leadership role. To push away self-doubt, you must remind yourself that you got the position for a reason. Failure is just another opportunity to learn, after all. Transitioning into a leadership role also brings on the challenge of handling disagreements among group members, both proactively and reactively. You should learn how to identify and address smaller concerns that are likely to turn into bigger issues later.

Chapter 12: Craft a Vision Worth Achieving

The concepts such as situational leadership, servant leadership, and transformational leadership sound great on the page. But they play a beautiful tune when you start to put them into practice. The key is to capture a fresh vision and know where you want to go.

Just as it does little good to start a journey without a target destination, it is pointless to lead an organization forward if you do not know where you want to end up. This is where

the importance of a strong vision statement comes into play. Creating a vision statement for your company is just like deciding on a destination for your journey. This statement describes your company's direction, making it a crucial part of the company's identity. A vision statement refers to the document that defines the current and future goals of your business for all the stakeholders, including employees, customers, and investors.

Conclusion

Leadership never stops. It's a continual process. And the key is to never lose sight of what matters most. It's showing up when you'd rather give in. It's having the heart of a servant when you're tempted to lead like a dictator. It's never losing sight of where you have come from. And it's always about walking in the shoes of those you lead.

I hope that the principles shared in this book will challenge you to take your leadership journey to the next level. Contingency leadership, situational leadership, and transformational leadership are more than just terms on a page. They are the principles to be lived out every day.



George Parente has worked at DTG Consulting Solutions, Inc. for over 22 years. He was hired as the Chief Financial Officer in April 2000. And in October of 2021, he became only the second Chief Executive Officer that DTG Consulting Solutions has had in its 50 years of operations. Currently, he is responsible for overseeing all business operations at DTG. He also continues to manage the financial operations, including banking and borrowing relations, budgeting and forecasting, financial statement preparation, payroll, and cost analysis.

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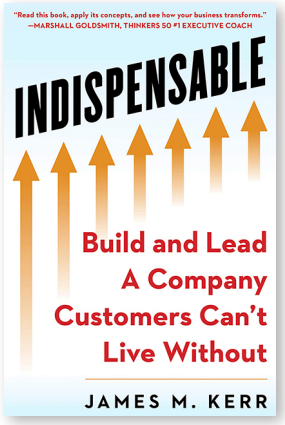
Indispensable

James M. Kerr

soundview
Executive Book Summaries®

Indispensable

Build and Lead a Company Customers Can't Live Without



by **James M. Kerr**

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THE SUMMARY IN BRIEF

While the pandemic is still with us, we must find it within ourselves to focus on what we have to do to become the kinds of businesses that our customers can't live without. There are many great companies–only a few are indispensable. The pursuit of greatness is important, but it's not enough. And outstanding leadership is essential to bringing a company from greatness to indispensability.

James M. Kerr wrote ***Indispensable*** for one type of reader: a business professional who wants to make a difference in their organization. Its intent is to provide you with a framework that you need to help your business become so outstanding that it befits holding indispensable moniker. Leadership is vital to helping businesses become indispensable. Regardless of your rank or position, you must be able to provide a captivating vision, active direction-setting, enlightened coaching, and a collaborative environment to the people you work with and serve. ***Indispensable: Build and Lead a Company Customers Can't Live Without*** teaches you how to do just that.

IN THIS SUMMARY, YOU WILL LEARN:

- Why your business needs to be indispensable.
- How the character of leaders impacts indispensability.
- The traits that are needed to move towards being indispensable.
- How to effectively manage change of this size and scope in your business.

Your Business Needs to Be Indispensable

Merriam-Webster dictionary defines indispensable as "being absolutely necessary and not subject to being set aside or neglected." The concepts offered in this book are already being used to make businesses indispensable in the marketplace. Keep in mind, though, only your customers can decide if your business is indispensable. Indeed, what we think of our businesses and their ability to delight our customers is irrelevant. We don't get to vote on that. However, there are steps that we can take to improve our chances.

Why Indispensable?

The answer is simple: the competition is overwhelming. Please believe that no matter what your company does or how it does it, there's another firm right behind you ready to take your spot. Moreover, your competition is not just local businesses. It's global. The internet and related technologies have made the world a whole lot smaller.

Your customers have choices. If you can't give them what they want in the ways they want it, someone else will. It's just a point and click away. So you better figure out quickly how to become indispensable, or you just might be replaced. Learn what your customers truly want and exceed those expectations.

You want to be on a constant lookout for ways to unlock your customer's potential. Paradoxically, the key to unlocking that potential in your customers lies with the leadership and culture of your organization. These are the keys needed to differentiate you from your competitors. These are the things that will enable you to be the provider of choice in the hearts and minds of your customers. Leaders who drive winning organizations through their leadership style and focus on culture can achieve this.

The Right Leadership

Leaders are built on a foundation rich in character, which enables them to inspire others to follow. Exceptional leaders not only possess the requisite honesty and righteousness needed to gain followership, but they emulate the hunger and conviction needed to motivate others to do great things. Leadership is one of those things that you have to get right in order to become an indispensable organization. In fact, indispensability starts with exceptional leadership, and exceptional leadership begins with character.

Leadership Begins with Character

Drawing a connection between leadership and character is not all that profound. Don't we all want leaders to be of honorable character? The idea seems universal. Here's why:

- We believe those whom we trust: You're not going to follow someone who you don't trust. Sure, you'll do your job, but that boss won't get your best effort, especially when things get tough. Leaders who lack character won't build an indispensable business because the people they lead may not consistently deliver their best effort.
- Consistency inspires confidence: We gain confidence in leaders who are consistently fair, honest, and reliable. While we may not always love every decision made by such leaders, we continue to respect and admire those who are consistent. Indispensability requires consistency among your leaders.
- Conviction draws attention: A leader with conviction generates a kind of allure that is difficult to ignore. Leaders of high character believe in what they're saying and project the conviction needed to rouse their people into action.
- Passion turns us on: It's mightily attractive to be in the moment with someone who is passionate about what they're doing. It inspires your best effort. Leaders who are passionate about making their organizations indispensable tend to create those kinds of moments.
- Indispensability demands courage: It requires tremendous courage to stir up the enthusiasm needed to drive an idea as big and expansive as indispensability. It takes even more courage to make all the hard decisions needed to realize that vision. Leaders must possess the personal character and courage to motivate while staying the course.

In a nutshell, extraordinary leaders possess a certain *je ne sais quoi* that makes them distinctive and impossible to ignore. To gain indispensability, we need leaders who hold the necessary allure to inspire others to follow.

How to Build a Team of Leaders

Building a team of passionate leaders begins with proper preparation. Once your people are properly prepared, they can be put into positions that enable them to make decisions that count. This positions you to enhance trust throughout the enterprise and build commitment to the cause of becoming indispensable in the marketplace.

Guess what, senior leader? Vision starts with you!

Here are some ideas to drive your team of leaders to greater heights of proficiency:

1. **Teach as you lead.** Don't be afraid to show your team what good looks like. Regularly take the time to gather your team together and share with them some insights about what underpins a few of your recent decisions. You can build higher competence within your team when you teach as you lead, emphasizing the importance of considering alternatives, evaluating risks, and thinking through important implications.
2. **Join forces on "decision rights."** Sometimes people are uncertain about what they're responsible for and question if they have the right to make certain business decisions. That said, it is essential that you, together with your team, reach a mutually-agreed upon set of conditions for when team members can act independently and which situations require your involvement or approval.
3. **Eradicate pocket vetoes.** If the U.S. Congress gives the president a bill and the president doesn't reject it or sign it, it dies on the vine due to inaction. This is a *pocket veto*. Don't do that to your team when they make decisions. Instead, use any subpar decision making as a learning-opportunity for your team.

These kinds of ideas can become the backbone of developing your leadership talent, especially newly minted managers who will undoubtedly play major roles in transitioning your firm to indispensability in the marketplace.

A Note About Dissent

If there was only one operating principle that you and your team should embrace and practice flawlessly from now on, it would be this: *Everyone on the team has an obligation to express their dissent.* The implications for your team in implementing this leadership principle are obvious. Indeed, not only do your people have *permission* to speak up when they don't agree with a new concept or idea–they have a *duty* to express that opposition. In fact, if your people have dissenting opinions and they fail to share them, then they are not fulfilling their responsibilities and run the risk of losing their spot on the team. If you don't encourage the expression of disagreement and you fail to listen to your team when they do, you will soon be leading a team of people who do not think. Clearly, this is not the kind of leadership needed to become indispensable.

The Right Vision

Indispensability takes vision. Without the right vision, it is difficult to inspire your people to do all the work and make all of the changes that they will need to make to reach the pinnacle of indispensability. Guess what, senior leader? Vision starts with you! It's not unusual to feel a bit apprehensive that you lack the insight and inventiveness needed to fit the bill. Stop feeling that way. It may be true that some seem to be born visionaries. While natural talent helps, it is not a prerequisite for success in crafting a completing and engaging strategic vision for your business.

Here are five simple things that you can do to begin developing your visionary capabilities.

1. **Just keep asking, "why not?"** This acts as a forcing function, allowing you to break through common resistances to new ways of thinking and doing and discover groundbreaking solutions to the most complex challenges facing your firm's path to indispensability.
2. **Flex your imagination muscles.** Visionary thinking happens when re-imagining how the work of your business can be accomplished. Taking time to imagine the possibilities helps reveal the path to great advancement.
3. **Mix contrasting ideas into your thinking.** The act of connecting disparate thoughts and theories together to produce new and trailblazing perspectives is what vision-setting is all about. The practice feeds innovative thinking.
4. **Become synergistic.** As the old adage suggests, two brains are better than one! Pull ideas and concepts from like-minded people. Synergistic thinking

will unearth the insights and perspectives needed to round out your vision.

5. **Develop customer empathy.** Seeing the business from an outsider's point of view is always illuminating. The practice of putting yourself in the customer's shoes and imagining what it must be like to do business with you can help identify opportunities for improvement within your company and discover the best ways to delight your customers.

Writing a Company Vision Story

To be clear, it is not recommended that you invest time in developing the same tired and uninspired vision statements that appear on company websites or are printed on banners strung from company rafters. These kinds of company visions are a dime a dozen. They are nice slogans, but not particularly inspiring. Your vision should be much more than slogans and catchphrases. It should serve to describe what it's like to be part of the organization and distinguish your specific enterprise from its competitors.

You want to construct a vision story so compelling and vivid that the average working professional wants to be a part of it. To accomplish this, the story must have the necessary depth and detail to capture one's imagination. It should include your overarching ideas refined by the thoughts and suggestions gained through the conversations, workshops, and survey information that was gathered from other leaders and personnel. Above all else, it must be enlightening and riveting or your people won't get revved up about achieving it.

The Right Culture

If you want to be indispensable, you need the right culture. Not convinced that culture is important? Unclear if it's with the effort to transform yours? The return on investment now obvious enough for you? No problem. Just answer a few questions.

1. **What's the value of strategic alignment?** Getting your culture aligned with where you want to take your business is absolutely critical to achieving your vision for the future. After all, you won't realize the vision if your company culture can't support it.
2. **What's the value of improved teamwork?** Getting your people to work as one is instrumental to business success. Your culture must be set up to do that. If it isn't, your performance will undoubtedly suffer.
3. **What's the value of a high-trust work setting?** All good things are based on trust. If your culture is built on trust, your business is well-positioned to overcome all of the obstacles that will confront its journey to strategic accomplishment.
4. **What's the value of improved communication?** Communication is the centerpiece of every business. Outward communication drives prospective customers to your door and supports them once they've made the choice to become actual customers.
5. **What's the value of improved customer intimacy?** It's tough to stay in business without satisfied customers! Your culture should be built around understanding their needs and wants and then delivering impeccable service so that you become the provider of choice.
6. **What's the value of high resiliency?** Running a successful business is a rough and tumble undertaking. Your company culture will determine its ability to withstand and overcome adversity.
7. **What's the value of being a talent magnet?** You want exceptional people? Build a company culture that makes you the employer of choice. Great culture attracts great talent.
8. **What's the value of greater innovation?** Your products and services better be amazing if you intend to continue to grow your business. Here's where innovation comes in. By creating a culture that continuously innovates, you improve your ability to be amazing.

What's the value of all this to your organization? Investing in cultural transformation is perhaps the best thing that you can do to become an indispensable enterprise. Indeed, company culture is the foundation of every business because it determines how people behave.

If you optimize the culture and ensure its alignment with the achievement of your strategic objectives, your business performance will improve. Place a value on that and compare it to the cost of cultural transformation and you'll have an ROI that makes the case to invest in cultural transformation.

Culture Reset™

The premise of the Culture Reset™ Methodology is simple: top-down decision makers can design their company's culture in a deliberate and rigorous way and craft the

High EQ contributors are priceless to a business and can make a big difference in making your business indispensable in many key ways.

culture that they need to become indispensable. The work is done in a series of phases:

1. Project initiation formally establishes project roles/responsibilities and commences the project.
2. Strategic framework setting develops a set of business principles that state senior leadership's preferences for how it wants to manage the company's cultural evolution.
3. Baselining assesses the current company culture and work setting and characterizes its existing people, processes, and technology from a company culture perspective.
4. Target visioning defines the cultural environment.
5. Gap analysis determines the gaps between baseline and target cultural settings.
6. Implementation planning identifies and prioritizes the work needed to implement the projects and programs identified.
7. Plan administration design recommends a process for managing the execution of all of the strategic initiatives identified in the Culture Transformation Plan.
8. Project completion formally delivers the final plan to the organization.

Interviews, surveys, and workshops are conducted with a good cross section of staff from senior leaders to middle management to frontline workers.

These provide the means for gaining insight and understanding as well as harnessing leadership's and staff's participation and commitment to the culture change effort.

The Right People

We all want to believe that we are exceptional leaders and that our people are eager to do their best every day. But sometimes we can't see the reality of the situation. Our personal blind spots get in the way.

In fact, sometimes we're not all that engaging and our people aren't as satisfied with their jobs as we like to think.

If you don't have an employee value proposition (EVP), that should change. Your EVP is of vital importance in attracting and retaining the kind of talent you need to be indispensable.

Defining Your EVP

EVP is the value that staffers gain in return for their work–and it's not all about compensation. It should consider your employees needs that range from elementary to living up to one's potential. EVP should be considered with the following terms:

- Compensation/benefits: Compensation addresses meeting your people's basic needs. Think of salary, incentives, wealth-sharing, health, retirement, and personal leave policies.
- Career path and recognition programs: This is compulsory in staff retention. Staff feel a stronger connection to your work community through the provision of the "right" kinds of job titles, training, career paths, and employee appreciation efforts.
- Work elements: Highlighted by a variety of assignments, autonomy, and the occasion to provide input, this type of environment enables staffers to feel better about themselves when they are given new and varied opportunities to contribute.
- Pride in affiliation: By ensuring that your organization is something that your personnel can be proud to be a part of goes a long way in satisfying their need for self-actualization. EVP considerations include such things as company values, brand reputation, and community involvement.

Emotional Intelligence Quotient (EQ)

People with high EQ are great listeners and tend to be strong communicators. They are masters in conflict resolution and can de-escalate situations before they get out of hand.

High EQ contributors are priceless to a business and can make a big difference in making your business indispensable in many key ways.

1. Their consideration for others improves communications.
2. They're great under pressure.
3. They generate trust in the workplace and marketplace through diplomacy.
4. They like to co-create.
5. Their charismatic personality improves team performance.
6. They are natural born leaders.

Fielding an emotionally intelligent team is a key means to winning in the marketplace. Clearly, companies need these kinds of people to lead others to victory. Indeed, they need these kinds of people to set the example and further instill the "right" values and work ethic.

The Right Trust and Empowerment

With the right people in place, one would think that trust and empowerment simply go with the territory. However, with all that has transpired in the business world and society in general of late, it's safe to assume that blind trust in those who lead is dwindling, and staffers don't always feel all that engaged or empowered.

Leaders cannot assume that their people will give them the benefit of the doubt just because they are at the top of the pyramid. Business leaders must begin to recognize the impact that this has on an organization and understand how it limits your company's potential to become indispensable in the marketplace.

The Symptoms That Indicate You May Be Affected

Here are a few characteristics that can indicate that your workforce may be feeling the pain:

1. **General anxiety**: Morale and productivity are impacted when staffers feel anxious about their future.
2. **Despondency**: People disconnect from their commitment to the company when feeling hopeless and suspicious of intent. This can be disastrous to a business.
3. **Self-aggrandizement**: When self-promotion replaces teamwork, staff can quickly shift to an "every man for himself" attitude, which stifles growth and hampers results.
4. **Exaggerated self-importance**: People in leadership positions can often develop a false sense of pomposity. This only leads to *no good* as your leaders attempt to gain the privileges that they think they are *owed* by their position.
5. **Beleaguered leadership**: When company morale is at its lowest, a leader without a clear and consistent message about how the organization will evolve is discounted by the rank and file.

How to Transcend the Fog of a Low-Trust Workplace

We have to give people something to believe in! We do that by cultivating a vision for the business that is centered on trust and doing the work needed to build a high integrity organization that people can depend on both inside and outside of the enterprise.

We've got to enhance the sense of "being in it together" within the business and build a sense of community that can energize your team and help them care about each other. By giving them something bigger than themselves to be a part of at work, we create a safe space for them to be at their best. We need our people to be at their best in order to become indispensable to our customers.

While a feeling of malaise and mistrust may pervade today's society, it doesn't have to be brought to work each day, eroding morale and having a negative impact on performance. Here are some ways to take deliberate action and improve trust within your business:

- Root out and repair trust breakdowns.
- Keep promises.
- Be transparent.
- Embrace the beatitudes of high integrity business behavior.

The Right Change Management Practices

The adoption of the right change management practices is not only necessary for successful implementation of new ideas, but it is an essential element of becoming indispensable.

Organizations have to change to remain vital and big changes require a good deal of time. Consequently, proper preparation is required.

Here are six steps you can take to ensure that your indispensability-driven change framework stands the test of time.

1. **Call it out**: Indispensability efforts deserve a name, so give them one.
2. **Take ownership**: Identify yourself as the sponsor of the change program and levy the political clout needed to garner the right level of participation among stakeholders.
3. **Make it full-time**: Identify a core team that can dedicate a full-time effort to get the job done. It's too important to do part-time.
4. **Engage everyone**: Big change doesn't happen without everyone rowing in the right direction. It requires involvement and participation of all the firm's staff–top to bottom.
5. **Determine the path forward**: Craft a program plan that identifies the projects needed to staff, fund, and execute the vision of indispensability.
6. **Broadcast results**: Create communication and engagement mechanisms to keep all of your people in the loop. Share progress and broadcast results.

It's no easy job to make a customer for life. It requires attention to the details and striving to establish the "right" traits, including:

- Vision
- Leadership
- Culture
- People
- Trust and empowerment
- Change frameworks

The challenge is significant but becoming indispensable is possible. You must never settle for "good enough!" Simply put, "good enough" does not make it "right." In fact, putting the "right" stuff in place is at the heart of becoming indispensable.

To be sure, the leader of an indispensable business knows that their best work is always ahead of them. They're never satisfied with maintaining the status quo. They're always striving for more and expecting great things from themselves and their staffers alike.

This is what an indispensable business is all about–never settling for second best. If you want your business to become indispensable, you have to be ready to set the direction and manage all the changes needed to get there. It is as simple as that!



James M. Kerr is recognized as one of today's foremost authorities on leadership, culture and organizational design. He leads the management consulting and executive coaching firm, Indispensable Consulting, and is a popular speaker, business columnist and author.

Jim specializes in culture design, leadership, business transformation and executive coaching. For nearly 30 years, he has assisted dozens of exceptional organizations. including diverse corporations like General Dynamics, The Home Depot, Mitsui Sumitomo and Accenture, to name a few of his clients.

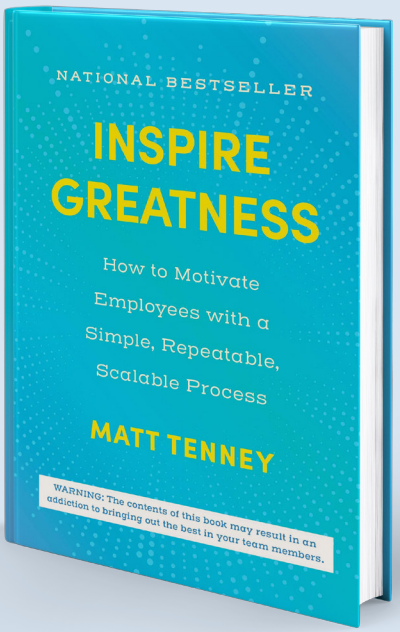
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Inspire Greatness

Matt Tenney

Book Snaps™
In-depth reviews of best-selling business books.



Inspire Greatness

How to Motivate Employees with a Simple, Repeatable, Scalable Process

By Matt Tenney

Matt Tenney envisions a world in which all leaders and workplace cultures consistently make a positive impact on the well-being and growth of team members. Since 2012, Matt has helped hundreds of clients - including many Fortune 500 companies - to develop highly effective leaders who improve employee engagement, performance, and retention through his books, consulting work, and via the groundbreaking leadership development and employee engagement platform offered by his company, PeopleThriver. Matt is also frequently invited to deliver keynote speeches at company leadership meetings, events for state and national associations, and large conferences. He is known for giving inspiring keynotes that keep audiences fully engaged and provide game-changing insights that drive results.

A Book Review by Soundview

Leadership with a New Perspective

Everyone in leadership wants to do their job well. They want to lead their teams and organizations productively, resulting in success and happiness. They want the work being done to help them find meaning in the work and make them feel fulfilled. In addition, exceptional leaders work to inspire greatness in others to give their team members what they need not only to succeed but to thrive. Creating the right environment for this can sometimes feel daunting, but it doesn't have to.

In ***Inspire Greatness: How to Motivate Employees with a Simple, Repeatable, Scalable Process,*** Matt Tenney shares how leaders can approach leadership development differently and use their newly acquired skills to create a lasting change at their organization. By viewing leadership as a science rather than art and utilizing a research-based algorithm, he proposes they will be able to consistently bring out the best in their team members. Tenney references Gallup's research throughout Inspire Greatness to show that this topic is being discussed and should be taken seriously as it evolves.

He breaks *Inspire Greatness* into two parts. Part One shares his simple, four-step process that will help those working to bring out the best in their organization. By applying this scalable process, high levels of performance and retention will be seen, as will higher levels of employee engagement. Part Two dives into discovering ways to help consistently utilize the four steps to create lasting habits to bring out the best in their team members. Each chapter is closed with actions steps to be considered and taken as executives work to help their teams have what they need to succeed. Additionally, there is an appendix at the end of the book that shares how to utilize employee surveys in a way in which they can be successful and encourage employees to be more engaged at work.

Tenney encourages the reading of other leadership books but states his confidence that seeing leadership as a science rather than an art will empower the reader and the other leaders in their organization to inspire greatness in their employees.

Part One

The conversation about greatness should begin with discussing employee engagement and its meaning. When employees are engaged with their work, they are emotionally invested and willing to go the extra mile to ensure the task at hand is completed. When research into employee engagement began, the numbers showed that employees were passively and actively disengaged. In the US alone, billions of dollars have been spent on surveys and training to improve workplace engagement, but to no avail.

There are three potential causes for this. First, employee engagement is mainly seen as a need to be taken care of by HR, not a leadership issue. All too often, these matters are mainly given to HR to fix, but to improve engagement, leadership development needs to be closely synchronized with it. Secondly, while leadership training is vital, it must result in habits that stick and will improve retention and engagement. Finally, employee feedback needs to be gathered to allow quicker responses to feedback than the standard annual survey. These three are all interconnected but are often treated as individuals and must be resolved simultaneously if the employee engagement issue is to be solved.

Laying the Foundation

Over the last several years, there has been an emphasis on having a "great place to work," with perks that include memberships, on-site gyms, and other incentives. Suppose the needs of employees are not being met. In that case, however, these "perks" can quickly become a detriment and lead team members to feel like they are commodities, not people. These perks have much more to do with employee satisfaction rather than engagement. Leaders at all levels must realize that employee engagement is a "leadership thing" because leaving it all to HR has devastating consequences.

To reverse this, leaders must realize that employee engagement should be their top priority. They must inspire greatness in their team members so they can thrive in their place of work. They must serve as coaches and work to create the right conditions for employees to work together as effectively as possible. However, they must also check their motives to ensure they're not being selfish and begin to undo the conditioning they were taught.

Tenney advises the reader to print out and rewrite their job description. By writing "additional responsibilities", coming up with a creative way to say their job is to inspire greatness in others, and constantly reviewing it, they will begin to reprogram their thought process, and this shift changes everything. The best leaders know they can benefit from reminders about what matters most and reinforce that employee engagement is a leadership thing, not only an HR thing.

It is essential to quickly follow up on implementing this new system by identifying and meeting the needs of those in the organization and removing the obstacles for them to thrive. There are universal needs that each leader should strive to meet, and they should strive to understand and meet the unique needs at work by working to learn them. This will require a more in-depth study of the universal and unique needs. It should be quickly followed up by getting feedback on how well or not direct managers are meeting the needs in front of them. Doing this regularly will reveal and remove blindspots and is essential as leaders work to help their employees thrive.

Finally, once feedback is received, and to ensure that employee feedback and leadership training are tightly in sync, it is vital for leaders to follow two key steps. First, they should focus the first six months on only having questions on the surveys they know they can and should address. Secondly, they should have training ready before the survey goes out so they can quickly follow up and begin to meet the needs of their employees so they can thrive. By linking the training and feedback, an improvement will be seen in the effectiveness of the training and will ultimately produce the desired results.

Part Two

Now that foundations have been laid and leaders know what to do to inspire greatness in their team members, they can move forward and meet their workplace's universal needs. While each organization and the individuals working in it are unique, Tenney shares that research has shown that if these universal needs are met, employees will be happy, inspired people who do great work.

Facilitating excellence in others means believing in them and working to meet their needs—every human desires to be great at what they do. Still, if their environment does not give them space to flourish, the habits they create may result in the failure of their teams rather than causing their success. It is essential to note the importance of one-on-one meetings between leaders and their team members. This will allow them to quickly address problems so they don't fall by the wayside and escalate into significant problems. Dealing with these issues can be time-consuming and stressful for a manager. Still, regular one-on-one meetings will address problems, and there will be space and time for quality conversations that will impact both the personal and professional levels.

It is also essential to learn to treat appreciation as an art form. Everyone wants to feel appreciated and know their actions are essential and correct. Withholding appreciation, focusing only on the negatives, or simply not sharing feedback will leave employees uncertain. Creating a habit of showing frequent appreciation for team members' work will help them build confidence and thrive at work. It will also help management learn to see what is right and express gratitude.

They also need to provide clear expectations when tasks are presented. If expectations are not communicated, it will lead both management and employees to a place of frustration. Three main points should be considered when managers communicate to their employees to ensure the result has the most significant impact in the least amount of time. They need to begin by clearly defining each person's role. Hence, they understand their role in the organization, and direct managers should be involved when HR creates and updates job descriptions. Next, they need to share how they expect their employees to behave. This can include discussions ranging from the work

> *As leaders work to inspire greatness in their team members, they should also look for ways to improve employees' well-being. "*

culture, the dress code, or timeliness and work quality expectations. Finally, there must be clarity on what the task is. It is recommended to explain how the task fits into the overall plan. Hence, they understand why they are doing this, allowing team members to be more engaged and to clarify that they understand the task by asking follow-up questions.

As leaders work to inspire greatness in their team members, they should also look for ways to improve employees' well-being. Too often, people work at unsustainable, high-performance levels, making them struggle in every aspect of their lives. This will clearly hinder their thriving, but leaders can positively influence their work cultures if they recognize this. A culture that prioritizes the health and well-being of its employees will lead to retaining and attracting talented team members who have what they need to prosper.

Having the Right Tools

When employees struggle to perform at work, the blame is often laid at their feet without any questions being asked, leading to even more struggle. This needs to be handled carefully, and leaders should move forward with care and seek to understand the problem and how they can help their employees through it. Regular one-to-one meetings with team members will allow the opportunity to discuss performance gaps and communicate any needs they may have. Leaders need to listen carefully and ensure they are not sending signals that indicate they don't want to hear any problem, as this will be a deterrent when discussing tricky topics.

There is something powerful about helping others leverage their strengths and be able to tap into their flow state. Being in a flow state is associated with higher happiness, creativity, and productivity. This is something that leaders should work to facilitate, and they can do this by helping others identify and leverage their strengths. This should begin with observing what an employee does well and discussing with them what they think their strengths are. Formal assessments can also be completed. No matter the course of action, the focus should be shifted to helping them find ways to do more of what comes naturally to them rather than exclusively fixing their weaknesses.

Everyone wants to feel that their thoughts and ideas matter and add to their work. If only managers and executives were heard, many great ideas would be missed, and team members would feel like they were not contributing. Even if an idea does not fit, explaining why it doesn't fit the current agenda is crucial so that team members can offer ideas that align with the organization's direction.

With that in mind, leaders must learn to communicate feedback that conveys inspiration rather than judgment. There are several valid reasons why leaders don't communicate feedback well, some of which are that they were never taught how to or want to avoid the uncomfortable conversations that may follow. Leaders need to adopt a coaching mindset to encourage their team, help them excel at what's best for them, and be specific about what needs improvement. Next, they need to connect the feedback to the overarching plan so the team members can see why the recommended improvement is necessary and, finally, be a readily available resource for them to come and talk to. This will show the employees that their leader is invested in them and wants to see them succeed.

While it may seem counterproductive, employee engagement can improve if leaders learn to free up their time and give their teams more autonomy in their work. This will improve engagement and productivity and satisfy employees' innate desire to thrive at work, as they will have more control over where, when, and how work is done.

Continuing to Grow

Everyone has potential, but too many people go through life, leaving much of it locked up, untapped, and unrealized. This hinders their ability to thrive, particularly if employees feel their leaders don't care about them or their needs. This can lead to frustration, and leaders must ensure their team has what they need to live up to their fullest potential. By investing in their growth and showing that they care, employees will be able to grow both professionally and privately.

One of the most critical aspects of helping others thrive is building trust with one's employees.

When there is a lack of trust, it is only a matter of time before the organization fails, and employees and leaders are left expending an outrageous amount of energy to protect themselves from perceived threats. However, trust can act as a turbocharge and unleash a new level of greatness. There are several ways to build trust, such as being an example of integrity (i.e., doing what one says one will do and telling the truth even if it's painful,) being transparent (sharing what is truly going on in the workplace) and by extending trust to their employees. Using these steps and purposing to build a culture will encourage employees to be honest with those in leadership and create a culture centered on trust.

One of the most powerful tools for engaging employees is showing them they genuinely care about them. When team members feel cared about, they are likely to feel that they are in a safe

place where they can bring their whole selves to work. They are also more likely to go the extra mile at work because they know their leaders care about their performance. After all, they want them to succeed rather than for other potentially selfish reasons.

This will also help leaders foster a sense of belonging, mainly because they understand that the feeling of belonging can help drive business and help them reach a new level of success. Tenney states that while it is not the leader's job to make their team members get along, it is their responsibility to create an environment for healthy relationships to form and thrive. He shares a few practices used at his organizations to help facilitate this, including connecting as people at their daily team meetings. Team members share what brought them joy both at work and at home. This encourages vulnerability as they share different parts of their lives and purpose to grow together at work.

Great leaders who wish to inspire greatness in their team members must do one final thing: Provide meaning in the workplace and create the most attractive work culture possible. Is it possible to do this, and if so, is this a worthwhile pursuit? Tenney says that yes, it is, and the first step is to ensure that the organization has a mission statement that everyone can understand. It is vital that as much of the leadership team is involved in crafting it as possible and that different department managers craft a mission statement based on it specific to the area they serve in.

They should also work on crafting a vision statement to give them a goal to reach for. A compelling vision of the future can unleash energy and engagement even if this goal is ultimately unattainable. The mission and vision statement should have a clear connection of the world they hope to create and how they are working to achieve it.

Once they have done this, leaders must dedicate themselves to making the organization's culture a place where the top priority is giving team members what they need to thrive and ensure they know they are cared about. By developing and practicing qualities like kindness and generosity, leaders will soon be on the way to creating a meaningful workplace and inspiring greatness in those around them.

Inspire Greatness: How to Motivate Employees with a Simple, Repeatable, Scalable Process by Matt Tenney encourages leaders to step out side themselves, see leadership a different way and encourage those around them to be better than they are or thought they could be. Inspire Greatness is a thoughtful, easy-to-digest read that proposes that a new way of thinking when it comes to leadership and how that affects the organization. By putting the habits the Tenney proposes into action, the reader will have what they need to help their employees thrive and show them that they are seen as more than employees; they are people. Inspiring greatness in others will not only meet the universal needs that Tenney states each person has, but will give them what they need to thrive in both their personal and professional lives. Additionally, it will meet the most important need there is to love and feel loved. When love is put to work as an action, it means a willingness to sacrifice for those are around and this can help to create a workplace where people can come in, knowing that they and their work, ideas and voice are heard, valued and appreciated. Having this type of work culture will attract and retain the most talented and helped the organization as they work to have the most successful output.

As leaders work to inspire greatness in their team members, they will have a hand in developing human beings that that make the world a better place through their thoughts, actions and words.

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Jack Welch and the GE Way

Robert Slater

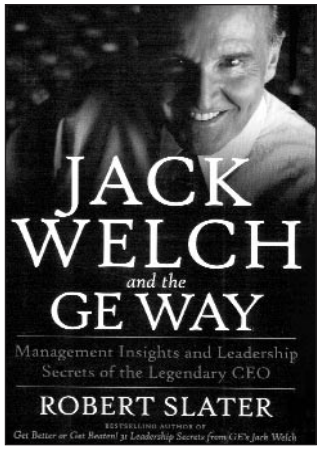
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SOUNDVIEW Executive Book Summaries®

Key Management Techniques of General Electric's CEO

JACK WELCH AND THE GE WAY

By Robert Slater



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THE SUMMARY IN BRIEF

Jack Welch had his eye on the horizon when he took over GE in 1981. What he saw there concerned him. The previous decade's high inflation rate and encroaching competition from Japan were changing the rules of the game. Welch knew that while GE looked healthy enough to outsiders, it had to "get a lot better, faster."

That meant change — a lot of change.

Welch slashed the size of the work force, delayered management, and reduced the number of business units.

For this, he earned the name Neutron Jack.

Welch also tore down internal boundaries, improving communication and speeding up operations. He implemented programs that cultivated ideas and rewarded quality. He expanded the corporation's global reach.

For this, *Fortune* magazine voted GE the most admired company in America in 1998 and credited Welch for having "rewritten the book on management while keeping GE huge, nimble, and immensely profitable."

Management guru Warren Bennis added that Welch raised GE from "big and good" to "big and great."

Welch molded GE into the powerhouse it is today, raising its revenues to record levels by the late 1990s. And he did it his way.

By understanding his role as a leader.

By unloading the bureaucracy that weighed it down.

By looking for new ideas inside and outside GE.

By driving quality throughout the organization.

The style may be quintessential Welch, but your company can follow his example. You can — and should — speed up your business processes, constantly focus on innovation, and make sure you put only your best players on the field. Above all, says Welch, you should never forget that business isn't rocket science; it's simple.

Want to know more? Read on.

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Understand Your Role as a Leader

"I don't *run* GE," says Jack Welch. "I *lead* GE."

Leaders inspire employees by creating a vision of how things can be done better. They get people to perform at levels they didn't think possible.

Then they get out of the way.

Simplify

When it comes to visions, Welch keeps them simple. He advocates having what he calls an overarching message: "something big but simple and understandable.

"Every idea you present must be something you could get across easily at a cocktail party with strangers," he says. "If only aficionados of your industry can understand what you're saying, you've blown it."

One of Welch's visions, for example, was to have every GE business be number one or two in its market. Clear and simple.

Spread the Word

Welch takes advantage of every opportunity to promote his vision. He drives home his message in his annual Letter to Share Owners, in his speeches to the GE board, and in talks with financial analysts.

He makes sure everyone gets the same message."I don't say one thing to outsiders and another to insiders," he notes.

The CEO expects GE employees at every level to be able to identify, as well as to commit to, the company's values, for example.

Get Real

Welch believes leaders must face reality about situations, products, and people, then act quickly and decisively on that reality.

Facing reality means acting on the knowledge that the world is becoming increasingly competitive. It means understanding that no job is guaranteed for life. It means rejecting the bureaucratic approach to management. And it means acknowledging that business is simple.

Facing reality means making some hard decisions sometimes. But Welch is convinced that most mistakes come from *not* facing reality and then acting on it. He says his biggest mistake was not acting fast enough to implement some major changes at General Electric, for instance.

More specifically, he regrets not buying a food company early in his tenure as CEO — an investment he believes would have paid off. But he was too slow to make a decision.

Promote Your Values

Values are such an integral part of GE's culture that Jack Welch had them inscribed on wallet-size cards and gave every worker one of these "Values Guides."

The cards say that GE leaders, always with unyielding integrity,

- have a passion for excellence and hate bureaucracy,
- are open to ideas from anywhere and committed to Work-Out (see page 5),
- live quality and drive cost and speed for competitive advantage,
- have the self-confidence to involve everyone and behave in a boundaryless fashion,
- create a clear, simple, reality-based vision and communicate it to all constituencies,
- have enormous energy and the ability to energize others,
- stretch, set aggressive goals, reward progress, yet understand accountability and commitment,
- see change as opportunity, not threat,
- have global brains and build diverse and global teams.

When you make a mistake, admit it, advises Welch. Better yet, learn from it.☆

Jack Welch and the GE Way by Robert Slater

Selected by Soundview as an Outstanding Book for Business People

The author: Robert Slater has over twenty-five years' experience with *Time*, *Newsweek*, and UPI. He has written several business books, including two others about Jack Welch.

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Decide What You Do Best and Do It Better

Jack Welch believes only the strongest survive. Weak businesses don't have the resources, muscle, and power to compete globally.

Early in his tenure as CEO, he made it his mission to strengthen GE by weeding out its weak businesses.

Number One, Number Two

In the early 1980s, GE boasted 350 GE businesses in forty-three strategic business units. Only three GE products — plastics, gas turbines, and aircraft engines — had a respectable share of the export market. And just one of these, gas turbines, was a market leader abroad.

Welch believed GE could, and should, do better.

He developed a "number one, number two" plan to boost GE's competitiveness. The strategy called for every GE business unit to be either first or second in its market. Those businesses that weren't, or that didn't have a technological advantage, risked dismantlement even if they were turning a profit.

"When you're number four or five in a market, when number one sneezes, you get pneumonia," noted Welch. "When you're number one, you control your destiny."

Purpose and Focus

Part of Welch's strategy was to sharpen GE's purpose and focus. He chose to keep and nourish businesses that concentrated on at least one of the following three functions:

- **core functions** such as lighting, major appliances, motors, transportation, turbines, and contractor equipment
- **high-technology,** including industrial electronics, medical systems, materials, aerospace, and aircraft engines
- **services** like GE Capital as well as information, construction and engineering, and nuclear services

One hundred seventeen businesses and product sectors that did not fit these categories — from toasters to coal mines — were either sold or shut down.

The company also bought assets worth $16 billion. These new acquisitions did fit the three categories. For example, the purchase of RCA, which owned NBC, and investment bank Kidder Peabody enhanced GE's services function.

Broader Markets

By the late 1980s, Welch had achieved strategic dominance at home and turned his attention to the global arena.

He told business unit managers to redefine or broaden their target markets. This set the bar a little higher, forcing unit leaders to reevaluate the business of their businesses.

The result: By fall 1997, many GE businesses attained first or second status in their markets worldwide.☆

Rightsize Your Work Force to Efficiency

One of Welch's long-term goals has been to make GE as lean as possible, as fleet as a small company. Developing a sharper focus helped, but it wasn't enough. GE's work force had to be cut and reshaped as well.

Delayer Management

The GE of the early 1980s was a large bureaucracy, employing 412,000 people.

Welch hates bureaucracies. He believes they promote sluggishness and choke initiative. He was determined to tear down GE's bureaucracy in order to make the company more competitive.

A slimmer GE meant fewer jobs. One-third of the work force was cut, leaving roughly 270,000 jobs intact.

A faster GE meant fewer managers. There were 25,000 managers when Welch took over as CEO. Five hundred were senior managers; 130 were vice presidents or higher.

Welch set about delayering GE's management structure. He eliminated sector and group-level managers. He reduced the number of vice presidents within each business to ten. He decreased the number of managers between himself and division chiefs from nine to between four and six.

He directed GE's fourteen business leaders to report directly to him or to one of his two vice chairs.

Welch's delayering strategy improved communications within GE. As a result, decision makers got the information they needed more quickly and were able to get products to market faster.☆

Give Bureaucracy the Boot: Think Small

Jack Welch believes small companies offer some very big advantages, like those he outlined in his 1992 Letter to Share Owners.

"Most small companies are uncluttered, simple, informal," he wrote. "They . . . grow on good ideas — regardless of their source. They need everyone, involve everyone, and reward or remove people based on their contribution to winning.

"We love the way small companies communicate: with simple, straightforward, passionate argument rather than jargon-filled memos, 'putting it in channels,' [or] 'running it up the flagpole.'

"Everyone in a small company knows the customers — their likes, dislikes, and needs. . . . Small companies have to face into the reality of the market every day, and when they move, they have to move with speed. Their survival is on the line."

Get Rid of the Boundaries That Interfere with Business

Most companies have too many boundaries, says Welch.

There are boundaries between management layers. Boundaries between divisions. Boundaries between organizations and their clients. Boundaries between companies and their suppliers.

These boundaries get in the way of doing business.

The Problem with Walls

Perhaps Welch's most critical objective has been to reduce GE's boundaries, particularly those between the company and the outside world. He believes these barriers support a deep-rooted corporate prejudice against any idea not generated within GE — a bias he refers to as the "not invented here" (NIH) syndrome.

In a message to General Electric shareholders in 1996, Welch wrote that NIH "limited our ability to learn from suppliers, our customers and other global companies that had 'best practices' that could be of enormous use to us."

Furthermore, boundaries prevent information from flowing internally. At one time, for example, GE's plastics, lighting, and motors divisions sold their products to the automobile industry separately instead of coordinating their sales efforts.

Similarly, GE engineers sometimes designed a product that was difficult to manufacture, hard to sell, and nearly impossible to service. The left hand simply didn't know what the right hand was doing.

Becoming Boundaryless

When you break down barriers, you empower employees. Boundarylessness opens channels of information to them and gives them opportunities to contribute ideas and make decisions. It encourages cooperation across the board.

Welch introduced the Work-Out program, described on the following page, to help people stop "wrestling with the boundaries, the absurdity that grows in large organizations." This program improved communications, enhanced innovation, and reduced NIH by providing an impetus to search the world's best companies for better ways of doing things.

Making GE boundaryless has meant bringing suppliers and customers into GE's design and manufacturing processes.

GE managers are encouraged to ask themselves, What parts of the business are slowing us down? What are the obstacles in our way? And then remove every possible roadblock that stands in the way of getting a product to market quickly.

A Bonus Benefit

Tearing down boundaries offers another benefit in addition to improving communications and speeding up processes. It creates an environment that fosters self-confidence.

Self-confident employees are more likely to embrace change because they see it as an opportunity, not a threat. They are less likely to engage in the type of turf battles and in-fighting that characterize bureaucracies. They don't need to "get credit" for every idea they originate.

Self-confident leaders are less afraid of looking simple so they are more willing to simplify. They don't need the protection of bureaucratic barriers.

When GE tore down barriers, it gave all GE employees a greater voice. They began to talk with, and listen to, one another. They began to trust each other. GE's leaders were given more independence and allowed to take bigger swings.

"If you and I and the business leadership of the country can have the self-confidence to let people go," notes chairman Welch, "to create an environment where each man and woman who works in our companies can see a clear connection between what he or she does every day, all day, and winning and losing in the real world — we can become productive beyond our wildest dreams."☆

Barriers Create Waste

Boundaries, even subtle ones, cause waste. This is one more reason why Welch is on a crusade to fashion GE into a boundaryless organization.

The chair once discovered that whenever he called a meeting, some people spent hours preparing for it, trying to answer questions they thought he might ask them. They were trying to erect a protective barrier between Welch and themselves. And they spent a lot of time doing it. Welch told them to stop it.

In response, the staffers placed an assistant on call, ready at a moment's notice to research answers they didn't know. This was yet another barrier. Welch knocked that one down too.

No boundaries, says Welch. If you don't know something, admit it. Then take steps to find out. You'll waste less time and effort.

The idea is gaining ground at GE.

Shortly before GE's Corporate Executive Council was to meet one quarter, executive Steve Kerr noticed a man sitting outside the meeting hall. Kerr asked him what he was doing.

The man replied he was there to handle "technical problems." Like what? asked Kerr.

"Well," the man replied, "let's say a bulb in the overhead projector has to be changed."

Kerr was stunned. "There are five engineers in that meeting, including the chairman," he told the man. "I'll bet one of them could change a light bulb!"

He sent the man back to his regular duties, reducing the number of barriers at GE by one.

Assemble a Team of Type "A" Employees

Only A players need apply at GE. These are people who subscribe to GE values and perform outstandingly. They have vision, courage, integrity, determination, and excellence — "the best in the world," says Welch.

A's go beyond their defined roles, as engineers or finance people, for example, to improve their value to the company and increase the company's value in the marketplace. Welch wants only A managers and he urges GE's managers to hire, and take care of, their A players.

"It's too bad that we can't define people in business as easily as you can on a basketball court or a hockey rink," says Welch. "If the guy couldn't skate, you wouldn't have him at left wing. If the guy couldn't shoot, he wouldn't be the forward. He wouldn't be on the team. And it's no different in the business team you have to build.

"Always get the best people. If you haven't got one who's good, you're shortchanging yourself."

Not everyone at GE is an A player, of course. Type B's share GE values and are productive but need to improve. They should be nourished, suggests Welch.

As for Type C's, people who don't exhibit the right stuff or share the corporation's values: "Push C's on to B companies or C companies, and they'll do just fine," says Welch. "Move them on out early. It's a contribution."

Hire Energetic Managers

Most managers *over*manage, says Welch. They enervate rather than energize, depress rather than excite.

The GE CEO looks for senior managers who are bursting with energy, who can develop and implement a vision, and who know how to fire up enthusiasm in others.

He seeks middle managers who embrace GE's values — people who are team players and coaches. Mavericks, no matter how talented, aren't welcome.

Always get the best people. If you haven't got one who's good, you're shortchanging yourself.

Welch admits this approach means sometimes you may have to bypass, or even get rid of, some otherwise impressive people. But, as he noted in GE's 1993 annual report, if your managers can't motivate and coach others, "their debilitating effect on the team can outweigh the benefits of their individual talent."☆

The Personal Touch

Welch is confident all the senior managers on GE's team are Type A players. And he is determined to keep it that way.

The chief executive makes a point of getting to know all of the five hundred top GE managers and personally signs off on their promotions. He also interviews anyone hired to fill those posts.

His personal approach seems to work. Management recruiters in a 1997 *Business Week* survey named five GE managers among the twenty executives most likely to become CEOs at major corporations within five years.

Get Everyone to Work Out Solutions

In 1989 Welch instituted a ten-year program called Work-Out. Its purpose was to provide the opportunity for *all* GE employees to help solve problems and offer good ideas. Engaged workers, he reasoned, were more productive workers.

Welch made it clear to his managers that everyone's ideas counted. "If there are three people, I want three ideas," he told them. "If you're only giving orders, I will get only your ideas. I'd rather select from the ideas of three people."

How It Works

Modeled after the New England town meeting format, Work-Out allowed employees to make suggestions directly to their bosses and get a response — immediately, when possible.

Each three-day workshop was devoted to a specific agenda or goals, such as cost reduction or new product introduction. Organizers invited who they wanted but invitees didn't have to attend. Ultimately, forty or fifty people from both staff and management might attend.

Typically, workshops at each plant opened with an address by a GE business leader or boss. Then the boss would leave and participants were divided into small groups to brainstorm. A facilitator made sure senior employees didn't dominate discussions or pull rank.

These brainstorming sessions continued into the third day when the boss returned to listen to the ideas and respond to the proposals.

Bosses had only three options: Agree to implement a proposal. Refuse the proposal. Ask for more information, in which case the boss had to authorize a team to get the information by a certain date. As a rule, only 20 percent of the decisions were postponed.

Work-Out may have been tough on bosses, but it yielded good results for GE. Consider the following:

A proposal to allow aircraft engine workers in Massachusetts to bid against an outside vendor on a project saved the corporation $80,000.

A proposal at a Pennsylvania factory to purchase paint from one supplier instead of two improved paint consistency thus eliminating rework and reducing delays.

A proposal to unseal vents and buy fans at a Kentucky plant enhanced working conditions there.☆

Find and Grow Ideas in a Learning

GE feeds on ideas and is constantly looking for more food. It searches everywhere and anywhere.

Work-Out feeds it from within by encouraging a free flow of ideas at every level.

Likewise, GE businesses share the ideas they get with each other. For example, GE's Medical Systems learned how to detect and repair from a distance malfunctions in hospital CT scanners. Med Systems shared this technology with GE's Aircraft Engines, Locomotives, Motors and Industrial Systems, and Power Systems businesses.

Now, these businesses have the capability to monitor the performance of jet engines in flight, locomotives and paper mills in full operation, and turbines in power plants.

But the days when NIH — not invented here — reigned supreme are long gone.

Welch urges people to look for ideas "from any source. So we will search the globe for ideas," he says. "We will share what we know with others to get what they know. We have a constant quest to raise the bar."

Welch openly admitted to shareholders in 1993 that GE had benefited from a host of ideas from other companies.

Over the years it has adapted new-product introduction techniques from Chrysler and Canon, effective-sourcing techniques from GM and Toyota, and quality initiatives from Motorola and Ford. GE also used advice and best practices from IBM, Johnson & Johnson, and Xerox, among others to move effectively into the Chinese market.

The CEC Factor

One way ideas get around at GE is via the Corporate Executive Council (CEC). This group includes the corporation's thirty or so most senior executives. Every quarter they meet for two or three days to go over forecasts, share war stories, and discuss any new initiatives.

Often one or several GE business leaders will adopt another business's idea or best practice. When the head of GE Capital announced at one meeting that a full day of his employee orientation program is devoted to quality training, for example, several other leaders decided to follow suit. Others chose not to. No one has to adopt anyone else's idea. The purpose of the CEC is to provide a learning experience as well as a forum in which to exchange ideas.

"It's a whole different way of thinking. 'Let me learn,'" says Welch. "If everybody in our place gets up every day trying to find a better way, it'll all take care of itself."

Everyone Benefits

The learning culture Welch has nurtured at GE has benefited the corporation in a number of ways.

Operating profits have risen to the 15 percent level in the last five years after hovering under 10 percent during the last century. Increases in company revenues reached double-digit levels in the mid-1990s. Inventory turns created a record $6 billion in cash in 1996.

Employees also enjoy the rewards of this learning culture. Welch offers generous compensation and makes it clear that sharing ideas is critical to earning one's keep at GE.

Additionally, workers have the satisfaction of knowing what they do matters. According to one survey, in fact, 87 percent of GE's employees believe their ideas count.☆

Challenging GE's Leaders In and Out of the Classroom

GE's learning culture is augmented by its Crotonville Leadership Development Center in New York's Hudson Valley. Junior and senior heads of GE businesses around the world come to the management institute to brainstorm and to learn.

Crotonville courses, some nearly a month long, teach strategy, global competition, diversity, and a host of other business skills.

The center has given birth to a variety of ideas that have been implemented at GE. The idea for Work-Out was born here, for instance. And GE's values were debated for countless hours by Crotonville participants before appearing on the Values Guides.

Open interaction and frank discussion rule the classrooms; titles and seniority afford no protection. Junior executives are expected to question conventional wisdom, even when it means challenging their bosses. Senior executives, in turn, expect to be subjected to close scrutiny.

Welch loves the open confrontational style that characterizes learning at Crotonville. Nearly every month he drops in on classes to lecture on business strategy and philosophy and to chat individually with participants.

Like GE leaders before him, Welch appreciates Crotonville as an invaluable tool for spreading his message. That's why he has invested heavily in the institute, even during those early years of his tenure when he downsized much of the corporation.

But Welch also frequents Crotonville to learn. It helps him keep his finger on the pulse of GE. Walter Wriston, a longtime GE board member, once told him that as chair and CEO, Welch would always be the last to know when something was going on at GE. Welch is determined not to let that happen.

Make Quality a Priority in Your Company

Quality has always been important at GE. But the company doesn't have a reputation for world-class quality yet. Welch is determined to change that.

Why Now?

In the eighties and early nineties, GE had the luxury of choosing its market battlegrounds. It simply abandoned businesses where it did not have an edge.

By contrast, companies like Motorola, Texas Instruments, and Hewlett-Packard had to improve their quality levels in order to survive against Japanese competitors.

Benchmarking against these companies revealed that GE needed to improve its quality standards. Too much time was spent fixing and reworking a product before it left the factory. This increased waste, reduced speed, and lowered productivity.

Welch has decided to make quality a critical management focus. He doesn't want GE to be equal to, or even better than, its competitors. He wants to take quality to a whole new level.

"We want to make our quality so special, so valuable to our customers, so important to their success that our products become their only real value choice," he says.

The solution is six sigma.

The Six Sigma Concept

Six sigma is a measurement of mistakes per one million discreet operations. Fewer errors mean higher quality.

Six sigma means that there are only 3.4 defects per million operations. By contrast, at three and a half sigma, there are 35,000 defects per million operations. This is average for most firms, including GE.

Motorola pioneered the six sigma initiative in the 1980s in an effort to reduce the number of defects in the communications equipment and semiconductors it produced. Other firms soon followed suit. All achieved dramatic results.

Welch initially was concerned that six sigma was too bureaucratic and centrally managed to work at GE. But others at the company, including participants at Crotonville, urged him to reconsider.

In 1995, Welch decided to initiate a six sigma program at GE.

Getting There

The first step in the six sigma process is to identify a project. Next, characteristics critical to quality are defined. Then a six sigma team of specialists, called master black belts and black belts (see box below), take the project through four steps. They

1. measure the defects generated by a key process,
2. analyze what variables cause the defects,
3. improve the process by determining the maximum acceptable range of these variables,
4. control by making sure the variables stay within this range.

The control phase is crucial. GE audits its quality initiative projects for six to twelve months initially and every six months thereafter. This ensures that once a problem is fixed, it stays fixed.

GE launched two hundred projects in 1995. Three thousand were completed the following year. The average project takes about four to five months and yields an 80 percent reduction in defects. This translates to $70,000 to $100,000 in savings.

Although GE has spent considerable money on quality initiatives, its return generally is double the investment.

Improved customer relations have proved another advantage. In the past, GE personnel felt they knew what was important to the customer. But six sigma taught them different.

To date, most quality efforts have focused on improving business processes that help customers become more productive. The next step is to improve GE's existing products.

Ultimately, Welch intends to incorporate six sigma thinking into every new product design.☆

Six Sigma Works

GE Lighting had a problem. Its electronic billing system wasn't a good fit with Wal-Mart's purchasing system. This caused disputes, delayed payments, and made Wal-Mart unhappy — not good because Wal-Mart was one of Lighting's best customers.

A GE black belt team applied six sigma methodology, information technology, and $30,000 to the problem. They reduced system defects by 98 percent in just four months.

Disputes and delays dropped off. Wal-Mart improved its efficiency working with GE.

The Martial Arts of Quality

It takes a new category of employees to make sure six sigma works. At GE, these people consist of champions, master black belts, black belts, and green belts.

Champions are the senior managers who approve projects, fund them, and troubleshoot.

Master black belts are full-time teachers. They also mentor and review black belts.

Black belts are full-time team leaders who measure, analyze, improve, and control key processes that influence customer satisfaction or productivity growth. They report to champions.

Green belts are team members who work on six sigma projects while holding down other jobs at GE. The ultimate goal is for every one of the firm's professional employees to become a green belt.

Focus on Services as a Growth Strategy

In 1980 only 16.4 percent of GE's profits were from service businesses. Today nearly 60 percent are from services. Jack Welch would like that percentage to top eighty.

This phenomenal growth is no accident. Welch understood early on that GE's growth would have to come from services and he took steps to make it happen.

NBC and GE Capital are two of his success stories.

Turning NBC Around

In 1985 Welch arranged for GE to buy Radio Corporation of America (RCA). The $6.28 billion purchase included television network NBC.

The network had the highest ratings of the three major networks at that time but also the lowest profits. The NBC News budget, for example, had increased from $207.3 million in 1983 to $282.5 million a year later.

Welch and his newly appointed head of NBC, Robert Wright, cut costs, turning the network around quickly. Forced to face reality, NBC's profits rose from $333 million in 1985 to $750 million in 1989.

By 1992, however, profits fell to $204 million and NBC slipped to third place among the networks. Gulf War coverage and competition from cable companies for ad dollars reduced some revenues. The wrong people in place reduced others.

Welch had a choice to make: Fix the network, close it, or sell it. He chose to fix it. He did this by hiring the right people — people who, like Wright, adhered to the GE way.

Wright and these other "A" leaders sharpened NBC's focus, slashed expenses, and made quality a priority. Under their direction, NBC launched its "Must-See TV" line-up, including such strong new shows as *Frasier, Friends,* and *ER*. It reduced its work force by more than 3,000 and expanded into a dozen cable networks. And it moved fast to sew up broadcast rights for five of the next six Olympic Games.

By 1997 NBC had become one of GE's most lucrative businesses.

The Rise of GE Capital

Another jewel in GE's crown is GE Capital Services (GECS). It began in the Depression as GE Credit, lending money to financially strapped people who wanted to buy major appliances. In the 1960s, it began financing other products and changed its name to GE Capital.

Today GECS is the driving force behind services at GE thanks in large part to Welch's efforts to push GE's service industries. It boasts twenty-seven businesses, from credit cards to satellite leasing to computer programming. Nineteen of these had double-digit growth in 1997.

Acquisitions have accounted for a large part of Capital's growth, particularly in the 1990s. Since 1994, for instance, GECS has spent $11.8 billion on dozens of acquisitions including First Colony of Lynchburg, Virginia, a leader in term life insurance, and high-tech firm Ameridata Technologies.

It expanded its global influence in the nineties, helping to finance power projects in Mexico and China and an airport privatization project in Hungary.

Despite embarrassing failures, such as the fall of investment bank Kidder Peabody and the bankruptcy of Montgomery Ward, GECS still posted an 18 percent average annual profit growth rate from 1991 to 1996.

Its success is a testament to GE's strong credit rating, savvy leadership, and commitment to the GE way of doing business.☆

Global Markets Hold Risk and Opportunity

Welch has long been determined to increase GE's global reach. His efforts began in earnest in 1987 when GE exchanged its TV set business for a medical imaging company owned by French electronics firm Thomson S.A. The deal, which took only half an hour to clinch, marked GE's move into Europe.

After Thomson there were joint ventures with German industrial engines firm Robert Bosch and Japanese electrical equipment specialists Toshiba. GE Lighting bought a majority interest in lighting companies in Hungary and the U.K. And there were others.

In fact, since 1989 GE has invested $17.5 billion in Europe, half on new plants and facilities and half on acquisitions. The strategy has worked. In 1995 GE's European operations raked in roughly $1 billion profit on revenues of $14.1 billion.

GE's success varies with its business interests, however. GE Capital Services Europe does well. On the other hand, consumer appliances have been disappointing.

Asia is another target market for growth, despite economic problems in Japan in the late nineties. Welch even is determined to crack the notoriously tough Chinese market although he admits GE may not make it in China.

"There's no expansion globally that isn't fraught with risk," he says. "But you can't stay home. Clearly, the risk side is long, but the opportunity side's longer. That, I think, is the difference."☆

Stretch to Reach Goals

Jack Welch believes in setting goals that seem almost out of reach, a strategy he calls stretching.

Stretching is daring to dream. It's being more creative about your business. It's knowing you might fail and trying anyway because it's the best way to grow.

Stretching, says Welch, "replaces a grim, heads-down determination to be as good as you *have* to be and asks, instead, how good *can* you be?"

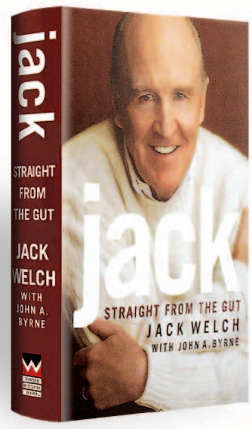
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Jack: Straight from the Gut

Jack Welch

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Jack Welch
with John A. Byrne

Jacket Photograph by Timothy Greenfield Sanders

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The Personal Journey of Jack Welch

JACK: STRAIGHT FROM THE GUT

THE SUMMARY IN BRIEF

The career of former General Electric CEO Jack Welch leaves us with many lessons in management, business and leadership. From his beginnings as a stuttering, competitive kid from working-class Salem, Mass., to his early days as a GE engineer, to his ascension to CEO in 1980 and subsequent 20-plus year reign at the top, Welch stressed the importance of people, originality and creativity, and common sense. The result is a leadership style that's often imitated, but never equaled.

In Jack: Straight from the Gut, *Welch is both storyteller and coach, using his exceptional career as the backdrop to share his thoughts on what it takes to be a great leader. Part management text, part page-turner, Jack shows how the man widely regarded as the finest corporate executive of his generation built his business and his reputation.*

What You'll Learn In This Summary

✓ **It's best to be small, no matter how big you are.** By slashing unneeded bureaucracy and insisting that GE's businesses be in the top two positions in their respective fields, Welch instilled an entrepreneurial spirit and a quick-thinking, quick-moving approach to competition and constant improvement. It was a small-company approach to running an enormous, multi-billion-dollar organization, and it worked marvelously.

✓ **It's all about people.** Jack Welch's passion was making people GE's core competency, and he saw to it that the company found and developed great people.

✓ **Companies must be boundaryless to unlock their potential.** Insular thinking results in stale ideas and, consequently, stale organizations. By breaking down the walls and borders that separated various departmental and functional areas at GE, Welch was able to unlock the full creativity of his people, propelling the company forward with fresh, creative approaches to problems.

✓ **Quality is nothing without efficiency.** GE's Six Sigma initiatives replaced sloganeering quality strategies with ones that brought about measurable results in increased efficiency, reduced defects and satisfied customers.

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BUILDING A PHILOSOPHY

The Vision Thing

Jack Welch's first time in front of Wall Street as CEO — a talk before financial community representatives in 1981 — was, by his own admission, a bomb. In a 20-minute speech, he gave his audience a primer on what he felt it would take for a company to be viable in the long term. Winning companies, he said, would be the ones that "search out and participate in real growth industries and insist upon being Number One or Number Two in every business they are in — the Number One or Number Two leanest, lowest-cost, worldwide producers of quality goods and services." It was a strategy to which he would commit his company with the fullest effort imaginable — a strategy that would change the face of GE forever.

Wall Street yawned. They were looking for hard numbers, things they could plug into their financial models and crank out estimates of earnings. They wanted a quantitative discussion; Welch had given them a qualitative talk, because he did not yet have a conceptual tool to communicate, much less implement, his vision.

Strategy on a Cocktail Napkin

Then, one evening, while trying to explain the concept to his wife, Welch sketched out the strategy on a cocktail napkin. The sketch showed three circles, labeled "services," "high technology" and "core." A number of GE business units were listed inside and outside the circles.

Over the next few weeks, Welch would refine, expand and share his model with everyone who would listen. Businesses inside the circles were core manufacturing, technology, or service entities — the bedrock of GE. Any businesses outside the circles would have to be fixed, sold or closed — they were marginal performers, or were in low-growth markets, or simply had a poor strategic fit. These were business that were, in other words, going to have a hard time achieving the Number One or Number Two status in their fields.

Implementing the Strategy

In the first two years of the strategy, GE sold 71 businesses and product lines, receiving a little over $500 million for them — a relatively small amount of action, but action that had purpose. When GE sold a struggling business and realized an accounting gain as well as cash, it gave the company the flexibility to reinvest in or fix up another, potentially stronger, business. This gen-

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Superficial Congeniality

In 1980, GE was, like much of American industry, a formal and massive bureaucracy, ruled by more than 25,000 managers who each averaged seven direct reports in a hierarchy with as many as a dozen levels between the factory floor and the CEO's office. Having been in the field, Welch had a strong prejudice against most of the bureaucratic culture and its "superficial congeniality" — pleasant on the surface, with distrust and savagery roiling beneath it.

Welch also hated the sense of elitism exhibited by GE managers, as exemplified by the Elfun Society — an internal management club that served as a networking group and a "rite of passage" into management. Welch told members of the Elfun Society that the club was an institution pursuing an old agenda, one without any value to the newer, faster, forward-looking GE he was trying to build.

When challenged to change, the members of Elfun rose to the occasion. Today, the once-exclusive management club is an army of GE community volunteers, with membership determined solely by the willingness of its 42,000 members (from factory workers to senior executives) to give back.

The authors: Jack Welch has been with the General Electric Company since 1960. He was Chairman and CEO of the company from 1980 to 2001. John A. Byrne is a senior writer at *Business Week* magazine.

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The Vision Thing

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erated the kind of consistent earnings growth that was expected of Welch when he was named CEO. It was also the outgrowth of Welch's central vision of running GE — that he and GE leadership managed businesses, not earnings. Accounting doesn't generate cash; managing businesses does. ■

For the text of Welch's 1981 speech, go to: http://my.summary.com

The Neutron Years

In 1980, the U.S. economy was in a recession, with rampant inflation and soaring energy prices. In the midst of this downturn, GE looked as solid a company as there could be, with over $1.5 billion in net income and $25 billion in sales. Yet, Jack Welch could see trouble on the horizon. The Japanese, benefiting from a weak yen and good technology, were increasing their exports into many of the U.S.'s mainstream businesses, from cars to consumer electronics. Welch recognized that GE would have to be faster and more entrepreneurial in strategy and in action.

Welch's "Number One or Number Two" vision helped shave 118,000 people from GE's payroll in a five-year period, earning him the name "Neutron Jack" (the guy who removed the people but left the buildings standing) and the distinction of being named *Fortune* magazine's "Toughest Boss in America" in 1984. All the while Welch invested millions of dollars in supposedly "unproductive" pursuits, such as renovation of the company's headquarters and a major upgrade of its Crotonville management development center.

The Paradoxes of Business

Welch answered his critics by noting that business is, in fact, a series of paradoxes:

- **Spending millions on buildings that made nothing, while closing down uncompetitive factories that produced goods.** Both were consistent with being a world-class competitor. GE could not hire and retain the best people, while becoming the lowest-cost provider of goods and services, without doing both.
- **Paying the highest wages, while having the lowest wage costs.** GE had to get the best people in the world and, consequently, had to pay them that way; at the same time, the company could not carry along people it didn't need and still be effective.
- **Managing long-term, while "eating" short-term.** Some companies squeeze out costs at the expense of the future, while others dream about the future, but deliver nothing in the short term. Welch recognized that the true test of a leader was balancing the two.
- **Needing to be "hard" in order to be "soft."** Making tough-minded decisions about people and plants is a prerequisite to earning the right to discuss "soft" values, like excellence and the learning organization. These things only have meaning in a performance-based culture.

These paradoxes helped Welch change the face of GE, rendering the "Neutron" and "Tough Boss" titles marks of greatness, not the criticisms they were intended to be. ■

The People Factory

GE is all about finding and building great people, in direct accordance with Jack Welch's passion for making people GE's core competency. The secret to GE's success in this regard is the system it employs to select and develop great people. In a company with over 300,000 employees and 4,000 senior managers, GE needed a structure and a logic, so that every employee knew and understood the rules of the game. The heart of this process is the human resources cycle — full-day Session C human resources reviews at every major business location (held in April), two-hour videoconference Session C follow-ups (held in July), and Session C-II's, held in November, which confirm and finalize the actions committed to in April.

And that is only the formal structure. At GE, there is an informal, unspoken personnel review — in the lunch-

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"Everyone You Meet Is Another Interview"

From his earliest days at GE, Jack Welch was famous for the uncommon ways in which he interviewed and hired employees. Once, when he was head of GE Plastics in the 1960s, his car's engine blew on the New Jersey Turnpike. He got towed to a local garage, where he met Horst Oburst, a German mechanic. Over the course of the next two days, as Oburst scrambled to get parts, the pair struck up a relationship. Impressed with the German's gutsy determination, Welch offered him a job.

A week later, Oburst was on the payroll at GE Plastics, where he worked for 35 years, getting several promotions along the way. Such a story illustrates Jack Welch's assertion that finding great people happens in many different ways, and that, in his words, "Everyone you meet is another interview."

The People Factory

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room, the hallways and in every business meeting. That intense people focus — testing everyone in a variety of environments — defines managing at GE.

Differentiating People

All these people-centric endeavors, both formal and informal, are done in an effort to differentiate GE's best employees and managers from the rest of the pack. Differentiation isn't easy; over the years, the company used many kinds of bell curves and block charts to differentiate talent, in an effort to rank performance and potential (high, medium and low). Eventually, Welch found a ranking tool he liked — the "Vitality Curve."

Every year, the company asked each of its businesses to rank all of their top executives, in an effort to force these business leaders to differentiate their leadership. They had to identify the people in their organizations that they considered in the top 20 percent, the vital middle 70, and, finally, the bottom 10 — by name, position and compensation.

Those who did not perform to expectations generally had to go. While making these judgments is not easy, doing so is how great organizations are built, Welch felt. Year after year, differentiation raises the bar higher and higher, increasing the overall caliber of the organization in a dynamic process that makes everyone accountable for his or her performance. People (particularly those in the top echelon) must constantly demonstrate that they deserve to be there. ■

For Welch's sketch of the Vitality Curve, go to:
http://my.summary.com

A Boundaryless Idea From Wal-Mart

During a 1991 visit with Wal-Mart founder Sam Walton, Welch learned about a Wal-Mart idea that was the very epitome of boundaryless.

Every Monday, Wal-Mart's regional managers in Bentonville, Ark. would fly into their territories, spending the following four days visiting their stores, as well as those of their competition. They returned to Bentonville Thursday night for a Friday morning meeting with top company officers. If a regional manager found a store or region sold out of a hot-selling product, headquarters would shift inventory from other stores to fill the gap, using a sophisticated computer and inventory system that enabled them to respond immediately to the needs of the regional managers.

Welch loved this weekly pulsing of the customer at the most basic level, and was impressed at the technology that made it all happen.

Together, Welch and his business teams came up with Quick Market Intelligence (QMI), an adaptation of the Wal-Mart practice that brought GE leadership closer to its customers. Business unit leaders began holding weekly teleconferences with their field sales teams, as well as the business' top marketing, sales and manufacturing managers. The result was the increased ability to respond immediately to issues in virtually any category, from delivery to price to product quality, and beyond.

The idea strengthened Welch's resolve to maintain a boundaryless culture at GE.

Being Boundaryless

One of Jack Welch's passions as CEO of GE was to create a corporate culture devoid of the kinds of territorial walls that can sink even the best operations. This type of "boundaryless" culture (introduced at the company's 1990 annual meeting) would remove the barriers among all the various functions at the company — engineering, manufacturing, marketing and the rest. It would recognize no distinctions between "domestic" and "foreign" operations. It would knock down external walls, making suppliers and customers part of a single process. It would eliminate the less visible walls of race and gender. It would put the team ahead of the individual ego.

Rewarding Ideas

Boundaryless would also reward people who recognized and developed a good idea, not just those who came up with one, encouraging leaders to share credit for ideas with their team, rather than take full credit themselves. The concept also opened GE to the best ideas and practices from other companies, like Wal-Mart's process to gather and use market intelligence quickly (see box above). It would make each employee and leader at GE wake up with the goal of "Finding a Better Way Every Day" — a phrase that became a slogan at GE plants and offices the world over.

Manager Types

In 1992, Jack Welch discussed with GE's leaders how to differentiate GE's managers, based on their ability to deliver numbers, while maintaining GE's values, including being boundaryless. He described four types of managers:

- **Type 1:** The manager who delivers on commitments — financial or otherwise — and shares the values. His or her future is an easy call.
- **Type 2:** The manager who doesn't meet commit-

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Being Boundaryless

(continued from page 4)

ments and doesn't share the organization's values. Not as pleasant a call, but just as easy as Type 1.

- **Type 3:** The manager who misses commitments but shares all the organization's values. This type might be given a second or third chance, just in a different environment.
- **Type 4:** The manager who delivers on all commitments, makes numbers, but doesn't share the values. This type usually forces performance out of people, rather than inspiring it. GE could not afford the Type 4 manager.

Welch immediately illustrated his commitment to these values by asking four corporate officers to leave the company, because they did not share GE's values, particularly boundaryless behavior. Suddenly, "Finding a Better Way, Every Day" wasn't just a slogan — it was the essence of boundaryless behavior, and by defining the expectations of everyone at GE, established the "social architecture" of the company. Over the course of three years, employees used that architecture to hammer out a values statement for the entire organization, one that GE considered so important, it put them on laminated cards that all employees carry. ■

For the text of the boundaryless concept's 1990 announcement, go to: http://my.summary.com

GAME CHANGERS

GE's Globalization Drive

Jack Welch, by his own admission, did not put much focus on the global direction of GE in the first half of the 1980s, apart from eliminating the company's separate international sector and putting the CEOs of individual GE businesses in charge of their own global activities. In Welch's mind, there was no such thing as a global company—companies are not global; businesses are.

The Global Push

In the early 1990s, GE pushed its global growth by acquisitions and alliances, and by moving its best people into global assignments. Indeed, by moving two of its most talented executives to worldwide leadership positions in 1991, GE proved it meant business, that globalization was now a priority.

Welch also led GE into taking a largely contrarian view of globalization, focusing on areas of the world that were either in transition or out of favor — for example, Europe in the early 1990s, Mexico in the mid-1990s, and Japan in the late part of the decade. He felt — correctly — that the best risk-reward activities were in those areas.

Global Intellectual Talent

Over time, GE's globalization goals moved from simply sourcing products and components, to tapping the intellectual capital of countries.

For example, the scientific and technical talent in India — used by GE to develop software and perform design work and basic research — is incredible. The company opened a $30 million R&D center in India in 2000, moved GE Capital's customer service centers to that country, and, one by one, transitioned all GE industrial businesses from "back rooms" in the United States to "front rooms" in India.

"Hungary" for Success

In 1989, Jack Welch and Paolo Fresco (whom Welch dubs "the father of all our global activity") nailed down the purchase of a majority interest in Tungsram, one of Hungary's largest and oldest businesses. Even under Hungary's Communist government, the company had a great reputation and a lot of technological know-how.

Fresco would attend negotiating sessions each day, then call back to Welch from the Hilton Hotel in Budapest to report on the details. It didn't take long for Fresco to notice some strange behavior during the negotiations; his counterparts seemed to begin to react to things he had told Welch privately on the phone.

Fresco tipped Welch off that he believed the Hungarians were intercepting their conversations, so the two started using the calls to set up the next day's negotiations. In one case, Fresco told Welch that Tungsram was asking $300 million for a majority interest; Welch responded that Fresco should walk away from the negotiating table if they demanded more than $100 million. The next day, Fresco found his counterparts considerably more realistic about price.

They eventually closed the deal, paying $150 million for 51 percent of Tungsram, with the option of buying the remaining piece within five years. Fresco closed the deal at midnight over a bottle of vodka with his Communist negotiators. The next day, the Berlin Wall fell. Without knowing it, Welch and Fresco had closed the first big deal in the new Eastern Europe.

GE has also taken a greater interest in moving local nationals into leadership roles within its global endeavors, calling U.S. expatriates back home as excellent local leaders take the reins. ■

Six Sigma and Beyond

For years, Jack Welch had been no fan of the so-called "quality movement," feeling that early quality programs were too heavy on slogans and light on results. The subject of quality had, however, become a concern of many GE employees by 1995, a concern backed up by industry figures.

Most companies at that time carried a defect rate of 35,000 defects per million operations — a little over three percent of the sum total of a process or of units produced. Quality like this, translated across industries, meant 5,000 incorrect surgeries performed per week; 20,000 articles of mail lost per hour; hundreds of thousands of wrong drug prescriptions filled per year. In other words, what was typically regarded as an acceptable rate of defect actually yielded quite unacceptable results.

Mobilization

Jack Welch wanted GE to get to Six Sigma quality level — fewer than 3.4 defects per million operations in a manufacturing or service process, or 99.99966 percent of perfection. But Six Sigma is more than simple quality control and statistics. Ultimately, it drives leadership to be better by providing tools to think through tough issues. At Six Sigma's core is an idea that can turn a company inside out, focusing the organization outward on the customer.

Immediately, Welch mobilized GE's executives toward the goal of making Six Sigma an enormous success. He told them to make their best people Six Sigma leaders, which meant taking those people off existing jobs for up to two years, to train them to become "Black Belts" in Six Sigma strategies and practices. The company also trained thousands of "Green Belts," to enable them to solve problems in their everyday work environment, using Six Sigma concepts and tools (unlike Black Belt leaders, these employees were not pulled from their jobs).

As with every initiative, GE backed up Six Sigma with its rewards system, altering its compensation plan for the entire company so that 60 percent of one's bonus was based on financials and 40 percent on Six Sigma results. Stock option grants were focused on employees who were in Black Belt training, both to reward GE's best employees for their involvement in Six Sigma, but also to smoke out the weakest links in the company. As of 1998, no GE employee can be considered for a management job without at least passing Green Belt training.

The results of GE's Six Sigma push were almost immediate—$150 million in savings in the first year alone, and $1.5 billion by 1999. ■

For Jack Welch's speech on Six Sigma, go to:
http://my.summary.com

Everyday Six Sigma

In bringing Six Sigma quality to GE, Jack Welch recognized that the program was not only for engineers and technical minds. Indeed, it can be used in a variety of situations in which a company's best and brightest are engaged in this quality program, among them the following:

- ✓ Plant managers can use Six Sigma to reduce waste, improve product consistency, solve equipment problems or create capacity.
- ✓ Human resources managers can use it to reduce the cycle time for hiring employees.
- ✓ Regional sales managers can use it to improve forecast reliability, pricing strategies or pricing variation.

Virtually anyone — from plumbers to car mechanics to gardeners — can use Six Sigma to better understand their customers' needs and tailor their service offerings to provide customers with the things they want. Welch does admit, though, that he cannot think of a way Six Sigma could be used by lawyers. He thinks this is because they make a living off variance — the very thing Six Sigma is best at eliminating.

E-Business: GE Goes Digital

Although Jack Welch admits he was slow to recognize the power of and opportunity inherent to the Internet, when he got into it, he got into it full-force, and brought his company into the Digital Age with him.

On a vacation in Mexico in 1999, Welch's wife, Jane, was absorbed by her laptop. One afternoon, she told Welch that people online were talking about the possibility of a GE stock split and his succession plan. She showed him the GE message boards on Yahoo!, and he was taken in by what people were saying about the company. Soon, he, too, was hooked, and knew immediately he was engaging with a technology that would have a big effect on GE — although, at the time, he was not entirely certain of how.

Big, Old . . . But Getting It

In the dot-com atmosphere of the late 1990s, many people were quick to write off big, old companies, in favor of anyone starting a new Internet business. Jack Welch recognized the fact that people were simply buying and selling goods over the Internet, just as they did a hundred years before from a wagon — the only difference was the technology. The buying and selling was faster and more global, and it had profound ramifications on business, but the actual creation of a virtual

(continued on page 7)

E-Business: GE Goes Digital

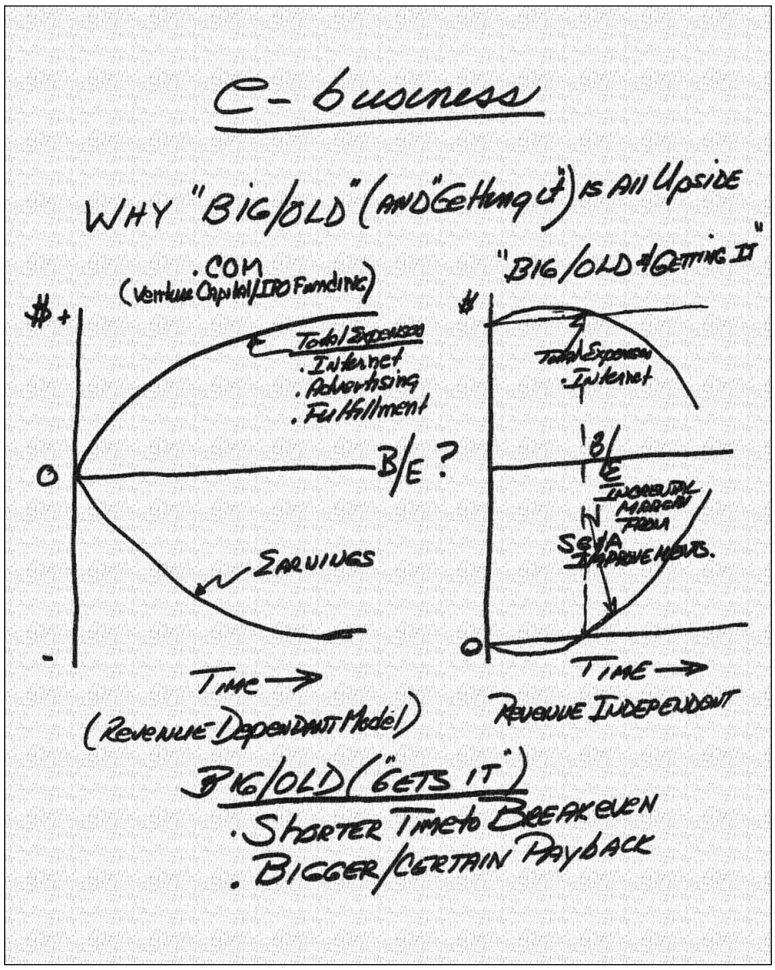
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storefront or auction site was not Nobel Prize work; it could be done inexpensively and easily.

Welch drew a chart that illustrated the Internet's implications for GE for the present and future. At the time, the business world was going crazy over anything that had a ".com" next to it. But in the dot-com model, expenses increase rapidly to cover the costs of Internet development, branding and fulfillment. Losses increase in direct proportion to those expenses; the breakeven point is uncertain and is almost always revenue-dependent.

In the "big-old-gets-it" category, the only extra expense is for Internet development. The big company already has strong brands and the systems to fulfill orders. Once the cost savings from Internet productivity kick in, there is a shorter time to reach the breakeven point and a bigger, more certain payback. In contrast to the dot-com model, benefits are generally independent of revenue.

Welch's drawing captured GE's advantages over the dot-coms. They didn't have to increase advertising; they didn't have to establish a new brand; they didn't have to create fulfillment organizations or build warehouses to ship goods. Welch recognized that GE could use the Internet and its tools to focus on the technology's main benefit — taking out the low-value-added work in the guts of the company. With Six Sigma in place, the company was becoming faster and more efficient than ever before; by fully using Internet technology, they could be faster and more efficient still.



Three-Way Opportunity

GE saw the Internet opportunity in three pieces: the buy, the make and the sell.

● The "buy"—what GE as a company purchased—was $50 billion of goods and services every year. Transferring some of this activity to online auctions gave GE access to more suppliers and lower costs. Although the savings figures the company had initially projected (10 to 20 percent) were inflated by half, there were still enormous savings to be gained on the buy side.

● The "make" improvements from digitization were the hidden jewel in the dot-com boom. Digitization eliminated much of the organization's massive backroom operations and tedious paperwork, improving job quality for many employees. In 2000, GE had $150 million of "make" benefits; in 2001, Welch projected $1 billion in benefits.

● GE's "sell"-side benefits were realized in the service improvements Internet technology enabled it to make. Fulfillment was faster; new and existing customers could get input on shipments without multiple phone calls; customers would never have to hear "The order is on the way" as a false promise again.

New Ways of Doing Business

GE's e-business initiatives led to many other new ways of doing business:

● Plastics put electronic sensors in some of its major customers' storage silos, enabling GE warehouses to be notified automatically when material levels drop, triggering a new order via the Internet to replenish the product.

● GE Capital uses the Internet to monitor the daily flow of cash in and out of a loan customer's income statement, reducing the potential for losses if the customer might be short.

● Most GE business leaders have digital cockpits on their computer screens that update, in real time, the data required to manage their businesses.

● Everyone at GE thinks digitally. Today, it's not uncommon for GE business leaders to ban paper from their offices in an effort to use digitization to drive productivity. It is a great mind-set shift for the entire company. ■

FINAL THOUGHTS

What This CEO Thing Is All About

There is no pat formula for being a CEO. Everyone does it differently, and there's no right or wrong way to go about it, no magic formula that is the right thing to do in all cases. Jack Welch has, however, found a number of things that have helped him lead GE over the years, among them the following:

● **Maintain your integrity.** Establish your integrity and never waver from it. People might not have agreed with Welch on every issue, but they always knew they were getting it straight and honest. He never had two agendas; there was only one way — the straight way.

● **Set the tone for your company.** The organization takes its cue from the person on top. Welch always told GE's business leaders their personal intensity determined their organization's intensity — how hard they worked and how many people they touched would be emulated a thousand times over.

● **Maximize your organization's intellect.** Getting every employee's mind into the game is a huge part of what being a CEO is all about; taking their best ideas and transferring them to others is the secret. Be open to the best of what everyone, everywhere, has to offer, then transfer that learning across the organization.

It isn't about first names, unassigned parking spaces, or casual clothing; it is about making sure everybody counts, and everybody knows they count.

● **Put people first, strategy second.** Getting the right people in the right jobs is a lot more important than developing a strategy — this truth applies to all kinds of businesses. Without the right leaders in place, the best, most forward-thinking strategies in the world will amount to little.

● **Stress informality.** Bureaucracy strangles; informality liberates. Creating an informal atmosphere is a competitive advantage. It isn't about first names, unassigned parking spaces, or casual clothing; it is about making sure everybody counts, and everybody knows they count. Passion, chemistry and idea flow from any level at any place are what matter. Everybody's welcome and expected to go at it.

● **Be self-confident.** Arrogance is a killer, and wearing ambition on one's sleeve can have the same effect; legitimate self-confidence, however, is a winner. The true test of self-confidence is the courage to be open — to welcome change and new ideas, regardless of their source. Self-confident people also are not afraid to have their views challenged; they relish the intellectual combat that enriches ideas.

● **Appraise all the time.** Whether you are handing out a stock option, giving a raise, or simply bumping into someone in the hallway, always let your people know where they stand.

● **Mind your culture.** If your company joins forces with another through merger or acquisition, establish the new entity's culture on day one, to minimize confusion and root out resistance to your goals.

● **Recognize the benefits of speed.** By acting decisively on people, plants and investments, Jack Welch was able to get out of the pile very early in his career at GE. Yet, upon his retirement 40 years later, one of his greatest regrets was that he hadn't acted fast enough on a number of occasions. He never regretted taking quick action.

● **Forget the Zeros.** The entrepreneurial benefits of being small — agility, speed and ease of communication — are often lost in a big company. Welch's experience in plastics enabled him to come to the job of CEO knowing that isolating small projects and keeping them out of the mainstream was a smart thing to do. By focusing on such projects as separate, smaller businesses, the people involved were more energized, adventurous and backed by the right resources. ■

Five Strategy-Focused Questions

A colleague gave Jack Welch an article about the Prussian general Helmut von Moltke, whose beliefs brought to Welch a series of questions that were much more useful to him over the years than all the data crunching in strategic plans. Five simple questions brought strategic thinking to life:

✓ What is the detailed global position of your business and that of your competitors — including market shares, strength by product line, and by region today?

✓ What actions have your competitors taken in the past two years that have changed the competitive landscape?

✓ What have you done in the last two years to alter that landscape?

✓ What are you most afraid your competitors might do in the next two years to change that landscape?

✓ What are you going to do in the next two years to leapfrog any of their moves?

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Judgment on the Front Line

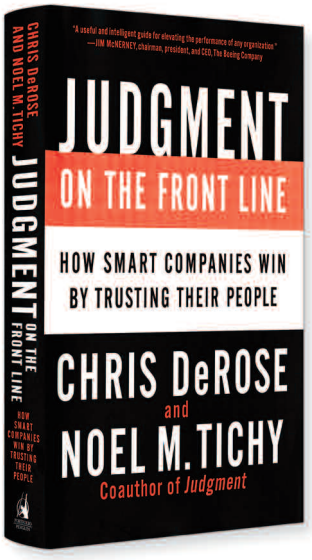
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Management

Judgment on the Front Line

How Smart Companies Win By Trusting Their People



by Chris DeRose and Noel M. Tichy

THE SUMMARY IN BRIEF

Why are frontline leaders the key to success in organizations like Google, Amazon, Zappos and the Navy SEALs? It's simple: those employees are your most valuable source of customer knowledge and creativity.

Management experts Chris DeRose and Noel Tichy have spent years partnering with CEOs as they tried to transform their organizations, which often entails working with leaders from top to bottom to help thousands of associates align with the organization's vision.

Unfortunately, as DeRose and Tichy explain, most organizations don't tap in to the knowledge, creativity and experience of the vast majority of their staffs. Despite the many leaders who claim that "people are our organization's most important asset," few have developed methods for systematically learning from those on the front line. Even fewer know how to give frontline associates a useful tool kit for problem solving and innovation.

Judgment on the Front Line shows how to build a front line-focused organization. DeRose and Tichy offer a five-step process that helps leaders identify how to generate dynamic customer innovation at the front line, and they give powerful examples of frontline leadership in action.

IN THIS SUMMARY, YOU WILL LEARN:

- Why frontline employees are so important to organizations and why it is crucial to involve them in decision making.
- A five-step process for building a frontline-focused organization.
- Methods of frontline employee development from the corporate, military and medical sectors.

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THE COMPLETE SUMMARY: **JUDGMENT ON THE FRONT LINE**

by Chris DeRose and Noel M. Tichy

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Preface

In the United States, at least one-fifth of the entire workforce might be classified as frontline employees. In fact, retail and service workers alone total more than fifteen million people. These associates are experienced in the ways of customers, square off against the competition each day and have insights into where the machinery of their organization consistently breaks down. Yet most organizations do little to learn from these wise workers or expand their ability to deal with the complexities they face. We don't see many company leaders who tap into more than a tiny fraction of the knowledge, creativity, and judgment of their largest group of employees.

The Frontline Innovation Factory

It was Greg Linden's fondness for candy that led to his first major innovation at Amazon, as he recalled that in supermarkets, customers often find candy, potato chips and other "impulse buys" on the racks directly adjacent to the checkout lines. Why not personalize recommendations for similar impulse buys based on the items in a customer's virtual shopping cart as it approaches checkout?

When he started running it by colleagues for review, he garnered mostly positive reactions, with the important exception of a senior vice president of marketing, who "was dead set against it." As Linden later recalled, "his main objection was that it might distract people from checking out." Linden was expressly prohibited by a direct superior from proceeding with the project. However, Linden notes that at Amazon, "even for top executives, it was hard to block a test. Measurement was good. The test rolled out."

The results of the test were clear and irrefutable. Not only did the online test succeed, but the feature was so profitable that not having it live was costing Amazon a noticeable chunk of change. Linden's virtual shopping cart experiment could have only succeeded and been widely implemented under the aegis of a CEO who created a culture where experimentation and adoption was the norm as opposed to the exception.

The Turtle Tank

During the course of our clinical work many years ago, a manager of a retail branch in San Diego known for innovation and employee engagement shared an instructive lesson. He told us that if you buy a young turtle and put it in a small aquarium, it will only grow to a size that fits the tank. We looked into this. Not only is it true, but it is also a practice that infuriates animal rights advocates. Unfortunately for the turtles, the practice stops their growth, leading to health issues and an uncomfortable living environment.

So what do turtles have to do with frontline workers? As this manager shared with us, most organizations where he had worked earlier in his career had boxed in their employees with rules, bureaucracy and hierarchy that stunted their personal growth and organizational contribution. Those at the top of the organization not only failed to ask for ideas but were often dismissive when frontline employees generated suggestions. When middle managers and senior leaders claim that frontline leaders lack the necessary strategic context or see criticism of their organizational processes as resistance, this behavior has the same effect as the turtle tank.

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People: The Most Ignored Asset

The mantra "people are our most important asset" is commonplace today in business circles. You can find it in so many annual reports and press releases that it has lost all of its original meaning. Yet few companies have absorbed the primary lesson: You can learn from the workers who are closest to problems and interact with customers on the front line every day. While many organizations frequently invoke the mantra of "customer-centricity," most don't pay enough attention to those who are closest to the consumer.

The Organizational Paradox: Control Versus Creativity

It is the paradox of all organizations that they require control yet succeed most spectacularly when they unleash the imagination and energy of their employees. The even more painful paradox is that companies that feel compelled to impose obsolete command-and-control protocols in an attempt to tightly govern the actions of frontline employees are actually running an even greater risk: Frontline workers will fail to provide these organizations with the information, wisdom and judgment required to solve problems and meet their customers' ever-changing expectations.

Changes in consumer behavior, a generational swing in employee attitudes and the growth of social media have all contributed to an erosion of command-and-control organizations. In their place, organizations that emphasize decentralization and collaboration are rising in order to more nimbly respond to consumer needs. Those who embrace these changes and learn from their front lines are able to create a virtual factory of new ideas and innovation. ●

Building the Front Line–Focused Organization

In a front line–focused organization, senior leaders have five primary responsibilities:

• **Define a Customer-Based Vision.** Set the vision and define a customer-based strategy for the organization. These judgments are not just passed down from the mountaintop but must reflect observations, feedback and learning from the field. Senior leaders must mobilize organizational expertise to craft a customer-value proposition that matches the product and service capabilities to what the organization can deliver.

• **Develop a Front Line–Focused Culture.** Leaders must deeply care about the opportunities their organization affords frontline employees, and they must sincerely respect the importance of their insight. They are hierarchically positioned to embed values and model leadership behaviors that ensure their organizations actively consider the needs of those on the front line and learn from their experience.

• **Obsess over Talent.** These leaders know that they will win only by having the best talent and the right kind of leadership at the customer interface. They are hard-nosed about the recruitment and hiring processes, never content to leave these solely to HR's discretion. They ensure that training and support systems are in place to teach newcomers how to be successful with customers.

• **Define the Judgment Playing Field.** These leaders define the boundaries for employee decision making, clarifying when frontline leaders can act autonomously and which issues are outside of their authority. Senior leaders ensure that employees are equipped with the right resources to make good judgments.

• **Live on the Line.** Leaders need to go where the action is. They must interact with workers at the customer interface to understand whether the front line feels capable of executing the strategy. Are individual employees committed? Are we incorporating all of our knowledge about customers? Are we providing our employees the right tools, resources, and work environment?

There is a five-step process for leaders to build or, more likely, rebuild their companies from the front line so that the ingenuity, innovation and emotion of thousands of employees can be harnessed. The steps are:

The HiPPO Corollary

The fact that many organizations commonly suffer from turtle-tank syndrome can be readily explained by the HiPPO corollary. HiPPO is a term originally coined at, appropriately enough, Amazon, that stands for "highest-paid person's opinion." In most organizations, people reflexively bow to the HiPPO or forsake their own opinion because they do not have the ability to override the HiPPO. This is a direct outcome of the hierarchical organizational construct that assumes intelligence and capability are related to a person's job title. Fortunately for Greg Linden, as we saw in the previous story, Amazon is a company that values data and customer insight over intuition. As a result, his shopping-cart experiment prevailed despite the marketing vice president's (i.e., HiPPO's) opinion that it was not worth pursuing.

• **Step 1. Connect the Front Line to the Customer.** The CEO and senior team have three fundamental responsibilities in step 1: Understand changing customer needs based on feedback from customers and employees. Ensure that the organization's capabilities match the customer promise. And connect the front line to delivery and improvement of the customer value proposition.

• **Step 2. Teach People to Think for Themselves.** Employees must be taught how to make the right customer-friendly judgments while protecting the business's long-term health. Step 2 requires continuous teaching and discussion of how judgment is applied in actual situations. Teach everyone deeply about customer needs and basic business math. Couple organizational values with a problem-solving framework that can be used by frontline employees and coached by their leaders.

• **Step 3. Experiment to Implement.** Employees can be encouraged to innovate entirely new solutions. Define the innovation areas (products, services or business processes) where frontline innovation is desired. Explain how employees work with others in the organization to generate, review and select innovation ideas for implementation. Provide a methodology for experimentation and measurement.

• **Step 4. Break Down the Hierarchy.** Invigorate the change process by resetting the organizational context. Senior leaders must actively diminish the detrimental aspects of hierarchy — disrespect, intimidation and oppressing opinions — through the careful use of language, symbolism and open discussion of role expectations.

• **Step 5. Invest in Frontline Capability.** Select candidates rigorously and in alignment with the values and customer expectations. Develop frontline judgment capability through an immediate and sustained investment. Teach leaders of frontline associates how to be effective in their critical roles. ●

Starting at the Top

David Novak is chairman and CEO of Yum! Brands, parent company of KFC, Taco Bell and Pizza Hut. Yum!'s 1997 spin-off from PepsiCo created one of the biggest opportunities ever for a "corporate do-over," as Novak likes to refer to the raft of changes he instituted over the years since he took the helm. Saddled with nearly $5 billion of debt and annual returns that had lagged both the market and the industry, the newly formed company's restaurants operated as three independent competitors more than as corporate allies.

When Novak and his leadership team set out to remake the company, their first goal was to consistently treat those who serve the customer — the restaurant managers and their teams — as the most important people in the organization.

His ultimate goal was to have employees intuitively and reflexively take care of the customer and resolve any possible complaints — "to actively try to make them feel welcome and happy eating in one of our restaurants." Novak began to formulate a Teachable Point of View: "People capability first … Satisfied customers and profitability follow." The laser focus and intensity would be directed at creating "Customer Mania" with the singular employee passion of putting "a yum on customers' faces around the world."

The Frontline Judgment Playing Field at Yum!

Yum! didn't afford its restaurant teams the freedom to play with store design, product offerings or operating processes. The primary focus of frontline employees' judgment has been ensuring a fantastic customer experience. Yum! also changed the titles of all senior managers to "coaches" instead of referring to them as "bosses." Yum! fundamentally restructured reporting relationships and spans of control to ensure that area coaches and regional coaches actually had time to work with people in the restaurant.

"The greatest driver of the results we've achieved is the recognition culture we have created. This is creating a highly spirited work environment that is serving as a magnet to retain and recruit the very best talent. The fact is too many corporations are cold, impersonal, detached from the front line and, frankly, boring."

Yum! gave every employee the power to spend up to $10 to resolve any conflict or service issue. In truth, employees exercise intelligent discretion and rarely use the $10 allowance. Today, not only are Yum! restaurants run so efficiently that there are fewer disgruntled customers, but the considerable investment in employee training has resulted in frontline workers who are able to listen and resolve problems amicably without frequently resorting to compensation. ●

Teaching People to Think

Whereas a restaurant crew member at Yum! has to contend with relatively predictable customer needs, frontline personnel in other industries must deal with more variables and higher degrees of unpredictability. The example of the U.S. Navy SEALs demonstrates

how organizations teach their frontline workers to think about multifaceted problems.

For, the SEALs, the solution lies in:

1. Anticipation of the types of problems frontline employees are likely to face.
2. Repetitive training to develop judgment.
3. Lower risk opportunities for people to practice again and again.
4. Contingency planning in case things don't go as expected.

Seventy percent of recruits come to SEAL training directly out of high school. SEALs are trained to operate in the field semiautonomously, with limited direct communications and maximum latitude to make life-and-death, real-time judgment calls at the front line. Decisions made by SEALs have significant geopolitical ramifications.

How SEALs Develop Judgment

The rough training program culminates in an exhausting ordeal known as Hell Week, during which candidates must function on a maximum of five hours of sleep — in a week, not a day. This trial by fire prepares recruits to make tough judgments on the front line by instilling a sense of confidence, courage and commitment in each candidate.

SEALs are taught to consider situational ethical issues, such as what to do when taking hostile fire from what appears to be a 14-year-old girl armed with an assault rifle. The SEALs also mentally prepare for judgment calls they may face tactically in the heat of battle. In many situations a SEAL faces, there is no right answer. This training regime emphasizes the ability to think under pressure, weigh options, evaluate consequences and take action.

It may sound strange, or even condescending, to imply that adults need help learning how to think. After all, cognition is part of what defines us as human beings. However, individual thinking styles emerge as a function of experience, education, environment and many other factors. Organizations that offer shared frameworks, methodology and models for problem solving take an important step toward promoting nonhierarchical dialogue that focuses on using the best available information — much of it from the front line. It is critical that training affords the opportunities to practice making such decisions under stress and teaches frontline employees how to develop contingency plans. ●

Experiment to Innovate on the Front Line

A hackathon is a 24- to 48-hour Red Bull-infused programming fest featuring around-the-clock highly technical work aimed at taking nascent ideas and turning them into prototypes of new products in real time. It has become an integral part of Facebook's culture. Such Facebook features as the iPhoto plug-in, Facebook Chat and video messaging all started as hackathon projects.

At Facebook, hackathons are emblematic of the company's deeply experimental culture because they:

1. Focus on Impact. The ultimate goal of a hackathon is to produce something that actually works. This is an opportunity for programmers and developers to scratch that creative itch that they don't have time to address during the normal work week.

2. Move Fast. Twenty-four hours seems like an impossibily tight time frame to accomplish much of anything useful. However, the time pressure of a hackathon develops focus and teaches people to avoid overthinking solutions.

3. Require Boldness. Hackathons invite employees to take risks and be creative. They require healthy doses of self-confidence and guts to commit to turning a great idea into a working application overnight.

Hackathons become the means by which the new developer or long-time programmer can share a vision for a new product with the management team. Stories of new frontline developers creating features now accessed daily by millions upon millions of users are deeply embedded in a corporate culture that reinforces at every turn the notion that everyone can have a lasting impact on the firm's future.

Providing Structure for Innovation

Building a frontline innovation strategy requires answering three fundamental questions:

1. Innovation Area. Should the front line focus on improving products, business processes or both? Frontline employees tend to be the most knowledgeable about what works in practice and what doesn't. They can identify ways to effectively reduce costs, speed processes or develop alternative work methods.

2. Activity Locus. Where will innovation activities actually occur? Will the front line put ideas into practice or simply pass their ideas on to others who will perform implementation? The real challenge is putting ideas into practice. Some companies prefer heavily decentralized models, where individuals work virtually autonomously.

Other organizations prefer tighter constraints and more directive focus for innovation activities.

3. Experimentation Methodology. What is the methodology for screening and testing good ideas? Individual leaders or review committees can be quickly overwhelmed by the volume of ideas generated in companies with large numbers of employees. By contrast, local employees can act quickly and nimbly to implement changes. An explicit framework for innovation and experimentation that everyone knows and that is shared throughout the organization can transform a culture. It enables dialogue and helps employees form seemingly crazy ideas or partial thoughts into serious work.

Used correctly, experimentation, particularly in industries where the cost of experiments is low, provides a radically different engagement model for frontline workers. Rather than see their ideas rejected out of hand or arbitrarily taken away from them by higher-ups for implementation, employees can have a direct hand in crafting real-life solutions.

Breaking Down the Hierarchy

How can organizations systematically break down the entrenched hierarchy that obstructs frontline associates from utilizing their judgment? There are no singular solutions, but there are many techniques that organizational leaders can employ, such as shifting organizational language and policies, eliminating unproductive work, soliciting frontline ideas more methodically and promoting collaboration among workers at all hierarchical levels.

The Mayo Clinic provides an interesting case example because societal and organizational assumptions about the roles of doctors and nurses are deeply ingrained. Encouraging nurses to speak up is more than simply a matter of imploring them to do their best for the patient. If the nurse disagrees with a physician or poses an alternative solution to a doctor's prescription, the nurse is perceived as challenging the doctor's knowledge and authority.

The new standard process dubbed Plus One is an "empowerment process, and empowerment tool, and empowerment philosophy endorsed by our leadership up to the highest level in Mayo Clinic," says Dr. Richard Zimmerman, then the hospital medical director for the Mayo Clinic in Arizona. Plus One is a protocol that enables nurses to add one person to the patient-doctor-nurse relationship at any time. A nurse or any other clinical staff member may elevate an issue up one level in the chain of command as he or she deems necessary.

There is no question that the program has been a success. The risk-adjusted mortality rate at the Arizona hospital has declined significantly faster than the U.S. average. In part, this is because every Plus One event is reviewed after the fact and treated as a learning opportunity. The knowledge that Plus One is a legitimate option has bolstered the confidence of the nursing team, Mayo's first line of patient protection.

Changing the Organizational Context

There are a few specific actions that nearly all firms are capable of taking:

• **Eliminating Unnecessary Work.** Organizations tend to create unnecessary bureaucracy as a by-product of their operations. In some organizations, employees become trained to not question policy, avoid making recommendations and keep their heads down. Involving frontline personnel has not only shed light on inefficient business practices but simultaneously given those on the front line a sense of increased control over their work environment.

• **Making Time for the Front Line to Think.** Another way to free up frontline capacity is to thoughtfully employ technology to simplify employees' work or seek their input. Many companies use technology strategically to free their front line from manual work or menial aspects of their jobs. Pepsi, for example, used route optimization technology to free up delivery drivers' capacity so they could spend more time creating customer-friendly displays.

• **Getting Intelligence Directly From the Frontline.** There is the logistical challenge of getting input from dispersed locations and hundreds or thousands of frontline employees and then making sense of it in a rational way. Every day, Spanish fast-fashion retailer Zara's staff chat up customers to get feedback on current styles and to understand what is selling. All of the information is loaded into PDAs linked to the stores' point-of-sale system. In less than an hour, every manager globally can send updates that include not only quantitative cash register data but also qualitative customer insights and their own impressions.

• **Promoting Collaboration at All Levels.** In recent years, increasing numbers of organizations are using crowdsourcing and idea markets as a way to tap the knowledge of their employees. These efforts help demonstrate that a company is seeking the best ideas, regardless of where in the hierarchy they may originate.

Ultimately, the goal is not to elevate the frontline workers at the expense of others in the hierarchy but rather to promote respect for them that diminishes the importance of titles, invites insight from employees at all

levels and encourages the use of data and the best intelligence when making decisions. ●

Investing in Frontline Capability

Extensive research has shown that the most likely reason an employee will leave the company or, perhaps worse still, remain but be disgruntled, is their relationship with their immediate supervisor. It takes two to tango, so managing this dynamic is as much about the employees an organization hires as about simply building better bosses.

As online retailer Zappos demonstrates day after day and sale after sale, intelligent hiring is an important and controllable variable. Zappos begins by screening for good incoming talent that shares its value system and affable approach to building personal connections with customers. The company also invests heavily in training those employees. In doing so, much like the US Navy SEALs' process, Zappos is able to ensure a good cultural fit and provide training related to judgment skills, business basics and technical capabilities.

The Human Factor

We use the "four Cs" model to summarize the principal dimensions that have been shown to impact an employee's sense of empowerment. Zappos addresses each element as it brings new employees on board:

- **Context.** Employees desire to connect their work to larger goals. Zappos's mission "to live and deliver WOW" customer experiences immediately connects employees to improving customers' lives. The recruiting process reinforces this by screening intensively against the company values, testing whether behaviors associated with these values play a meaningful role in the candidate's prior experience. The $2,000 offer to quit during the second week of training further reinforces this by ensuring that the candidate is motivated by Zappos's mission and culture, not just the paycheck.
- **Control.** The ability to make autonomous decisions and take action is fundamental to Zappos's mind-set and how the company prioritizes building long-term customer relationships. The parameters for making good judgments are taught throughout training using case studies, observation and real-time coaching.
- **Care.** In the time and energy invested in both recruiting and training, employees see immediate evidence that Zappos is concerned about their well-being. Many weeks of training help the candidate to learn his or her job, unlike the "sink or swim" approach favored in many frontline positions elsewhere.
- **Creativity.** Self-expression is fundamental to Zappos's culture. There is a deep respect for each individual's uniqueness. The recruiting process enables candidates to express their personality and encourages tearing down the façade that most people erect when interviewing.

Sending poorly equipped new hires to be trained by poorly prepared frontline supervisors leads to a staffing turnover cycle familiar to many companies. Many organizations fail to invest in their frontline supervisors. Those who accomplish this task well build organizational commitment, team performance, customer satisfaction and better financial results. ●

A Never-Ending Process

The turmoil that retailer Best Buy faces at the time of this writing was neither sudden nor entirely unforeseen. Since early 2011, analysts and journalists have been in search of the forces behind the company's financial descent. The consensus that emerged is that its business model is severely broken.

The five-step process we have discussed throughout must be a never-ending process in which leaders maintain mechanisms for open dialogue with leaders at all levels. Sustaining the benefits of a frontline investment requires keeping communication lines flowing with information back to top management. Otherwise, the company reverts to its initial steady state.

During our work with the company from 2002 to 2005, Best Buy was able to engage its front line for growth and innovation to deliver stellar results. In 2002, Brad Anderson took over as CEO. Although it seemed that the company could do no wrong, Anderson saw storm clouds on the horizon.

The first step was to work with the top team to agree on the vision and values. Anderson also agreed to launch an "action learning" process that included evaluating strategic options such as acquisitions or geographic expansion. In this six-month process involving 36 company officers, one team focused on capturing more share of the wallet from the high-end consumer segment.

Anderson started one meeting by screening a six-minute video. The mini movie, which had been shot on sidewalks outside Best Buy stores, featured real customers as they exited. One man caustically described the sales force he had encountered inside. Anderson used this brief exercise to create a burning platform for change. He knew that in doing so he would anger some of his top people. And he knew that this would be necessary to focus the company in a new direction.

The new "customer-centric" approach acknowledged that Best Buy's customer offer had dimmed in contrast to Walmart's potential for offering deep discounts or the brand loyalty demonstrated by Target's customers. The big opportunity would be to provide a level of localized service and customer experience that would make technology enjoyable again for customers. The way forward for Best Buy would be to create an in-store experience that would more closely connect the company's thousands of store employees with its millions of customers.

Confronting New Challenges

With things going so well and the stock hitting its high in 2007, how did Best Buy run into trouble five years later? It missed how technology was changing the consumer landscape. Customers are free to take advantage of Best Buy's service associates, play with products, ask for help and then order from whoever has the best price — often before they even leave Best Buy's parking lot. Best Buy is equally challenged by the investment required to operate the stores.

Nearly a decade after Brad Anderson assumed the CEO post, the company faces a strikingly similar challenge to reinvent itself as it did in Anderson's time. Best Buy's experience demonstrates the difficulty of not only transforming to become a front line–focused organization but also of remaining one. One transformation is rarely enough — continual transformation is a multi-year, even multi-decade effort to unleash the creativity and engagement of thousands of frontline associates. ●

Corporate Citizenship on the Front Line

Whether delivering food with an automobile factory employee or painting a halfway house with an oil industry engineer, each time we work with frontline associates in the community, we are amazed at how profoundly such work impacts them and at the unanticipated benefits it brings in their relationships with their coworkers and employers. We see great opportunity and tremendous benefits when frontline employees are able to represent organizations and community service.

Corporate-citizenship efforts offer an opportunity for frontline employees to partner directly with community members, who are often their customers. Working with someone on a volunteer project can create a more personal relationship than waiting on a restaurant customer, serving someone in a bank or selling them a mobile phone. It offers the chance for employees to understand the thoughts, concerns and lifestyles of some of their customers in an informal context, while also enabling customers to see frontline employees in an entirely different role.

Indeed, involvement in the community elevates the role of frontline workers and gives added dimension to corporate mission statements that encourage employees to help improve customers' lives. Citizenship activities also benefit individual employees by providing an opportunity to develop new leadership skills. In some cases, this may enhance their communication abilities as they interact with community members in nontraditional circumstances. In others, they may be lending a skill to leaders and community agencies, showing them how to read a profit-and-loss statement or better manage their staff. Finally, engaging frontline employees offers organizations the ability to exponentially increase both the scale and depth of their citizenship efforts. ●

Conclusion

While we have profiled and extolled the talents of a number of CEOs who have grasped these lessons and put them to good use in their own organizations, our hearts lie with those at the bottom of the organizational pyramid: retail clerks, call-center operators, bank tellers and millions of others who possess both the ability and the desire to give more, to improve their daily work experience and to make life better for the customers they serve. Countless great ideas are lying dormant and untapped in the ranks of most organizations because "nobody ever asked."

More than simply asking for frontline suggestions, it is time for leaders to create organizational structures and systems that implicitly trust those at the front line — who often earn the least yet do some of the most difficult and frustrating jobs — to exercise good judgment, get closer to customers and day in and day out, deliver great results for their organizations. ●

RECOMMENDED READING LIST

If you liked *Judgment on the Front Line*, you'll also like:

1. ***Turn the Ship Around!* by L. David Marquet.** The commander of the USS Santa Fe reveals how he instituted give-control empowerment to take his ship from worst to first.
2. ***Human Sigma* by Jim Asplund and John H. Fleming, Ph.D.** The authors offer an innovative, research-based approach to one of the toughest challenges businesses face today: How to drive success by effectively managing the moments when employees interact with customers.
3. ***Reviving Work Ethic* by Eric Chester.** Chester provides specific actions for leaders to give employees a deep commitment to doing excellent work.

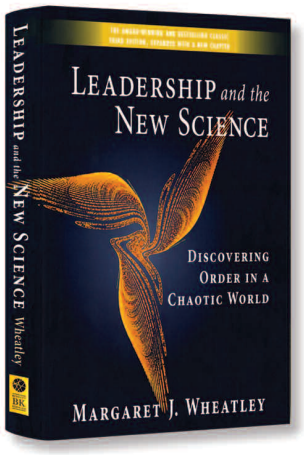
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Leadership & The New Science

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Leadership and the New Science

Discovering Order in a Chaotic World (Third Edition)



by Margaret J. Wheatley

THE SUMMARY IN BRIEF

We live in a time of chaos, rich in potential for new possibilities. A new world is being born. We need new ideas, new ways of seeing and new relationships to help us now. New science — the new discoveries in biology, chaos theory and quantum physics that are changing our understanding of how the world works — offers this guidance. It describes a world where chaos is natural, where order exists "for free." It displays the intricate webs of cooperation that connect us. It assures us that life seeks order but uses messes to get there.

In *Leadership and the New Science*, management professor Margaret Wheatley describes how the new science radically alters our understanding of the world, and how it can teach us to live and work well together in these chaotic times. *Leadership and the New Science* will teach you how to move with greater certainty into the new forms of organizations and communities that are taking shape.

Wheatley uses recent breakthroughs in biology, chemistry and especially quantum physics to describe a new perspective on business management. Her new insights into the nature of how people interact with each other show us how to build better organizations and better societies around the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How non-linear networks and self-organizing systems flourish in the modern world.
- How relationships are what matters — even at the subatomic level.
- How life is a vast web of interconnections where cooperation and participation are required.
- How chaos and change lead to transformation.

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THE COMPLETE SUMMARY: **LEADERSHIP AND THE NEW SCIENCE**

by Margaret J. Wheatley

The author: Margaret J. Wheatley, Ed.D., writes, teaches and speaks about how to restore hope and sanity to organizations. She has been a management professor and consultant since 1973.

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For additional information on the author, go to http://www.summary.com.

Introduction: Searching for a Simpler Way to Lead Organizations

In chemistry, Ilya Prigogine won the Nobel Prize in 1977 for work that demonstrates how certain chemical systems reorganize themselves into greater order when confronted with changes in their environment. In the older, mechanistic models of systems, change and disturbances signaled trouble. These disruptions would only speed up the inevitable decline that was the fate of all systems. But Prigogine's work offered a new and more promising future. He demonstrated that any open system has the capacity to respond to change and disorder by reorganizing itself at a higher level of organization. Disorder becomes a critical player, an ally that can provoke a system to self-organize into new forms of being. As we leave behind the machine model of life and look more deeply into the dynamics of living systems, we begin to glimpse an entirely new way of understanding fluctuations, disorder and change.

The world described by new science is changing our beliefs and perceptions in many areas, not just those of science. New science ideas have crept into almost every discipline, including the field of organizational theory. We can see the influence of science if we look at those problems that plague us most in organizations and how we are reformulating them.

Leadership, an amorphous phenomenon that has intrigued us since people began organizing, is being examined now for its relational aspects. Few if any theorists ignore the complexity of relationships that contribute to a leader's effectiveness. Instead, there are more and more studies on partnership, followership, empowerment, teams, networks and the role of context.

Seamless Organizations

Our concept of organizations is moving away from the mechanistic creations that flourished in the age of bureaucracy. We now speak in earnest of more fluid, organic structures, of boundaryless and seamless organizations. We are beginning to recognize organizations as whole systems, construing them as "learning organizations" or as "organic" and noticing that people exhibit self-organizing capacity. These are our first journeys that signal a growing appreciation for the changes required in today's organizations.

We can forego the despair created by such common organizational events as change, chaos, information overload and entrenched behaviors if we recognize that organizations are living systems, possessing the same capacity to adapt and grow that is common to all life.

Discovering an Orderly World

For months, I have been studying process structures — things that sustain their identity over time yet are not locked rigidly into any one physical form. This stream that swirls around my feet is the most beautiful one I've encountered. Because it is vacation, I resist thinking too deeply about this stream, but as I relax into its flow, images stir and gently whorl the surface.

What is it that streams can teach me about organizations? This stream has an impressive ability to adapt, to change configurations, to let the power shift, to create new structures. But behind this adaptability, making it all happen, I think, is the water's need to flow. Water answers to gravity, to downhill, to the call of the ocean. The forms change, but the mission remains clear. Structures emerge, but only as temporary solutions that facilitate, rather than interfere. There is none of the rigid

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

reliance that I have learned in organizations on single forms, on true answers, on past practices. Streams have more than one response to rocks; otherwise, there'd be no Grand Canyon or Grand Canyons everywhere. The Colorado River realized there were many ways to find the ocean other than by staying broad and expansive.

Organizations lack this kind of faith, faith that they can accomplish their purposes in varied ways and that they do best when they focus on intent and vision, letting forms emerge and disappear. We seem hypnotized by structures, and we build them strong and complex because they must, we believe, hold back the dark forces that threaten to destroy us.

It's a hostile world out there, and organizations, or we who create them, survive only because we build crafty and smart — smart enough to defend ourselves from the natural forces of destruction. Streams have a different relationship with natural forces. With sparkling confidence, they know that their intense yearning for ocean will be fulfilled, that nature creates not only the call, but also the answer.

Nature offers abundant displays of order and clear lessons for how to achieve it. Despite the experience of fluctuations and changes that disrupt our plans, the world is inherently orderly. It continues to create systems of great scope, capacity and diversity. And fluctuation and change are essential to the process by which order is created. ●

Newtonian Organizations in a Quantum Age

The universe that Sir Isaac Newton described was a seductive place. As the great clock ticked, we grew smart and designed the age of machines. As the pendulum swung with perfect periodicity, it prodded us on to new discoveries. As the Earth circled the sun (just like clockwork), we grew assured of the role of determinism and prediction. We absorbed expectations of regularity into our very beings. And we organized work and knowledge based on our beliefs about this predictable universe.

It is interesting to note just how Newtonian most organizations are. The machine imagery of the cosmos was translated into organizations as an emphasis on material structure and multiple parts. Responsibilities have been organized into functions. People have been organized into roles. Page after page of organizational charts depict the workings of the machine: the number of pieces, what fits where, who the most important pieces are.

The 1990s revealed these deeply embedded beliefs about organizations as machines when "reengineering" became the dominant solution for organizational ills. Its costly failures were later acknowledged to have stemmed in large part from processes and beliefs that paid no attention to the human (or living) dimensions of organizational life.

Quantum Mechanics

In science, the beginning of the 20th century heralded the end of the hegemony of Newtonian thinking. Discoveries of a strange world at the subatomic level could not be explained by Newton's laws, and the path was open for new ways of comprehending the universe.

Quantum mechanics does not describe a clock-like universe. It tells a different story:

> *Most of the other giant steps in our understanding of nature were really evolutionary in that they sprang from previously established foundations: facts were reorganized, or connected in new ways, or seen in a different context. Quantum theory, however, broke away completely from those foundations; it dove right off the end. It could not (cannot) adequately be described in metaphors borrowed from our previous view of reality because many of those metaphors no longer apply.*
>
> *But the net result has not been to obscure reality or make the nature of things more elusive and murky. On the contrary, most physicists would agree that what quantum theory has brought to science is exactly the opposite — concreteness and clarity. (Cole, 1985)*

In the quantum world, relationships are not just interesting; to many physicists, they are all there is to reality. ●

Relationships Are Primary

We live in a universe where relationships are primary. Nothing happens in the quantum world without something encountering something else. Nothing exists independent of its relationships. We are constantly creating the world — evoking it from many potentials — as we participate in all its many interactions. This is a world of process, the process of connecting, where "things" come into temporary existence because of relationships.

Space Is Not Empty: Invisible Fields That Shape Behavior

With a quantum sensibility, there are new possibilities for how to create order. Organizational behavior is influenced by the invisible. If we attend to the fields we create, if we help them shine clear with coherence, then we can clean up some of the waste of organizational life.

In many ways, we already know what powerful organizers fields can be. We have moved deeper into understanding these invisible allies with the recent focus on organizational culture, values and purpose. We see that these are important, even when we don't quite know why.

If we understand ideas as real forces in the organization, as fields, we have a better image for understanding why concepts control as well as they do. But the shift in imagery changes the nature of our attention.

The Importance of Clarity

In a field view of organizations, we attend first to clarity. We must say what we mean and seek for a much deeper level of integrity in our words and acts than ever before. And then we must make certain that everyone has access to this field, that the information is available everywhere. Vision statements move off the walls and into the corridors, seeking out every employee, every recess in the organization.

In the past, we may have thought of ourselves as skilled designers of organizations, assembling the pieces, drawing the boxes, exerting energy to painstakingly create all the necessary links, motivation and structures. Now we need to imagine ourselves as beacon towers of information, standing tall in the integrity of what we say, pulsing out congruent messages everywhere.

We need all of us out there, stating, clarifying, reflecting, modeling, filling all of space with the messages we care about. If we do that, a powerful field develops — and with it, the wondrous capacity to organize into coherent, capable form.

Let us remember that space is never empty. If it is filled with harmonious voices, a song arises that is strong and potent. If it is filled with conflict, the dissonance drives us away and we don't want to be there.

When we pretend that it doesn't matter whether there is harmony, when we believe we don't have to "walk our talk," we lose far more than personal integrity. We lose the partnership of a field-rich space that can help bring order to our lives. ●

The Participative Nature of the Universe

Ownership describes personal connections to the organization, the powerful emotions of belonging that inspire people to contribute.

We know that the best way to create ownership is to have those responsible for implementation develop the plan for themselves. No one is successful if they merely present a plan in finished form to others. It doesn't matter how brilliant or correct the plan is — it simply doesn't work to ask people to sign on when they haven't been involved in the planning process.

This is where the observation phenomenon of quantum physics has something to teach us. In quantum logic, it is impossible to expect any plan or idea to be real to people if they do not have the opportunity to personally interact with it.

Reality is co-created by our process of observation, from decisions we, the observers, make about what we choose to notice. It does not exist independent of those activities. Therefore, we cannot *talk* people into our version of reality because truly nothing is real for them if they haven't created it.

People can only experience a proposed plan by interacting with it, by evoking its possibilities through their personal processes of observation.

The Role of the Participation Process

Think about what happens in your experience when you want to get something accepted. It happens all the time in meetings where a plan is being proposed. Even if it is excellent, it will be a long meeting in which the plan will be dissected, criticized, thrown out, brought back and finally, almost always, approved in its initial form with only a few slight modifications.

All of those participants, like the best scientists, need to observe the plan in detail, exploring its edges, searching out its interior, playing with its potentials. Each observer is evoking his or her version of the plan by the act of observation. After a period of sometimes maddening dissension, the dissections cease and people sit back content, filled with energy and commitment.

Usually we endure these processes wondering why we have to go through them, especially because the agreed-upon plan often bears a striking resemblance to what was proposed initially. But it is the *participation process* that makes the plan come alive as a personal reality. People can commit themselves because it has become real for them. ●

Change, Stability and Renewal: The Paradoxes of Self-Organizing Systems

Several organizations, particularly customer-oriented ones, brag about how a single customer inquiry or the suggestion of one employee directed them into entirely new product lines that became very successful. There was no preplanning, no long-range strategic objectives, that led them into these markets. Just the creativity of one or a few individuals who succeeded in getting the attention of the organization and then watched the suggestion amplify to the level where the company reorganized to respond to it.

Great partnering exists between the system and its environment. As the system changes and evolves, it also affects its environment. No participant in this dance is left unaffected by changes that occur in another. Scientists call this *co-evolution*.

Organizational theorist William Starbuck wrote about this process in organizations years ago. The constraints imposed by the environment, he noted, do not force the organization to behave a certain way: "Organizations and their environments are evolving simultaneously toward better fitness for each other." In this view of evolution, the system changes, the environment changes and even the rules of evolution change: "Evolution is the result of self-transcendence at all levels. … [It] is basically open. It determines its own dynamics and direction. … By way of this dynamic interconnectedness, evolution also determines its own *meaning*."

Open to Change

All life lives off-balance in a world that is open to change. And all of life is self-organizing. We do not have to fear disequilibrium, nor do we have to approach change so fearfully. Instead, we can realize that, like all life, we know how to grow and evolve in the midst of constant flux. There is a path through change that leads to greater independence and resiliency. We dance along this path by maintaining a coherent identity and by honoring everybody's need for self-determination. ●

The Creative Energy of the Universe — Information

One of an organization's most critical competencies is to create the conditions that both generate new knowledge and help it to be freely shared. More and more, there is an acknowledged benefit to sharing information within and beyond the organization, to doing away with the gates and blockages, to moving past the hoarding and fear, to developing trusting relationships.

The Origins of Order

Order is never imposed from the top down or from the outside in. Order emerges as elements of the system work together, discovering each other and inventing new capacities.

We need to learn more about these sources of order. In ways we have failed to notice, systems possess the capacity to self-organize. As we learn to work with this ability, our attention will shift away from the *parts*, those rusting holdovers from an earlier age of organizing, and focus us on the deeper, embedded processes that create effective organizations.

"What is needed," British physicist David Bohm writes "is an *act of understanding* in which we see the totality as an actual process that, when carried out properly, tends to bring about a harmonious and orderly overall action, in which analysis into parts has no meaning."

The Process of Relational Holism

In quantum physics, a homologous process is described as *relational holism*, where whole systems are created by the relationships among subatomic particles. In this process, the parts don't remain as parts; they are drawn together by a process of internal connectedness. Electrons are drawn into these intimate relations as they cross paths with one another, overlapping and merging; their own individual qualities become indistinguishable. As author Danah Zohar explains, "The whole will, as a whole, possess a definite mass, charge, spin and so on, but it is completely indeterminate which electrons are contributing what to this. Indeed, it is no longer meaningful to talk of the constituent electrons' individual properties, as these continually change to meet the requirements of the whole."

It is not difficult to recognize ourselves as electrons in organizations, moving, merging with others, forming new wholes, being forever changed in the process. We experience this when we say that a team has "jelled," suddenly able to work in harmony, the ragged edges gone, an effortless flow to the work. ●

Chaos and the Strange Attractor of Meaning

The heart of chaos has been revealed with modern computers. Watching the behavior of a chaotic system as

it is tracked on a computer screen is a mesmerizing experience. The computer records the evolution of the system, displaying each moment of the system's chaotic behavior as a point of light on the screen. Because of the computer's speed, we can soon observe how the system is evolving. The system careens back and forth with raucous unpredictability, never showing up in the same spot twice. But as we watch, this chaotic behavior weaves a pattern and, before our eyes, order emerges on the screen. The chaotic movements of the system have formed themselves into a shape. The shape is a "strange attractor," and what has appeared on the screen is the order inherent in chaos.

Strange attractors evoke feelings of awe in most who observe them. Poetic language frequently creeps into the descriptions offered by scientists. Other types of attractors are well-known, but these newly discovered ones were named *strange* by two scientists, David Ruelle and Floris Takens, because they wanted a name that was deeply suggestive. As Ruelle says, "The name is beautiful and well-suited to these astonishing objects, of which we understand so little."

Turbulence and Order

To describe this dance between turbulence and order, Ruelle reaches for several metaphors: "These systems of curves, these clouds of points, suggest sometimes fireworks or galaxies, sometimes strange and disquieting vegetal proliferations. A realm lies there of forms to explore, of harmonies to discover."

Chaos has always partnered with order — a concept that contradicts our common definition of chaos — but until we could see it with computers, we saw only turbulence, energy without predictable form. Chaos is the last state before a system plunges into random behavior where no order exists.

Not all systems move into chaos, but if a system becomes unstable, it will move first into a period of oscillation, swinging back and forth between two different states. After this oscillation stage, the next state is chaos, and it is then that the wild gyrations begin. However, in the realm of chaos, where everything should fall apart, the strange attractor emerges, and we observe order, not chaos. ●

Change — The Capacity of Life

The new sciences are filled with tantalizing and hopeful processes that foster change. But to learn these lessons, we need to shift what we look for. Many of the reformulations of new science came from just such a shift: Scientists learning to look past an object or thing to the invisible level of dynamic processes. Laying aside the machine metaphor, with its static mechanisms and separated parts, scientists saw something new. They saw the underlying processes that give rise to innumerable and different life forms. They developed answers to explain how life is capable of so much change, so much newness. Some expressed awe and humility as they encountered the unstoppable resiliency of life. Some became poets, reaching for new language to describe their encounters with life's boundless creativity.

Being Present in the Moment

We must keep participating in the moment. The changing nature of life insists that we stop hiding behind our plans or measures and give more attention to what is occurring right in front of us, right now. We need to become curious about what's going on, what just happened. The present moment overflows with information about ourselves and our environment. But most of those learnings fly by unobserved because we're preoccupied with our images of how we want the world to be.

Being present in the moment doesn't mean that we act without intention or flow directionless through life without any plans. But we would do better to attend more carefully to *the process* by which we create our plans and intentions.

We need to see these plans, standards and organization charts not as objects that we complete, but as processes that enable a group to keep clarifying its intent and strengthening its connections to new people and new information. We need less reverence for the objects we create, and much more attention to the processes we use to create them.

Healthy processes create better relationships among us, more clarity about who we are and more information about what's going on around us. With these new connections, we grow healthier. We develop greater capacity to know what to do. We weave together an organization as resilient and flexible as a spider's web. ●

The New Scientific Management

In the history of human thought, a new way of understanding often appears simultaneously in widely separated places and in different disciplines. These synchronicities, mysterious and inexplicable, pop up everywhere.

For example, Darwin proposed his theory of evolution at the same time that another researcher, working in Malaysia, published very similar ideas. When

Impressionist painters explored light for its effects on dissolving forms, even painting it as discrete dots, physicists were theorizing that light was made up of miniscule energy packets known as quanta.

We live again in a time when the same concepts are appearing in many places. These concepts are our *zeitgeist* — a way of thinking that characterizes a generation or time period. Our zeitgeist is a new (and ancient) awareness that we participate in a world of exquisite interconnectedness.

We are learning to see systems rather than isolated parts and players. Under rather austere titles of *systems thinking* or *ecological thinking*, we are discovering many things worthy of wonder. We can now see the webs of interconnections that weave the world together; we are more aware that we live in relationship, connected to everything else; we are learning that profoundly different processes explain how living systems emerge and change.

A Shift in Focus and Context

The work of Frederick Taylor, Frank Gilbreth and hosts of followers initiated the era of "scientific management." This was the start of a continuing quest to treat work and workers as an engineering problem. Enormous focus went into creating time-motion studies and breaking work into discrete tasks that could be done by the most untrained of workers. Designers were so focused on engineering efficient solutions that they completely discounted the human beings who were doing the work. They didn't just ignore them, as has been done more recently with contemporary reengineering efforts. They disdained them — their task was to design work that would not be disrupted by the expected stupidity of workers.

Though we in management may have left behind some of these beliefs and the rigid, fragmented structures that those beliefs engendered, we have not in any way abandoned science as the source of our credibility. Planning, measurement, motivation theory, organizational design and change — each of these and more bears the recognizable influence of science.

Life's Dependence on Participation

The movement toward participation is rooted in our changing perceptions of the organizing principles of life. Everywhere in the new sciences, in living systems theory, quantum physics, chaos and complexity theory, we observe life's dependence on participation. All life participates in the creation of itself, insisting on the freedom to self-determine. All life participates actively with its environment in *the process* of co-adaptation and co-evolution. No subatomic particle exists independent of its participation with other particles. And even reality is evoked through acts of participation between us and what we choose to notice. ●

The Real World

The real world demands that we learn to cope with chaos, that we understand what motivates humans and that we adopt strategies and behaviors that lead to order, not more chaos.

The science of how networks emerge out of chaos, organize around shared meaning and grow more effective provides new and more accurate measures for assessing the strength of Al Qaeda and other insurgencies. These measures focus not on size, structure or chain of command, but on meaning and emotions. They are startlingly different to the traditional ones we use.

If networks grow from passion, if Al Qaeda "rides the rage" of angry Islamic militants, then the best strategy for immobilizing terrorist networks is not to kill their leaders, but to defuse the sources of their anger, and not to incite them further. Many analysts arrive at a similar conclusion — we can only win the war on terror by eliminating the causes of rage. As long as our actions provoke their anger, we can expect more terrorists, more extreme attacks and the continuing destabilization of the world by small groups of people. Network analyst Albert-László Barabási states: "If we ever want to win the war, our only hope is to tackle the underlying social, economic and political roots that fuel the network's growth. We must help eliminate the need and desire … to form links to terrorist organizations by offering them a chance to belong to more constructive and meaningful webs."

The Need to Change

This is the real world that we resist seeing at our own imminent peril. If we continue to seek to control it by exerting ever more pressure on those who hate us, those who feel disconnected and/or those who are impoverished, we will only create a future of increasing disorder and terror.

But to see a new way out of this terrifying future, we must learn to understand and see the world differently. Albert Einstein's wonderful counsel that no problem is ever solved by the same thinking that creates it defines what we must do.

We must understand the behavior of networks in this densely interconnected world. We must understand

human motivation and our astonishing capacity to self-organize when we care about something. We must understand that we lose capacity and, in fact, create more chaos when we insist on hierarchy, roles and command-and-control leadership.

There is no more time to think about whether we need to make this shift. We can't afford to continue wandering blindly in the real world, oblivious to what's going on. But if we can become curious and willing students of life's dynamics, we will discover surprising new capacities and insights.

Whenever we humans see clearly and understand the true dimensions of any problem, we become brave and intelligent actors in the world. It is time to open our eyes, change our lens and step forward into actions that will restore sanity and possibility to the real world. ●

Epilogue: Journeying to a New World

Our culture is presently journeying through chaos. The old ways are dissolving, and the new has not yet shown itself. If this is true, then we must engage with one another differently, as explorers and discoverers.

It will make the passage more fruitful if we can learn how to honor each other in these roles. We can realize that no single person or school of thought has the answer, because what's required is far beyond isolated answers. We can realize that we must inquire together to find the new. We can turn to one another as our best hope for inventing and discovering the worlds we are seeking.

We can no longer act as patrons, waiting expectantly for the right solution. We are each required to go down to the dock and begin our individual journeys. The seas need to be crowded with explorers, each of us looking for our answers. We *do* need to be sharing what we find, but not as models. From each other, we need to learn what's possible. Another's success encourages us to continue our own search for treasure.

Reality Is Constantly New

In this new world, you and I have to make it up as we go along, not because we lack expertise or planning skills, but because that is the nature of reality. Reality changes shape and meaning as we're in it. It is constantly new. We are required to be there, as active participants. It can't happen without us, and nobody can do it for us.

If we take seriously the role of explorer and inventor, we will realize that we can't do this alone. It's scary work trying to find a new world, hoping we won't die in the process. We live in a time of chaos, as rich in the potential for disasters as for new possibilities. How will we navigate these times?

How Imposed Control Can Threaten Survival

When leaders strive for equilibrium and stability by imposing control, constricting people's freedom and inhibiting local change, they only create the conditions that threaten the organization's survival.

We Need Each Other

The answer is, together. We need each other differently now. We cannot hide behind our boundaries or hold onto the belief that we can survive alone. We need each other to test out ideas, to share what we're learning, to help us see in new ways and to listen to our stories. We need each other to forgive us when we fail, to trust us with their dreams, to offer their hope when we've lost our own.

This is a strange world, and it promises only to get stranger. Physicist Niels Bohr once said that great ideas, when they appear, seem muddled and strange. They are only half-understood by their discoverer and remain a mystery to everyone else. But if an idea does not appear bizarre, he counseled, there is no hope for it.

So we must live with the strange and the bizarre, directed to unseen lands by faint glimmers of hope. Every moment of this journey requires that we be comfortable with uncertainty and appreciative of chaos' role. Every moment requires that we stay together.

After all is said and done, we have the gift of each other. We have each other's curiosity, wisdom and courage. And we have Life, whose great ordering powers, if we choose to work with them, will make us even more curious, wise and courageous. ●

RECOMMENDED READING LIST

If you liked *Leadership and the New Science*, you'll also like:

1. ***Open Leadership* by Charlene Li.** Li offers the next step resource that shows leaders how to use social media to be "open" while maintaining control.
2. ***Managing* by Henry Mintzberg.** In his latest book, Mintzberg aims to restore management to its proper place: front and center. *Managing* may be the most revealing book yet written about what managers do, how they do it, and how they can do it better.
3. ***Viral Loop* by Adam L. Penenberg.** This innovative title teaches leaders to use the paradigm-busting power of viral loops to enable their business to benefit from new technology.

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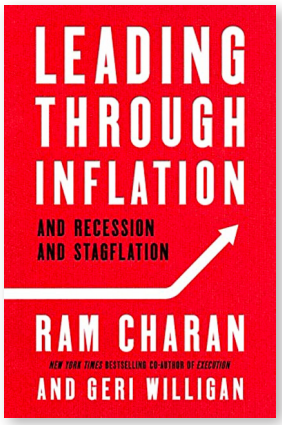
Leading Through Inflation

Ram Charan, Geri Willigan

soundview Executive Book Summaries®

Leading Through Inflation

And Recession and Stagflation



by **Ram Charan and Geri Willigan**

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THE SUMMARY IN BRIEF

In the first half of 2022, people were grappling with high inflation and starting to talk about the possibility of recession and stagflation. Things were getting tough. But when the going gets tough, the tough get going. Business leaders need to learn about inflation's insidious effects and take those lessons back to the businesses they run to get through this period in great shape.

In ***Leading Through Inflation: And Recession and Stagflation*** co-authors Ram Charan and Geri Willigan lay out the hazards of inflation and how to avoid them so your company will survive this difficult time. It will help you build your confidence to act decisively despite the unknowns by showing how other leaders are stemming the damage and resetting their businesses for a brighter future. It will help you see inflation's impact through a wider lens and give you specific tools for dealing with it.

Economic damage comes fast. Through the overarching message that leaders must move quickly, this book is designed to speed learning and shorten the time to act.

IN THIS SUMMARY, YOU WILL LEARN:

- What you need to know about inflation.
- Why you must pay attention to cash.
- How to find cost cuts that build business.
- How to renew your business model.

What You Need to Know About Inflation

It is your job as a leader to steer the company through inflation, whether or not you have practice at it. That means fully understanding how inflation touches every part of the business and enlisting the help of others in the company to combat it. Hunkering down until the Federal Reserve fixes things is not a viable plan.

You don't need charts and graphs to know that costs have been rising. But there's more to know about how inflation affects a business. You need to understand what inflation does to a company, an industry, and the economy as a whole. Here are some important facts about inflation that may not be obvious until it is too late:

1. **Inflation consumes cash.** Cash gets trapped in inventories and accounts receivable for the same unit volume. Growth gobbles up even more cash.
2. **Price increases roll through the value chain to the end consumer like a freight train, disrupting the economics and power balance of players along the way.** At some point, consumers push back and demand drops.
3. **Aggregate measures like the Consumer Price Index don't tell much about how inflation will affect your company.** Microsegmentation across your business and the supply chain is essential.
4. **The effects of inflation are cumulative.** A 7% inflation rate may be manageable for one year but a rate even close to that compounded over several years could ravage the business.
5. **Inflation trends are partly psychological.** When people expect continual price increases, they hoard goods, creating even more demand and exacerbating the imbalance. This pattern can lead to hyper-inflation.
6. **Inflation can turn well-planned capital expenditures into bad investments.** Earlier decisions were likely based on assumptions that are no longer valid.
7. **Sacrificing customer trust to protect the business from higher costs has long-term consequences.** It is hard to restore a brand once it is tarnished.
8. **Inflation reorders competition.** It is an opportunity for businesses that can sustain in the near term and strengthen their position for future growth.

These truths show why many leaders need a broader and more urgent response to inflation than they have undertaken thus far. They should help you appreciate that cost cutting to struggle through the immediate hardships will not get you through a sustained period of inflation, let alone a spurt of hyper-inflation, recession, or stagflation.

The bright side? **The current disruption to your company may make it hard to appreciate the eighth universal truth about inflation: it creates opportunities to improve your competitive position.** Dealing with inflation's negative impact on the business will reveal a silver lining. The business will sharpen its focus and cultivate a stronger set of customers. You'll find ways to improve productivity, cut costs through more automation, or use technology to serve customers better with less cash usage. Your company's response to inflation will be a differentiator.

A War Room to Pick Up Early Signals

Inflation intensified in late 2021. Some cost increases may have been predictable, but the sudden constriction of Russian oil and Ukrainian agricultural products was a shock. Companies that have a mechanism to detect such changes and coordinate a response sooner are better positioned than others.

This is what war rooms are for. Whether or not you use the term, every company needs a mechanism to get people's attention focused on the urgent threat from high inflation and to enlist their help in executing a solution. Some companies have simply changed the content of existing meeting formats. Others have created something new.

Best practice is not just to examine the immediate threats to the business but to look ahead and make judgments about what might be coming next, an exercise of gathering data and reasoning out the possibilities. An ideal war room is not just for firefighting; it's also strategic. Early warning signals will tell you not just where the problems are emerging but also their pace. They allow you to be predictive, prescriptive, and preemptive.

Every company needs a war room. A war room is a frequent gathering of people who will aggregate information, strategize, and drive the plan. It has an important social purpose in aligning and intensifying people's focus. Much

Inflation brings the risk of insolvency.
Bankruptcy can happen to the unwary.

like in a military situation, it is an excellent way to convert anxiety and fear into energy and action. Energizing people to spring to action based on information others share is valuable, but there's another benefit: it sensitizes everyone to early warning signals they may be exposed to in the normal course of their workday.

Early warning signals from your customers, supply chain, or industry statistics should be tracked on a dashboard. Along with some macroeconomic measures you find useful, choose some metrics that are specific and critical to your business. Data can help you detect shifts in buying patterns, from which you can draw other inferences. Be sure you are monitoring internal early warning signals as well.

The only way to be preemptive is to be predictive. Use your war room to brainstorm what the data are pointing to, what trends are emerging, and take some leaps to consider how things could combine to create what's next. The thought process will set you apart.

Pay Attention to Cash

Cash management is the number-one risk to your business and the key to managing it safely through inflationary times. You need to have a clear picture at all times of where cash is coming from and where it is going to, with a view of how those flows will change in the coming quarters. You should be seeking ways to reduce costs and lower the break-even point, but the important shift is to focus on the balance sheet, not just the P&L. Orient yourself to think in terms of cash profits, not paper profits or percentages.

If you're not watching cash and taking steps to ensure you have enough of it, you are putting your business on shaky ground. As inflation persists, many items you consider done deals could come to haunt you. For example, if you have contracts to sell at fixed prices with no such assurances on the cost side, you are headed for trouble. If you have variable-rate loans or need to borrow money going forward but don't have a plan to cover higher cash payments, you could likewise be in trouble. If you are in an industry that relies heavily on energy, directly or indirectly, you could also be in trouble.

And don't forget that customers consume cash in the form of receivables, inventory, and production, some more than others. A customer that pays receivables in 275 days might not be worth having, even if you get a hefty margin. Things look very different when you analyze profitability on the basis of a margin measured in percentage points versus profitability measured on the basis of net cash.

You have to know how cash is flowing and learn where it typically gets trapped, especially as rising interest rates slow economic growth. You will want to scrutinize how you use cash to build the business and keep it running, whether as operating expenses or capital expenditures. All of your business planning and forecasts should include an analysis of cash, and you should revisit the investments you already planned with an eye toward cash.

The sooner you fix the balance sheet to protect cash, the better. In a period of rising inflation, debt is a killer. You might think it's fine to keep the debt you have because it is low-priced. But you have to consider whether you can actually service that debt. Will inflation shrink your cash margins? If you can't generate as much cash as you did before, then even low-priced debt will be a problem.

Inflation brings the risk of insolvency. Bankruptcy can happen to the unwary. Watch your balance sheet and safeguard your liquidity.

Change Your Pricing Approach–Fast

Pricing may have been a relatively low priority over the past decade, but under inflation it is central to survival. Whether you're expecting more inflation, recession, stagnation, or a return to growth, you should fully understand how pricing affects your money making and relationships with customers. It's not just that you have to raise prices, which you almost certainly do, you may have to revise your whole approach to pricing.

This economic era demands a break from past practices, even those that have worked fine so far. Maybe your sales are largely transactional, but now a subscription-based

approach works better. Maybe you've ruled out surcharges, but now they make sense. The range of options on pricing is likely wider than you think, and the options you choose matter more than you think. Revisit your choices.

Regardless of where you sit today, inflation gives you the opportunity to evolve the pricing function and build a new capability for your company. Accelerate your pace of price changes, but be thoughtful about how you implement them so you don't wear down your sales force or alienate customers.

Improve your approach to pricing broadly, including the following:

1. **Your pricing mode**–are sales transactional, subscription based, or contractual?
2. **Your pricing method**–Do you use dynamic pricing, peer pricing, index pricing, or custom negotiations?
3. **Your pricing model**–Are prices derived by a desire to fill a factory, maintain a target margin, hit a list price, or extract an estimated value?
4. **Your pricing strategy**–Do you set prices with the intent to penetrate a market, retain a customer base, or maximize value extraction?

However you combined these elements in the past, you should consider whether a shift might work better in current times. Unless you pick up the pace of price changes, you could seriously miss cash and earnings that you can never recover. Across an industry, someone will be first to make a move. If you leave it to sales and marketing alone, you may never get the price increase you need, let alone be first in line. They may stall because they don't want to lose the customer or dread getting serious push-back from them.

The dominant psychology of sales and marketing for the past decade has been to capture as many customers as possible and make every sale one can, without thinking too hard about whether the sale is profitable or the customer is sound. There's been a psychological aversion to raising prices. Senior leaders have to address this issue head on. It's one thing to know that price increases are in order and another to see that those changes are made promptly.

Find Cost Cuts that Build the Business

As you cope with inflation you'll need to cut costs. You will run up against some costs that are impossible to control, whether it's because the material is rare, the trading floor sets the price of a commodity, or front-line workers have a multitude of options. Go beyond the obvious targets and consider all the direct and indirect costs strung across the company. How could they be reduced?

Then go further. Those incremental savings will add up and help you weather rising costs, but you should also step back and ask a different question: Can you make a more radical change to reduce costs and/or cash consumption? A step or jump in reducing costs might come from looking beyond the boundaries of your business and working with others in the value chain. When one link in the chain is affected, others are too. Or you might have to completely revise your geographic footprint, for people as well as sourcing.

The point is to get through an inflationary period with customers intact and with a stronger business than before. That comes from keeping customers top of mind and searching for things you can do to help them get through. At the same time, you should work with the other side of the value chain to help suppliers cut whatever costs they can control.

Apparel, footwear, and other consumer staples are among the industries that have been severely challenged by both the pandemic and inflation. Many players in the supply chains for those industries are based in Southeast Asian countries. As consumer demand dropped precipitously, cash froze up, and exports dwindled. Companies and their domestic economies were badly hurt. One company, a medium-sized player in the middle of the footwear supply chain, recognized the opportunity to demonstrate their differentiation.

Knowing that its customers–the companies next in the value chain–were still recovering, raising prices to pass along cost increases was not a realistic option. Instead they looked to cut costs that would not weaken the business, either their own or those of the customers or the subcontractors that manufactured their products. That declaration took many typical cost cuts off the table and spurred more creative thinking.

For example, making internal changes can save money and make the company operate more efficiently, which can translate into faster approvals and decisions. The company can thus become more responsive to customer's requests. Helping to improve operations at the manufacturing level helps those customers become better able to handle the cost increases that are externally driven. Your customers and your customer's customers all stand to benefit.

If you think bigger and more broadly and don't back

If you think bigger and more broadly and don't back away from a bold change, you'll see how inflation creates a chance for your company to leap ahead.

away from a bold change, you'll see how inflation creates a chance for your company to leap ahead. In a high-inflation environment, you've got to help your customers deal with rising costs, even as you fight to contain them. You also have to work with suppliers because cost incurred on that side of the value chain will affect players at every step that follows. Along the way, you should search for ways to add value, not just cut costs, on both sides of the value chain. It's all connected.

Renew Your Business Model

The cumulative effects of inflation are leading to a world of lower consumption overall, one in which some consumer behavior will have changed permanently. There will not be a return to what we've known. Some segments–even some industries–will have shrunk, and some new ones may have appeared. As you adjust your pricing, product offerings, costs, and cash flow along the way, at some point your business model might reach a breaking point. To thrive in the emerging world of lower consumption and slower growth, you will almost certainly need a new business model.

You should focus on it now. Don't wait for mountains of evidence that the current business model isn't working. Be honest: Is your most lucrative market evaporating? Are the new market segments you've targeted still there, and at the same price points? You may be convinced demand for your services will return to what it was, but when? Can you really wait it out? Will something more appealing have sprung up in the meantime? Pool your observations, look at data and trends, and start to think about how you will reinvent the business model.

Creating a new business model may be as new to you as inflation. But don't ignore the necessity. Remember that even if you are slow to recognize that the business model is breaking, investors won't be. Declining or persistently stagnant earnings with no sign of future building will begin to affect your market valuation. With that comes another insidious impact: you'll have to use more cash for things like pension funding. When resources start to dwindle, you have fewer options to make a change.

The elements of your business model include sources of revenue, customer mix, product mix, geographic footprint, cost structure, and the money making model. The mental challenge is to conceptualize how the key elements could work together differently. To win in profitable customer segments, you need innovation. Digitalization will help you reduce waste and therefore cost. It will help you customize products and services and therefore boost revenue and cash. It also makes innovation cheaper and more efficient.

Keep iterating your conception of the business model until your products, customers, and business portfolios work with your money making formula–your need for positive cash flow, gross margin, and profitable growth that can fund critical investments.

- **Customer segments.** The need for cash might force you to drop customers that cannot keep up with payments to you, and price increases might drive some customers away.
- **Product mix.** Look at your customer mix with fresh eyes. A prolific number of products can create all kinds of complexity that works against efficient management of production and cash.
- **Ecosystem.** Your ecosystem extends beyond your linear value chain to include networks and partnerships. This is a time to question whether you have the right partners.
- **Geographic footprint.** As you look at where you sell, produce, source, and hire, geopolitics and exchange rates should play a role. You will probably want to put more emphasis on where there will be more stability and more sustainability of cash growth.
- **Portfolio Mix:** If you have a portfolio of businesses and are considering merging, acquiring, or divesting, think about how they will fare in inflation.

No business model lasts forever. Be ready by rethinking all the places and ways you currently play. Be ready to change the mix.

Inflation is Everybody's Business: Your Role

Armed with a general understanding of how inflation affects a business, you are better prepared to help your company succeed despite it. But that is not enough. Every business function has a role to play in coping with inflation and preparing for what will follow. Actions you take now will not only mitigate the damage from inflation but also strengthen the company so it will be well positioned when the economy takes a turn for the better.

What is your role?

CEO

1. **Cash coming in, going out, and its timing.** Every major financial decision must be viewed through the lens of cash.
2. **Pricing, and making it happen.** The CEO must understand the basic choices in philosophy and tactics, be hands-on with sales and marketing to be sure they are moving fast and smart on pricing, and reassign some leaders if they are unable to implement price changes.
3. **The business model and strategy.** The focus of the business may change to conserve cash or to pounce on opportunities. Continue to build the future even as you focus intensely on the day-to-day immediacies.
4. **Operations.** Link with the COO to stay grounded in how costs are changing, supply and demand are matching up, and problems are being addressed. The COO's perspective will inform communications with the investment community.

These four items alone will not sustain the business. In this time of pronounced economic volatility, the CEO must also be the chief integrator of people and information. This role involves psychological leadership, helping others to face reality and adapt their behavior. But it also has a mechanical component, which includes establishing a war-room type mechanism and a cadence of frequent communication.

The CEO does not combat inflation alone. Here are a few checklists for other key roles.

CFO and Finance Department

- Watch for cash traps
- Take charge of working capital
- Check the assumptions in planning and capital expenditures
- Communicate with investors

Sales and Marketing

- Work on segmentation and customer profitability
- Update the pricing approach
- Ask IT to help with competitive data
- Train for the new customer dynamic

Operations

- Revisit and recommend capital expenditures versus operating expenditures
- Use digital applications to keep improving
- Be a conduit between front-line employees and management
- Help investor relations build credibility

Procurement

- Secure supply
- Gather intelligence
- Keep management informed
- Be decisive

CIO and IT Department

- Learn the new business priorities
- Do small projects with a short-term payoff
- Find ways to help business leaders
- Use outside help for low cost and speed

Public Relations and Investor Relations

- Know how your company fits in the macro environment
- Be clear about the company's plans and actions
- Be ready to explain big pricing moves
- Learn what investors are thinking and doing

Human Resources

- Help identify those who can't adapt
- Defend fair treatment in times of stress

- Keep KPIs up to date
- Use training to build skills and reduce anxiety

The Board

- Spur management to action
- Help break bottlenecks
- Use a framework for capital allocation
- Revise the compensation plan

Ram's Closing Message

It is leaders who let companies decline or take them to new heights. This could be your time to shine. The things that will help you lead through inflation will also help you lead when the next change comes. Use the external change to your advantage, and get everyone aboard to navigate through the rough patch. Take the hand you are dealt. Use it to create new value for the customer, shareholders, and the constituencies you serve. That's how you and your company will come out ahead and be ready to ride high when stability and growth return–as we know they will.



Ram Charan is a bestselling author, teacher, and world renown advisor to CEOs and other business leaders of some of the world's best-known companies, including Toyota, Bank of America, Aditya Birla Group, Novartis, Fast Retailing (Uniqlo), and Humana. The author of close to forty books, four of which were bestsellers, he is known for providing real-world solutions— the kind of advice you can use Monday morning. His book Execution, lauded for its practicality, spent more than 150 weeks on the New York Times best-seller list.

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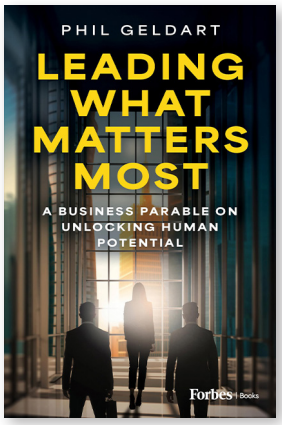
Leading What Matters Most

Phil Geldart

Executive Book Summaries®

Leading What Matters Most

A Business Parable on Unlocking Human Potential



by **Phil Geldart**

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THE SUMMARY IN BRIEF

Leading people should be your greatest asset, not your biggest problem. That's what this book introduces as a main concept. ***Leading What Matters Most: A Business Parable on Unlocking Human Potential*** is a compelling business parable for leaders – offering practical lessons and takeaways for organizations at every stage.

Author Phil Geldart, founder and CEO of Eagle's Flight, is a recognized authority in the areas of transforming organizational culture, leadership development, and experiential training solutions. His expertise and passion for unlocking human potential have garnered the respect of Fortune 500 global organizations.

Because of these characteristics and the author's expertise, *Leading What Matters Most* has been named the book from which "all business leaders can learn a lot about embracing a paradigm shift for the sake of long-term success."

IN THIS EXECUTIVE BOOK SUMMARY:

- Learn how to begin a leadership transformation.
- The essential of moving from "what to do" to "how to do it."
- What problems and successes do managers face along the way?
- What are the best ways to resolve organizational issues for the sake of everyone involved?

Introduction

Very often, we as leaders receive great advice about what to do but not how to do it, and knowing the "what" without the "how" is rarely as helpful as we hoped it would be!

With that in mind, I thought I'd introduce you to Bridget, my fictional CEO running a large and highly successful tech company that is now encountering problems on the people side. While Bridget is brilliant as an operational executive, her expertise in truly releasing all the potential within her workforce is seriously lacking. This has led to declining results in both performance and employee engagement. Her board is unhappy, her people are disengaged, and her leadership team is no more people-savvy than she is.

By taking Bridget's journey with her, we share in her frustrations and problems as well as her successes. More importantly, we see how she tackles, and ultimately resolves, these issues to the benefit of everyone involved.

You may perhaps identify with some of Bridget's challenges and be looking for insight about how to tackle them. As you follow her progress, you learn with her the practicalities of how, with the right help, you can change behaviors to improve performance.

Chapter 1: It's No Longer Working

Bridget took a deep breath and slowly exhaled. The board meeting had been brutal. How had things changed so drastically in what seemed like a few short months?

Turning back to her desk, she picked up the GCG (Good Corporate Governance) report, once again scanning the list of deficiencies. "Underdeveloped staff, low employee engagement, poor leadership competence, and ineffective corporate communication," she whispered to herself. She had dragged her heels getting this report—tried to deny the need for it, thinking she still had it under control, but she knew the board was right. Something was no longer working

It felt like a sink or swim moment for her personally and professionally. In fact, the board chair had made that clear.

When Bridget arrived at her ELO meeting the following week, she felt a bit embarrassed to share the challenges Talon Tech was up against. Well, not so much the challenges themselves but that she was the reason they existed.

The next two weeks were a blur as Bridget and her leadership team hunkered down, creating and implementing new policies and strategies for employee engagement and communication based on GCG's recommendations.

Regardless of the new initiatives, however, Bridget and the leadership team continued getting reports about various problems. Sales continued to push back, saying the way they had been doing things was working fine—the company just needed to figure out how to fill their orders faster. Operations complained that they didn't have time to implement these new procedures and keep up their current production levels. Customer service grumbled about customer complaints taking up too much of their time, which meant they couldn't keep up with new orders. Why couldn't leadership work on fixing those issues instead of throwing them a measly $200 bonus, and since when was it their job to interview people? Bridget wanted to scream.

That was the moment when Bridget made the conscious decision to get in touch with a business consultant named Ray Ortiz.

Chapter 2: Moving from What to How

Bridget and Ray set up a meeting at a restaurant.

During the conversation, it became clear that Ray had no intention of fixing the leadership problem. Instead, he was going to show Bridget how her team could achieve the results they were looking for.

Next, Bridget outlined the problems at Talon Tech, as she was perceiving them.

"The truth is, as recently as a week ago I was still resistant to taking this step. I think because Talon Tech has done so well—we're at the top of our industry, and we continue, at least until now, to turn a healthy profit—it's blinded me to some very real issues. Issues that I should have addressed sooner, but now, months after there were initial indications of potential trouble, I'm finally taking the steps that I hope will help me right the ship before it's too late."

Before she could formulate her next thought, Ray said, "I think what's happened is you don't know how to harness the potential of your workforce. You and your leaders know how to lead the business, but you don't know how to effectively lead your people."

Bridget felt validated. Ray had just confirmed what she had begun to suspect was the root cause of Talon Tech's problem.

Dishant continued: "I warn you, it's not as easy as it may appear, but the lessons and insights you take away from this experience will fire you up! And that collective fire is what will empower us to release the full potential of everyone."

Chapter 3: The Leap of Faith

"Trust the process," Bridget said softly to herself.

It was time to introduce Ray to the team.

Upon entering the meeting room, Ray greeted everyone who had gathered.

"It's a pleasure to meet you all," said Ray. "What you have all accomplished here at Talon Tech is incredibly impressive. The reason I'm here is that Talon Tech has been wrestling with problems. I know you have tried to identify the origin of the problems and ways to address them and that those efforts have failed. But I assure you, there is a path forward—a path that will lead to the outcomes Talon Tech needs and you all want to achieve to continue your impressive successes." Ray met everyone's eyes before continuing.

"Bridget has made it clear to me that the approach I'm about to lay out for you is the path that Talon Tech will follow. Its success requires the commitment of every leader in this room. Now, I know you don't yet understand this approach or your role in it, and I respect that, but everyone at Talon Tech must be committed to the path."

Having everyone's undivided attention, Ray set the following priorities:

- "We provide new behaviors at every level.
- It will be leader led.
- We'll align all our HR practices.
- We put everything you show/teach us into practice.
- You and your team provide guidance and support."

He also outlined the main areas of focus:

- Leadership: Each of us must own the outcome for this initiative
- Communication: Let everyone know continually and consistently how we are doing things differently and why
- Alignment: Align all the human resource practices
- Training: Experiential training. First train leaders at all levels, then train all employees
- Reinforcement: Provide support and activities to ensure that the training sticks
- Metrics: Continuous measurement of progress/outcomes

Chapter 4: The Transformation Begins

Next in line was introducing Bridget's team to the transformation that was about to happen at Talon Tech. Addressing all of her coworkers, Bridget delivered an uplifting message.

"What I promise you today, is that everyone… is wholly committed to providing each and every one of you the support, tools, and training needed to be the best you can be and to elevate Talon Tech to the next level."

The following week went by in a blur for Bridget – coordinating the company-wide communications around the initiative, as well as the daily running of Talon Tech.

She was also getting excited for the experiential parts of the transformation that Ray had suggested and she was about to introduce over the course of the coming few weeks.

Chapter 5: Crossing the Vast and Perilous Desert

The day of the final training session arrived, and Dishant (the company's CFO), who had kicked off the first two sessions, wanted the honors of kicking off the final one.

"Good morning! You are about to race across the vast and perilous desert, so I hope you are feeling rested and energized!"

While everyone responded enthusiastically, Dishant continued:

"I warn you, it's not as easy as it may appear, but the lessons and insights you take away from this experience will fire

you up! And that collective fire is what will empower us to release the full potential of everyone."

Chapter 6: A Potential Derailing

The next day, Bridget had Ray meeting her early due to technical setbacks that had been identified. She was worried about the numerous angry messages and voicemails that she'd received and wanted to communicate the information with the consultant, adjusting their strategy accordingly.

"Ray, I have a serious technical problem for which I haven't identified the source, and customer service complaints have seemingly skyrocketed overnight."

"And?" Ray asked.

"And?" I don't see how I can go out in front of the entire company and talk about our initial improvements and how we're going to head into the next round of company training when all this is going on."

"I get that it feels like a huge setback, and I'm not minimizing the seriousness of it or the headaches it will cause, but as you agreed, you must stay on course. In this case, it provides us an opportunity to focus the application of the training to this immediate issue, which is a good thing, because then they won't be learning new behaviors in the abstract – they'll be learning them based on a true scenario."

Inspired yet slightly anxious, Bridget used the time after the meeting to check her notes and review the conclusions she'd reached after meeting Ray:

- Trust the process – changing behaviors requires consistency and time
- Support the decision-making process
- Training is best when tailored to real-time issues

The next day, Bridget, Roy, and the rest of the leadership team met to pinpoint what's needed to empower those members of the team tasked with getting things done. Roy used the whiteboard to mark the main cornerstones of effective support:

- Leadership
- Unanimous focus on a common goal
- Clearly defined roles for subgroups
- Shared resources

Chapter 7: The Seven Cornerstones

In the next exercise, Jason and Gloria from the managerial team introduced the concept of the Seven Cornerstones of Teamwork. They walked the group through the first four cornerstones – leadership, unanimous focus on a common goal, clearly defined roles for subgroups, and shared resources – in much the same way that Ray had walked the executive leadership team through them the week before.

Effective and frequent message delivery was described as one of the next pillars. Next, the team learned more about the importance of consistent, united, and enthusiastic effort.

"It's important that every member of the team bring to the team's commitment outcome a consistent and enthusiastic mindset. This not only keeps the focus on performance excellence but also means that one team member's poor attitude won't negatively influence everyone else.

The seventh and final cornerstone was described as periodic and temporary suppression of the ego.

It's important to reiterate the periodic and temporary aspect of this cornerstone. It's not about permanently suppressing your ego; it is knowing when to suppress it and when not to.

Each one of the seven cornerstones is critical to a team's success and should set the standard for every team's behavior.

Based on the information and the week's exercise, a lively discussion ensued. Everyone within the organization agreed that to solve a problem, the following need to be prioritized:

- Everyone should contribute whenever possible
- Everyone should encourage their teammates to contribute
- Every team must remain focused on the results they are trying to produce
- A common language must be agreed upon and shared up front
- The opportunity to tap in whenever possible must be encouraged

Chapter 8: The Proof of the Pudding

Following the work done over the previous weeks, Bridget and the leadership team sat down to review the results of a survey carried out among the employees who participated. Four questions were asked:

> "As excited as I am about the metrics," Bridget said, "I'm more thrilled by the changes in behaviors I'm seeing across the organization."

- Do you feel that you are more engaged at Talon Tech than you were six months ago?
- Do you feel you're better able to make a difference at Talon Tech?
- Do you feel that your leaders encourage you to speak up and add value?
- Do you feel that you're better able to do your work now than you were three to five months ago?

The positive answers for each of the questions were 76, 52, 64, and 73 percent respectively.

Bridget revealed the final and most impressive result after presenting all of the other information. To the question "do you feel the problem you had was addressed to your satisfaction," the positive response rate was 100 percent.

Additionally, 93 percent of the employees reported they were given clarity on the issue, 95 percent said their concern was handled courteously and professionally, and 98 percent responded they were going to continue honoring Talon Tech with their business in the future.

"As excited as I am about the metrics," Bridget said, "I'm more thrilled by the changes in behaviors I'm seeing across the organization. I saw the beginnings of the changes when the subgroups for the chip problem came together in the configurations training."

Bridget leaned back in her chair. "I have to admit that I was still somewhat skeptical about whether or not the tools and behaviors we were all learning would actually be applied outside the controlled atmosphere of the training, but, as you both know, Ray's training programs aren't typical – they're infectious."

She continued by saying "Of course, challenges continue to occur. I'm pleased to say our teams are taking control and resolving situations quickly.

Chapter 9: Weathering the Storm

In the weeks after the positive results, Bridget had to face some challenges. Angela, Talon Tech's CIO left the company abruptly. Bridget blamed herself for a failure to notice the red flags and take action accordingly.

She briefed the leadership team on everything that had happened in relationship to Angela's departure and the aftermath of that abrupt event.

"I take full responsibility for the situation," Bridget said. "Clearly, I was not paying the level of attention I should have. While we have made tremendous progress these last seven months, there is still work to do. And as always, the work begins with everyone in this room."

After the meeting had ended and they had all left, Bridget took the advantage of having a few moments to write in her Transformation Notebook:

Remember the six areas of focus:

- Leadership: Each of us must own the outcome for this initiative and hold people accountable for modeling the new behaviors.
- Communication: Let everyone know continually and consistently how we are doing things and why. This must be intentional and planned for.
- Alignment: Align all the human resource practices. This shift in how we are leading our people must touch every aspect of what HR is responsible for.
- Training: Experiential training. First train leaders at all levels; then train all employees. Be sure the training links to our real-world issues.
- Reinforcement: Provide support and activities to ensure that the training sticks. These must be led by our line managers.
- Metrics: Continuous measurement of progress/outcomes. Share these with everyone.

Chapter 10: Are We There Yet?

In due time, Bridget and the leadership team found a replacement for Antonia. Everyone felt excited and enthusi-

astic about Grace accepting the CIO role.

The position remained vacant for 10 weeks but everyone on the team agreed not to rush the decision, waiting for the right person to come along. "Honestly, this decision has provided us with the time we needed to make sure everyone on the technology side was fully committed to the people-first initiative and there were no remaining Andrea holdouts."

The news that Talon Tech would have a new CIO by the end of next month was the perfect ending to Bridget's day. We got this; she thought as she pulled out of Talon Tech's parking lot.

Chapter 11: India Ink

Soon, Bridget and Ray scheduled a meeting to catch up and go over the events that had unfolded since the start of their partnership.

"Okay," Ray began. "I'm standing in a meeting room, holding a glass of water, and I spill the water on the carpet. It leaves a dark stain. The cleaning crew comes to clean that night as usual, but the stain has vanished. So much so that unless someone told them they had spilled water on it, they would not know it. The water has evaporated."

"The next day, I'm in the meeting room and I spill a bottle of India ink on the carpet. It leaves a dark stain. That night when the cleaning crew comes in, the stain is still there. The crew attempts to remove it, but they're never going to get it out, because India ink embeds itself so thoroughly in the material that it cannot be removed."

"So, why am I telling you this story? When people go through a culture transformation and they reach the eight- to ten-month mark, they begin to see a meaningful impact. But the big dark splotch of impact they see is merely a water stain. A water stain that will evaporate if they do not stay the course and reinforce it and make sure everybody understands that this is the new way of behaving."

"For that impact to become India ink, to become a part of the organization's DNA, they must encourage everyone in the organization to consistently apply the behaviors for two to three years. If the organization stops when it's still a water stain, complacency will set in, and the transformational culture will not take hold."

Turning a water stain into India ink is dependent on the following process:

- Our executives are trained to model, coach, and require the new behavior
- Our leaders are trained to model, coach, and require the new behavior
- Our employees are trained on the new behavior and understand that their leader is there to coach them on those behaviors
- We employ the Accountable Leader Loop consistently:
- Commit to putting the new behaviors into practice in every applicable circumstance
- Test it regularly to make sure the loop is reaching every level
- Our human resources processes and policies are tied to our people-first initiative:
- We promote people who demonstrate the new behavior
- We hire people who have an inclination towards the new behavior
- All our communications reinforce that new behavior is the way to go
- We share our metrics that result from consistently practicing the new behavior
- If we consistently and continually follow this process, we will achieve ten bars of gold every time.

Chapter 12: Line Managers Take the Stage

Almost a year into Talon Tech's people-first initiative, Bridget had fully regained her confidence as the CEO of a Fortune 100 global technology company. She felt fortunate and although her confidence may have faltered for a short period of time, she never lost her incredible passion and abilities for advancing technologies, and now, coupled with a deep understanding of how to harness the potential of her people, she felt unstoppable.

Conclusion

When implementing a leadership change, don't forget the importance of the following equation:

Lead + Train + Implement + Practice = Success

Work on embedding a people-first culture in the fabric of the organization. To do so, focus on the following:

- Recognize that leadership behaviors and employee behaviors need to be different from what they currently are. It's not about different HR policies and procedures.
- Equip all leaders to demonstrate "true" leadership that allows and encourages people to perform to their full potential:
- Encourage input into decisions
- Provide additional new tools and skills to help them do their job brilliantly
- Consistently communicate the people-first initiative to all employees. Let them know where the organization is going with respect to enabling them to contribute to their full potential and their importance to our future
- Define this priority and stick to it
- Provide training and practice
- As a leader, remember the following:
- The power of investing in everyone, based on respect for the individual regardless of rank
- The positive example of setting the pace by example
- A determination not to confuse early wins with the ultimate success
- The importance of giving the entire team the full picture

Finally, remember that changing behaviors requires both consistency and time. Trust the process, support effective decision-making, tailor training to real-time issues and you'll soon notice the sustainable, positive behavioral change that kicked off this entire journey.



Phil Geldart is the founder and C.E.O. of Eagle's Flight, a Canadian company focused on improving individual and team productivity. Eagle's Flight is presently represented in over twenty countries and enjoys an enviable reputation for customer service, product effectiveness, and having fun!. Prior to founding Eagle's Flight, Phil was with Nestlé Canada, where he worked for 18 years, the last five of which he served as a member of the Executive team in the capacity of Senior Vice President of Human Resources.

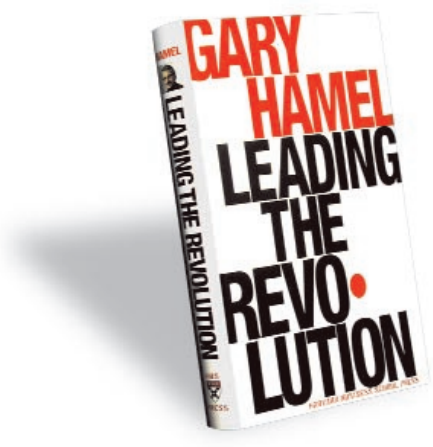
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Leading the Revolution

Gary Hamel

SOUNDVIEW Executive Book Summaries®



By Gary Hamel

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An Action Plan for Transforming Companies into Industry Revolutionaries

LEADING THE REVOLUTION

THE SUMMARY IN BRIEF

The future is indeed now. The Internet has not only provided companies with another sales channel and communications tool, it has helped restructure the very basic concepts of time and place: Businesses must anticipate and meet customer needs quickly, in any location, at any time. Unfortunately, many close-minded, entrenched organizations lack the courage to change their ways for the betterment of their employees, customers and shareholders.

These companies will falter in the coming age of revolution, according to Gary Hamel. In *Leading the Revolution*, Hamel shows why only companies that continually reinvent themselves and their industries will be able to survive in an era in which radical innovation will be the best — if not the only — source of new wealth.

Hamel has studied the "gray-haired revolutionaries" who are leading the way in innovative thinking, development and management, and has come to several key conclusions:

- The age of incremental change is over. As a result, incumbency no longer holds the protections it once did.
- The revolution is based on innovations in business concepts: radical "reconceptions" of existing business models in ways that create new value for customers, rude surprises for competitors, and new wealth for investors.
- The need for business concept innovation stems in part from the diminishing returns of old ways of doing business — reengineering, cost-cutting, cutbacks, and the like — that focused on maintaining, rather than changing, the way business was conducted.
- Activists are leading insurrections within companies struggling to adapt an old business model to someone else's business concept innovation.
- Companies can reshape themselves into perpetually innovative organizations, by continually engaging in a cycle of idea generation, experiments, assessments and implementations.

Be the first to forge a path of innovation for your organization. Here's how.

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LEADING THE REVOLUTION

by Gary Hamel

— THE *COMPLETE* SUMMARY

The Age of Progress Is Over

For years, people have held the unshakable belief that progress was not only possible, it was inevitable. Life spans would increase; material comforts would multiply; knowledge would grow. There was nothing that could not be improved upon.

This progress-centered mindset entrenched itself in business, and has become a stern taskmaster. Employees around the world have been strapped to the wheel of continuous improvement. With eyes glazed, they have repeated the mantra — faster, better, cheaper. Employees have found themselves working harder and harder to achieve less and less. This version of progress has made us cynical. We were promised relief from tedium; we got a white-collar factory. We were promised autonomy; we got reams of corporate policy. We were promised a chance to contribute, to be creative; we got reengineering and meetings that beat substance to a pulp.

We now stand on the threshold of a new age — an age of revolution. It will be an age of upheaval, of fortunes made and unmade at head-snapping speed. In effect, change itself has changed. In the age of progress, change happened by degrees and seldom spawned entirely new life forms. In the age of revolution, a company that evolves slowly is already on its way to extinction. In the age of progress, the industrial giants had time to recover if they were slow to pick up on change; the advantages of incumbency (global distribution, respected brands, cash flow) granted them the luxury of time. In the new world of continuous change, a company that misses a critical bend in the road may never catch up. Here are two examples:

● Motorola, the world leader in the cellular phone business, failed to address the shift to digital wireless technology for a year or two after its introduction to the marketplace. In that time, Nokia — a little-known company making snow tires and rubber boots on the edge of the Arctic circle — jumped in with the new technology and became the world's new number one.

● SAP's R/3 system helped companies integrate internal operations like purchasing, accounting and manufacturing. They missed the boat, however, when firms started using the Web to link up with suppliers and customers. Companies like Siebel Systems and Ariba zoomed passed them to stake out leadership positions in the market.

Incumbency has never meant less; there has never been a better time to be a rebellious newcomer, eager to upend industry dogma. Nonlinear thinking rules the day, supplanting the notion of "continuous improvement" that remains the secular religion of most managers — the idea that getting better is more important than getting different. In a nonlinear world, however, only nonlinear ideas will create new wealth; such innovation requires a company to escape the shackles of precedent and imagine entirely novel solutions to customer needs.

Business Concept Innovation

Such innovation is built around entire business concepts, rather than products or services. A few examples:

● Internet telephony is an entirely different business concept from dedicated voice networks, requiring different assets, technologies and pricing.

● Banks have lost nearly half their share of U.S. household financial assets to newcomers like Fidelity and Charles Schwab. Bankers thought of customers as savers; the mutual fund industry knows we're investors, too.

● The success of DirectTV is based on a business model that has no parallel in the old world of network broadcasting — hundreds of channels, programming menus, pay-per-view, and much more.

Even with these and many other examples, in most companies, management tends to interpret a call for "more innovation" as a plea for new products or added features to old products — a highly truncated view of innovation. Executives spent the '90s with such supposedly innovative enhancements to efficiency as process reengineering and enterprise resource management — hardly radical notions that had minimal effect on businesses as a whole.

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The author: Gary Hamel is a founder and the chairman of Strategos, a Visiting Professor of Strategic and International Management at the London Business School, and the Thomas S. Murphy Distinguished Research Fellow at Harvard Business School. He co-authored with C.K. Prahalad the groundbreaking strategy book *Competing for the Future.*

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The Age of Progress is Over

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Business concept innovation (the capacity to imagine dramatically different business concepts or dramatically new ways of differentiating existing business concepts) will be the defining competitive advantage in the age of revolution. Such innovation must come from maintaining a kind of constant activism — a passion and power for innovation. Activists are changing the shape of companies around the world. Authoritarian, control-oriented companies will continue to fall as creative, authority-averse, information democrats shape the companies of the future.

Dream, create, explore, invent, pioneer, imagine — do these words describe what you do? If not, you are already irrelevant, and your organization is probably becoming so. ■

How to Innovate Your Business Model

In the new economy, the unit of analysis for innovation is not a product or a technology — it is a business concept. Those who will have the greatest success in the age of revolution will be those who possess the capacity to reconceive existing business models (business concepts, put into action) in ways that create new value for customers, rude surprises for competitors, and new wealth for investors.

The goal of business concept innovation is to introduce strategic variety into an industry or competitive domain, going beyond incremental innovation to encompass the entire concept of a business as the focus of innovative ideas and practices. This fact makes business concept innovation more comprehensive than innovation focused solely on products or technology.

To be an industry revolutionary, you must develop the capacity to think about business models in their entirety. While there are many ways of doing this, the following framework provides a complete, yet simple view.

Major Components

A business model comprises four *major components:*

● **Core strategy.** How does your firm choose to compete? Your company's business mission (the objective of your strategy), its product or market scope (where you compete), and its basis for differentiation (how you compete, and how differently) are the components that comprise your core strategy.

To develop ideas for business concept innovation, ask yourself questions such as: Is our business mission as relevant to customers as it might have been in years past? Do we have a business mission that is sufficiently distinguished from the missions of other companies in our industry? Could we offer customers something closer to a "total solution" to their needs by expanding our definition of product scope?

● **Strategic resources.** Every significant competitive

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The Diminishing Returns of Traditional Strategies

The longest bull market in history produced extraordinary gains for shareholders and executives alike. But will the tactics used to deliver skyrocketing shareholder returns deliver the goods in the age of revolution? Consider the following:

● How much more cost savings and revenue growth can your company wring out of its current business model?

● How much longer can your company keep propping up its share price through share buy-backs, spin-offs, and other forms of financial engineering?

● How different are the strategies of the four or five largest competitors in your industry from your company's strategy?

If you answered "not much" and "yes" more than a couple of times, your firm and its business model may be reaching the point of diminishing returns, a condition brought about by unsustainable growth in the following areas:

Cost cutting. Downsizing, reengineering, restructuring — all are examples of efficiency-oriented programs that produce short-term rewards, but which eventually run dry. There's a limit to how much profit even the best-managed, most efficient company can squeeze out of any fixed amount of revenue.

Revenue. Profitable growth is a derivative of innovation. Focusing on growth, rather than on the challenge of business concept innovation, is more likely to destroy wealth than create it. The reason for this is simple: after a certain point, trying to squeeze more revenue growth out of a moribund business model is no easier than trying to squeeze out more costs.

Shareholder returns. To "unlock" shareholder wealth, you must get out of bad businesses (as Jack Welch did when he took over the reins at GE). Of course, there's a limit to how many bad businesses a company can divest and how many of its assets it can dump.

Consolidation. Hoping for a temporary respite from the law of diminishing returns, companies have been merging and acquiring at a record pace. Yet, in all this merger activity, the central question is: Where does business concept innovation rest in this strategy, and why could it not be achieved through more flexible means than a large-scale merger? In the age of revolution, making a deal is no substitute for radical innovation.

How to Innovate Your Business Model

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advantage rests on resources specific to the company in question. Dramatically changing the resource base for competition can be a source of business concept innovation. These resources include core competencies (what you know), strategic assets (what you own), and core processes (what you actually do).

Questions that could lead to innovations in this area include the following: What are the deep benefits that our core competencies allow us to deliver to customers? How could we deploy those benefits in new ways or in new settings? Could our strategic assets be valuable in other industry settings? Can we imagine a radically different core process that would deliver the same benefit? Could we use our process expertise to transform some other industry?

● **Customer interface.** The Internet has caused a radical shift in how producers reach consumers. The channels you use to reach customers, the information you provide them, the way you manage the dynamics of and interaction within your customer relationships, and the way you structure prices — all have changed significantly in recent history, and will continue to change in the age of revolution. To innovate in this area, ask questions such as: Could we make the process of fulfillment and support substantially easier or more enjoyable for customers? Have we given our customers the information they need to make empowered and intelligent purchasing decisions?

● **Value network.** The suppliers, partners and coalitions that surround your firm, complementing and amplifying your resources, make up your company's value network. Questions that might spark business concept innovation ideas include the following: How effectively are we using suppliers as a source of innovation? What opportunities might be available to us if we could "borrow" the assets and competencies of other companies and marry them with our own?

Bridge Components

The four major components are linked together by three *"bridge" components:*

● **Configuration.** Intermediating between a company's core strategy and its strategic resources is the unique way in which competencies, assets and processes are combined and interrelated in support of a particular strategy. Ask yourself: Have we configured our assets, skills and processes in unique ways? Can we imagine very different configurations than what we have at present?

● **Customer benefits.** Intermediating between the core strategy and the customer interface is the bundle of benefits that is actually being offered to the customer — how customer-derived needs are being satisfied. Are you delivering benefits that customers don't really care about? Can you change the benefit bundle in ways that will surprise customers and frustrate competitors? These are two of the questions that business concept innovators will ask themselves.

● **Company boundaries.** Intermediating between a company's strategic resources and its value network are the decisions that have been made about what a firm does and what it contracts out to its value network. Changing the boundaries between what the firm will do for itself and what it will hire others to do is often an important contributor to business concept innovation.

Wealth Potential

Underpinning the business model are four *factors that determine its profit potential:*

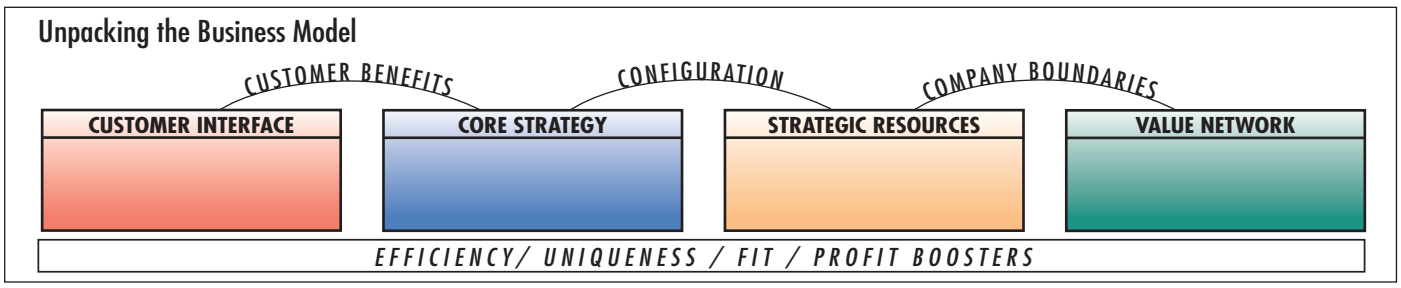
● **Efficiency.** The value customers place on the benefits your business model delivers must exceed the cost of producing those benefits. To innovate in this area, test your assumptions about customer value and understand the costs incurred in providing that value.

● **Uniqueness.** The greater the convergence among business models, the less chance for profit; you must, thus, create a business model that is unique in both conception and execution. To do so, determine the points of difference across the major components of the concept, and the benefits those points will bring to customers.

● **Fit.** A business concept must be internally consistent — with all its elements working together toward the same goal. Keep from looking anomalous to customers by ensuring that all elements of the business model positively reinforce each other.

● **Profit boosters.** You need to know whether your

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How to Innovate Your Business Model

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business model will be really profitable. To ensure this, you must include in your business concept methods of increasing returns; locking out competitors; leveraging strategic economies of scale, focus and scope; and maintaining a strategic flexibility that allows you to address unpredictable demand cycles. ■

How to Start an Insurrection

Every day, dozens of organizations find themselves on the defensive, struggling to adapt an old business model to someone else's business concept innovation. But the future never arrives as a surprise to everyone in an organization — the novelty addicts, heretics and activists know tomorrow's opportunities are every bit as real and inevitable as today's sunrise, they simply don't know how to build a movement to evangelize those truths to their companies at large.

Companies don't sponsor step-by-step training programs on the principles of activism. Let's end this strange omission:

Step 1: Build a Point of View. As an activist, you need a point of view (POV) that identifies what's changing in the world, what opportunities make those changes possible, and what business concepts will profitably exploit those changes. This POV must be credible (based on unimpeachable data), coherent (with mutually reinforcing components), compelling (speaking to the hearts and intellects of others), and commercial (wealth-generating).

Step 2: Write a Manifesto. You must galvanize others with a contagious manifesto that 1) convincingly demonstrates the inevitability of the cause — why it is right to take action; 2) speaks to timeless human needs and aspirations — why people should care; 3) draws clear implications for action — gives a place to start; and 4) elicits support — shows people how to contribute.

Step 3: Create a Coalition. Recognize that you are not the only prescient, frustrated, though ultimately loyal person in your company. Identify potential recruits, building a kind of all-volunteer army to push innovation forward, and upward.

Step 4: Pick Your Targets and Your Moments. Find someone in your organization who can yank the real levers of power — someone who can say "yes" and make it stick. Understand what makes them tick and carefully pick a moment to go to that individual and present your idea. Keep it simple; make it easy to say "yes."

Step 5: Co-Opt and Neutralize. You will be forced to co-opt some of your company's aristocracy in order to advance your cause. In these cases, create win-win scenarios, rather than confrontations; getting on a soapbox and ranting at VPs will only get you so far.

Step 6: Find a Translator. Get someone who is plugged into the future, who may be shopping around for an interesting point of view to sponsor — a senior staffer or newly appointed executive in search of an agenda to make their own. Have that person carry that agenda from you and your coalition to the top management echelon in your organization.

Step 7: Win Small, Early and Often. Demonstrate how well your ideas actually work, starting with small demonstration projects and progressing incrementally until you have a string of successes to which you can point as proofs of achievement.

Step 8: Isolate, Infiltrate, Integrate. Experiments that stay experiments are failures. Convince a broad cross-section of key executives that your concept is essential to the future of your company. Infiltrate your organization with papers, projects and presentations that will allow others to share in your enthusiasm and allocate resources to make the concept happen. If your opportunity involves innovations in an existing part of the business, search for projects that will aid in the development of your innovation and integrate your ideas into them. ■

Novelty Addicts and Heretics

A whole lot of what's changing in the age of revolution simply can't be seen from where you're sitting; you have to get up, search for new experiences and learn new things. You must keep surprising yourself. What you don't know but could know is much more important than what you don't know and can't know. You must become a novelty addict.

It is, of course, not enough in the age of revolution to simply be a novelty addict — you must be a heretic as well. Heretics, not prophets, create revolutions. There is an enormous danger in viewing what's changing through the lens of what already is. It is virtually impossible to redesign business models without challenging the dominant business model of the moment, and the mental models that reinforce them.

The challenge ahead of you as a heretic is to break the construct of the mental model, to embrace the future not as an unknowable entity, but a different one. If you question the mental model — look for evidence that refutes its status quo ideas and methods — you will be able to challenge the very foundations of what others regard as axiomatic. Some consider it heresy; others consider it revolutionary.

The "Gray-Haired Revolutionary"

Most visionary companies won't be visionary more than once; particularly in the new economy, success is not easily repeated. Most have no sense of how to engage in constant innovation and will, thus, likely fold when they can no longer live off their inaugural successes.

The "gray-haired revolutionaries" — the rarest of all breed of company — have managed to reinvent themselves and their industries more than once. Their gray hair comes not from years, but from the experience of having lived through several strategy "lifetimes." They have done more than extend a legacy or enlarge a franchise — they have turned themselves and their industries inside out and upside down, repeatedly.

Charles Schwab is just such a gray-haired revolutionary. Years ago, the brokerage giant created a whole new industry — the discount brokerage industry — by undercutting the steep fees of traditional brokerage houses. They started a second revolution when they created OneSource — a mutual fund supermarket that let investors choose from over a thousand funds. But it is its status as the leading online broker that makes Schwab one of the great gray-haired revolutionaries. With 3 million Internet customers representing more than $260 billion in online assets, Schwab recast itself as a new kind of full-service broker. The company's business concept innovation rests on a few foundations; among them are:

● Outrageously ambitious growth objectives that are unattainable without business concept innovation. From 1993 to 1998, the company's revenues grew at an average annual rate of 23 percent; its earnings a robust 24 percent. During the same period, its stock price skyrocketed 1,072 percent, compared to 218 percent for Merrill Lynch and 164 percent for the S&P 500.

● Working from the customer in, rather than from existing processes and offerings out. While other institutions seem to look on customer ignorance as a profit center, Schwab presumes customers are really smart; consequently, the company doesn't try to fool customers on fees or execution.

● An innovation meritocracy where great ideas win out, no matter where they come from. Champions of innovation have been consistently promoted out of rank and out of order, rewarding people who come up with ideas and do something with them. ■

Playing the Target Game at Sony

Ken Kutaragi had a hard time convincing many people at Sony that his idea for a sophisticated digital video game system was a good one — most folks at the company snobbishly considered such systems to be toys. Kutaragi established a target relationship with Shigeo Maruyama, a disciple of Sony's president (and eventual CEO) Norio Ogha. Maruyama helped Kutaragi lobby the company president to approve a development group to create a new video game technology. The result was PlayStation — the first system to combine 32-bit processor technology with advanced graphics and decompression. In 1998, the "toy" system was responsible for more than 40 percent of Sony's profits.

Ten Design Rules for Innovation

The intricate play of the many markets that comprise the global economy and the vibrant diversity of the Internet both show us how order can emerge in the absence of an overt, central authority. Complexity theorists have demonstrated that by creating the right set of preconditions, one can provoke the emergence of highly ordered things, using top management to design the context of innovation, rather than the content. The following 10 rules will help build habitually and perpetually innovative organizations:

1. Unreasonable Expectations. The beliefs of an organization set the upper limit of what innovation is possible at that organization. If most people in your organization believe your rate of annual growth should be 5 or 10 percent, then it will be that or less. However, if your people aim higher — and set goals that reflect that higher reach — your company can do more than just aspire to outperform the mere average — it can achieve its highest expectations, time and again.

2. Elastic Business Definition. If your organization is bound by a narrow self-concept, its opportunity horizon will be likewise constricted and never changing. This mind frame would never work at a company like Virgin, which spans industries as diverse as air travel, packaged holidays, retailing, banking and radio broadcasting. If, like Virgin, your organization searches for unconditional opportunities and innovative, elastic business concepts, your opportunity horizon will likewise expand.

3. A Cause, Not a Business. True revolutionary innovators must draw much of their strength from their allegiance to a cause that goes beyond themselves, beyond even growth or profits. Without a transcendent purpose, individuals will lack the courage required to act like revolutionaries. Energy giant Enron's corporate mission

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Ten Design Rules for Innovation

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is fueled by an outrage that so much of the energy business was a government-mandated monopoly. Their innovative expansion of their business boundaries stemmed from an effort to better address the needs of their customers.

4. New Voices. If senior management wants revolutionary strategies, it must learn to listen to revolutionary voices. To do so, it must:

- Let youth be heard. Do not prevent the group with the biggest emotional stake in the future — young people — from contributing to the process of strategy creation.
- Listen to the periphery. The capacity for radical innovation increases proportionally with each kilometer you move away from a company's headquarters. These people tend to have fewer resources and, thus, tend to be more creative than those in close proximity to HQ.
- Let newcomers have their say. Next time you have a meeting on strategy or innovation, make sure half the people invited to the meeting have never been invited to such a gathering before. You'll quadruple the chances of coming up with a revolutionary business concept.

5. An Open Market for Ideas. Free the entrepreneurial spirit inside your company by creating a dynamic internal market for ideas. Tear down physical and organizational walls that would hinder innovation from being broadcast.

6. An Open Market for Capital. Don't set hurdle rates for new projects, if the ideas and plans behind those projects are innovative, sustainable and will reap some financial benefit.

7. An Open Market for Talent. Companies pursuing innovative opportunities attract the best talent. If you give people exhilarating work and solid compensation, they will join you and stay with you.

8. Low-Risk Experimentation. Being a revolutionary doesn't mean being a big risk taker. Be bold, but know how to manage the downside, if a risk doesn't pan out. You can be innovative and still limit your risks.

9. Cellular Division. Innovative companies are not monoliths; they are big companies that have been divided into a large number of revolutionary cells. When companies stop dividing and differentiating, innovation dies and growth slows. When Virgin Records started showing signs of lethargy, the company's CEO, Richard Branson, took three deputy managing executives and made them the nucleus of a new company. While Virgin is the largest independent record label in the world, it does not feel like a large company.

10. Personal Wealth Accumulation. If you want to maintain an entrepreneurial spirit at your company, you must pay people like entrepreneurs. In 1998, SAP refused to create a stock option plan for its American management; the company subsequently endured a wave of defections. ■

GE's Elasticity

After years driving home the message that a GE business must be number one or two in its industry, CEO Jack Welch has shifted the focus of his company's leaders toward looking for opportunities outside the boundaries of the businesses they manage. GE's business heads must redefine their markets so that each business has less than a 10 percent share of its market — a strategy that signals Welch's belief that only companies with expansive, elastic boundaries will grow faster than their competitors.

The New Innovation Solution

While the 10 design rules and the principles of activism are parts of the innovation solution, there are other parts that are equally important:

- **Skills.** Your company has virtually no chance of leading the revolution if the people in your company do not possess mind-sets and skills that have been retooled to meet the demands of the revolution. They must understand the role revolution plays in wealth creation. They must be able to invent new business concepts and reinvent old ones. They must understand how to apply the design rules for innovation in their parts of the company. And these are just a few of the skills required to lead in the age of revolution.
- **Metrics.** Your company must have in place methods and tools to measure innovation (versus optimization) and personal performance (as it relates to innovation), as well as benchmarks against which to measure competitors on innovation.
- **Information Technology.** You must have an innovation network — a corporate-wide IT system designed to support innovation. This might include information to help employees build their ideas into concepts, and a process in place to help them "edit," or fine-tune, their efforts.
- **Process.** Companies that have reengineered their core business processes for efficiency are now going to have to reinvent their core management processes for innovation. Management processes are designed to enforce conformance, alignment, and continuity. Their purposes must be identified, their biases (toward budget or against risk) broken, and their focus shifted toward nonlinear innovation and wealth creation. ■

The Wheel of Innovation

Since innovation is a dynamic process, it is constantly kept in motion with IDEAS:

- **Imagining new possibilities.**
- **Designing coherent business models around those ideas.**
- **Experimentation (on a small scale) that tests the viability of business concepts, creating the basis for adapting those concepts.**
- **Assessment of what is learned through the experimentation.**
- **Scaling up if the results are sound; going through another experiment cycle if more assessment must be done.**

The speed at which a company gets the wheel of innovation turning determines the amount of new wealth it creates. Potential innovators must, however, know how to support their ideas with coherent, profitable business concepts. Such is the difference between having too many ideas and having coherent strategic options.

The faster a company can go through a cycle of experimentation, assessment and adaptation of business concepts, the faster it can resolve any initial or lingering uncertainties about the concept and turn the concept into a viable, cash-generating endeavor. The company must also put customers in the role of co-developers in bringing business concepts to fruition, to help the company identify problems and opportunities alike. In the age of revolution, it's the only way to stay ahead of the innovation curve.

The Innovation Portfolio

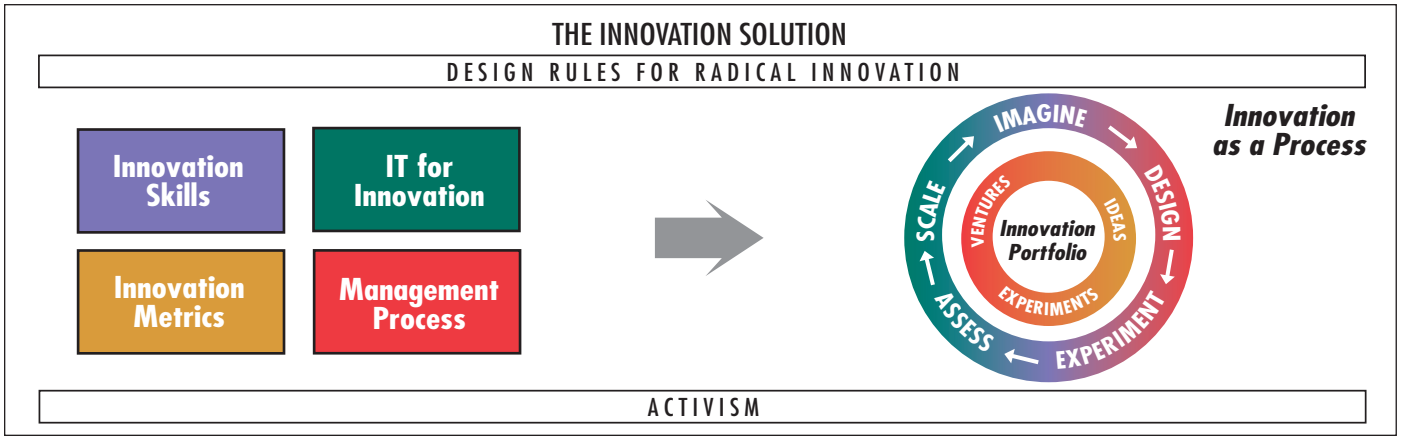
When top management views the company as a portfolio of businesses, it seldom applies the logic of portfolio investing (minimizing risks by diversifying investments) in business concept experiments. Every new idea or concept cannot yield a bonanza. By the same token, having a bias against anything with the slightest hint of downside ensures a company will never find anything with an amazing upside.

There is no way to become a wealth-creating superstar without first building and then investing in an "innovation portfolio," allowing you to scale up to the original innovative idea and create exciting, inventive new ventures. Thus, your innovation portfolio is divided into three smaller portfolios:

- **A portfolio of ideas.** The Imagine and Design phases of the Innovation Process fill a portfolio of ideas, or of possibilities — business concepts that are held, nurtured, then released when the time and resources are right.
- **A portfolio of experiments.** Ideas that have great upsides, offer the chance for increasing returns, and are sponsored by truly passionate advocates fill the portfolio of experiments — ideas that have been worked into coherent versions of a business concept. For every 1000 ideas, perhaps 1 in 10 will have enough merit to be turned into experiments; a portfolio of 1000 ideas will thus yield a portfolio of 100 experiments.
- **A portfolio of ventures.** Once you have identified and reduced market and technology risks in the experimentation stage, you must focus on the feasibility of the profit and operating models, as opposed to the business concept itself. You must also look for partners who can provide financial commitments, skills and assets required (if you can't fill them in-house), and a gauge of the size of your strategic window, to fend off preemption from competition. This is also the stage in which to decide whether to operate the new venture as a standalone business, license it to another company, or spin it off as an independent entity.

The Total Innovation Solution

Your total innovation solution keeps you committed to the new innovation agenda, one that includes continuous improvement as well as nonlinear innovation, and product and process improvement as well as business concept innovation. Are you ready to start working on the new innovation solution? Either start now or wait and fight a rear-guard action. What's it going to be? ■

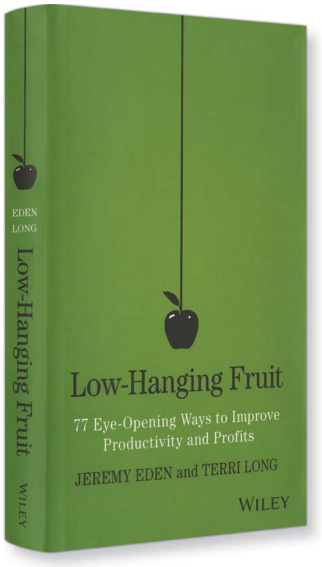


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Low-Hanging Fruit

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Low-Hanging Fruit

77 Eye-Opening Ways to Improve Productivity and Profits

by Jeremy Eden and Terri Long

THE SUMMARY IN BRIEF

In just about every area of life, we tend to think there are only two possibilities: accept things the way they are, or put in a lot of effort, time and money to make things better. *Low-Hanging Fruit* is about a third possibility. What most people don't realize is that there are dozens of easy, affordable and quick ways to make things better. We can pluck this "low-hanging fruit" every day to save time and money right away.

Step inside any organization, even a very successful one, and chances are good that you'll find a lot of waste if you know where to look. From providing a feature that consumers don't care about to doing an outstanding job on daily tasks that only require "good enough" performance, there are countless areas where resources simply go down the drain. Jeremy Eden and Terri Long have distilled 77 of their most effective techniques for generating real performance improvements drawn from their success working with major companies.

If you think you don't have the resources to be faster, better and more profitable, think again. Whether you are a member of a small team or an executive of a multinational company, you will learn from *Low-Hanging Fruit* how to identify and solve hidden problems.

IN THIS SUMMARY, YOU WILL LEARN:

- How to uncover the low-hanging fruit in your organization.
- How to use a simplifying philosophy to identify the best problems to solve and not waste time on others.
- How to motivate your company to go after the most promising solutions.

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THE COMPLETE SUMMARY: **LOW-HANGING FRUIT**

by Jeremy Eden and Terri Long

The authors: Jeremy Eden and Terri Long are the Co-CEOs of Harvest Earnings Group, headquartered in Chicago. They have worked with the CEOs of a wide range of companies in both size and industry to guide their teams through a galvanizing earnings-growth process. Some of the companies include PNC Financial, H.J. Heinz, Manpower, The Schwan Food Company, Energy East, Webster Financial and Standard Register, among many others.

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Introduction

Picture this: you are packing for a vacation. You carefully put everything you need into your luggage. You try to shut it, but the zipper has other ideas. It...will…not… budge! Maybe if you put all of your weight on it you can squeeze it shut.

The problem is that along with all your stuff, you were also packing air — a lot of it! That air takes up room and causes trouble. Sure, you tried to get rid of some of the air — you sat on your luggage. But you gave up quickly.

What makes air our worst enemy is that it is invisible. Because we can't see it, we don't try to get rid of it. Just imagine if your suitcase were filled with red sand instead of air! You would work hard to get rid of it.

Companies "pack air" in their processes. Managers and management practices give up way too quickly trying to squeeze it out. As your processes multiply over time, so do the pockets of air! We have helped thousands of business leaders by turning their invisible "packed air" into visible "red sand."

Low-hanging fruit is supposed to be easy to pick. It represents the actions that will improve your earnings without risk and without much effort. Unfortunately, cost cutting often leaves the low-hanging fruit and instead just lops off branches without regard to what is left of the tree.

True low-hanging fruit *is* within your reach. Harvesting low-hanging fruit produces bigger results with much less risk than those big projects on which companies rely, like strategic transformations and enterprise-wide systems! Individual pieces of low-hanging fruit come in all sizes — from those worth millions of dollars to those worth just a few thousand dollars. Collectively, it is your growth engine! Here is your guide to harvest as much as possible.

Seeing the Problem Is Harder Than Solving the Problem

Solving problems starts with *acknowledging* those problems. If you truly believe that invisible problems surround you, you are far more likely to find ways to see them.

Put a Price Tag on Everything to Stop the Waste. Imagine if everything your company did had a price tag, stamped on every section of every report, telling you how much it cost, and on every record of every transaction. Putting a mental price tag on everything helps to place the focus on solving problems that matter.

"Value Engineer" Your Products to Eliminate What Your Customers Won't Pay For. Value engineering is a powerful process used to discover and eliminate all of the elements in a product or service that customers do not value but that cost the company money. For example, when applied to a food product, value engineering can result in changes to various ingredients or packaging that save the company money while maintaining or even improving customer satisfaction.

Ask "Why?" Five Times to See the Real Problem. To understand how the world works, scientists are willing to ask, relentlessly and repeatedly, "Why?" Force yourself to ask why until the person you're asking says, "I don't know." This usually happens by the fifth why. Then find the answer. That is when you will make real progress toward finding the right problem to solve.

Ask "How Do We Know That Is True?" Much of what people believe they know just is not so. Ask this question even when you do not think it is necessary. Asking it will quickly go from being awkward to feeling

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very natural. Don't be satisfied with anything less than fact-based information.

Tag It to Bag It: Name a Problem to Help Everyone See It. Waste often masquerades as work. It takes practice to see this waste. A good way to help your team see it is to have them give names to different kinds of waste. Then ask your team to look routinely for those sources of waste by name.

Turn Metrics Upside Down. Try reversing your metrics, and start focusing everyone's attention on solving the problems that remain rather than success achieved: Focus on the 10% *dissatisfaction* rate, the 65% *unserved* market share, and the 7% of projects *not completed on or ahead of time and budget*. Accentuate the negative!

The 80/20 Rule. Undertake an 80/20 analysis to identify the small set of causes that lead to a large portion of the effect. You can dramatically reduce the number of problems you need to solve while still gaining large benefits.

Find Quick-and-Dirty Data to Get Refined Results. Many managers feel they are limited to the data their systems provide. Do not let that be an excuse. Know what you want to measure. Then find a way to get the information you need.

Benchmarking Is a Mistake. Benchmarking supposedly works by knocking down your resistance to change, by compelling you with hard facts that someone else is performing better, which then motivates you to find the specific actions someone else is doing that you should be adopting. Benchmarking is usually a complete waste of time, because invariably no one is doing exactly what you are doing. The measurements are not comparing apples to apples.

Use Brainstorming in a New Way to Find Problems, Not Solutions. Brainstorming is a powerful way to give everyone permission to raise problems without being viewed as just complaining. It also helps everyone get into the flow of seeing waste that has been masquerading as work.

Now That You See It, Solve It!

The average employee today has succeeded by embracing change. But most people do resist *bad* change, and in business there is a lot of bad change. Good change does not meet resistance. What you need is a carefully designed process that engages the talent you have.

Ask the People Closest to the Work for Their Ideas. Your employees are an extraordinarily rich source of solutions. Invite those closest to the work and closest to the customer to specific problem-solving sessions with experts.

Get Out of Your Office and Go See for Yourself. Actually watch how the work gets done, or, even better, do some of it firsthand. Ask "why" a lot as you watch and work. Actively look for sources of wasted time and effort.

Stop Ignoring Your Introverts. Businesses nurture and reward extroverts without realizing that it is the introverts who are often critical to the problem solving that drives innovation, productivity and profits. Here are three practical steps to help nurture your introverts: 1) Solicit more input privately. 2) Train managers to use better meeting protocols. 3) Assign introverts to lead special project teams.

Turn Complaints into Collaboration: Interdepartmental Job Swap. Go to a unit that uses what you produce or a unit that produces something that you use. Ask the managers if they will swap one of your people for one of theirs for a few days or a few weeks. Then share observations.

Other People Have Great Ideas. Ask new hires to point out things your area is doing that other companies seem to do better. Arrange brown-bag lunches, conference calls or one-on-one interviews. Vendors know your company, they know your industry, and they see what other companies like yours are doing. They also want to make you happy. Ask them nicely, and they can tell you lots of places where they see waste masquerading as work.

Does Your Customers' Journey Take Them on a Road Full of Potholes? Imagine being a customer. Now list every interaction you have, from becoming aware of the company, to making a purchase, to using the product, to paying the bill, to making another purchase. Write down three pieces of information for each item on the list:

- Which departments directly or indirectly affect how that item is carried out?
- How painful is the step for the customer?
- How important is the step to the customer's buying decision?

The Unintentional Squelch. Here is one power that never goes away: the power to kill ideas. The only surefire response from a manager who wants an idea to move forward is to say, "I want you to analyze this idea and get back to me on [fill in date] with a progress report." Then that follow-up must be scheduled.

Stop Brainstorming to Find New Ideas That Move the Profit Needle. Brainstorming is great for finding problems but not for solving them. Engage from

three to seven experts who follow a well-structured meeting guide to focus very specifically on developing a few good ideas to solve a specific problem.

Making Problems Harder Can Make Finding Solutions Easier. "Think outside the box" and "draw outside the lines" actually inhibit creativity and innovation. Give the brain restrictions, and it will do a better job finding solutions. It is much easier to come up with realistic, practical solutions to a narrow problem than a broad one.

Use a Checklist. Use this checklist to follow the right order to find good solutions. Start at the top.

- Eliminate work
- Simplify processes
- Match task to skill
- Reorganize
- Automate
- Outsource

Turn the checklist into a corporate mantra.

Actually…Just Don't Do It. "Zombie projects" that should be killed but live on use up valuable time, while the better projects are delayed. Institute a regular "sunset" review that poses the question, "With what we know today, will we make more money by stopping this project rather than by completing it, so we can use the time and money on a better one?"

Give People What They Need, Not What They Want. When people higher up the food chain ask you for a special report, a new analysis or some other time waster, do you roll your eyes? You might be able to suggest alternatives that are not only easier for you but also more helpful to them. When asked for help, make sure you understand what problem needs to be solved.

Simplify. Steve Jobs offered a vastly simpler product line than his competitors and offered far simpler products. Systematically identify the biggest causes of complexity in your business. Then simplify your process, products or services by eliminating as much complexity as you can.

Push Work Down to the Lowest-Paid Person Capable of Doing It. Right now, there are highly skilled people in your company who are doing low-skill tasks as part of their job. Ask your team to list the tasks they do that they think someone junior (and less expensive!) could do just as well. Reassign the tasks down to the junior people, and free up time of the more senior people. Now the hard part: Either find a way to use the freed-up time to actually add hard dollars to the bottom line, or eliminate some of those senior positions.

Take Simple and Low Tech Over Sexy and High Tech. "Think outside the box" is supposed to be the secret of innovation. But thinking outside the box often leads to unnecessary risk taking. That is why we say, "Think inside the box."

Go No Tech Over Low Tech. Before asking for or approving new technology (even low tech), ask yourself how much of your goal you could achieve without any technology by changing a policy, adding low-cost head count, redesigning your product or service, reorganizing or eliminating the work, learning that customers don't value the higher quality that you would get from new technology.

Borrow Good Ideas. Take facts you already know, and figure out how to combine them in new ways or apply them to new problems.

Force People to Get Help. Some managers just "don't know what they don't know." Some know they need help but fear asking. Others think there is no budget for help. Is there a problem that has been festering in your company for months or years? Are your managers or your continuous improvement department getting the job done? If not, they probably need help.

Motivate Your Team to Harvest Low-Hanging Fruit

Good ideas come as the result of many people throughout the company trying hard to see and solve problems. Motivating managers is the single most important element to growing earnings. The good news is that it is also the easiest to get right.

Create an Idea-Based Budget. Create an idea-based budget, which starts with today's run rate and gives every specific idea that will be implemented — not in big broad strokes but in specific solutions to specific problems. The result is a budget that can be trusted.

Five Surprising Words. The five surprising words that stop good executives from being great leaders are, "I want everyone on board." If the team has compelling facts, those facts should be used to make the decision. What leaders should not do is allow *opinions without facts* to substitute for their own good judgment. When you hear these non-fact-based opinions, it is time to make the decision, even if some of your team members are not on board!

If You Want the *Money*, Spend the *Time*. According to research, for every additional 1 percent of time a CEO spends with employees, productivity goes up 2.12 percent. When you walk the walk, you are doing so on a two-way

street. In one direction, you motivate managers through inspiration, passion and expertise. In the other direction, your teams will teach you about what is really going on in the company.

Execute Motivators That Demotivate Everyone Else. Do not hold a fancy off-site management retreat where managers fly off to some resort, while you're preaching the importance of getting more from how the company spends its time and money!

The Corporate Imposter Syndrome. Fear and pride ruin earnings. The company asks you to unveil all the ways in which your area could perform better. Do you welcome this opportunity to show how much more you can do? Or does your pride in what you have done in the past make you defensive? Acknowledge this fear before you ask everyone to find new problems to solve.

Improving the Company Should Be Everyone's "Job One." Give your managers new job titles and job descriptions in addition to the ones they have now. The second title job description clarifies the specific role for which that person has authority and accountability. Give your direct reports responsibility for leading problem resolutions in their areas.

Sweat the Small Stuff. Details are both extremely important and very hard to get right. You need to really pay attention to detail. Start a new habit of asking people about a detail of your processes or products. Then ask for ideas on how to improve that detail.

Rally the Troops. A powerful call to arms must paint a clear picture of why you want everyone to join in your fight. Motivate your employees by telling them what you will buy with the money they find to make the company bigger, stronger, more important and, yes, more profitable.

Catch the Vision or Catch the Bus. Grade all your direct reports on their commitment to your goals. To get an A, they need to support all the goals publicly and proactively take actions to achieve the goals. Do not tolerate team members who are not committed. Even a strong head of sales who consistently undermines your goals to improve the company cannot be tolerated.

Eliminate Corporate Whac-A-Mole. Go to the corporate cafeteria and sit with a few of your managers. Ask them to tell you what hurdles they face trying to get good ideas approved. You want a flavor of what analysis they must do, with whom they must meet, who must sign off, how long it takes and so on.

Beat the Competition by First Beating Your Teammates. A very powerful way to motivate your peers and subordinates is to set up a friendly competition, all in the service of acting as one cohesive and focused group. Let everyone know that they are competing against each other to show who has the best problem solvers.

"Blame the Other Guy" Syndrome. "Blame the other guy" syndrome is a silent killer of motivation. It is important to have everyone acknowledge that they believe *someone else* is the problem. Then give everyone a high target to hit.

Why Paying Attention Pays Staggering Dividends. When someone new starts paying attention to our work, we work harder and better. When it is someone in power, the effect can be truly dramatic. Create a steering committee to pay attention to all of the teams working on ideas to improve productivity and profits.

Firings Can Boost Motivation. The bottom 5 to 10 percent of most organizations is filled with people who are just not very good at their jobs. Others begin to say, "Why should I bother? The boss doesn't seem to care how well we perform." Work with your team to determine how to eliminate and streamline your work so that you no longer need the positions filled by low performers.

One Company — It's Not an Impossible Dream

We recognize that blazingly fast and immensely powerful digital information systems are necessary to run large enterprises. However, our dependence on them has distracted us from realizing that there is a vastly larger human information system composed of your employees. Learning to use that human system *even slightly better* than your competitors provides you with an extraordinary advantage.

Collaboration is required to share information fast and accurately so that hidden truths can be revealed and false assumptions eliminated. Many good ideas are stuck in the pipeline because even motivated and skilled problem solvers are stuck when they cannot get the information from someone else.

Form a Steering Committee to Make Sure the Left Hand Knows What the Right Hand Is Doing. Successful companies actually need strong functional units that have *competing* needs. The real problem of improving collaboration is finding projects and ideas where there are only winners! These comprise the low-hanging fruit that teams across units like working on and that produce a stronger company. A steering committee should collectively review and approve all ideas as a team. There is absolutely nothing more powerful than having the heads of

two functions sitting together and telling their teams how to work together to solve a problem.

"Pocket Fisherman," Yes, "Pocket Veto," No! In most corporate environments, the advocates of change bear the entire burden to prove the case for their idea. Those opposed to the idea can usually kill it just by doing nothing. We call this the pocket veto. Shift the burden of proof by changing the decision-making process. If advocates can show how their idea will add to earnings, the opponents must bear the burden of explaining why the idea should not be approved, by using facts — not power, politics or position.

Hold Collaboration Workshops. Collaboration workshops deliver new revenue and/or cost savings. They are highly structured to share information that will lead to low-risk ideas that generate earnings. The planning and design ensure that these meetings are extraordinarily productive.

The One Monthly Meeting You Must Hold. Most of the time, priorities are actually set subconsciously by watching how leaders behave rather than by listening to what they say. If leaders personally engage to support implementation, then it will be clear to everyone that implementation is a priority. It only takes a little bit to go a long way. Even just one hour every month or two is plenty to create the accountability that will close the gap between the promises of approved ideas and the actual delivery.

Celebrate Good Times, Come On. Celebrating success is essential to building a culture of "one company" and of innovation. Nothing says, "I know who you are, and I appreciate what you've done" quite like *saying*, "I know who you are, and I appreciate what you've done." Include as many contributors as possible — don't forget the junior people.

Decide and Deliver

The worst chokepoint in an idea pipeline is the decision-making stage. Few companies have designed a specific process to make it easy and fast to approve good ideas. And when it comes to implementing change, studies confirm that what is promised is not delivered! Track and hold people accountable to their promises. Also, stop the obsessive emphasis on developing a few big, transformational, sexy, multiyear, multimillion-dollar, strategic-imperative projects. Instead, start focusing on harvesting large numbers of good ideas. These projects usually deliver as promised — or even a little better.

The Three Essential Parts of a GOOD Idea. They deliver hard-dollar financial benefits, net of any investments. They deliver benefits that clearly outweigh any risks (typically because there is little or no risk). They have the consensus of all relevant areas of the company that the idea should be approved. GOOD ideas are those for which facts are available, and those facts are used to build consensus.

The Miracle of Deadlines. Short deadlines squeeze out procrastination time. Establish an aggressive date for a decision as one of the early steps in developing the idea. A date creates a deadline that prevents ideas from dying a slow death.

For Big Results, Focus on Small Ideas. Small ideas are usually a lot easier to implement on time and on budget than large ideas. A focus on creating big, transformational plans distracts from the far more rewarding effort of finding many smaller ideas.

Fight the War With the Army You Have, Not the One You Want. Employees will develop ideas within their current skills and strengths. Focus on the great ideas that play to your strengths before worrying about the ideas that play to your weaknesses!

Add to Your Army Only When Necessary. Sometimes you need to implement ideas that take skills that you don't have. Or sometimes the payoff is big enough to warrant buying new skills.

Create an "Idea" Flight Plan that Coordinates Implementation. Create a master plan for the company whereby all of the different initiatives are coordinated so that the overall plan delivers the highest earnings with the least disruption. The plan becomes the promise that everyone is on board to deliver it.

Make Sure the Buy-In Is Built In. Those who plan the battle rarely battle the plan: Engage employees closest to the work and closest to the customer to develop ideas. It is natural human behavior that we must invest our own effort to feel ownership and pride.

Accountability: The Holy Grail!

People must face consequences that matter to them if they fail to deliver on their promises. Too often, managers talk a good game, but in reality they let their people off the hook. Without real accountability, all is lost!

Track Every Idea, Every Dollar, Every Month. A good tracking system must answer four questions: Who is accountable for delivering financial benefits on time and

on budget? What are the specific actions and financial benefits that must be delivered? When will the actions be completed, and when will the benefits begin? Why are specific benefits different than promised? You must have someone who is in charge of tracking, and that person must have the authority to determine whether ideas are, in fact, delivering the promised financial value.

The Golden Rule — Withdraw and Replace. If an idea is going to fail, then the owner of the idea needs to get approval to withdraw it. To get that approval, the owner also needs to *replace* the withdrawn idea with a *new* idea that will deliver the promised hard dollars.

Follow the Money All the Way to the Budget. Remember "Put a price tag on everything"? If you follow the money all the way to the end, it takes the form of valuing each idea by line item. This level of budgeting precision does more than ensure that you can incorporate the value of ideas into your budgets and track them. It also creates the rigor needed to promise hard dollars.

Don't Let Someone Else Dictate the Value of the Ideas You Implement. No one would think of getting approval for using outside vendors without getting a price. Similarly, no one should get approval for using internal support without getting a price. Do not let anyone make financial commitments that someone else has to deliver.

Want to Actually See the Earnings? Lock the Vault. Many companies complain of the "water balloon" effect — costs get pushed down in one place only to rise in another. There is a simple reason that this happens. The improvement process provides discipline to a source of new funds, but there is not sufficient discipline applied to the use of funds. Lock the new earnings in a vault that can be opened only by submitting new ideas through the same rigorous idea process described above.

Track Your Position Plan. Position tracking shows the variance, by position title and job grade, between the exact number of positions one should have and the number actually in the payroll system. It is very helpful to ensuring that the costs pushed down in one place don't bulge out, water balloon style, somewhere they shouldn't. Variances occur only when managers are not willing to promise benefits, but they still want to hire.

It's Not What You Start; It's What You Finish. There are more worthwhile projects than there is time to accomplish them all. Change the focus from the common projects in process to the important projects finished.

Make Sure You Get the Return. You likely know how much you have invested in technology in the past three years. Do you know the actual benefits that have been delivered to the bottom line? Do you know how the actual results compare to the original promises? Is someone tracking it? If not, then no one is being held accountable … and that is a problem.

Learn From Your Mistakes. An after-action report tracks promises versus delivery and provides the reasons why projects fall behind or deliver less than expected. You may find it unpleasant to rehash failure, but the rigor and discipline are important parts of transparency.

Need More Time? It's Easier to Find Than You Think!

Eisenhower said, "What is important is seldom urgent, and what is urgent is seldom important." Only when you strengthen the connection between making money and your activities can you clearly distinguish between the important and unimportant.

Everyone Is Entitled to Their Own Opinion but Not Their Own Facts. When you meet, make sure that all conflicting points of view — based on a single set of facts — are in the room. Require all factions to work together to establish facts. Then have a short meeting with all factions present to decide which position these facts support.

Replace Agendas with Game Plans that dictate the critical preparation required before the meeting, the specific actions required during the meeting and the follow-up required after the meeting.

Ban Meeting Tourists. A business meeting is not a date, but you should treat it just as seriously. Who should be there, and why? Bring exactly the right people — no more and no less. If the right people can't make it, cancel until everyone with a crucial role can attend.

Don't Have a 60-Minute Meeting to Do 22 Minutes of Work. Start scheduling meetings just for the time you absolutely need — maybe that is only 10 minutes, or maybe it is 40 minutes. Watch the clock. Use a countdown clock displayed on a laptop, and assign a timekeeper.

Use Hard Starts, Not Just Hard Stops, for Your Meetings. Starting on time must become part of corporate culture to be effective. Have the most senior person attending the meeting show up on time and start the meeting on time.

The Obligation to Dissent. Conflict is critical to progress. Unfortunately, most people and organizations are wired to avoid conflict. Remind everyone, including yourself, that they have an obligation to dissent if they

disagree with an action being taken, or even if they are simply unsure.

Talk More, Email Less. Email is a very efficient way to distribute information but a very inefficient way to resolve some issues. It takes far less time to have a short conversation that gets to the heart of an issue than to write a series of emails.

PowerPoint Kills. Replace PowerPoint presentations with simple, standard formats that focus on the key information necessary to make decisions.

Schedule a Little "Me" Time. Every few days, schedule 30 or 45 minutes of quiet time — no phone calls, no drop-in meetings and no emails. Pick an important task from your to-do list that requires you to think carefully. Spend quiet time focusing on that task. You will save time and do a better job than if you try to do the same task while constantly being interrupted.

If You Feel Busy, Take on Even More Important Work. When you take on critical tasks with urgent deadlines, you will naturally begin to squeeze out the time wasters. The old maxim says, "If you want something done, give it to a busy person."

Increase Your Return on Time. Few people analyze their return on time with anywhere near the care that they analyze how they invest the company's money. Start keeping a simplified timesheet. Capture all of your meetings, calls and inbox/outbox activity to determine what percentage of your time is spent on unproductive or low-priority activities.

In Order to Shine, Have Other People Do Your Work! Delegating more of your work to members of your team is one of the smartest ways to free up your time. You develop members of your team by giving them a chance to step up to bigger challenges — while at the same time giving yourself time to take on work that only you can do.

Don't Always Do Your Best. Some decisions do not require as much analysis as you are capable of dreaming up, and some activities do not require as much care as you are capable of providing. While you are doing the best job unnecessarily, an important task needs you!

For Our C-Suite Readers

If you are a senior executive of a company that employs thousands of people, then you have a big problem: It is extremely difficult to get thousands of people to act as one company when those people have different skills and agendas and are spread across many functions and locations. But you have the resources of the C-suite, so leverage these ideas to build a culture of continuous moneymaking innovation.

Create an Aide-de-Camp Position. Typically, this is a rotating position used as a high-profile opportunity to develop a young executive with high potential. This person attends most of your meetings, undertakes special projects and becomes the keeper of a list of commitments. This is a high-level project management role requiring great organizational and management skills.

Create a Resource Team to Build Bridges. Draft a strong, centralized group of skilled problem solvers, and you can dramatically improve information sharing. They can make sure that the left hand does know what the right hand is doing. The group builds bridges among units so that good information is shared and bad information is corrected.

Rotate High-Potential Employees Through Your Resource Team. Staff the team on a rotating basis with high-potential managers from a wide variety of functions. Such a team can huddle around someone's desk and, in minutes, make connections that might never have been made at all. When their rotation is over, they have even greater potential to take on leadership roles.

Fight Decision Fatigue. Your brain gets fatigued from use, and as the supply of glucose dwindles, your brain finds it harder to make decisions. Decision fatigue has been demonstrated in the lab and in the real world. You can try to schedule important decision making around your eating schedule. A better answer is to find the easy decisions that can replace the hard ones. Easy decisions are ones where you are asked to approve ideas that meet the definition of GOOD ideas mentioned earlier.

There are countless ways to start taking action, but as Yoda said, "Do or do not, there is no try." Start getting the sand out of your suitcase today!

RECOMMENDED READING LIST

If you liked *Low-Hanging Fruit*, you'll also like:

1. ***The 80/20 Manager* by Richard Koch**. Koch shows how managers can be more efficient and effective by applying the 80/20 Principle: just 20 percent of our time, effort and key decisions generate 80 percent of our success.

2. ***No More Pointless Meetings* by Martin Murphy**. Murphy reframes the concept of collaboration and introduces four "Work Sessions" that replace meetings to get more done, faster than ever before.

3. ***Extreme Productivity* by Robert C. Pozen.** Pozen explains how to determine your highest priorities and match them with how you actually spend your time.

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Lukaszewski on Crisis Communication

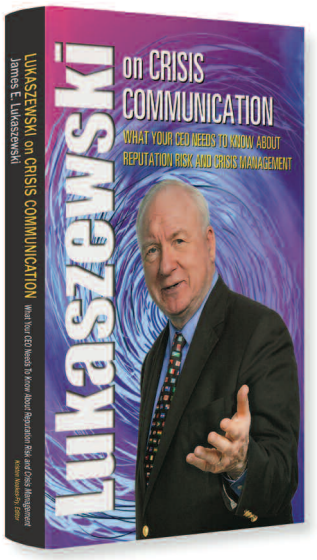
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Management

Lukaszewski on Crisis Communication

What Your CEO Needs to Know About Reputation Risk and Crisis Management



by James E. Lukaszewski

THE SUMMARY IN BRIEF

Your CEO's in handcuffs! Things are going downhill, fast! Your whole world is watching to see what you do next. In this industry-defining book on crisis management and leadership recovery, nationally recognized crisis expert and strategist Jim Lukaszewski jump-starts the conversation and taps into four decades of professional expertise to clearly differentiate a crisis from other business interruption events. He introduces a concept rarely dealt with in crisis communication and operational response planning: managing the victim dimension of crisis.

Delivered in his straight-talking style and backed with compelling case studies, *Lukaszewski on Crisis Communication* is your guide to preparing for a crisis and the explosive visibility that comes with it. Lukaszewski's advice will resonate with CEOs, board members, senior executives in HR, risk management and emergency response management as he stresses what happens to those who fail to be ready for crisis. *Lukazewski on Crisis Communication* describes patterns of good business response and gives details on what went wrong and why.

IN THIS SUMMARY, YOU WILL LEARN:

- To differentiate between a crisis and a disaster, understand how crises produce victims, and avoid the toxicity of silence.
- To overcome the abusive, intrusive and coercive behavior of bloviators, bellyachers, back-bench bitchers, the media, activists and critics.
- To manage people, including your own employees, with compassion, fairness and honesty — and drive attorneys to settle instead of litigate.

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THE COMPLETE SUMMARY: **LUKASZEWSKI ON CRISIS COMMUNICATION**

by James E. Lukaszewski

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It's All About Victims

I prefer to define crisis with focus on victims, a concept rarely dealt with in crisis communication and operational response planning. Victims and how they are treated will determine just how much of your crisis response will be carried out successfully.

A crisis is a show-stopping, people-stopping, product-stopping, or reputation-defining, trust-busting event that creates victims and/or explicit visibility.

Crises are caused by human beings through commission, omission, accidents, negligence or ignorance. Larger forces, generally natural events, usually cause disasters — tsunamis, earthquakes, hurricanes, tornadoes. Disasters can produce victims, but unless responders act negatively or behave carelessly or callously, a disaster brings with it far less potential for blame.

Creating victims is what makes a crisis a crisis. The greatest barriers to appropriate victim management are denial, lack of leadership and a fear of liability fostered by advice given to management by well-meaning counsel. Any credible way to reduce or mitigate this fear is essential.

The most significant causes of litigation and lousy visibility during crises are the ignored or discredited needs of victims, victims' families and survivors — and the failure of leadership to aggressively manage the victim dimension.

Leadership's focus on victims sets the tone for the entire response effort. Management should be supportive, break down barriers and act like family to those who are injured or are suffering as a result of what is going on.

Management should motivate employees and responders by being present where it's dangerous or difficult — to encourage, help build understanding and appropriate concern, and to help employees through what often are difficult, psychologically stressful and emotional times.

What Does It Mean to Be a Victim?

Being a victim is a self-perpetuating, self-energizing state. It ends when the victims by themselves determine to let go of what is adversely affecting them and get on with the rest of their lives.

No matter how damaging an event, only a small number of individuals will actually feel victimized — even in mass casualty situations. Every person suffers differently, experiences pain differently, and needs to be treated individually.

Dealing with victims becomes difficult because they instantly become self-absorbed and self-focused on the problems and afflictions of being a victim. Victims constantly ask questions but rarely actually hear the responses. Attempts to help are often interpreted as efforts to control and to minimize responsibility. Poor communication prolongs victimization.

Victims have four powerful needs. If these four needs are provided promptly — preferably by the perpetrator — victims can more easily move through their state of victimization and be less likely to need or to call or respond to attorneys, the media, or even to call attention to themselves:

• **Validation:** acknowledgement that they are indeed victims. Best rendered by the perpetrator.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Corbin Collins**, Contributing Editor

• **Visibility:** a platform from which to describe their pain and warn others. The platform should come from the perpetrator.

• **Vindication:** the need victims have to take credit for any action by the perpetrator to ensure that whatever happened to the victims will be prevented from happening to others.

• **Apology:** directly and promptly tends to dramatically reduce victimization and virtually eliminate the potential for litigation.

Generally, victims sue if their situation is not acknowledged and their feelings are ignored, belittled, discredited or trivialized. ●

Getting Leadership Ready for Crisis

A prudent organization has studied its vulnerabilities, identified those that present the greatest risk, and gets ready with what it must do and say to respond quickly and effectively in the face of a crisis.

All crises happen explosively and instantly. All, however, are remediated incrementally, often over long periods of time. Work to replace the concept of crisis management with the term readiness.

When we analyze the most important components of readiness, we get a snapshot of what it takes to be ready:

• **Accurate contact information:** Always knowing the whereabouts of key decision makers is 75 percent of readiness.

• **Pre-authorization:** Decisions made in advance to expedite action are 15 percent of readiness.

• **Extensive scenario preparation and testing:** Practice and preparation exercises are 8 percent of readiness.

• **Surprise:** The unexpected is 2 percent of readiness.

When readiness is a part of company policy and culture, the CEO and senior executives endorse and participate in readiness. The factors that cause strategic efforts to fail are detected, deterred, prevented or eliminated. Identify and eliminate risks. Failure to eliminate risks by identifying vulnerabilities actually raises risk levels.

Successful communicators focus on substantive matters. They are driven by and make their choices based on a simple set of guiding principles:

• Choose the truth.

• Quantify what you want to accomplish.

• Project who you want to be.

• Plan to have significant impact. ●

Preparing for Crisis and Visibility

Much of your credibility will depend on your systematic, knowledgeable approaches to developing the kind of information that managers need to make critical operating decisions when emergencies occur. Readiness preparation for a possible crisis begins with visibility analysis, examining the possible sources of crises, their planned visibility and their unplanned visibility.

The first phase in the analysis of your organization's planned visibility is to conduct a community involvement audit or visibility audit at the corporate level. The audit identifies those activities in which your organization is involved. Put small groups of supervisors and active employees together to do the analysis for each geographic location where your business operates.

The second type of exposure your organization is subject to is unplanned visibility. We refer to them as vulnerabilities. This is also a small-group process. The first part is to identify vulnerabilities. The second part is to make simultaneous qualitative judgments about the impact, likelihood of occurrence and collateral damage caused by a specific vulnerability. The vast majority of corporate visibility is planned and comes from those activities carried out routinely.

• **Planned visibility:** City/regional/national/international events, civic/philanthropic organization participation, company-sponsored events and participation, governmental interaction, products/service/promotion and delivery, and schools and educational participation.

• **Unplanned visibility:** The result of some unintended operating process outcome that affects people, animals or the environment and attracts the attention of the news media, specific groups or government. Analyzing vulnerabilities takes impact, chance of occurrence and collateral damage into account.

Effective decisions and actions must precede communication. Emergency communication response priorities must address appropriate operational action and match the expectations of all potential audiences.

The more promptly actions are taken in response, the more quickly recovery can occur.

• **Priority #1: Stop the production of victims:** The very first priority is to get the emergent situation under control, stabilized or eliminated, but this is precisely because it will stop victim production.

• **Priority #2: Manage the victim dimension and those most directly affected:** What we say and do for victims are our most important strategic objectives. Effective communication with victims and their families

reduces media interest and coverage while building the trust of the community.

• **Priority #3: Communicate with employees:** After survivors, employees are the crucial audience for crisis communication. Employees need to know their roles during a crisis, particularly if they have crisis-related duties.

• **Priority #4: Communicate with those affected indirectly:** Persons affected indirectly include survivors, neighbors, government officials and regulators, community leaders, customers, suppliers, shareholders, allies, partners, collaborators and co-inventors or co-marketers.

• **Priority #5: Communicate with the media, other self-appointed external individuals and communications organizations:** How you behave and how responsive you can be will determine the tone and quality of media coverage. An empathetic, prompt, professional approach will help to ensure the best possible coverage under the circumstances.

One of the most difficult problems to resolve in crisis response is tying field operations and responses together with the concerns and controls required by corporate headquarters. ●

Creating the Crisis Communication Plan

Crisis communication must drive the other two aspects of contingency planning — business continuity management and disaster recovery. Too often, these three disciplines carry out their planning separately in isolation, only to watch their efforts collide to the detriment and embarrassment of the organization when a crisis occurs.

A crucial part of the planning process involves cataloging, analyzing, cross-referencing and coordinating all response requirements.

Your corporate-level preparation should focus on four broad areas:

• Non-operating problems that can be managed effectively only at the corporate level, such as those affecting reputation, integrity, credibility, shareholders, or that may have government impact.

• Umbrella guidance, coaching and training that send the unmistakable signal to the division, brand or field that this work is crucial and that operating people are expected to be involved.

• Development of useful scenarios and models to reduce the time necessary for division, branch or field operations to be involved in planning and testing their responses.

• Prior authorization for those actions and decisions that can facilitate coordination, reduce bureaucracy, and move the response process forward with greater speed.

We have divided the plan development process into five specific tasks:

Task 1: Existing plan assessment and refinement: Review and assess existing communication plans and notification processes to determine crisis response capability and readiness.

Task 2: Corporate crisis plan development: Identify and prioritize existing and potential operational and communication threats.

Task 3: Communication guidance for divisions, branches, remote facilities and franchise owners: Develop guidance and model approaches in the areas of managing the four or five most critical high-profile local scenarios, identifying vulnerabilities and assessing their potential, and developing local approaches.

Task 4: Communications coaching and training: Executives and managers should be coached on the corporate approach, processes and policies to follow during crises.

Task 5: Installation/simulation, ongoing readiness training: Untested plans fail. Identify specific processes and procedures to help ensure that the company is appropriately and adequately prepared to manage communication.

Scenario preparation is the crucial ingredient in effective emergency and crisis response. General crisis planning simply fails to work. The scenario approach allows you to work in a future-thinking mode. Developing scenarios is among the most powerful team-building and team-unifying activities that leaders and responders can undergo.

When a crisis or seriously negative event occurs in today's world, everyone heads to a website before they look for anything else. Failing to have a website in place and ready to go often leads to mistaken stories and stories based on erroneous assumptions. Crisis websites must meet the test of being simple and sensible. The site needs to be positive and constructive. Comments need to be relatively brief so that the visitor can read the materials, absorb them, and easily use them. Avoid using any negative language or phrases. Use the power of the web to manage media coverage and reduce media calls. Provide information 24/7, and script everybody. ●

Media Relations

Media relations during emergencies are crucial not just for your company but for media organizations as well. The crisis has the potential to create big business for the news media.

The first step in managing relations with the social and traditional media is to establish a sensible, professional crisis media relations policy. Here is a sample approach:

1. Regional managers and Headquarters Media Relations (HMR) employees are the designated spokespersons.

2. All other employees must secure prior approval from HMR for any outside publication, speech, interview or other communication with the media.

3. Media calls from national and international media should be directed to HMR.

4. Calls for financial information or overall company information should be directed to HMR.

5. Local media calls are to be handled by local managers when regional regulatory activity, local employee information or regulatory questions are involved.

Good Spokesperson Practices

In times of crisis and catastrophe, bad things happen fast and control is lost quickly. It is the spokesperson who sets the tone, tempo and expectations:

- Remain calm.
- Coordinate all comments with the crisis website.
- Avoid all negative words, phrases and descriptions.
- Disclose some facts immediately and continuously even if the news is bad.
- Treat the media professionally and with equality.
- Treat all inquiries fairly and promptly.
- Stick to the facts.
- Avoid "I don't know," guessing and speculation, making estimates, and flatly refusing to provide information.
- Release information about victims only after families have been notified and with their permission.
- Think before you respond.
- Monitor media coverage, correct and clarify. Have an ongoing strategy for correcting and clarifying mistakes that has little reliance on the media.
- Prepare answers for the most likely questions.
- Speak with compassion.

More and more companies are establishing template sites, sometimes called *dark* or *stealth* sites, which are pre-organized and populated with pre-authorized information. They are set up to respond immediately to the general nature of crisis and to specific scenarios and are used to get ahead of the negativity often caused by delays in responding to situations of public interest.

These dark sites reside on a server. As information is developed, various portions of these sites are reviewed, authorized and go live as circumstances warrant. These sites feature a "fill-in the blank" architecture in which key information can be easily inserted and promptly made widely available, especially to employees and the news media. Having a website with basic information immediately available can reduce media relations calls by up to 90 percent.

Take these steps before the news media arrive:

1. Develop strategic communications objectives, specific statements, messages and stories.
2. Brief communications staff, executives and employees about who is coming and why.
3. Share your communications objectives and messages widely within your organization.

While the media are there:

1. Stick to the script.
2. Stick to a time schedule, and schedule briefings as necessary. Hold group briefings that enable all reporters to hear the same thing at the same time.
3. Establish a place where reporters may gather as they arrive, such as a conference room.

For news magazine shows:

1. Negotiate — get something for everything given.
2. Cooperative but reluctant. Always express an interest in cooperating, but maintain a very realistic sense of skepticism.
3. Rigorous but circumspect. Remember that they are not on a mission to help you or your organization. Keep good records.
4. Professional but concerned. It is always about emotion and answering specific questions. Put very little in writing. Verbalize most of your responses.
5. Message driven but alert for more data. Preparation is a surprise-reduction process.
6. Be alert. These shows practice very blatant ongoing deception with story subjects and targets.
7. Maintain perspective. Resist the urge to take anything personally — not the questions, not the situation, not the show's manner of handling them.

Sure-fire ways to make bad news even worse:

- Lose your temper.
- Call the reporter and demand a retraction.

• Attack the medium on your website.

The lesson for the spokesperson is that to be an effective communicator through the news media to the publics you wish to reach, verbal skills and habits must change. It is the spokesperson who must refine, refocus, redefine and more carefully describe those things that are important to communicate. If the translation is left to the reporter, you may not be pleased with the results.

The Crisis News Conference

The news conference remains an effective way to communicate when a crisis occurs; you must especially manage many reporters and a great deal of often-conflicting information. The successful crisis news conference requires planning and preparation even when there is little time.

Types of Crisis News Conferences

There are three formats for dealing with many news media — news conferences, briefings and backgrounders.

A *news conference* is a structured meeting in which many news media are represented. In very dramatic cases dozens to hundreds of media representatives can be present. The goal is to answer questions and get messages across to many different media at the same time. Usually there are one or two spokespersons. The basic format after opening comments is Q&A.

A *news briefing* is a structured open meeting where complex information is presented, explained and provided to the media verbally and in writing. Many individuals from the organization may talk with the news media either by making presentations or simply by answering reporters' questions. Anything said at the briefing is on the record and available for use by the news media.

A media *backgrounder* is a fairly structured meeting to which only specific media are invited to attend and participate. The information is given on the promise by the media that it will neither be used in a story nor attributed to the source of the information. The purpose is to give reporters proprietary or crucial information that must be kept confidential but that they need in order to cover a specific story. Be careful with this format. The reporter's first impulse is to get what they hear on the record somehow and promptly. Avoid off-the-record backgrounders. If it is a secret that matters, it will get out. The best briefings are those that are on the record.

Setting Communications Objectives

Here is a procedure for identifying your communication objective and defining the messages that you need to convey:

Step 1: Write out your communication objective for the news conference in up to 150 words (about one minute of speaking time) each.

Step 2: Try to state in a sentence or two each up to three really important messages or themes about the topic or subject of your news conference.

Step 3: Say your communication objective and your messages out loud (rehearse), and refine the language so that you can say them comfortably and often.

Step 4: Draft your second or third communication objective as described in step 1, and develop messages as described in steps 2 and 3.

Once you have completed the development of your communication objective, drafting your opening statement becomes relatively easy.

The Opening Statement

Here are the attributes of a good opening statement:

• Up to 150 words in length (one minute).

• Positive words and language.

• Packaged or bundled key ideas and groupings of three facts, five ideas, four key thoughts, etc.

• Constructed to generate specific and positive follow-up questions first.

• Stands on its own and gives complete information.

• Creates the positive perception you seek.

• Contains benefits to the reporters and their audiences beyond the features of the topic or reason for which you are having the news conference.

Conducting the News Conference

1. Determine who should represent your company: We recommend a maximum of three speakers at a news conference. One should be a generalist. The other one or two should be experts on the product or situation so that every question receives at least a partial answer. When there will be more than one spokesperson, extra rehearsals are mandatory.

2. Set the scene: A designated individual should begin by introducing him/herself along with those involved in the news conference and by explaining which areas each will talk about. News conferences should last only 30 minutes. Introduce each principal.

3. Make the opening statement: It should be no longer than 30 seconds so that broadcasters can use it in its entirety. Organize facts, starting with the most important information, the way reporters do. Put the event in context, and cast a positive light on the compa-

ny's safety practices. This controls at least the opening portion of the news conference.

4. Handle the question and answer period: After the opening statement, ask for questions. Be sure that you have written the statement in a way that will elicit the questions you want to be asked.

5. Close the news conference: The person who opened the news conference should stand up, thank the media for coming, and remind them about handout materials, follow-up, the next briefing, etc. Offer to remain behind to handle news media questions on an individual basis. ●

Social Media

Social media have injected new intensity, urgency and effectiveness into the media relations equation.

- News travels in milliseconds, not minutes, hours or days.
- More than one billion people — combined active Facebook and Twitter users — can discuss your organization or client, its products and its competitors in just a few minutes.
- Anyone communicating online becomes, in effect, a publisher, reporter, author and a member of the Media.
- Most professional journalists live online every day, many searching social channels for scoops.

Google, Bing, Yahoo, Twitter, Facebook, LinkedIn, Flickr, Foursquare and now more than two dozen others enable everyone with Internet access to locate, relate, analyze and comment on an infinite number of topics. Social media can be your company's enemy or friend.

New media and social media, when managed correctly, can help to communicate the point of view of your company in very difficult situations. Blogs and online media can help you diffuse and respond to online attacks and crises. The opposite is also true — if you fail to monitor your news and conversations in the media and are slow to respond to emerging news stories in social media, you can experience a humiliating, self-imposed type of crisis.

Developing a monitoring strategy and putting it in place as part of the crisis plan is essential. You can take advantage of companies like BrandProtect and Risdall.com/listen, which provide reputational monitoring services. Stay ahead of instant news coverage by monitoring blogs and social media via searches using keywords for your organization.

The basic rules of media relations still apply whether you are dealing with traditional or social media. To neutralize an Internet crisis, it is essential to remain calm, manage your assumptions, investigate and verify the facts, and monitor exposure in all media. Then diagnose the problem, conduct a threat reality check, examine your options whether or not to respond, and lastly, preempt, control and contain. ●

The Activist Challenge

Activist groups, as always, add interesting challenges to communications. Activists are emotionally committed to opposing and targeting you and are against traditional corporate behavior. To win, large organizations have to be as committed to victory as their critics are committed to defeating them.

Understand the power of activism and the activist mentality. Prepare to negotiate. Ignoring activism is toxic. Advancing the corporation as a victim is weak. Almost all corporate and government targets are considered to be guilty of something at first.

Anti-corporate actions can be anticipated both through aggressive enforcement of standards of conduct and compliance review and by paying attention to the perceptions created by appearances. Be prepared to preempt these characteristic patterns of action aggressively. Avoid the obvious, the stupid, the callous and the arrogant behavior.

Often there is very little in the way of concrete evidence on either side. The imperative is to respond or anticipate with a sense of energy, control and focus. Real on-the-ground facts and information can be controlling. Get some; get there first.

Stay focused on the ultimate goal. Make incremental progress every day. Make certain that those who are affected directly and indirectly know progress is being made and what your next steps are. The more you interact directly with those whose lives, families and future you affect, the less important what the media does or says becomes.

If you have a sense of activists' tactical approaches, you can then analyze your own operations and behavioral vulnerabilities and plan appropriately. If it's important that your story be told accurately, clearly and effectively, plan to do that yourself during and after the incident. Companies lose to activists primarily because they are less committed to managing their own destiny. ●

Litigation and Legal Issues

Get ready by preparing for anticipated crises, making sure that management is aware of the legal ramifications of any lax compliance and developing for yourself a knowledge of how law and lawyers operate and how best to handle the media in the event of high-visibility litigation.

Corporate behavior patterns that predict trouble are easily recognized but often ignored. If you keep an eye on your company's approaches to regulated activity, you can easily detect operational facts and behaviors that reveal either the existence of or potential for troublesome, perhaps criminal, corporate behavior. Here are seven critical steps:

Step 1: Establish a centralized compliance function: This function oversees compliance and adherence to standards for the entire organization.

Step 2: Appoint a senior-level manager as senior VP, compliance: This individual has overall responsibility for establishing an effective compliance program.

Step 3: Train all employees, agents, vendors and customers.

Step 4: Establish a reporting process: Set up a mechanism through which employees, agents, vendors and customers can anonymously report compliance violations or inappropriate behavior.

Step 5: When violations are found, take appropriate, consistent and prompt disciplinary action: Standards without enforcement do not work.

Step 6: Communicate immediately and conclusively about compliance violations: Public acknowledgment is a powerful deterrent.

Step 7: Commit to constant improvement: These situations are opportunities to review standards and procedures, to eradicate weaknesses in the organization's ethics and compliance process, and to educate.

Legal risk assessment must be added to your scope of issue negotiation and problem prevention. Reputation-threatening legal risks arise from several corporate behaviors, all of which can be avoided: arrogance, selective disclosure, deception, ignorance, insensitivity, intolerance, secrecy, stinginess, stupidity and tardiness.

In law as in corporate life, the individual who can focus on the needs and problems of the people is the individual with the winning strategy. All litigation involves victims. Think, plan, talk and act with the victim's perspective in mind.

Settlement talks can start at any time. Hire a separate law firm to manage the settlement since litigation has to proceed until the matter is resolved. There is an inherent conflict between the litigator and the negotiator.

Settlement activity often eliminates or substantially reduces litigation visibility. Settlement happens privately, is sanctioned by the court, and much of what is discussed cannot enter the records of the actual case.

I always recommend to clients involved in potential or actual litigation that they propose settlement talks immediately, managed by an independent law firm that specializes in settlement. ●

Summing Up and Looking Ahead

My general expectation is for future problems, issues and behaviors that have been crises in the past to remain high potential candidates for crisis situations in the future.

Remember that Lukaszewski's first law of crisis survival is to recognize that forces like the government, new media, old media, your toughest critic or your most aggressive competitor are rarely successful in bringing you down. It is the perpetrators themselves, through their statements, actions and/or the statements of well-meaning employees, friends, even relatives and especially over-confident leaders, who sabotage the competence of responses in crisis.

The single most powerful, strategic approach to succeeding in crisis response involves extraordinarily positive language combined with behaviors that support contention reduction and resolution of the issues, such as victim circumstances and taking actions that prevent the types of criticism that prolong negative crisis coverage and perceptions.

If you pay attention to victim treatment and management; express regret, empathy and apology; expedite compensation; do 120 percent in every direction on every issue in question; and answer every question, these behaviors will help reduce, even mitigate, crisis impact.

In the end, it is up to you, guided by your personal values, concerns and empathetic sense of rightness. ●

RECOMMENDED READING LIST

If you liked *Lukaszewski on Crisis Communication,* you'll also like:

1. ***Crisis Leadership Now*** **by Laurence Barton.** Barton provides a framework for building crisis management thinking into a company's strategic toolbox.
2. ***Turnaround Leadership*** **by Shaun O'Callaghan.** O'Callaghan pinpoints five areas of leadership expertise that need to be mastered to recover after a crisis brought on by changes in technology or a company-specific issue.
3. ***Stronger in the Broken Places*** **by James Lee Witt, James Morgan.** Witt, former director of FEMA, shares a strategy for managing crises that is customer-centric.

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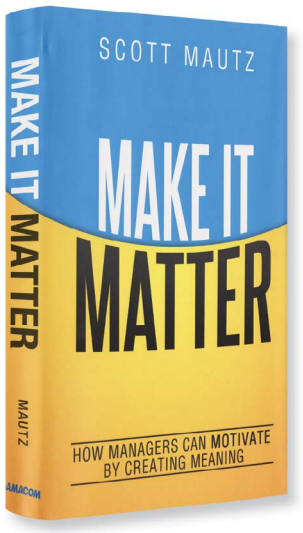
Make It Matter

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Make It Matter

How Managers Can Motivate by Creating Meaning



by Scott Mautz

THE SUMMARY IN BRIEF

Are your people giving in instead of giving their all? Have they quit, but stayed? Probably. According to a shocking Gallup poll, more than seven out of 10 American workers are disengaged, which hurts productivity, products and personal satisfaction. In fact, one in five are more committed to *not* doing their jobs than doing them.

In *Make It Matter*, Scott Mautz shows that the key to winning back the disengaged (and keeping the engaged, engaged) is by fostering meaning at work, that is, by giving work a greater sense of personal significance and, thus, making work matter. Distilling reams of research, case studies, stories and interviews with managers at great companies to work for, he unveils seven essential "Markers of Meaning" that can be triggered to create meaning *in* and *at* work.

He offers dozens of tools and specific plans to get your people to better commit and enjoy work as part of their lives, not an eight-hour departure from them. He also demonstrates how meaning starts with managers because if you're not committed, no one else will be either. Most important, he draws a solid line from elevated meaning to higher profits, revenue growth and retention.

IN THIS SUMMARY, YOU WILL LEARN

- Direction: Reframe work to add meaning and motivation, and help people discover a sense of significance and purpose in what they do.
- Discovery: Craft the richest kind of opportunities to learn, grow and influence, while helping people feel valued and valuable.
- Devotion: Cultivate an authentic, caring culture, master meaning-making leadership behaviors and drive out corrosive behaviors that can quietly and unknowingly drain meaning at work.

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THE COMPLETE SUMMARY: **MAKE IT MATTER**

by Scott Mautz

The author: Scott Mautz is a 20+ year veteran of Procter & Gamble, having run several thriving, multi-billion dollar divisions along the way. He's also a speaker and consultant on many facets of meaning-making leadership.

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For additional information on the author, go to www.summary.com and www.makeitmatterbook.com.

Introduction

Nobel prize-winning physicist Richard Feynman was asked to oversee a group of engineers who were tasked, without much context, to perform an endless series of tedious calculations. The math wasn't especially difficult if you were an engineer, but the work proceeded very slowly and was full of errors. Feynman realized the problem wasn't the math but that the engineers were disengaged.

He convinced his superiors to let the engineers in on what he already knew — that they were performing calculations that would enable them to complete the race to build the atomic bomb before the Germans did. Their work would win the war. From that point forward, Feynman reported that the scientists worked 10 times faster than before, with few mistakes and with fierce commitment. Meaning matters.

PART I: DEFINITION

Why Meaning Matters

Do you matter at work? Does the work you do uniquely make a difference to your company and to others — and does it matter to *you*? Gallup research found that 71 percent of American workers can be coded as either "not engaged" or "actively disengaged" in their work, meaning they are emotionally disconnected from their workplaces and are less likely to be productive. When meaning in our work is absent, we tend to disengage at some level.

The provision of meaning is the solution for disengagement. When work has meaning, it drives the expenditure and investment of discretionary energy on a physical, cognitive and emotional level. It's the feeling that you matter and are making a difference; your engagement is paying off. A shocking number of people sadly accept their fate at work. They are effectively quitting and staying — settling for a paycheck, abandoning hope of finding fulfillment in their jobs and knowing that they aren't performing anywhere near their maximum potential.

Managers with the best intentions try a variety of tactics to elevate performance. We staff up. We spend more on technology to get better, cheaper, faster performance. We cut costs and corners to squeeze out better financial performance. We invest in better facilities. Yet a lack of engagement and fulfillment in the workplace rages on.

We deserve something that matters. We deserve something with resonance. We deserve meaning. Meaning is *the* performance enhancer of our times. We find meaning in things that make emotional connections and are remembered. When we feel belongingness or a sense that we are cared for, it's meaningful. We also find meaning in things that make us feel significant, that help us reach our full potential, and that serve who we are and what's most important to us.

Facilitating meaning not only drives employees to engage but takes them beyond engagement to elevated performance and true fulfillment. Meaning holds the engagement at the deepest, most fulfilling level, and it sustains over the long haul, flowing back into a virtuous cycle. This phenomenon is called *profound performance*. It is the inspiring end-goal for those managers who want to make work matter.

The Markers of Meaning

Finding meaning in and at work doesn't have to be happenstance. Meaning is derived from seven specific

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **Corbin Collins**, Contributing Editor

conditions, or the *Markers of Meaning*. Satisfy these conditions, and you create meaning and fulfillment for yourself and your employees. The Markers of Meaning can be organized within three groupings:

Direction:

1. Doing work that matters (significant work that makes a real impact and is reflective of your values and beliefs and worthy of your focus and energy).

Discovery:

2. Being congruently challenged (in ways that energize and maximize individual learning and growth).
3. Working with a heightened sense of competency and self-esteem (feeling valued and valuable).
4. Being in control and influencing decisions/outcomes (autonomy).

Devotion:

5. Working in a caring/authentic/teamwork-based culture (a sense of belongingness and harmony with coworkers, leaders and company).
6. Feeling connection with and confidence in leadership and the mission.
7. Being free from corrosive workplace behaviors (removing barriers to the best self).

All of the markers of meaning, when intentionally attended to and wired into a work environment, produce outcomes that truly matter. Disengagement, mediocrity and despair do not stand a chance; the map to meaning creation is now at your disposal.

PART II: DIRECTION

The Potency of Purpose

People tend to define themselves, and be socially defined, by their work. It's why at social gatherings, talk often turns to inquiries about one's occupation. The problem arises when we don't like the definition. When our definition of self begins to feel too one-dimensional, lacking in significance or we sense we are not living up to our potential, we begin hungering to redefine who we are and what we've become.

Discovering your purpose and putting it to work in your work is how you can take back control. The truth is, work does not define you: You define your work and how it serves your higher-order purpose. Stop, reflect and articulate what your higher-order purpose is and how your work can be recast to serve that end.

When you are operating with a clear purpose, you understand and accept why you are working so hard and spending so many hours away from loved ones, friends and family — you can see and sense the higher-order end your efforts feed into. You know why what you do matters. Purpose integrates who we are with what we do. It's not about the money; it's about the meaning. It's about purpose, not perks.

Even if you can already clearly articulate your own purpose, the idea is to learn the steps on the Path to Purpose for yourself so that you are equipped to help your employees discover and articulate their purpose.

The Path to Purpose

Step 1. Change the Equation: Disappointment and dissatisfaction often result from a gap between an ideal and reality. Happiness = Reality – Expectations. As disengagement and resignation settle in, expectations of the role work can play in the fulfillment in one's life are lowered in an attempt to at least make the happiness quotient less negative. Rewrite the happiness equation: Happiness = Reality + Expectations. New heights should be set for the happiness quotient. Reality at work should be vastly improved by pursuing purpose and meaning-rich work with vigor. This formula replaces the vicious cycle with a virtuous cycle.

Step 2. Change Your Questions: Once you start asking yourself more introspective life questions, you find that what holds meaning for you may have nothing to do with your long-held beliefs about what constitutes success. Once you start asking these questions, you are on your way to exonerating yourself from one of the greatest self-crimes one can ever commit: leaving purpose buried within.

Step 3. Put the "Me" in Meaning: You have to resist the temptation to compare yourself to others, when answering introspective questions. What you assign significance to, what truly matters, is highly personal and should not be defined by others' perceptions.

Step 4. Conduct an inner interview: What are your superpowers — the strengths that you can use, like a superhero, to do good for others? What are your values and beliefs? Staying true to what you believe in is a source of great strength. The same power source can provide clues about what your purpose might be. What would you do for free? What are you doing when you lose track of time? What do you daydream about? What part of you is not showing up at work? What does the world need more of that you are well suited to serve? What would coworkers miss if you weren't there? What would people say you were meant to do?

Step 5. Commit to something greater than yourself: You have to commit to producing good for others as part of your purpose. Committing to something greater than yourself means making sacrifices, forgoing taking credit and setting aside personal gain. The greatest level of sustained performance over time comes when we strive to reach our personal fullest potential and truly commit to a good greater than ourselves.

Step 6. State your purpose: Writing something down increases compliance, so boil down the purpose you have worked to identify into a crisp sentence or two. This will also sharpen your thinking about what you are committing to. Keep your purpose statement front and center constantly. What is the verb of your purpose statement? Are you creating, unlocking, bringing, helping, stirring, championing? The choice of verb ensures your purpose statement is inspiring, action oriented and actionable — for you.

A leader can bring a sense of purpose to an organization by ensuring that each and every person understands how his or her work specifically ties to the broader mission. Enabling comprehension of mission can provide a surge of meaning (and performance). A sense of purpose and deep significance can also come when we ask ourselves what the work itself really means, who our work serves and how the work is done.

The Lighthouse of Legacy

Anyone, at any level, can leave a legacy behind. And striving to do so, like when you are working toward a purpose, means you've activated the powerful first Marker of Meaning: doing work that matters. If purpose is the profound why, then legacy is the profound what. What are you working to tangibly leave behind? What will outlast you that helped make your purpose concrete?

Let's look at the five footprints of legacy, or ways in which you can leave a legacy behind:

1. Enduring results: These are major accomplishments that you envision, invest in, drive to realization and ultimately leave behind that you can look back at five to 10 years from now with tremendous pride. It can simply mean real things you did that touched real lives of real people.

2. Transfer of knowledge: We can make an investment in coaching others and transferring information beyond what's merely required for employees to do their jobs.

3. Passing on values and life lessons: The little things we do every day are all opportunities to reinforce who we are and what values we hold. The values you live and the life lessons you pass on have a surprisingly lasting effect.

4. Relationships and lives serviced: When we invest in relationships and friendships in our professional lives, it produces meaningful connections. This is critical for sustaining maximum conductivity to something that really matters.

5. Stories told about you: What are the big, sweeping tales that characterize who you are? What will be said about the little impressions you left behind and the small gestures you made along the way?

The Five-Step Footpath to Legacy-Worthy Results

1. Appreciate the power of legacy and commit: When you can stop for a moment, break out of the temporal day-to-day and begin deeply considering the permanent tomorrow you want to work toward, it's liberating.

2. Color-code your work plan: Red is for work that we need to stop doing. Green is high-value work we need to keep doing. Gold is legacy-worthy work that will help define the lasting impact we leave behind. The thought here is to ensure that there is defining work for you to put your heart into.

3. Choose your investments for enacting a legacy: If I knew I wouldn't fail, what would I try? What missing accomplishments would cause me to label my life's work incomplete? Who do I admire for the difference they've made, and what about them can I emulate?

4. Write your legacy statement, and align your legacy projects: Here are examples. My Purpose: Unleash in others an even better, happier version of themselves. My Legacy: I will inspire actions, thoughts and feelings that fulfill — every day.

5. Be attentive to "others-focused" vehicles for legacy-worthy results: Meaningfully impacting others can be as important as any lasting business accomplishment. Be mindful of and attentive to key others whom you'd like to impact, and be intentional about how to impact them.

PART III: DISCOVERY

Learning and Personal Growth

An environment that facilitates high performance is not only essential for personal fulfillment but is absolutely critical to compete. A study by the Brookings Institution revealed that 60 percent of an organization's competi-

tive advantage is derived from internal advancements in knowledge, innovation and learning.

When you operate with a growth mindset, the enhancement of your employees' intelligence and ability is limited only by the number of connections to learning and growth opportunities that you as a manager/coach can create. Here are seven ways to build such connections:

• **Learn about learning:** Not all learning is created equal. Draw on their experience and what they know. Attend to attention spans — average attention spans have plummeted to about eight seconds. Creating opportunities for adults to practice and play with what they've learned makes the learning stick. Make clear the value of the learning opportunity. They need to understand why they are engaged in a learning process and how it benefits them. Ensure self-directed learning, and leverage mistakes as learning opportunities. Take into account different learning styles.

• **Be conducive to learning:** Have patience and empathy for the learning process (and tolerance for mistakes). Put emphasis on assets, not deficits. Listen for understanding, not for convincing others. Focus on being interested, not interesting. Enable ownership of ideas.

• **Practice managerial metamorphosis:** You have to metamorphose into a number of different roles at various times. Role Model: We are constantly teaching, whether we intend to or not. Mirror: Serve as a mirror for your employees to help them see themselves. Challenger: When you challenge thinking and the status quo, learning and growth are sure to emerge. Sounding Board: Having someone to bounce thoughts off of helps us adjust, sharpen, confirm or reconsider our thinking.

• **Reimagine their jobs:** Job reimagining happens when people feel their need for enrichment is not being met in their job as currently designed. People try to do more of what they love and more of what challenges them at work. Psychological meaningfulness of work results when people feel worthwhile and valuable. Why not encourage, manage and report all of this reimagining?

• **Promote learning exchanges:** Learning organizations are in a continuous learning mode, drawing insight from every member in the organization, encouraging participation in an energetic exchange of learning intended to amplify growth. Learning from the past can mean tapping into senior leaders. Escalate ideas — individuals will influence each other, and their ideas will co-evolve. Share and reapply best practices. Provide stimuli for discovery.

• **Make the employee's personal learning a priority:** You and your employee can explore three questions: What do I need to learn to advance my career? What do I want to learn that advances my cause? What am I interested to learn to feed my curiosity?

• **Lean forward to learn:** Encourage employees to get out of their own comfort zone and lean into something new and even daunting (but short of their panic zone). You can show your employees the way. Seek out a new learning experience for yourself that stretches you, and make a point of sharing your experience.

Meaningful Decision-Making and Influence

Work comes to be meaningful when individuals see themselves as capable of substantively influencing outcomes. It tells them they are not powerless and that they have the ability to make a real difference. Research shows that allowing employees to participate in managerial decisions also positively impacts job satisfaction, organizational commitment, labor-management relations, job performance and organizational performance, employee absenteeism and profits.

The method of centering decision-making processes on employees allows those employees to contribute their best, grow the most, and feel worthwhile and worthy. Follow these seven steps:

1. Fulfill the foundational requirements: The top two characteristics are a climate of trust and a commitment to information sharing. Being clear on roles can help eliminate the chaos that can occur when people think they have the authority to decide or veto, but they really don't.

2. Hold a decision stakeholders meeting: Confirm the decision criteria, objectives, roles and responsibilities established as part of the foundational requirement. Identify resources, and set milestones.

3. Ask for a recommendation: Give them time and space to think options through, cast their own critical eye on those options, form their own recommendations and then share those options with a decision-making body.

4. Conduct inquiries, not inquisitions: Ask good questions, and listen with understanding while showing appreciation for the thinking behind the points of view being presented. Let respect, intellectual honesty, curiosity and the desire to comprehend drive the line of questioning.

5. Debate. Decide. Commit: Varying viewpoints should be protected and respected and visibly considered.

Then when it's time to decide, it's time to decide — period. Ask for commitment to the decision.

6. Ensure energy-yielding outcomes: The outcomes should return the energy back into the system. This energy can take the form of an organization visibly acting on decisions and sticking to them over the long haul and seeing decisions communicated quickly and broadly.

7. Conduct a decision quality check: A postmortem on a sample of decisions can bring enrichment through retrospection.

What about when the employee isn't just a participant in a decision but is the proprietor of the decision? If involving employees in decision-making is meaningful to them, then enabling them to actually make the decision will be exponentially more important. Here are eight ways to grant autonomy in an intelligent fashion:

1. Fulfill the foundational requirements: Intelligent autonomy requires a baseline of trust and a practice of information sharing. An additional requirement rests on the manager's willingness to delegate growth work, not just grunt work.

2. Have an agreement for autonomy in place: Managers often struggle with the empowerment of their subordinates, seeing it only as a loss of their own power. Develop an agreement for autonomy to formalize the rules of engagement and operation in the handover of power.

3. Facilitate recipient readiness: Provide training and resources; have a discussion with them about the benefits of the newfound autonomy.

4. Provide intrinsic and extrinsic reward: Build in flexibility to allow employees to define what they want to get out of the new autonomy. Proper recognition for expanded responsibility that is well handled is a must.

5. Facilitate by assisting success versus avoiding failure: Let the cycle of empowerment work itself out, where the employee learns from both successes and failures. You have to act as a facilitator, not a fixer.

6. Construct communication loops: Autonomous employees shouldn't go off the grid but instead should report back regularly on progress. You can't just delegate and check out, either. Communication needs to be a two-way street.

7. Covet communication loops: Communicate with your empowered employees so that they actually come to covet the communication loops in place over time. Leave the empowered feeling that it is productive and powerful to continue inviting management in along the way.

8. Tie a measurement tether: Establishing success criteria and measures in the agreement for autonomy and reviewing progress periodically will help ensure work stays on course.

PART IV: DEVOTION

Cultures of Consequence

Establishing a cultural norm that connects employees to one another and inspires a drive for greater achievement must be viewed as a fundamental for long-term, sustained success.

Cultures that are rich in meaning manifestation generate feelings of significance, genuineness, belonging and expanding personal potential. Study any Great Workplaces list, and you'll uncover the three elements that the most meaning-rich cultures have in common: caring, authenticity and teamwork.

Caring

Jim Goodnight, CEO of SAS, says, "Treat employees as if they make a difference, and they will." Building a core of caring will most certainly unlock newfound levels of inner-connectedness among employees. It will also elevate morale as well as deliver returns for the company. The creation of a caring culture requires the five components of caring:

1. Family unit — not a military unit: The military's arm's-length approach doesn't really work in the business world if you want to create meaning-filled connections and maximize elevated performance over the long haul. Thinking and acting like a family unit, where relationships and connections are a priority, is a better way.

2. Rewards and recognition done right: Only the imagination limits the number of ways to recognize and reward someone. It's about the meaning behind the reward. Employees are looking for meaning, not things. Personalize it, and get everyone in on the act. Be frequent but not frivolous. Celebrate first downs and touchdowns. Think through the delivery with attention to detail.

3. Respect: Workplace incivility is a barrier that stands in the way of optimal performance. Respectful interactions and recognition of others, always and with everyone, is a foundational bedrock.

4. Work-life harmony: We only have one life, and work is part of it, so harmony among the two is undeniably worth the pursuit. Helping others (and yourself) make progress toward achieving work-life harmony involves being intentional, holistic and specific in your approach.

5. Personal well-being: You care about your family members' personal well-being. Are they getting enough exercise and sleep, eating properly, taking good care of themselves? Why shouldn't the same questions be of concern to you for your work family?

Authenticity

Authentic behavior binds human beings to one another, and it is deeply satisfying for those conducting and receiving. It helps reinforce self-identities and creates bridges to a sense of belonging. As managers and workers, we can promote feelings of authenticity in the workplace in three basic ways:

1. Being where you belong: When people aren't intrinsically engaged by their work, they feel inauthentic. If employees aren't succeeding or aren't a good fit, it may be time for a tough but liberating discussion.

2. Being true to yourself: When we act in a manner consistent with our values and beliefs, it produces a deep sense of meaningfulness. We find meaning in situations and people that are real. Work is a vehicle through which we can share our unique talents, creativity and creations. Be true to beget true.

3. Conducting yourself in an authentic manner: Disingenuous behavior has a way of surfacing and revealing itself. Nothing is more transparent than when someone's not being transparent. And the effects can be devastating. Adhering to a code of conduct for authenticity is one helpful way to ensure the right behaviors are always top of mind.

Teamwork

Teamwork creates a sense of pride, fellowship, camaraderie and loyalty. Being cared about by teammates is a strong predictor of engagement. Teamwork enables relationships to form and nurtures a sense of connectedness and belongingness. Indeed, meaning is not just derived from how individuals relate to their work but also from how individuals relate to each other.

Teamwork enables interdependence. Organizations and managers adept at fostering world-class teamwork very intentionally drive a sense of mutual interdependence to pull a loosely connected group into a tight-knit unit. You can facilitate the same sense of interdependency in your place of work. It requires understanding the kind of team goals that foster interdependency, being attentive to the impact that team deliverables and role definitions can have on fostering a sense of interdependency, and spelling out specific expectations for interdependent behavior.

A team environment where everyone is working well together serves as a shared learning lab where people are comfortably learning from one another through the sharing of experiences, wisdom and role modeling. Great teams producing great results make people feel as if they matter on a team that matters. This feeds into sustained heightened performance, which leads to more meaning and more fulfillment.

Teamwork is also the most direct contributor to the ultimate cultural end-state: achieving a sense of community.

Meaning-Making Leadership

Think of yourself as a master electrician — you help hardwire a network of emotional connections, linking the employee to the employer and vice versa, and both to a greater good. The Markers of Meaning constitute the wiring in the workplace network.

Leaders adept at meaning-making tended to have four traits that you can incorporate into your own style:

1. Have a passion for potential: Leaders with a passion for potential inspire you to make a difference every day. They challenge and grow you in energizing ways, encourage and reassure you as you go, give autonomy and make you believe you can accomplish anything.

2. Emit a caring, connective undercurrent: Caring, connective leaders draw people to them and draw the best out of them. They connect with others because they genuinely care about them, respect them and wear it on their sleeves. And because they couldn't alter their truly authentic aura if they tried.

3. Possess framing finesse: This is the kind of leader who helps connect the dots for employees, helping them feel confidence in and connection with the work they're doing, the place they're doing the work at and the people they are doing the work with. Such leaders frame and mold perceptions, mold meaning and mold winners.

4. Create an atmosphere of relaxed intensity: Leaders who excel at meaning-making also want to win, and they want to have fun while winning. Having fun and laughing at work can change attitudes, draw people closer together and step-change engagement levels.

Meaning-Making Messaging

The key to communication that engages and makes meaning is to make people feel something. Inspire a felt sense of confidence. Here are five ways to ensure your messaging will truly matter:

• **Articulate a compelling vision that resonates with people's identities:** Compelling visions make membership within an organization feel special, enriching and meaningful.

• **Drive mission fit:** If you help connect the dots by communicating how your employees' work fits into the broader mission, you enhance their feelings of self-worth and certainty.

• **Be confident when communicating:** When you communicate with confidence, it breeds relief and a sense of certainty. You can communicate hope even as you are outlining reality.

• **Tell stories of significance:** You can make meaning when you share stories of "sparkling moments" — when the team really nailed it, when they overcame adversity or when they achieved accomplishments that have been more broadly taken for granted.

• **Share goals with intrinsic, not just extrinsic, value:** What's in it for them? How will this goal connect with them personally and emotionally? How might accomplishment of this goal help them grow?

Cutting Off Corrosive Behavior

You might not realize, given all your good intentions, that you could also be engaging in negative, meaning-draining behaviors. If you are, you can be sure your employees realize it. Managers can unwittingly kill meaning in four primary ways:

• **Destroying a sense of certainty:** We can destroy an employee's sense of certainty by acting without integrity, being indecisive or inconsistent, mismanaging change or communicating poorly.

• **Destroying a sense of completion:** We are driven in part by a sense of progress, a desire to see that our unique efforts are adding up to something tangible. We can unwittingly stand in the way of this fundamental human drive with behaviors that destroy an employee's sense of ownership or that create rework or wasted effort.

• **Destroying a sense of confidence:** Dismissing the importance of an employee's ideas or work can crush a sense of self-confidence and, accordingly, a sense of meaning for the employee. If you are quick to criticize and slow to praise, don't be surprised if your employees' work needs criticizing and isn't worth praise. Assume they care about doing good work. Plant seeds of growth, not seeds of doubt. Don't manufacture misattribution; share context. Self-manage anxiety/stress. Warm up — people can read a lack of compassion and warmth a mile away.

• **Destroying a sense of community:** We strip our employees of the sense of community when we allow environments of negativity and unhealthy levels of internal competition. Sensing that they are in combat, not in a community, employees may well mentally shut down. Drive awareness of the behaviors' impact. You will get the behavior you tolerate. Go from pessimism to optimism. Challenge cynics, and invite them to be part of the solution instead. Don't let falsehoods and ferocity fester. Build people's self image, and redirect their energy.

When any of these components are enacted, it creates self-doubt, deflates a sense of devotion and causes us to question the meaning in and at work. It can also contribute to fear: fear born of mistreatment, insecurities, ambiguity or lack of understanding.

Create a level playing field. Drive a one-team, one-dream mindset. Redirect the energy of the overly aggressive or insecure to expend their energy on more positive pursuits.

PART V: DILIGENCE

A Plan to Make It Matter

To help you create meaning in and at work, create a personal to-do list for yourself, organized by groups of meaning-making activities. There are five buckets of activity for you to consider in this approach to structuring your action plan:

1. Overarching behaviors (to be mindful of)
2. Skill sharpening (to undertake)
3. Deep one-on-one connections (to facilitate)
4. Systems (to put in place)
5. Group/team connections (to enable)

Choose the activities from each of the five buckets that you find most inspiring, weave them into a tailored plan and proceed accordingly. Work can be so much more for us. All the knowledge and tools are now at your disposal.

RECOMMENDED READING LIST

If you liked *Make It Matter*, you'll also like:

1. ***Why Motivating People Doesn't Work ... and What Does*** **by Susan Fowler.** Fowler's Optimal Motivation process shows leaders how to help people meet their needs for autonomy, connection and competence for long-lasting motivation.

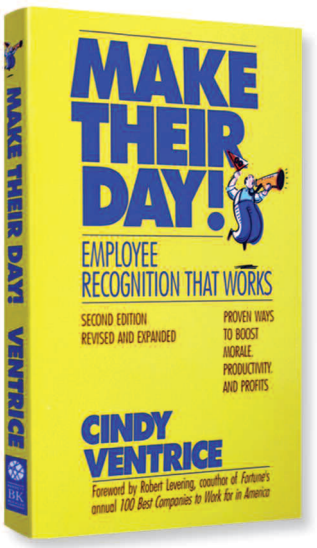
2. ***A Team of Leaders*** **by Paul Gustavson, Stewart Liff.** The authors offer a new way to energize groups of employees and improve performance.

3. ***Full Engagement*** **by Brian Tracy.** Business success expert Brian Tracy shows managers how they can supercharge their employees' efforts with powerful, practical ideas and strategies.

· Book 146 of 304 ·

Make Their Day

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Make Their Day!

Employee Recognition That Works (Second Edition)

by Cindy Ventrice

THE SUMMARY IN BRIEF

How is it that companies spend billions of dollars on employee recognition programs, yet most employees feel unrecognized?

Make Their Day zeroes in on what you — the manager, supervisor or team leader — can do to truly make your employees feel valued. It lays out proven recognition tactics that will provide a genuine, lasting boost for your business. Author Cindy Ventrice also demonstrates that integrating the intangible rewards people crave — praise, thanks, opportunity and respect — into the daily routine is far more effective than typical recognition awards, events, perks and privileges.

While focused on the manager, *Make Their Day* is loaded with information that anyone can use. Human resources groups will get ideas on how they can administer more effective recognition programs. Individuals in any role will learn how to give recognition to their co-workers, their managers and supervisors, and even themselves.

Ventrice describes how to provide recognition in increasingly virtual workplaces, account for cultural differences in reward preferences and ensure that rewards are perceived as fair and equitable.

Each real-world example that is highlighted will help you understand what it takes to create meaningful recognition in your organization.

IN THIS SUMMARY, YOU WILL LEARN:

- How to offer recognition that works.
- How to create an environment where people feel valued.
- How to build the cornerstone of recognition: relationships.
- How to look past superficial symbols and focus on what really matters.
- How to create memorable recognition that improves employee commitment.

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THE COMPLETE SUMMARY: **MAKE THEIR DAY!**

by Cindy Ventrice

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Introduction: Real Results

The firms that make *Fortune* magazine's annual list of the "100 Best Companies to Work For" provide great examples of organizations that offer many forms of effective recognition. According to Robert Levering, who along with Milton Moskowitz oversees *Fortune*'s Best Companies project, "No company can have a great place to work without having good ways to show appreciation to employees." Not only do the companies on the list do a good job of offering the kind of recognition employees value, but these companies also receive tremendous payback for their efforts. Levering and Moskowitz's research reveals the following:

- Industry by industry, the companies on the list have 50 percent less turnover than their counterparts.
- Publicly traded companies on the list average a 15 percent to 25 percent greater return for investors than the S&P 500 over three-, five- and 10-year periods.

By creating meaningful recognition, you will reduce your workload, improve your productivity and create a workplace where people love to work.

PART ONE: EMPLOYEES WANT TO LOVE THEIR WORK

Recognition That Works

An international survey in 2007 found that 57 percent of the most meaningful recognition doesn't even cost a dollar.

Employees are looking for meaning, not things. They see tangible awards as a vehicle for delivering recognition, but they don't regard the awards themselves as recognition. They're much more interested in the underlying message behind the reward.

Your employees are strong believers in the old saying "It's the thought that counts." For awards to count as recognition, your employees need to see acknowledgment of their specific accomplishments and sincere appreciation of their personal value to the organization.

Missing the Mark

There's a lot you can do that will make people feel recognized, but first you have to be clear about what recognition *isn't*. It isn't perks, bonuses, plaques and awards, or incentives. While these things aren't recognition, they can be a highly valued part of the recognition experience. They can serve as excellent concrete reminders of the recognition you offer.

Focus only on the tangible award, and recognition will most likely fail. Focus on the *meaning* behind the award, and employees will receive recognition that works.

What Makes Recognition Work

Employees want to be seen — sometimes literally. When anyone higher up the organizational ladder greets an employee by name in the hallway, typically that employee will view the greeting as a form of recognition. Why? Because these are the people employees most want to be seen by because they have the most influence over their careers.

Employees also want their accomplishments identified and acknowledged. When co-workers, internal customers, managers and supervisors provide specific details about the value of an employee's contribution, they provide recognition that works at its most fundamental level.

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The Elements of Recognition

Recognition that works has four basic elements: praise, thanks, opportunity and respect.

Every successful gesture of recognition includes at least one of these four basic elements and is typically a combination of more than one. If you don't include at least one of the elements, you aren't giving recognition. You're giving an incentive, prize, gift or plaque, but not recognition that works. ●

Finding Recognition Everywhere

Every day, employees everywhere look for proof they are valued. Not only do they want their managers to tell them they are important, but they also want them to show it. They want to work for a manager who builds recognition into everyday occurrences. They want to work where recognition is inherent in the way they are treated and in the work they do.

At Plante & Moran, a Midwest-based midsize accounting firm, new hires know from the moment they arrive that they're valued. On their first day of work, new recruits receive business cards, manuals that will help them do their jobs well and their own office with their name outside the door. They're assigned two people: one a supervising partner and the other an experienced co-worker called a "buddy." These two people help them adapt to work life and excel in their new careers. Plante & Moran provides concrete recognition of the value of new employees from the moment they are hired.

The Plante & Moran new-hire process addresses the need for both respect and opportunity, two of the four elements of recognition. Employees there know they are valued. They know they are part of an organization where management wants to help them succeed.

It takes planning, preparation and follow-through to make recognition part of the environment itself.

Understanding the Motivation Connection

Motivation can be intrinsic, extrinsic or some combination of the two. Extrinsic motivation comes from outside the individual. Extrinsic motivators are the incentives that you can offer: the promise of a bonus if certain criteria are met, the prize in a contest or the lure of a raise if a project is completed on time. Used properly, these types of incentives can work well, but there isn't much recognition built into them.

In contrast to extrinsic motivation, intrinsic motivation comes from within. Individuals motivate themselves based on their own personal needs and expectations. Intrinsic motivation varies from person to person, with each individual being motivated by something slightly different from anyone else.

Anything that tells people they are valued and important has inherent recognition. It isn't all about perks and social benefits. It's about basic respect.

Recognition, or lack of it, really is inherent in everything we do. Keeping employees informed and updated recognizes their value. Providing the best possible work environment does the same thing. ●

Recognition Starts With Your Relationships

With recognition, nothing is more important than the relationship between the giver and the receiver. You can structure an innovative and generous program. You can offer frequent, timely and proportional recognition. You can plan a program that is technically flawless, but none of that matters if the people you are recognizing don't value your feedback. Next to relationships, everything else is secondary.

The managers who are most successful spend less time thinking about recognition itself and more time thinking about how they can help the people they work with.

Here are some of the thoughts and actions that will make you successful:

- Get to know your people.
- Help others learn and grow.
- Share information and trust people to use it appropriately.
- Value both the individual and his or her contributions.

Relationships are the cornerstone of recognition. Without trust, respect and communication, recognition doesn't matter. With these things, nearly anything can become valued recognition.

Creating Loyalty

Strong bonds between employees at all levels create powerful company loyalty. Building strong bonds means building trust. Building trust means developing respect and cooperation. In organizations where strong relationships are valued, everyone works hard to maintain these things and is careful not to do anything to damage those relationships.

So, what do you do, as a manager? You don't have control over how your organization behaves, but you

can create respectful relationships. Here are three tips:

1. Be on the lookout for anything in your organization that seems disrespectful of employees. Do what you can to encourage change or, at the least, lessen the impact on your employees.
2. Ask employees what they want and need that will make them the most effective.
3. Listen and respond to the best of your ability. ●

PART TWO: WHOSE JOB IS RECOGNITION, ANYWAY?

Managing for the Greatest Impact

Recognition from all sources is important, but it doesn't carry the same weight as recognition that comes from the manager. In fact, research shows that 70 percent of the most meaningful recognition comes from a manager. Seems unlikely that you can achieve high satisfaction without manager involvement, doesn't it?

The 50/30/20 Rule

Employees want recognition from a number of sources. They need it to come from their manager. They also want it to come from the organization in the form of inherent recognition and big awards. And, finally, they expect it to come from their peers both formally and informally.

There seems to be a preferred mix for these three sources. Overall, employees want about 20 percent of recognition to come from the organization, 30 percent from their peers and a full 50 percent from their managers. This is the 50/30/20 Rule.

Managers often want to address employees' need for recognition through peer programs. Peer programs are important, but if managers successfully distance themselves from the recognition process and ignore the 50/30/20 Rule, employees will be frustrated by the lack of manager recognition.

What Exceptional Managers Do

Here are five tips to help you offer recognition that works:

Tip 1: Provide clear expectations, validation, respect, loyalty and trust. Build strong working relationships with each person.

Tip 2: Figure out what people have to offer and leverage those strengths. Select challenges and opportunities that are appropriate.

Tip 3: Individualize recognition. Make sure you know enough about employees to select recognition they will value.

Tip 4: Encourage employees to recognize each other. Model good behaviors and coach employees to be alert for opportunities to recognize each other.

Tip 5: Celebrate as a team. Create some form of fun recognition activity for the group. ●

Leading With Vision, Visibility and Momentum

Leaders play a unique role in the recognition process. Just as they determine the direction of an organization, department or project, they can influence the direction of recognition.

The visibility and influence of the people on your executive team make them some of the most potentially effective proponents of recognition within your organization. From their small, personal gestures to the recognition programs that they personally champion, these executives can set the tone for recognition. If they value recognition, then it's much more likely that everyone within your organization will value it as well. This is because the members of your executive team are in the best position to weave recognition into the fiber of the organization. At the same time, regardless of your role, you can offer recognition leadership.

Showing Value Through Action

How do you demonstrate that people are valued? What you believe comes through, first and foremost, in your actions.

As a leader, the more willing you are to offer recognition, the more likely that others will follow your example. Because of your visibility, you are in an excellent position to model how important recognition is. When managers and employees see their leaders recognizing people, they're more inclined to see the value in offering recognition and are more likely to offer it themselves.

Part of leadership is defining and reinforcing mission, values and strategic plans. But leaders can't just tell people what is important and expect it to stick. They need to find ways to reinforce what is valued. Recognition can do that. Think about what you would like to emphasize: customer service, teamwork or innovation. Develop a simple program and take leadership. You will get results.

You are the leader of all recognition efforts. You need to champion programs, giving them credibility and visibility. You need to personally offer effective recognition,

modeling it for everyone within your organization. By your words and actions, you will have a profound impact on recognition and, in turn, on the success of your organization.

Partnering With Program Administrators

Because the relationships people have with each other determine whether recognition works, the stars of employee recognition are the people being recognized and the people whose businesses, lives and jobs they affect.

A manager recognizes a team that has accomplished its objective. An employee recognizes his or her supervisor for providing needed support. A vice president recognizes a division for meeting a goal. Managers, supervisors, teams and individual employees — these people are the stars of recognition that works.

The Administrator's Supporting Role

In the best organizations, you, as a manager or supervisor, are responsible for recognition while your recognition administrator guides and supports you, remaining behind the scenes, influencing and coaching rather than trying to lead.

Wells Fargo has an equally effective approach. According to Cheryl Miller, recognition manager for Wells Fargo Technology Group, recognition coordinators (RCs) in her group work with managers to keep recognition efforts front and center. These RCs offer many services: They coordinate events, administer nominations, offer training and coaching and much more.

Managers and supervisors at Wells Fargo can best leverage their RCs' support by:

- Including them in staff meetings to offer updates on recognition.
- Asking them to volunteer to lead a "fun committee."
- Having them compile nomination information from business partners and customers.

You may not have a RC in your organization, but your human resources and communications teams can probably provide you with some of these types of services.

Wells Fargo's RCs also provide managers and supervisors with questionnaires to help them learn more about what their team members want.

How to Create a Simple Development Plan

Even without a formal structure, you can help employees plan their development. Take these three steps:

1. List the major responsibilities that are essential to your job, and put a star by those made possible by last year's development. You can use this section to coach employees on those responsibilities that are most valuable to the company.
2. Describe what you want to learn in the next 12 months. Work to develop a list that seems beneficial to both the company and the employee.
3. List the corresponding experiences/activities and observable measures that will meet these development objectives. List observable measures for new skills learned.

Making Recognition the Responsibility of Every Employee

If you are part of an indifferent, recognition-free environment, you might feel reluctant to be the first person to offer recognition. This is understandable. When you offer recognition, you acknowledge that other people contribute to your success. You have to be willing to share the credit for your accomplishments; and when you're barely receiving any recognition, it is difficult to share. Do it anyway. Ultimately, the recognition you offer others will improve your work environment and increase the quantity and quality of recognition you receive in return.

Simple things make a difference, like writing a thank-you note to a co-worker who covered for you when you had to leave early, or sending an e-mail to your boss telling him how much you appreciated the way he handled a problem you brought to his attention. If you want a more motivating work environment with greater levels of appreciation, take the initiative. Offer recognition to your boss, co-workers and the people you lead. You will see an increase in the amount of appreciation everyone receives. You will improve your own job satisfaction and the satisfaction of everyone around you.

Understanding Peer Recognition

Peer recognition can be very powerful. It's easy to see how a workplace where employees show each other appreciation would be a more pleasant place to work.

Employees who recognize each other show greater respect and tend to act more cooperatively. Respect and cooperation create a happier, more productive workplace — an obvious benefit for individuals and their managers.

Peer recognition can take three basic forms. It can be very unstructured and spontaneous, with employees simply acknowledging each other as they choose. It can be loosely structured, with the organization providing the awards and some criteria but letting employees decide when and how to give them. It can also be more formally structured, with systems in place for selecting recipients and managing the entire process.

While you're at it, don't forget to recognize your own manager or supervisor. Recognize everyone, regardless of his or her ability to influence the direction of your career. ●

Using Self-Recognition to Improve Quality

Many organizations have individual development plans (IDPs). When creating a development plan, individuals work with their managers to set goals for growth and improvement for the coming year. Finally, they select activities and learning opportunities that will help them achieve those goals.

On the surface, an IDP may not appear to be recognition at all, but when you remember that opportunity is one of the four elements of recognition, you will see the role an IDP can play.

Graniterock is a privately held, 100-year-old company of about 800 employees. Graniterock's IDPs use self-study, coaching and cross-training for many learning opportunities. Management has found that these methods are inexpensive and very effective. They favor cross-training, in particular, because of its ability to improve organizational focus, teamwork, knowledge and skill. These learning opportunities will work for you as well.

Adding Self-Recognition to the Mix

Self-recognition is a powerful and underutilized form of recognition. By adding self-recognition to your existing recognition mix, you can encourage employees to showcase their most important accomplishments. When employees control their own recognition, they receive validation for what is most meaningful to them. After all, who knows what an individual wants more than that individual? Self-recognition allows you a glimpse into what employees value so you can use that information to create forms of recognition that will be meaningful. Finally, self-recognition adds to the frequency of recognition. It increases the possibility that every employee will feel sufficiently recognized. ●

PART THREE: MAKING RECOGNITION WORK

Getting Specific and Relevant

Playing by the rules means you judge and recognize performance based on pre-established criteria. This increases the likelihood that your recognition will be perceived as fair. It builds trust when you play by the rules, and employees who work in an atmosphere of trust are happier and more willing to work cooperatively.

So, how do you establish the rules of recognition? You begin by identifying the values, goals and behaviors that lead to success.

What Do Values Have to Do With Recognition?

The Microsoft Business Solutions peer recognition program is based on the group's mission and shared values that are integral to their culture. The program reinforces their organizational culture because it allows employees the opportunity to see examples of what is outstanding.

Ask a Microsoft Business Solutions employee why a co-worker won the Heritage Award, and that person would know. When the award was presented and the nomination read, everyone learned why the nominee was chosen to receive the award. They know the nominee's actions embodied the values that they all shared. Ask a recipient if the award had meaning, and you would get a resounding yes.

Specific Recognition Makes Their Day

Recognized behaviors, like goals, need to be specific. When people tell you they appreciate that you offer several possible solutions when you present a problem, you know exactly what they value. You can't say the same thing when they compliment you on your positive attitude. Do they mean they like that you don't mention potential problems? Do they like that you tell jokes in the break room every morning? Or do they mean that it's great that you let them push you around without complaint? With vague recognition, their meaning is left up to the imagination.

Specific, detailed recognition, based on your organizational goals and values, is most meaningful. Communicate the specific goals, desired behaviors and intended purpose of recognition. Use recognition to emphasize the group and individual efforts and results.

Work to provide fair, specific and frequent recognition, and you'll provide recognition with meaning.

Measuring for Results

In your organization, you measure to track performance. When you then use that information in your recognition, you provide objective feedback and make the award relevant to recipients and observers alike.

What to Measure?

Last year, Suzanne Danis-Harkness, manager of application maintenance and support at Home Hardware, began documenting her measurable results. She updates this report monthly and says, "It feels good to see what I have accomplished and to meet with my manager on a monthly basis and review the results." Her manager was pleased with the process, so together they decided to expand its use within the department. Danis-Harkness is now using it with her direct reports to measure accuracy, spot a need to rework code, and determine whether they are up-to-date and meeting estimates.

To decide what to measure for your direct reports, start, as Danis-Harkness did, by finding appropriate measures for yourself. Once you are proficient in this area, you can develop measures for your direct reports.

Look at your values, business strategies and goals before you decide what to measure. They can provide focus. Measures should provide tangible proof that you are achieving your goals within the boundaries of your values.

You can usually achieve your goals by more than one method. With a strong incentive, people will achieve success in ways you never considered. Look for relationships among your values, goals and measures.

Collecting Data

When considering the validity of any information you use, hold it up to the following criteria:

- **Measurements should provide quantifiable data.** Measuring takes a vague concept and makes it tangible.
- **Measurements should be consistent over time.** Use the same measurement for an extended period. This approach will help you identify trends in your data.
- **Measurements should create an accurate picture of current conditions.** To avoid misinterpreting data and making erroneous assumptions, use multiple measures from a variety of sources.

Just as sports fans appreciate statistics on their favorite teams and players, employees like "knowing the score." Measure workplace performance, and you provide an objective yardstick that will help you create meaningful and memorable recognition.

How to Individualize Recognition

To better focus your attention and increase the positive impact, consider using this three-step process for individualizing recognition:

1. Identify how each individual contributes.
2. Determine personal recognition preferences.
3. Recognize unique contributions with personalized recognition.

Aligning Recognition With Culture

Your team has a culture. That culture is formed by the team's personalities, generations, nationalities and work styles, as well as by your industry. It is even affected by whether everyone works in the same location.

It is important that you recognize the culture of your team and take it into consideration as you plan your recognition activities.

Dealing With a Dispersed Work Force

How do you provide an environment where people feel valued when they are physically located in more than one place? Keep the following in mind:

- **The need for clear expectations and goals is as strong as and even stronger than when you are in the same location as employees.** Use a results-based work model.
- **Good communication processes are even more critical.** When someone falls out of the loop, he or she feels invisible.
- **Respect is still the key.** Take time zones into consideration when planning meetings and checking in.

One final thought on working virtually: Don't let technology become a crutch. Although technology is a terrific help in maintaining contact and visibility, it can also be a barrier. Make time for meeting in person whenever possible.

The Process of Individualization

When you take time to listen and get to know an individual, what he or she values, and the quality of that

person's work, you are offering a powerful form of recognition. Regardless if you are the employee's supervisor, someone from another department, the CEO or a person he or she works with every day, personal attention gives recognition greater impact. ●

Dealing With the Fairness Paradox

To be fair, you need to ensure that everyone has equal opportunity for recognition.

When he was a director at Cisco Systems, Doug Purcell, now VP of public sector service sales, realized that his salespeople had more chances to receive recognition than did the support members of the team. He knew that sales support provided a critical role, without which salespeople would have difficulty succeeding. As part of his efforts to provide more balance, he implemented a quarterly award to be given to an outstanding individual whose work supports the efforts of the sales team. The award, a director's chair imprinted with the name of the award and the Cisco logo, was originally called the Director's Award and now is known as the Impact Award.

Four Rules of Fairness

To be fair, we need to think in terms of equivalent recognition for equivalent performance.

1. Know individual preferences. If you've done your homework, you know what the individuals on your team value.

2. Clarify the perceived value of recognition options. Whether your "organization" is an entire company or a project team, it is your job to understand what is most and least valued. Get the help of your team to identify their recognition hierarchy.

3. Align performance with the perceived value of the recognition. The greater the value and visibility, the greater the need for solid criteria. If you make your criteria measurable, you increase the likelihood that your recognition will be perceived as fair.

4. Present your recognition message effectively. Remember to keep your message accurate and specific. Start with verbal praise and appreciation. ●

Recognition Is a Work in Progress

Recognition is never a quick fix. It requires time to create the kind of work environment where recognition is inherent and to build the kinds of relationships necessary to make recognition meaningful. Trust is established, relationships are built and habits are solidified over the long term.

The basic steps to developing consistent, meaningful recognition are: Start small, evaluate and adjust.

Make a Plan

Making a recognition plan follows this three-step process:

Step 1: Determine the current state of recognition. Read the responses from surveys, ask HR to administer a full assessment of your recognition proficiency or talk with employees. Start with an employee survey and follow it up with focus groups or one-on-one interviews to really understand what is needed.

Step 2: Plan your recognition strategy. Lay out a complete plan to ensure that you can follow through and not disappoint your people.

Step 3: Commit to a long-term, graduated implementation. Implementation recognition needs to be an ongoing cycle: implement, observe, evaluate the results, and then adapt and improve as you start the whole process again.

Where Do You Go From Here?

Employees crave meaningful recognition. When they talk about the recognition they receive, they're talking about how valued they feel. To help the people you work with feel valued, you need to focus on the essence of what recognition is. Instead of offering recognition at a superficial level, remember to look at recognition in the bigger context and over the long term.

Recognition isn't a plaque; it's the meaning behind the plaque. It's about building relationships and taking a personal, genuine interest in people and their preferences. So long as you do that and continue to look for ways to refine the recognition that you offer, employees will feel recognized. That collective feeling, in turn, will boost morale, productivity and profitability — and everybody wins. ●

RECOMMENDED READING LIST

If you liked *Make Their Day*, you'll also like:

1. ***The Talent Powered Organization*** **by Peter Cheese, Robert J. Thomas and Elizabeth Craig.** The key to strategic success is talent. This book combines strategic insight with practical methods to help you win big.
2. ***The Seven Hidden Reasons Employees Leave*** **by Leigh Branham.** Branham knocks down the wall between employer and employee and helps reduce costly turnover for companies of all sizes.
3. ***Winning With People*** **by John C. Maxwell.** Good relationships provide the substance we need to live successful lives. Maxwell offers you the tools that can help you cultivate strong bonds with new and old associates.

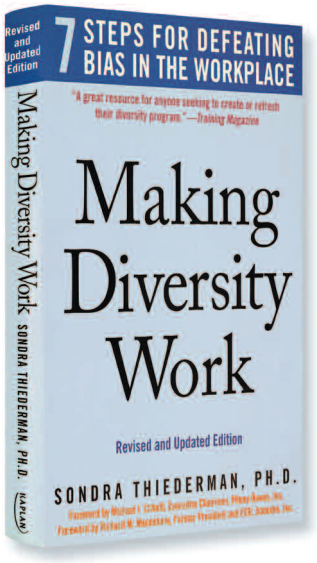
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Making Diversity Work

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Making Diversity Work

7 Steps for Defeating Bias in the Workplace



by Sondra Thiederman, Ph.D.

THE SUMMARY IN BRIEF

Workplaces are more diverse than ever, and studies show that this diversity contributes to innovative ideas and novel approaches to decision-making. A diverse workplace also makes for stronger business relationships with customers and vendors and offers opportunities for lucrative interactions with businesses around the globe.

However, when bias exists, the benefits of a diverse workforce lie dormant.

Drawing from research and nearly 30 years of experience in the field, diversity expert Sondra Thiederman, Ph.D., provides executives and managers with step-by-step strategies for minimizing conscious and unconscious bias and maximizing the ability to manage diversity effectively.

Although some individuals may find the subject matter a source of discomfort, recognizing and addressing bias are the first steps to a more transparent, productive workplace. *Making Diversity Work* includes real workplace examples, practical applications and exercises designed to guide you and your team on a journey of self-discovery, behavior change and, ultimately, healing.

IN THIS SUMMARY, YOU WILL LEARN:

- How the seven-step Vision Renewal Process can help you identify and defeat conscious and unconscious bias.
- Four strategies to help you become mindful of your biases.
- Three questions to ask to dissect your biases.
- Five strategies to identify common kinship groups.
- What are Gateway Events™ and how they can bring about productive dialogue.
- Cognitive and verbal skills to encourage better diversity dialogue.

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THE COMPLETE SUMMARY: **MAKING DIVERSITY WORK**

by Sondra Thiederman, Ph.D.

The author: Sondra Thiederman, Ph.D., is one of the nation's leading experts on workplace diversity, cross-cultural business and bias reduction.

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PART ONE: THE BASICS OF BIAS

William Cunningham is a psychologist at Ohio State University. Cunningham's work, and the solutions it inspires, is rooted in previous research on how the brain generates biased responses to different groups. Addressing primarily race bias, but later broadened to other types of difference, these earlier studies found that when white people view pictures of black faces, the region of the brain that is responsible for wariness (the amygdala) responds with a sharp spike in activity. This spike amounts to a primitive "jumping to conclusions" about the nature of people different from ourselves. It is what has been termed an "instinctive bias." It is this physical reaction — the spike in response to groups different from ourselves — that gave rise to the belief that biases are part of our hardwiring and, in turn, the erroneous conclusion that they are unchangeable.

Cunningham's "tiny change" had to do with time. In the earlier studies, the faces were shown for only 30 milliseconds — removed so quickly that they could only be "seen" subconsciously. Cunningham decided to find out what would happen if the pictures were viewed for a longer period of time — 525 milliseconds, still too brief for the conscious mind to grasp. And yet, the extended time was long enough to change the brain's response. Although there was still a spike when the different faces appeared, the spike was not in the alarm center, but in the part of the brain that controls rational thought.

The upshot of this — and the very good news — is that, if given long enough, the conscious and rational brain does have the power to override even our most primitive biased instincts. ●

Bias Defined and Misdefined

A bias is an inflexible positive or negative belief about a particular category of people.

Based on this definition and going solely by the information provided below, is the following person absolutely, positively guilty?

Juan, a 50-year-old manager, had occasion to interview a woman named Nancy, who, at the time of their meeting, was in her mid-20s. After the interview, Juan said to his boss, "I'd like to hire her, but Nancy has quit four career-track jobs since college. We need someone willing to commit for the long run. It looks like some Generation Xers really do move around a lot."

Flexible Versus Inflexible

There are a couple elements in this scenario that might have misled you into believing Juan was guilty of bias, including his statement, "It looks like some Generation Xers really do move around a lot." If you look at this sentence closely, you can see that it is not a bias but, instead, a "working generality."

Another reason you might have thought Juan was guilty is that the characteristic he ascribed to Nancy (changing jobs often) could, if applied inflexibly to all Generation Xers, indeed be a reflection of a bias. This confusion highlights a key point that will help you in your efforts to accurately diagnose bias in others and yourself.

Bias is an attitude, not a behavior, and just because a word or action is consistent with a biased attitude does not automatically mean it actually reflects a biased attitude.

Guerilla Bias™

Consider this case study:

Gerry was the manager at a business journal based in New

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Jeannette Scott**, Contributing Editor

York City. One of his writers was a young woman named Liz. Liz was a satisfactory journalist but not quite up to the standards of the organization. Because of this, Gerry had gotten into the habit of editing pieces, rather than doing what he did with the men on his staff: sending their pieces back for rewrites. When one of those men asked Gerry why he hadn't edited their writing too, Gerry said, "Your situation is different. After all, Liz is a single mother, and you know they all have a rough time and deserve an extra break."

The bad news for Gerry, and for those around him, is that he is a carrier of a particularly dangerous species of bias: Guerilla Bias.

One reason that Guerilla Bias is so dangerous is that it is difficult to spot and, therefore, very tough to diagnose. Guerilla Bias lies concealed behind good intentions, kind words, and even thoughtful acts. In Gerry's case, his so-called thoughtful act was to edit Liz's manuscripts for her rather than give her the opportunity to learn from her mistakes.

Defining bias is difficult; it involves a demoralizing glut of yeses and noes, ifs, buts, and maybes, each of which seems designed to drive us mad. Yes, being drawn to someone like you is normal; no, this impulse should not be completely indulged. Yes, it is OK to make a reasonable assumption about a person, but you are biased if you don't change your mind in the face of conflicting evidence. Yes, it is all right to be kind to an individual, but it is bias if you do it solely because of the group to which he belongs. Yes, some behaviors do not reflect a biased attitude, but, maybe, those behaviors should be changed anyway.

PART TWO: THE VISION RENEWAL PROCESS

Step One: Become Mindful of Your Biases

The fear that prevents us from admitting bias is that of having to acknowledge, even to ourselves, that we may not be quite as nice as we, and others, like to think we are. Until we overcome our dread of looking like bad people, or at least like less-good people, we will be unable and unwilling to acknowledge our biases, admit them and target them for extinction.

Strategy I: Observe Your Thoughts. Biases, as we know, are attitudes. As such they live inside our brains waiting to be noticed, first as thoughts and then as actions. Some, the most subconscious ones, are so rude that they whiz from attitude straight to action so fast that we barely feel the breeze, much less notice what is going on. Lucky for us, most biases are more courteous and make the journey to thought and then to action at a civilized pace — a pace that allows us to be aware of their presence.

We've all watched our thoughts before. Have you ever, for example, been asked to say the first thing that comes to mind when you hear the word cat, house or airplane? When you notice, and then say, the word that pops up, you are watching your thoughts. That's all there is to it. We do it all the time. It's just that when it comes to something more substantial, we lose sight of how simple and familiar the process is.

Strategy II: Examine Your Thoughts. Watching our thoughts is important, but it is merely the evidence-gathering stage of our investigation. The next step is to examine that evidence, to determine if each thought is indeed a whiff of smoke floating up from a buried bias or, instead, an innocent recollection of what our culture at large says about the group.

One way to do this is for you to look at each initial reaction and ask yourself this question: "Would I feel the same way about the meaning of this incident if the actor were of a different kinship group?"

The next step in determining if your first thought is evidence of a bias is to see how much emotion is attached to it. The less emotion, the less likely the thought is to be biased.

Strategy III: Explore Your Attitudes Toward Human Difference. Observing and analyzing your thoughts as you think of and encounter other kinship groups is a good start toward bias identification. There is still, however, one more piece of evidence that needs to be collected. Before we bring charges of bias against ourselves, we need to shore up our case by examining how we feel about the notion of difference itself. Generally, those who have few biases tend to be fairly indifferent to whether or not a person is different from themselves. People who possess the virtue of seeing others clearly neither ignore the difference when it is pertinent to the situation nor put excessive emphasis on it.

Strategy IV: Observe Your Behavior. I have gone to great lengths to emphasize that a bias is an attitude not a behavior and that not every inappropriate action reflects a bias. Having said that, there are some actions that, if observed, alert us to the possibility that a bias just might be lurking beneath the surface.

• When deciding whom to send to training, do you find yourself sending people from some kinship groups but not others?

• When picking plum assignments, is there any group you favor?

• Do you catch yourself being "nicer" to members of any one group than to members of another?

Evidence produced by observing behaviors such as these is not unto itself conclusive. If paired, however, with other pieces of evidence, it might close the case.

Step Two: Put Your Biases Through Triage

Just as injured soldiers on the battlefield are put through a triage process to discover who requires treatment first, your biases need to be triaged to identify which ones most urgently need your attention. This is accomplished by examining the damage and pain each one is apt to cause.

Does Your Bias Compromise Your Ability to Hire the Best People?

Linda would have had to answer this question with a regretful yes. The human resource director at a prestigious hotel in Beverly Hills, Linda allowed her bias to interfere with a key hiring decision.

Sitting across the desk from Linda was an applicant who, by anyone's standards, was perfect for the job: outgoing, articulate and very knowledgeable of the hospitality industry. She was also born and raised in Japan. Therein lay Linda's problem. Because of Mariko's heritage, Linda's evaluation of her was grossly distorted by another set of qualifications, or I should say misqualifications, that popped into her head and blocked her view of what Mariko had to offer. All Linda could see as she looked at Mariko was a hodgepodge of stereotypes right out of a Hollywood movie: shy, retiring and soft-spoken. Certainly, to Linda's biased eye, Mariko was not a good candidate for a high-stakes sales position.

Linda had a choice to make. The best option would have been for her to shove her bias, and these fictional characteristics, aside long enough to see Mariko for who she was and hire her. Instead, she rationalized away Mariko's assertiveness in an effort to prove her bias correct. Mariko did not get the job.

Linda paid an expensive price for this exercise in stubbornness. Shortly after the ill-fated interview, Mariko was snapped up by a neighboring hotel that then proceeded, with Mariko's help, to abscond with much of Linda's lucrative convention business.

Does Your Bias Interfere With Your Ability to Retain Quality Employees?

When a person does not conform to the positive qualities that we anticipate, there is a tendency for us to dislike him for not measuring up to our expectations.

Are you ever the target of this kind of bias? Perhaps as a woman you are expected to love children; as a straight man, to like sports; or as a gay man, to be artistic. A common positive bias toward women, for example, reads, "All women value relationships and have, therefore, a nurturing leadership style." Because of this bias, women whose leadership style is authoritarian tend, as reflected in a 2007 gender-bias study conducted by Catalyst, to be disliked and "their behavior frowned upon."

Does Your Bias Put Your Organization at Risk for Litigation?

Litigation is the worst nightmare of every organization, every manager and every CEO. Sometimes the waking dream is filled with contemptible characters who tell racist jokes, denigrate gay people or make sleazy comments to female subordinates. Other times, and this is the real worry, the act that results in litigation is of the Guerilla Bias variety; no sleazy and easily identifiable characters are in sight.

I doubt, for example, that the manager who inspired Meg's race discrimination suit was particularly sleazy; he was probably even "nice." Because he was so nice, he couldn't bring himself to tell her that she was doing a bad job. He was, you see, afraid that Meg would be offended by his comments. Eventually, Meg's performance became so bad that, despite his fear of her reaction, he fired her. This wouldn't, of course, have been a problem had he given Meg some warning — along with the information she needed in order to improve. Unfortunately, he didn't give her these things. What he did give her was clear grounds for a discrimination suit, which, by the way, Meg ultimately won.

Step Three: Identify the Secondary Gains of Your Biases

What am I gaining by holding on to my biases?

The answer lies in the truism of the human mind that most otherwise unproductive attitudes and behaviors carry within them what is called a "secondary gain." Sometimes that gain feels, at least temporarily, good.

Every bias has a secondary gain attached to it. Some of those gains are real; others are merely illusions. In every case, however, the gain is not worth all the trouble the

bias causes. Once we realize that, we move one step closer to being willing to let the bias go.

Secondary Gain: Protection From Diminished Status. Marie, a Mexican-born nurse practitioner, had a similar concern. She complained of constantly being assigned to care for, as she put it, "those dirty, uneducated Mexican immigrants." As it turns out, her bias came directly from the fear that her contact with these patients would somehow pull her back down into a status and lifestyle she had come to find repulsive. To relieve this fear, Marie manufactured the bias that these patients were in possession of remarkably few redeeming virtues and were irrevocably beneath her in terms of their position in the social stratum.

Secondary Gain: Protection From Loss. Fear of losing something we believe to be rightfully ours is one of the most common reasons for the development of bias. This explains why biases increase in times of economic slowdown and why it is then that we begin to hear a medley of mantras about how "those people" are "taking all the jobs," "getting preferential treatment" and "taking advantage of the situation."

Secondary Gain: An Excuse to Avoid Discomfort. This bias is frequently disguised behind kind thoughts such as "I don't want to hurt his feelings," "I don't want to make anyone upset" or, my personal favorite, "I wouldn't want to risk offending anybody." ●

Step Four: Dissect Your Biases

Step Four uses inquiry, as anthropologist Jennifer James puts it, to "move our responses to others out of our guts and into our minds." This inquiry will take the form of three questions, each of which, if answered honestly, will reveal the faulty logic behind your biases:

Question 1: Where did you learn your bias and under what circumstances? Many of us grew up in homes that were veritable petri dishes of the bias virus. Television, radio, the Web and newspapers are, of course, abundant sources of bias.

Of all the ways we learn bias, you would think that experience would be the most reliable. Well, maybe and maybe not. For one thing, any experience with one individual, or even 10 individuals, says nothing about other members of that kinship group. In addition, unless an experience is well-rounded and repeated, it tells us little even about the person actually encountered.

Question 2: How many people have you actually met who conform to your bias? Caution! The phrase "actually met" does not include media images, rumor, what other people say they know; all that counts here are personal encounters between members of the group in question and you.

Question 3: Have you ever met a member of your target group who does not conform to your bias? I am reminded of a young woman named Rose, who told me with complete confidence that "all Mexicans are destructive." That misguided belief grew out of one horrifying night when two Mexican immigrant teenagers tried to break into her house. When the boys found they couldn't get in, they became furious and destroyed her front fence. Rose was alone, her phone was disconnected and she was, understandably, terrified.

After she told me this story, I asked if she knew any Mexicans who weren't destructive. She looked at me as if that were the stupidest question she had ever heard and said, "Oh, yes, I live in a mostly Mexican community and all my neighbors are wonderful people." Under the bright light of logic, you could almost see her bias melt away. ●

Step Five: Identify Common Kinship Groups

A kinship group is "any population that shares a self- or externally ascribed characteristic that sets it apart from others." This characteristic might be a disability, race, a hobby, gender, age or any other of dozens of human dimensions. The virtue in the concept of a kinship group is that it allows each of us to belong to many groups at once, depending on the characteristic on which we focus. It also — and this is the best part — enables us to broaden our group to include many populations that we previously thought of as different from ourselves.

Here is one of the many advantages of sharing a kinship group: Once you identify yourself with a particular population, members of that group are transformed in your mind from "them" to "us."

Strategy I: Keep What We Share Top of Mind. We notice what we care about. Keeping what we share top of mind is a matter of caring. Once we recognize how important identifying commonalities is to bias reduction, we will care.

Strategy II: Practice Skills for Achieving Empathy. In connection with our current task of identifying what we share, the empathy we are seeking is summarized in this question: What emotions or experiences — positive or negative — have you had that are,

to some degree, like those experienced by someone who otherwise seems different from you? Those shared experiences and emotions, that empathy, becomes, in essence a shared kinship group.

Full understanding is not a prerequisite to empathy.

Strategy III: Seek Contact With Those Who Are Different From You. Of all the strategies for identifying shared kinship groups, this one seems to be the most straightforward: Spend time with and get to know people who are different from you.

Strategy IV: Create Workplace Opportunities for Cross-Group Contact. Organizations can play a major role in facilitating bias reduction by creating ways for people of diverse backgrounds to be together and, in turn, have the opportunity to discover and focus on what they share. This contact, in order to be most effective at reducing bias, needs to have the following characteristics:

1. Be appropriately intimate.
2. Be as varied as possible.
3. Be sanctioned by a relevant authority figure.
4. Be among people who are reasonably equal in status and resources.
5. Should be, if possible, unhurried.
6. Be goal-oriented.

Affinity/network/employee resource groups certainly conform to these requirements and have for years been the backbone of diversity efforts in many companies.

Strategy V: Create and Emphasize Shared Goals. Shared goals, you see, have the power to fill the fissure that separates us. When we are striving to achieve the same thing, it is just plain harder to hate each other. The goal creates a kinship group. ●

Step Six: Shove Your Biases Aside

As we have seen, bias is an attitude, and every attitude at some point is manifested as a thought. So far, we're OK — what we think, although not always good for us, is usually harmless. That is, unless we allow that thought to dictate a behavior. It is between the biased thought and the action that we want to throw the switch.

Because Jill was such a hard case, I'm going to use her as an example. Jill had what seemed to be an unshakeable bias against people over 50. This caused her to think, "There is no point in giving Lance that assignment, he'll never come up with the innovation we need." Jill refused to give Lance any challenging projects. As a result, Lance quit the organization because of lack of opportunity and took his 25 years of experience elsewhere.

The point where Jill needs to switch tracks is just after the thought "There is no point in giving Lance that assignment" comes into her head. The trick to doing this, for Jill and for us, is to stay in the moment so we can catch the thought as it whizzes by. This takes practice and vigilance, but it can be done.

We are not our thoughts. Our thoughts are tools that we produce to help us survive. Because we produce them, we can manipulate them. In short, we have the power to follow these instructions:

Think the thought, shove it aside; think the thought, shove it aside; think the thought, shove it aside.

Even if we only keep the biased thought out of the way for a few seconds, we can peer through that break in the fog and see the person more accurately. Perhaps the fog will close again, but it is a start and, like any mechanical act, shoving the thought aside becomes easier with practice. ●

Step Seven: Fake It Till You Make It

Ever since she can remember, Bess has had, as she put it, a "thing" about people who don't express themselves well in English.

For whatever reason, Bess just couldn't exterminate this bias. She was aware it existed and aware it distorted her view of many employees who had much to offer the organization. However, she still found herself avoiding people who did not articulate up to her standard.

Determined to change her behavior, she made a list of the things her bias was causing her to do and the consequences of those behaviors. Having made her behaviors and their consequences concrete and measurable, Bess set out to do things differently.

The ultimate consequence of these changes in behavior was that Bess' bias began to fade. First, it faded because the dissonance (the difference) between her behavior and her biased attitude subconsciously bothered Bess. The second reason her bias faded was that it just couldn't survive the onslaught of positive and varied information that Bess' new behaviors caused to come her way.

Fake Your Language

I am asking you to do something you do most of the time anyway: Use respectful language. The "faking"

comes in on those occasions when you are not feeling particularly respectful.

Speaking respectfully to and about people produces, of course, the same positive responses that Bess experienced when she changed her behaviors. Those responses will, as they did in Bess' case, provide the kind of positive feedback that can't help but erode bias. ●

PART THREE: GATEWAY EVENTS™: ENTERING INTO DIVERSITY DIALOGUE

Getting Diversity Fit

He couldn't call it anything other than an ambush or, if your taste runs to the medical, a "sudden onset" Gateway Event. It was early on a Monday morning and Wally was rushing to the weekly management meeting. Just as he rounded a corner, he practically collided with two of his supervisors, who were embroiled in a heated disagreement. As best he could figure it out, one of the combatants had offended the other with a comment about the new female sales associate. Knowing it was his job to do something, Wally stopped around the next turn, thought for a moment, and then, as if he had come to some kind of decision, moved on down the hall. After all, he couldn't be late for his meeting. "I just couldn't handle it," he told me. "I was caught off guard and decided to let the incident pass."

Most Gateway Events are like this: They swing open before us without warning. We rarely have time to prepare a response or, for that matter, to sort out how we feel about what is going on. When this happens, we are in danger of walking away, or worse, going into autoresponder mode, spouting glib denials and politically correct nonsense. To prevent this kind of meltdown, we need to do what Wally did not do, which was to prepare ahead of time for every contingency.

What amounts to that preparation? Becoming mindful of your biases, identifying their weak foundation and learning to shove them aside are all part of your diversity fitness program.

This exercise entails naming, and thus taming, the emotions that accompany Gateway Events. In this context, we are concerned with those small worries and larger fears that compromise in several ways our ability to carry on effective conversations about diversity and bias.

- Fear interferes with our willingness to enter into the conversation in the first place.
- Anxiety prevents us from being able to think on our feet.
- Agitation blocks our ability to interpret accurately what is going on.
- Fear pulls us out of the moment by tempting us to focus on painful experiences of the past or imagined disasters of the future rather than on the realities of the present.

If we are to be prepared to enter into gateway conversations and make them successful, we need to identify what we fear or, at least, what has us worried. ●

Defining Gateway Events

We rarely have to seek out opportunities to engage in conversations about bias; life has a way of presenting them to us. These opportunities come in the form of misunderstandings, accusations and any other happenings that involve discord between or about people who are different from each other. Because these incidents are capable of bringing about productive dialogue and thereby serve as gateways to greater understanding and reduced bias, I call them Gateway Events.

Cognitive Skills for Diversity Dialogue

Of course the impact of an act matters, and that impact, if negative, must be remedied. The actor's intent, however, also needs to be taken into consideration, because knowledge of intent just might influence the success of that remedy.

The problem is, as Douglas Stone, Bruce Patton and Sheila Heen say in their book, *Difficult Conversations*, it is almost impossible to guess a person's intentions accurately.

Intentions are invisible. We assume them from other people's behavior. In other words, we make them up.

We "make them up" largely according to our past experiences and the impact of the act on our welfare.

Here are some questions we can all ask ourselves the next time we feel the sense of hurt and anger that accompanies so many Gateway Events:

1. Is the offending word or action unusual for the person you are indicting?

2. Has this person done other things that support your reaction or, on the contrary, has she demonstrated that she respects and cares about people who are different from her?

3. If you have heard that she has done other things

that might reflect a bias, are they merely rumors or are they events that you have witnessed and evaluated for yourself?

When we feel offended, the benefit of asking questions like these is enormous. That benefit is the acquisition of power. If we calmly examine what has happened, we gain the power that comes with objectivity.

Set Productive Goals

Diversity consultant Roosevelt Thomas says it succinctly but powerfully: Dialogue is conversation with a purpose.

Aimless conversation, particularly if the catalyst for that conversation is emotionally charged, will lead nowhere or, worse, will lead somewhere we would rather not go. We need functional dialogue about bias, not just noise, and certainly not just conflict for conflict's sake.

Practice the Pyramid Principle

This strategy is informed by what any architect knows about building: Whether constructing the Pyramid of Cheops, Blenheim Palace, the Vatican or the Great Wall of China, the only way to proceed is one stone at a time.

When it comes to conversations about bias, this means we need to adopt a helpful motto.

"Think small."

Often, in the heat of a Gateway Event, we become overloaded by the scope of the issue and the intensity of emotion. That overload can, in turn, leave us paralyzed and unable to act. The trick to popping the clutch and getting moving again is to sidestep the main issue of the conflict for a moment — don't worry, we'll get back to it later — and, instead, build a foundation of small successes on which the solution to the big problem can ultimately rest. By thinking smaller, we create bite-size strategies that can be swallowed without gagging and that are manageable even when we are lost in a maze of self-consciousness, anger or fear.

And wider and wider the base becomes, and firmer the foundation, until we have constructed, if not the Great Pyramid of Cheops, at least a modest structure of good communication with the potential of better understanding. ●

Verbal Skills for Diversity Dialogue

My father, who was an actor, taught me something important about the presentation of dialogue, ideas or accusations: Lower your voice. By softening our voice, we allow, and even tempt, the listener to crane forward to hear, and more readily understand, what this mysterious and barely audible message is all about.

Many of us believe that for words to be effective, they must be forceful, dramatic and exaggerated. The opposite is true. Understatement is almost always more powerful, and often more accurate, than exaggeration.

Avoid Dogmatic and Dismissive Language

It is when someone has accused us of a biased attitude that we are most tempted to make dogmatic statements. Particularly if we haven't gotten ourselves diversity fit, we are apt to buckle at the knees and at the heart and lash back with an inflexible, "You're too sensitive" or that pair of old standbys, "You know what I meant" and "I was only kidding." Each of these dismissive phrases does little more than make the object of the allegedly offending statement feel still more diminished and the person who has been accused of bias look foolish and unkind. ●

Conclusion

Biases are distorted views of other human beings that are created by messages from the past and sustained by fear of what will happen in the future. If only we could remain in the moment — free of past messages and future fears — our vision would clear, we could see the people around us more accurately, and cases of mistaken identity would no longer weaken our ability to treat others with the respect and dignity they deserve.

Like shoving biases aside, being in the moment is a habit. I know it's a habit because most of us have been habituated to the opposite behavior since childhood. For years, we have allowed, and even encouraged, our minds to jump from subject to subject, and from past to present to future. It is time we work to break that habit and focus on the now and on the individual before us. It is time we see people for who they are. ●

RECOMMENDED READING LIST

If you liked *Making Diversity Work*, you'll also like:

1. ***The 2020 Workplace* by Jeanne C. Meister and Karie Willyerd.** This summary provides a useful guide to help you and your organization create tomorrow's workplace of choice.
2. ***Free Agent Nation* by Daniel H. Pink.** The "Organization Man" is dead. Long live the Free Agent. Pink explains the reasons for the development of widespread free agency and how it impacts your company and your industry.
3. ***Bridging the Culture Gap* by Penny Carte and Chris Fox.** Based on the real-life business situations of the authors' many international clients, this summary helps those of any nationality to become better communicators.

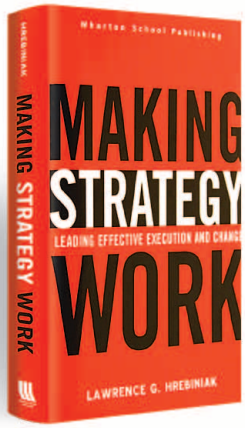
· Book 148 of 304 ·

Making Strategy Work

Lawrence G. Hrebiniak

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



Leading Effective Execution and Change

MAKING STRATEGY WORK

By Lawrence G. Hrebiniak

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THE SUMMARY IN BRIEF

Formulating strategy is difficult. Executing it throughout the organization — that's even harder. Without effective execution, no business strategy can succeed. Unfortunately, most managers know far more about developing strategy than they know about executing it — and overcoming the difficult political and organizational obstacles that stand in the way. In Making Strategy Work, *Lawrence Hrebiniak offers a comprehensive, disciplined process model for making strategy work in the real world. He shows why execution is even more important than many senior executives realize, and sheds new light on why businesses fail to deliver on even their most promising strategies. He also offers a systematic road map for execution that encompasses every key success factor: organizational structure, coordination, information sharing, incentives, controls, change management, culture, and the role of power and influence in the execution process.*

What You'll Learn In This Summary

✓ **How does a company's strategy drive its selection of an optimal structure?** In general, the greater the company's "relatedness" across products or services, the more likely it is that the company will centralize.

✓ **What is the relationship between culture and execution?** Culture reflects and affects the ownership that individuals feel for execution-related goals. A company's levels of management commitment and ownership are excellent predictors of executional success.

✓ **Why does good execution begin with good strategy?** It's not true that "good execution can overcome bad strategy." Typically, poor strategy results in poor outcomes and major frustrations as managers work long and hard in futile attempts to execute that which is not executable.

✓ **How do incentives and controls support strategy execution?** Incentives motivate behavior to achieve the execution outcomes you want. Controls provide feedback about performance, thus reinforcing execution methods, providing corrective mechanisms, and facilitating organizational learning and change.

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MAKING STRATEGY WORK

by Lawrence G. Hrebiniak

— THE *COMPLETE* SUMMARY

Strategy Execution Is the Key

Execution is a disciplined process or logical set of connected activities that enables an organization to make its strategy work. Without a careful, planned approach to execution, strategic goals cannot be attained.

Execution can itself be a source of competitive advantage. If there's a series of internally consistent, integrated activities, imitation is extremely difficult if not impossible.

Consider how Southwest Airlines executes its lowest-cost strategy: no baggage transfer, meal service or boarding pass; only one type of airplane; and incentives for fast turnarounds at the gate. It's not impossible to copy Southwest, but it's extremely difficult for competitors already committed to different routines and methods.

Why Execution Is Often Handled Poorly

Despite its importance, execution is often handled poorly because of the following reasons:

- **Managers are trained to plan, not execute.** Execution is learned in the "school of hard knocks," with many mistakes and frustrations on the way to successful results.
- **Some top managers believe that implementation is best left to lower-level employees,** who then get the blame if things go awry. But execution is not trivial: It defines the essence of managerial work. It demands ownership at all levels of management.

Planning and execution are highly interdependent. The greater the interaction between "doers" and "planners" — or the greater the overlap of the two processes or tasks — the greater the likelihood of successful execution. Planning and doing should be simultaneous: Managers must be thinking about execution as they're formulating their plans.

- **Execution usually takes longer than formulating strategy.** As conditions change over time, it can be hard for managers to focus on and control the execution process. The longer execution takes, the more likely that unforeseen circumstances will derail it.
- **Strategy implementation always involves more people than strategy formulation.** Communication down the organization or across different functions becomes a challenge. The more people who are involved, the harder it is to execute strategy effectively. ■

The Execution Challenge

The following are eight areas of challenge to strategy execution. They are also areas of opportunity: Handling them well guarantees executional success.

1. **Developing a model to guide execution decisions or actions.**
2. **Understanding how the creation of strategy affects the execution of strategy.**
3. **Managing change effectively — including culture change.**
4. **Understanding power or influence and using it for executional success.**
5. **Developing organizational structures that foster information sharing, coordination and clear accountability.**
6. **Developing effective controls and feedback mechanisms.**
7. **Knowing how to create an execution-supportive culture.**
8. **Exercising execution-biased leadership.**

Overview and Model: Making Strategy Work

Successful execution involves decisions about strategy, structure, coordination, information sharing, incentives and controls. These decisions take place within an

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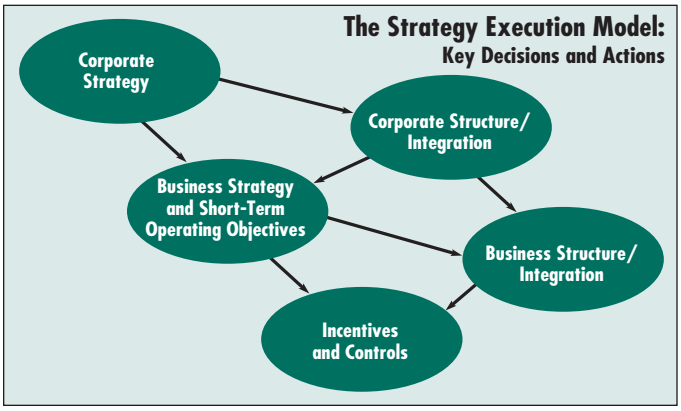
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Overview and Model: Making Strategy Work

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organizational context of power, culture, leadership and the ability to manage change. To understand how to make strategy work, we need to understand the interactions among these key decisions and contextual forces.

The model above shows a logical flow of execution decisions and actions. This is not a one-way process: Execution involves participation and communication up and down the organization, as well as lateral flows of information and coordination across operating units. Execution leads to organizational learning, so the flow includes feedback loops, and the *controls* portion comprises feedback and change.

Strategy

Strategy refers to corporate decisions about what businesses or industries should make up the organization's portfolio; whether the organization should diversify or vertically integrate; and how resources should be allocated across operating units, given differences in competitive conditions and growth possibilities across industries.

Corporate structure is the organizational arrangement created in response to the demands of corporate strategy. Why is an optimal structure so important to execution? Consider the case of diversification as a growth strategy. Mergers and acquisitions are big business. In 2003, $1.2 trillion in mergers were consummated by investment banks.

The sad truth, however, is that corporate mergers often don't work. Between 1985 and 2000, 64 percent were marked by a drop in shareholder value because companies often fail to create the appropriate organizational structure to support the merger or acquisition. They can face tough choices, as Disney did after it bought ABC.

Should corporate leave its acquisition as a separate, independent profit center, or should it meld it into an existing division or function? It's the age-old question of centralization vs. decentralization. Different businesses must be sufficiently independent to respond quickly to markets, competitors and customers. Yet they can't be so independent as to create an unnecessary duplication of resources and destroy all chances for synergy or scale economies.

The result of decisions about structure is that different units focus on different tasks or specialties. To achieve unity of effort and to combine the activities of these diverse units, companies must pay formal attention to integrative methods and mechanisms. Thus, *structural integration* refers to business processes that coordinate corporate functions with business-unit operations.

Business Strategy and Execution

A business strategy focuses on products, services and competition in a given industry. Emphasis is on industry analysis and on external forces as the business positions itself for competitive advantage.

The business unit must also pay attention to its internal resources and capabilities as it tries to create skills and competencies that differentiate it from competitors.

Business-level strategy is vital to the success of corporate strategy. Poor strategic performance at the business level detracts from the company's ability to achieve its goals, while good performance helps make corporate strategy work. Even with independent, stand-alone businesses, strategy is constrained by prior corporate decisions. Resources, for example, are allocated to businesses as a function of their role in the portfolio — but if they don't meet corporate performance expectations, their allocations will suffer.

Business-unit strategy is also limited by corporate decisions about organizational structure. Centralization of structural units, such as R&D, constrains a business, because decisions about needed resources are made by a corporate function elsewhere in the organization. For example, operating units in the old AT&T depended very much on Bell Labs, a corporate R&D unit.

Aside from constraints posed by corporate, there are two aspects of the business strategy that affect its execution and must be handled well. These are:

1. The type of strategy and the demands it places on the organization. A business unit's decision to achieve cost leadership will create demands on the company's investments, resources and capabilities. The corporation must make capital investments in technology and manufacturing to drive down the variable cost of goods sold. To achieve economies of scale and scope, it must meet demands for standardized products and high production volume. It must also develop incentives that reward cost reductions.

2. The need to translate strategy into short-term, measurable operating objectives and action plans. A business unit's everyday objectives and performance metrics must be consistent with its strategic goals and plans. All too often, people well down through the organization are unaware of how everyday objectives, activities

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For additional information on how Wal-Mart executed its cost-reduction strategy, go to: http://my.summary.com

Overview and Model: Making Strategy Work

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or performance metrics relate to the business strategy. Sometimes they're even inconsistent with it.

To accomplish the necessary integration, you should use management-by-objectives programs or their offshoots, such as the Balanced Scorecard. These will help integrate long- and short-term business objectives.

Business structure is also key to the execution of strategy. Business-level strategy and short-term operating objectives affect the choice of business-unit structure. Different businesses in the same company can face very different competitive situations and thus require different structures. Never impose the same structure on all businesses or divisions simply because they're part of the same organization. Avoid this execution error at all costs.

The structure of a business should reflect, and be driven primarily by, the nature of its strategy. At GE, for example, GE Capital and Jet Engines, two different divisions, are in two completely different industries. Each has a strategy to cope with its competitive situation.

Integration

Integration is relevant to execution at the business level, since individual businesses must develop their own ways of achieving coordination across operating units or functions. *Transferring knowledge within the business is vital to strategic success.* In addition, if people aren't committed to the execution with which they've been charged, if they're rewarded for doing the wrong things or if they're not personally involved in the outcome, execution can fail. *It's critical that the organization rewards the right things, including previously defined strategic and short-term objectives.*

You also need *incentives* and *feedback*. Fine tuning of plans, objectives and implementation methods is more often the rule than the exception. But ineffective market and customer surveillance, poor information about organizational performance, and the inability to act on feedback from the marketplace surely spell disaster for execution efforts.

Context

The strategy execution model occurs in an organizational context, and is susceptible to four kinds of environments:

1. Change management. As a rule, people resist change. Some organizations manage change better than others.

2. Culture affects much of what goes on in organizations. Culture can affect the problems or opportunities on which managers focus. It helps define performance outcomes and determines how work gets done, what behaviors are valued, how mistakes are treated and what management styles are appropriate. Culture reflects and affects the ownership that individuals feel for execution-related goals. A company's levels of management commitment and ownership are excellent predictors of executional success.

3. The organization's power structure. Those in power identify external needs or opportunities, define new markets and customers, and determine the company's direction. They create strategy. Power differences affect the formulation of strategy as well as key execution decisions and outcomes. Those in power decide on resource allocations to individuals and organizational units that affect execution efforts. If those in power don't support the execution plan, the success of the plan clearly is jeopardized.

4. Leadership climate. The climate leaders create is just as important as leadership. This climate extends up and down the organization, since most managers are both leaders and followers. They create and react to climate.

A disciplined approach to execution lays out the logical order of execution decisions and actions, and shows the variables essential to a solid execution plan. ■

For additional information on why CEO Edward Zander had to change Motorola's culture, go to: http://my.summary.com

The Path to Successful Execution: Good Strategy Comes First

Good execution begins with good strategy. For example, postage meter company Pitney Bowes followed a disciplined strategy of related diversification and its counterparts didn't, fueling its successful performance.

Four critical aspects of strategy and planning affect the success of your execution. These are:

1. The need for sound planning and a clear, focused strategy. The key components of corporate strategy are portfolio analysis, diversification and resource allocations to businesses.

Sound planning means evaluating the existing situation and the potential consequences before making any major move. Resource allocations, for example, must assess the levels of risk that corporate leaders and stakeholders can comfortably assume. Poor planning can have many — and potentially fatal — effects on execution. Perhaps needed resources won't be forthcoming for businesses in the portfolio that could grow into stars. Or a failed diversification could affect the entire organization.

The goal is a strategy that leads to competitive advantage. Success depends on the company's ability to understand its industry and competitors, and to develop capabilities that lead to a favorable competitive position.

2. The importance of integrating corporate and business strategies. Corporate and business strategies must be consistent with and support each other. Yet many situations can prevent this consistency and support. These situations include the following:

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The Path to Successful Execution: Good Strategy Comes First

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- **The role of the business is unclear.** Corporate treats the business like a "cash cow," but the business sees itself as a potential star that should receive an infusion of capital and not be "milked" dry.
- **Inappropriate performance metrics.** Poor communication and planning processes ensure that corporate and business-unit people won't agree on key performance measures. A related problem is when corporate holds all businesses accountable for the same performance measures, even though the businesses are in different industries.
- **Battles over resource allocations.** Some businesses feel neglected or that there is too much centralized control over scarce resources and not enough entrusted to them.
- **Differing assessments of business performance.** If a business feels that it's been assigned an inappropriate strategy or role in the corporate portfolio, it will regard the assignment of performance objectives as invalid or unrealistic. The prognosis for future planning is bleak, as business-unit people may feel the need to "low-ball," "play games," "change corporate's expectations" or "prove them wrong."

The Strategy Review

To address these problems and improve communication, many major companies have found it useful to employ a strategy review. Corporate and individual businesses should agree on the role of individual businesses in the corporate portfolio and game plan, resource conditions and constraints, and business strategy and operating goals.

It's especially important to understand not only the numbers, but what's behind them, so that the individual business can have realistic and agreed-upon performance measures.

Note also that the process is interactive and adaptive, with corporate and business strategies regularly reviewed to determine their continued relevance and feasibility.

3. The need for measurable objectives. Since many managers operate in the short term, successful execution depends upon the translation of strategy into short-term operational metrics that are related to long-term needs, that can be used to assess strategic performance, and that help the organization achieve long-term strategic goals.

To realize long-term goals, you must manage the short term well. A particularly important short-term objective: *define and communicate the operational components of your strategy*. Execution will definitely suffer if strategic needs are not translated into short-term metrics that are consistent with your strategy. You must be able to accurately assess your progress against a plan.

The Balanced Scorecard provides a framework for translating strategy into operational terms. It also helps develop and communicate short-term objectives in financials, customer service, internal business processes, and learning and growth, and it attempts to link these objectives to company strategy and long-term goals.

4. Understand the demands of strategy and successful execution. Strategy makes demands on an organization's skills, resources and capabilities. To ignore these demands will surely result in poor execution.

Since each corporate strategy requires a well-established, specific set of skills, be cautious of making huge strategy changes in a short time. Don't try to pursue a new strategy with old capabilities. Furthermore, each business unit's capabilities must be consistent with and supportive of the overall strategy.

The Demands of Global Strategy

A global strategy requires management to develop the right resources and capabilities to compete effectively in world markets. The key concept here is a *coordinated* global strategy, derived from the sharing and leveraging of skills and capabilities across national boundaries.

To execute a global strategy, a matrix structure — with worldwide product and local geographical components — is the design of choice. It's simply not true that "good execution can overcome bad strategy." Typically, poor strategy results in poor outcomes and major frustrations, as managers work long and hard in futile attempts to execute that which is not executable. Vague strategy and constant changes in strategy have the same frustrating results. ■

Organizational Structure And Execution

Structure affects real costs and benefits. Different ways of organizing affect outcomes, but creating the right organizational structure is a real challenge.

A spectacular negative example is General Motors and its massive but failed attempt, back in the 1980s, to reorganize into two car groups. Most employees and managers had no idea that such a large-scale change was in the offing and were shocked when it occurred. Would their jobs change? Would layoffs occur? The uncertainty was unbearable.

Top management was largely silent on the connection between strategy and structure. How would the changes help GM solve its problems in product quality, cost and organizational effectiveness? The logic of the restructuring was missing, unclear or poorly communicated.

It would be difficult if not impossible to coordinate and create subordinate goals — or to assign responsibility and accountability in a case like GM's. The company had enjoyed long years of success with relatively independent entities — some of which were abolished overnight.

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Organizational Structure and Execution

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Other companies have failed on a similar scale — companies run by bright, experienced people. Perhaps some of the poor performance may be attributable not to managerial incompetence, but to the sheer difficulty of the task itself.

The biggest structure-related challenges to execution are:

- **Measuring the impact of structure on execution.** What are the costs vs. benefits of different structural forms? How are costs and benefits measured? How does the company's structure affect actual costs or measurable benefits? What results can reasonably be expected from different organizational forms?

A dedicated organizational structure allows for quick responses to customer needs or industry changes. Even if divisions are organized functionally, the focus derived from attention to one customer, product or geographical region facilitates and enables coordination around a common goal, customer or output. The costs of divisional structures include the duplication of scarce resources.

- **Centralization vs. decentralization.** What is the right balance for optimal execution, and what determines it? Included here is the size and role of the corporate center in organizations with both centralized and decentralized units.

Efficiency and Effectiveness

Structural choice depends on what's important to top management, strategically or operationally. Given competitive conditions, industry forces and the company's strategy, a company must choose the right mix of centralized and decentralized structures to optimize both efficiency and effectiveness.

Centralization results in efficiency from the creation of expertise, an organization-wide asset. Decentralization helps the company get close to customers or markets.

- **The relationship between strategy and structure.** What aspects of strategy drive the choice of structure? How does structure affect the execution of strategy?

Commodity product or highly competitive industries usually face price competition, so additional revenues come from lower costs. Organizational structure in these low-cost strategy cases favors the efficiencies and scale economies of centralized, functional forms. These forms are characterized by standardization, volume and repetition, which foster efficiencies from economies of scale and scope.

A company with a focus strategy that is focused on a particular customer, geography or product should decentralize. Even with the predominantly decentralized divisional structure, some centralized staff may be needed to achieve efficiencies across the decentralized units.

A company adopting a differentiation strategy — e.g., offering both high-end and low-end products — should decentralize and devote separate business divisions to each.

Companies in global competition must focus on both worldwide product lines and geographical differences among markets. A common response is the matrix structure, which helps execute a coordinated global strategy. Such a structure maintains a dual focus on product and geography, and combines efficiency and effectiveness.

A company's strategy drives the selection of the optimal structure. In general, the greater the company's "relatedness" across products or services (same customers, same technologies, same distribution channels), the more likely it is that the company will centralize.

Whatever the structure is, successful execution depends on coordination and information sharing across organizational units, and clear responsibility and accountability.

A growth strategy usually requires more decentralization over time. Size has another impact on structure: It often demands that big problems be factored into smaller, more manageable proportions and handled by smaller structural units; the result is decentralization. ■

Managing Integration: Effective Coordination and Information Sharing

Structural integration requires three tasks or decisions.

1. Determine the kind of interdependence among units.

There are three kinds of interdependence:

- **Pooled.** This represents a low level of interdependence and little need for coordination, as with sales districts that are self-contained and independent.
- **Sequential.** This is seen in companies with vertical integration or an internal supply chain. Problems in these companies are more likely to affect other units than those with pooled interdependence. Higher levels of cooperation are required.
- **Reciprocal.** This is seen when the actions of each business unit affect many others. Each player is necessary to the solution of a problem, but no one player is sufficient. High levels of cooperation are essential to strategy execution.

Strategy affects structure, and structure in turn determines the type of interdependence. Structure also determines the steps an organization must take to achieve effective coordination and information flows.

2. Facilitate information sharing, knowledge transfer and communication.

Many formal and informal factors affect knowledge transfer among those responsible for making strategy work. Formal methods include databases, IT processes, formal roles and matrix structures. But informal methods and processes can also aid or inhibit information sharing.

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Managing Integration: Effective Coordination and Information Sharing

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Good communication comes from the effective use of informal contacts, direct communication and a common language (i.e., clear, agreed-upon metrics and goals).

Any or all of the following can either facilitate or block the communication that's needed to make strategy work:

- *The characteristics of the knowledge senders.* How reliable? How beneficial? Any motivation or agenda?
- *The characteristics of the knowledge users.* Can they understand new information and apply it to organizational goals? Is there any common ground with the sender?
- *The type of information that's being transferred.* Organizations that have a great deal of tacit knowledge and require an apprenticeship to learn a particular art, such as professional staff work, must be willing to allow time for interaction, discussion and information transfer.
- *The context within which information sharing occurs.* There may be technical problems, or there can be cultural problems. A culture of cooperation based on a common, perceived mission affects execution positively, whereas a culture marked by error avoidance and the need to blame others for poor results has a negative effect on execution.

3. Clarify responsibility and accountability. Make sure key decisions and actions are clear and unambiguous. Without responsibility and accountability, effective coordination and cooperation simply won't occur.

If you focus on these three issues, you'll generate both the organizational structure and integration methods that will make your strategy work. ■

Incentives and Controls: Supporting and Reinforcing Execution

Incentives motivate behavior to achieve the execution outcomes that you want. Here's how an organization can use incentives to facilitate strategy execution:

- **Incentives should not demotivate people.** They should satisfy the need for achievement that most managers already have.
- **Incentives fuel and guide motivation: They don't create it.** The role of incentives is to support motivation and guide behavior in the right direction.
- **Good incentives are tied to strategic objectives or short-term objectives derived from strategy.** They encourage strategy execution at all organizational levels.
- **Good incentives reward the right things.** Rewarding the wrong things will hurt the execution process.

Organizations always get what they actually reward, pay for or reinforce, even if it is occasionally unintentional or unanticipated.

Controls

Controls provide feedback about performance to reinforce execution methods, provide corrective mechanisms, and facilitate organizational learning and change.

For controls to work effectively and support execution, follow these guidelines:

- **Reward the doers, the performers.** It is critical that the organization celebrates success and rewards those who helped achieve it.
- **Face the brutal facts honestly.** Conduct autopsies when things go wrong so organizational learning can occur. Without the analysis of facts and the resultant learning, organizational change and adaptation are jeopardized.
- **Clarify responsibility and accountability.** The control process cannot work if responsibility and accountability for execution-related tasks are unclear.
- **Controls require timely and valid information.** For controls to work, up-to-date information about performance must be correct. Changes in strategy depend on feedback.
- **Leadership plays a central role in the control process.** Problems occur when managers aren't up to the leadership task. Leaders must set an example that's consistent with execution-related objectives. "Do as I say, not as I do" will destroy the control process and impede execution. Good leaders know how to use performance appraisals effectively, and avoid all-or-nothing objectives. They must demand total honesty from subordinates, and recognize and reward those who contribute to executional success.
- **Conduct a strategy review.** This is a key to execution. A good review fosters discussion, clarifies business strategy, helps set execution-related objectives, allows leaders to really understand their people, and facilitates learning and organizational change. All of these are important to successful execution. ■

Managing Change

Execution often involves change — in strategy, structure, coordination mechanisms, short-term performance measures, incentives and controls. How change is implemented can spell the difference between success and failure.

For example, Peugeot Citroën in 2003 became one of the most profitable car companies outside Japan because, management argued, it avoided the massive changes associated with major acquisitions and strategic alliances.

The inability to manage change is the single biggest obstacle to effective strategy execution. The problem is due largely to the complexity of the task, which includes:

- **Assessing the size and content of a strategic change.**

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Managing Change

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- **Determining the time available for execution.**
- **Determining the steps or tactics to be employed in managing change.**
- **Clarifying responsibility and accountability in the change process.**
- **Overcoming resistance to change.**
- **Setting up controls to monitor the results of change management.**

Evolutionary change happens in all organizations. It's routine and rarely noticed until small, minute problems become larger and loom as significant issues if action is not taken. If people avoid problems, the time frame for evolutionary change can be long.

In *sequential change*, an organization reduces its goals to smaller, ordered tasks — a preferable choice when the strategic problems are large. The downsides are that sequential change takes time, unanticipated factors can impinge on the process, and it's unexciting. Nevertheless, it's an effective way to handle large changes rationally and methodically.

Complex change occurs when a strategic problem is large, the time frame for execution is short, and many change-related tasks must be attended to simultaneously. Complex change is difficult and dangerous. It can result in poor change management and failed execution because:

- Coordination and control are difficult when many programs are going on simultaneously.
- The cause-affect analysis explaining performance deviations is impossible, so company learning is jeopardized.
- Organizations aren't willing to reduce managers' performance requirements. This inflexibility, under conditions of complex change, virtually guarantees poor outcomes. ■

Managing Culture and Culture Change

Changing culture is difficult but doable. Here are five rules for managing and changing culture:

1. The reasons for change must be clear, compelling and agreed upon by key players. Cause-affect analysis and learning are vital to successful change. There must be a clear, honest explanation of poor prior performance before people will accept new execution methods or cultural change as legitimate and necessary.

2. Focus on changing behavior — not directly on changing culture. Focus on behavioral changes, which can lead to culture change. New people, incentives, controls and organizational structures can motivate behavioral change and lead changes in organizational culture.

3. Effective communication is vital. The company must develop a communication plan, and leadership must communicate directly with people affected by the changes.

4. There must be an adequate effort to reduce resistance. Top managers must communicate the positive aspects of change, deal with the potential negatives, and improve participation and involvement in defining or diffusing change and its consequences.

5. Beware of excessive speed. Speed in managing culture change may be desirable or necessary — but it's fraught with problems. Changing too many things simultaneously and immediately can confuse the change process and make coordination and communication difficult. ■

Power, Influence and Execution

Power is vital to execution. Attempts to execute strategy that violate the power structure of an organization always face difficulties and are often doomed to failure.

Power is simply the opposite of dependency. An individual or unit, A, has power over another, B, if A has information or resources B needs and can't get elsewhere. If you have a monopoly on the fulfillment of someone else's needs, you have power. Problems arise because the business units solving critical problems of an organization are rewarded in an uneven distribution of scarce resources, which leads to differences in the dependencies that create power relationships.

Having power facilitates the formulation and execution of strategy. But an individual, unit, department or function lacking in power and influence can form a coalition with those who do have influence, to foster and support execution. The logic is that of a joint venture: Joining forces in creating power bases by combining individuals' and units' potential for power allows for more effective execution than an individual or unit could achieve alone.

Support

To receive support, execution methods and plans must produce clear, measurable and positive value-added results. Hierarchical superiors or potential joint venture/coalition partners within the organization will support execution if they can see and measure its results in value-added contributions to the organization. As this process continues, individuals and units acquire a reputation for producing positive results and thus gain credibility and additional influence in creating the power bases for future executional efforts.

Those who have power typically want to keep it — a possible downside for the organization. People in power may persist in doing what's necessary to perpetuate their positions, even if their actions are inappropriate under different or changing conditions. If this happens, the CEO and executive team must alter the power structure by changing strategy, structure or resource allocations, which in turn can affect the dependencies that define power relationships. ■

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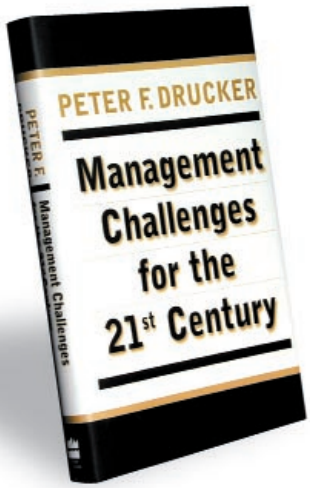
Management Challenges for the 21st Century

Peter F. Drucker

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FILE: MANAGEMENT



The Latest from Peter Drucker

MANAGEMENT CHALLENGES FOR THE 21ST CENTURY

By Peter F. Drucker

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THE SUMMARY IN BRIEF

We are at the brink of the new millennium. And much of what we have come to accept as true of business management is about to be challenged. The world is changing at a rapid pace, and only those who understand what those changes mean will be poised to prosper under the new rules. Old paradigms will be replaced by new ones.

In this summary you will learn which old assumptions are out. You will learn that management is not just business management, and that there is no one ideal way to organize an enterprise. Nor, you will soon see, is there one way to manage people. In fact, you will see that your role will not be to manage at all. Rather, you will learn that your job is to lead. You will also come to see that national boundaries and even regional markets will no longer define your organization's boundaries.

In this summary you will also discover the trends that will radically alter life and how companies are run. The developed world is experiencing a collapse of its birthrate, and an accompanying increase in the average age of its populations. The result will be political upheaval, a new emphasis on personal investment, and a substantial increase in the length of your work life.

In the next century, you can expect to become a change leader. You will see exactly what is required of you in order to make change happen in a controlled and orderly fashion. You will see exactly why global competitiveness is here to stay and how you can measure your company against the world leader in your industry.

You will also discover what you need to do to increase the productivity of the new information workers and how to develop your own talents now and throughout your life.

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MANAGEMENT CHALLENGES FOR THE 21ST CENTURY

by Peter F. Drucker

— THE *COMPLETE* SUMMARY

Management's New Paradigms

We live in a period of profound transition. The changes that are taking place are more radical than perhaps any changes in history. The challenges ahead are perhaps greater than those presented by the 19th century Industrial Revolution, by the Great Depression or by the Second World War. These changes require managers to examine the basic assumptions, or paradigms, of reality. For it is likely that old assumptions about reality are wrong. In the new century, you must be concerned about everything that affects the performance of your institution, whether within your control or not.

Unfortunately, the old assumptions have outlived their usefulness. You must therefore rethink the assumptions and formulate new ones more in line with the 21st century realities. First, forget the notion that management is business management. In the new century, your management skills can be applied to activities not traditionally considered business, such as government, health care, the professions and education.

Next, forget the notion that there is only one right organizational form or that hierarchies are dead. There must be a leader of every organization, and you must have organizational structure in place. But that structure depends on the nature of the enterprise; one size does not fit all. Neither the popular "team" concept nor the CEO "personality cult" so common today is the one answer. Teams sometimes lack the ability to make decisions, and "personality cult" leaders need successors. Each organization must therefore find its own form rather than grab one off the rack.

Another dying paradigm is the idea that you must manage employees. Instead, you must lead workers. One reason for the shift from managing to leading is the simple fact that a manager today likely does not know the area of expertise for which the subordinate is responsible. In addition, employees today need to be treated as if they are volunteers, not employees. They want more than a paycheck; they seek interesting and rewarding work. You inspire them by leading, not commanding.

You must also remember that innovations in your industry don't necessarily come from within that industry. They are just as likely to come from outside. For example, within the pharmaceutical industry, genetic research is now used to develop new treatments. That research sprang out of biology, not chemistry. Today, innovations criss-cross industries. Likewise, don't just look to your present customers to determine policy and management for your enterprise. Increasingly, you must look to a larger group and base policies on what that group chooses to do with its disposable income.

Finally, you must realize that management reaches outside the organization, and is restrained but not defined by political and national boundaries. ■

Old and New Paradigms

Old: Management is business management.
New: Management principles apply to all organizations.

Old: There is, or there must be, one right organizational structure.
New: Look for, develop and test the organization that fits the task.

Old: There is, or there must be, one right way to manage people.
New: Don't manage people, lead them.

Old: Technologies, markets and end-users are given.
New: Customer disposable-income use dictates policy and strategy; technologies criss-cross.

Old: Management's scope is legally defined.
New: Management's scope is operationally defined.

Old: The economy is defined by national boundaries.
New: National boundaries restrain but don't define.

The author: Starting with his first book, 1939's *The End of Economic Man*, Peter F. Drucker has been recognized as the father of the science of management. Since 1971, he has been Clarke Professor of Social Sciences at Claremong Graduate School. Among his many groundbreaking books are *Managing for Results*, *Managing for the Future*, *The Post-Capitalist Society* and *Peter Drucker on the Profession of Management*, all summarized by Soundview Executive Book Summaries.

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Strategy: The New Certainties

The most important single new certainty is the collapsing birthrate in the developed world. You must understand the crucial impact this will have on economics and politics. Only then can you plan your company's business strategy into the new millennium.

The Collapsing Birthrate

In Western and Central Europe and in Japan the birthrate has already fallen below the rate needed to reproduce the population. Birthrates have already fallen as low as 0.8 children per woman in Japan, and 1.5 in Northern and Western Europe. The United States, too, is experiencing a declining birthrate, with slightly less than 2 per female. In order to maintain populations at the present level, those regions would need to have a per-woman birthrate of 2.1 live births.

Accompanying the decline in births will be a corresponding shift in the age of the population. As fewer children are born, a larger proportion of the population will be older.

Coupled with the fact that people are living longer than in decades past, there will be an explosion of older people and a dearth of younger ones. This is an unprecedented experience. In at least the last 200 years, all modern world institutions, including businesses, have assumed that population growth would continue.

Management Response

What does all this mean for you as a manager? Simply this. Your business must gear up for a totally different assumption, the assumption that there will be a shrinking population of young people. One new reality will be that retirement age will have to be raised, perhaps as high as 79. If not, there won't be enough workers to meet demand.

The most likely location of change in the employment sector will be the United States.

That's because the U.S. is the most flexible and least restrictive labor market in the world. In addition, American employers have a tradition of experimentation.

Marketing Opportunities

The silver lining of the collapsing birthrate is that companies that take advantage of the shrinking population stand to profit handsomely. If what happened in China when one child per couple became the norm is any indication, smaller families may mean an expanding market for luxury goods for infants and children. In China, today's one-child family spends as much on that child as earlier generations spent on three or four. Perhaps having fewer children makes each seem more precious to the parents. They then spend more of their disposable income on him or her.

Political Implications of a Shrinking Population

In the next three decades, demographics will dominate politics in the developed world.

- Current political labels like liberal and conservative won't fit the issues.
- Immigration will be the hottest political issue.
- Government instability will be the norm.
- Retirement will be spent working.

You and your company must start looking for innovative ways to stretch the aging labor pool now. You will need to forge new work relationships with older workers, especially those who qualify as knowledge workers. Knowledge workers are those whose value is in what they know and what they can do with that knowledge. Companies that first succeed in attracting and holding knowledge workers past traditional retirement age and make them fully productive will have a tremendous competitive advantage. Productivity will have to continue to grow at a rapid rate or the country will lose position and become steadily poorer.

Income Distribution

Any shift in shares of disposable income in the decades to come will impact you and your company. To take advantage of income shifts, you need to know one crucial figure: the share of your customer's disposable income that is spent on your products. The figure is important because trends in disposable spending tend to persist for long periods of time.

Identifying a shift early on will let you take advantage of the trend for a long time to come. The major disposable income growth sectors have been government, health care, education and leisure.

Leisure spending has been growing as a share of disposable income. But the trend may be on the decline since it is unlikely, given the declining population, that more time off will become the norm. Government has had a major impact on disposable income through the redistribution of income from one segment of the population to another. That trend likely will continue rather than decline. The education sector will grow, as workers will need continual upgrading of their knowledge. And health care will grow as the population ages.

All four growth segments are largely price insensitive. That is, consumers will likely pay based on the perceived value of the product or service rather than let supply and demand be the pricing factor.

Companies must monitor trends and take advantage of the opportunities they present.

Performance and Global Competitiveness

Companies expecting to prosper in the 21st century must

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Strategy: The New Certainties

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accept that their performance will be monitored carefully by shareholders. And those shareholders are increasingly not individuals. Rather, they are the large pension funds to which the well-to-do middle classes of the developed world have entrusted their retirement funds. Increasingly, companies will have to show that they are capable of providing short-and long-term profitability for pension fund investors. It will be essential that companies extend their own life expectancies beyond the present average of about thirty years. Organizations will have to survive and prosper until their investors reach retirement age!

All companies must also make global competitiveness a strategic goal. Today, all companies are measured by the standards of the leader in the field, regardless of where in the world that leader is located. Companies can no longer rely on government protectionism to survive, because government can't deliver enough "protection" to make the protected industry competitive against the global leaders. Instead, a company must measure itself against the world leader and meet that standard.

Economic Versus Political Reality

To be successful into the next century, companies cannot define their scope in terms of either national economies or national boundaries. Yet, it is clear that national boundaries are not going to go away anytime soon. It remains doubtful that the new regional economic units like the European Economic Community (EEC) or the North American Free Trade Zone (NAFTZ) will really weaken national boundaries. Nationalism appears here to stay. In fact, companies have to learn to operate in three different economic spheres. There is a true global economy of money and information, and there are regional economies in which goods, people and services circulate relatively freely. And then there are national and local governments to consider. Balancing the three is a headache, and companies will continue to struggle for the answer.

What not to do, however, is clear. You should not be willing to be bribed into subordinating economic decisions to local politics. For example, you must resist the temptation to relocate or grow your business in a particular location just to take advantage of "bribes" like tax exemptions, special tariff protections, a guaranteed monopoly position or other subsidies. Don't do anything that doesn't make economic sense for the company in the long run on the basis of incentive offers.

Do, however, consider forming alliances, partnerships and other relationships with other companies across borders. These can easily be dissolved if necessary and aren't long-term commitments. You and your company must also recognize the reality of currency instability, and will need to establish ways to manage currency fluctuations and foreign exchange difficulties. No country's currency is immune to fluctuation, and changes in the value of currency can be rapid.

Opportunity or Distraction?

You must be aware of the difference between a business opportunity and a business distraction. Identifying the former creates long-term growth and stability, but being sucked into the latter does just the opposite. A proposed expansion into a new area is an opportunity if it is consistent with your company's overall business strategy. For example, if carbonated beverages don't sell in France, Coca-Cola might do better selling fruit juice than its flagship soda product. And if vending machine coffee is big in Japan, Coca-Cola would do well to sell that there. Both new enterprises are consistent with Coca-Cola's company strategy and business plan, and both are business opportunities. But an enterprise that isn't consistent with overall company goals is just a distraction to be avoided. ■

Cheap Labor Won't Be An Advantage

In the 21st century, access to cheap labor won't give a company a substantial advantage over another. Nowhere is this more apparent than in the manufacturing sector. In most parts of the developed world, manual labor is becoming a smaller and smaller part of total costs. So while low labor productivity may endanger a company's survival, low labor costs don't necessarily deliver a cost advantage if productivity is low.

Investment Industry Growth

You and your company can benefit tremendously if you learn how to exploit today's growth industries. First and foremost among growth industries is the financial services industry. But this isn't your grandfather's financial service industry. The segment ready to be exploited by those who know how is the retail delivery of financial services to an affluent, aging population in developed countries. These middle-class seniors are quickly realizing that they could outlive their financial resources. They are looking for ways to safeguard future income. Companies providing individual investment services and products will thrive in the coming years.

Strategic Misstep: What GM Did Wrong

When Japanese automakers grabbed 30 percent of the U.S. passenger car market in 10 years starting in the mid-'70s, GM did little except fiddle with rebates and discounts. That didn't work. Finally, GM reacted by creating an entirely new car, the Saturn. It was a smash hit. Unfortunately, it soon became obvious that Saturn competed with other GM products, not Japanese models. Instead of allowing Saturn to expand its model selection, GM put resources into modernizing plants producing its dying models. Saturn sales are falling, and an opportunity was wasted.

The Challenge Of Change Leadership

You cannot manage change, you can only stay ahead of it. In times of upheaval, such as the times we are approaching, change is the norm rather than the exception. The manager who becomes a change leader will help ensure that his or her organization will survive or even thrive. Change leaders accept the inevitability of change, see it as opportunity and embrace it. Change leaders look for and find the right changes and know how to make change effective both inside and outside the organization.

How can you become an effective change leader? By following these guidelines:

- Institute policies to make the future.
- Systematically look for and anticipate change.
- Introduce change the right way, both inside and outside the organization. Balance change with continuity.

Change Policies

The first lesson you need to learn to become a change leader is to abandon yesterday.

Don't commit resources to maintaining products or services that are no longer producing results. If you do, inevitably your best and brightest waste their time for diminishing returns. These are the very people you need to help lead change.

As a change leader, your role is to put every product, service, process, distribution channel, customer and end-use on trial for its life. Ask if you would enter into the enterprise again if you knew what you know now. If the answer is "no," then abandon it.

The right answer is always abandonment under these three conditions:

- If the consensus is that the product, service, market or process "still has a few good years of life." In fact, such a product is either dead or dying. Give it up.
- If the product, service, market or process is being kept around because it "is fully written off." Ask not, "what have they cost?" Instead, ask, "what do they produce?" If they only produce because they don't appear to cost anything, get rid of them.
- If an old and declining product, service, market or process is being maintained at the expense of a new and growing product, abandon it.

Acting on Abandonment

Knowing *how* to abandon an outdated product, service or process is as important as knowing it's time to let it go. You must test abandonment on a small scale. Sometimes it may be that you simply need to identify other distribution channels for a product or service. Consider what universities have done as prospective students and their parents move away from high school counselors for college application information to books and magazines rating colleges. By focusing promotional efforts on these outlets, universities are increasing the quality of their applicants while still retaining connections with placement counselors.

Organizing Improvement, Creating Change and Piloting

Next, change leaders must organize improvement. Plan to improve contiguously, at a preset annual rate of about 3 percent. But be cautious about introducing changes system-wide without a trial. Consider the case of a commercial bank that decided to add new financial products to its mix. It surveyed customers and knew to which products they were receptive. Then it introduced the products by having tellers inform customers. The result? Lost customers due to longer teller lines. When information about the new products was offered at separate tables, the program was a success. But the bank could have saved time and trouble by testing its approach at one branch.

Build innovation into your enterprise, and do it systematically. Every six to 12 months, look for changes that may be windows of opportunity. Look at your company's unexpected successes and failures, as well as your competitors'. Then, ask if your observations are opportunities for innovation.

Finally, realize that you must pilot change through the organization. When you pilot a change, you are applying the test of reality to the idea. Only if it passes should the change be implemented. ■

Innovation Traps

Be sure each innovation is consistent with your company's strategic realities. A good idea is not enough; it must fit the company. Don't confuse novelty with innovation. New and different isn't always better. Finally, do not confuse activity with action. They are not the same.

Information Challenges: From the 'T' to the 'I' in 'IT'

Until now, the information revolution has centered on data; collecting, storing, presenting and transmitting it. In other words, the focus has been on the technology of data gathering rather than on the use of that information. The focus is about to shift from the "T" in "IT" to the "I."

The information revolution has made possible the gathering of massive amounts of data, but until now much of it has gone unused. The information needed to make decisions is there, but the decision-makers have, until now, not had the information available for their use. The first step is to think differently. What's needed isn't more raw data, more computing speed or more technology. What's needed are new concepts.

The Information Enterprises Need

Accounting will have to move from cost accounting to result control. Cost accounting concerns itself with what things cost on a component basis. But accountants have been slow to measure a very important factor: activity. Activity costing measures the cost of not doing something. Activity-based accounting, unlike traditional cost accounting, asks whether a task has to be done and, if so, where.

Activity-based accounting is expected to substantially reduce manufacturing costs, perhaps by as much as a third. Cost accounting assumes that capital can be substituted for labor. In service industries, that just isn't true. For example, if a hospital buys a new piece of equipment — capital expenditure — it will have to hire new people who can run it. The result is more workers, not fewer.

Consider another example of activity-based accounting. Pick a center of activity, like a customer or a store shelf. Measure the yield per center. For a bank customer, profitability will be measured by the volume and mix of the services he or she uses. A store shelf's value can be measured by the yield per shelf over time. Your job as a manager will be to maximize the shelf or customer yield over time.

Costing the Entire Chain

Another tactic companies that want to succeed must adopt is costing over the entire economic chain. Knowing the true cost of operations on the inside won't be enough in the next century. Rather, those companies that know and manage the cost across the chain will be the most successful. Legal boundaries don't matter. You will form new entities through outsourcing, new alliances and joint ventures. Toyota demonstrates what happens when you work closely with suppliers and distributors. Toyota considers the cost of each car to include the total cost of making, distributing and servicing it.

You must also move from cost-led pricing to price-led costing. In other words, before a product is introduced, you decide whether the price customers are willing to pay can support the cost to produce the item and still be profitable. If it can't, don't introduce the item. Traditional cost-led pricing adds the production cost and desired profit to arrive at the price. With price-led costing, fewer products will fail because you'll know that the price is acceptable to the consumer. ■

Continuing Education

One by-product of the information revolution is continuing education. As more and more knowledge workers work with their heads rather than their hands, education will have to be continuous. And that education will be delivered in new formats. It will be off campus, in homes, cars, commuter trains and anywhere small groups can meet. Long-distance education may make freestanding residential universities obsolete.

The education revolution will include the New Print Revolution. The world supports thousands of periodicals and newspapers. While general interest magazines like *Life* are disappearing, specialty mass magazines are growing by leaps and bounds. And books continue to be printed in record numbers. Students, for example, are consumers of huge numbers of print books and specialty magazines that inform.

Information You Need

A company needs to use the following four diagnostic tools to manage the business:

- foundation information consisting of cash flow and liquidity measurements;
- productivity information in the form of total cost, including cost of capital (benchmarking your performance against the best in the industry is crucial);
- competence information, requiring you to determine core competencies inside and outside;
- resource allocation information in the form of assessment of whether the allocation of capital is profitable and whether people are achieving goals set for them.

As a manager, you must know what information to use. You should, for example, be informed of any "unusual" event. Consider having employees make a monthly report of any unusual events in their sphere. Together, these can yield insight. Also, get out of the office and into the street. You need direct outside information as well as inside information.

Knowledge Worker Productivity: The Future of Manual Labor

The traditional view was that there was little to be done to raise manual labor productivity. Differences in output were thought to depend on whether the worker in question was lazy or hard working, or whether he was weak or strong. But as workers were observed and studied, the idea that outside factors could be changed to alter productivity caught on. The result has been an annual 3.5 percent rise in productivity throughout most of the century.

The process was deceptively simple: observe work and analyze the motions that make up the work. Record the time it takes for each motion, and see which can be eliminated or changed. It became clear that skill was far less important in raising productivity than identifying the best method to do the job. Scientific management was born. And in developing countries, scientific management was applied to make low-wage workers very productive at low cost.

Knowledge Worker Productivity

The techniques developed to increase manual labor productivity are unknown among knowledge workers. When it comes to knowledge-worker productivity, we are where we were with manual laborers in 1900. That must change. To make knowledge workers more productive, you must do the following:

- Identify what it is that workers do. What are their tasks?
- Give them autonomy. The knowledge workers' productivity must be their responsibility; they must manage themselves.
- Continuing innovation must be a part of every knowledge worker's job.
- Knowledge workers must continuously learn and contiguously teach others.
- Productivity must be measured by quality of the output, not quantity.
- Knowledge workers must be treated like an asset, rather than a cost.

Unlike manual labor, the foremost measure of knowledge-worker productivity is quality. We don't, for example, measure instructional productivity by how many students a teacher has in a class. We measure it by how those students do on tests and what they have learned.

To evaluate productivity, you must first define what tasks the knowledge worker performs. Remember that you don't program the knowledge worker. That is, while you tell a manual laborer exactly what he or she must do on the line, the same isn't true for knowledge workers. For a manual worker, what to do is always obvious.

For a knowledge worker, it's not. Consider this example. If a patient in a hospital goes into a coma, there are tasks the nurse must perform. But she chooses when and how to perform these tasks. A salesperson spends self-directed time ordering, filling out paperwork and coordinating deliveries. They are both self-directed.

Begin assessing productivity by asking workers what tasks they do, what they believe they should be contributing to the company, and what hampers them in getting the work done. Knowledge workers almost always know the answers to these questions. If you take action on the answers, you can expect productivity to climb rapidly, perhaps doubling or tripling it.

After tasks are identified, appropriate quality measures usually become obvious.

Consider the problem of measuring surgeon quality output. Quality is assessed as the survival rate for open-heart surgical patients or complete recovery for orthopedic surgery.

The Means Of Production

You must remember and accept that knowledge workers, unlike manual laborers, truly own the means of production. While a laborer uses company equipment to be productive and can't work without it, a knowledge worker is the equipment. Consider her or him a capital asset, not a cost. Increasingly, he or she must be made to feel a crucial part of the company. ■

The Measurement Dictates the Outcome

The measure you use to define quality dictates the outcome. Take two inner city schools in the same neighborhood. One defines the task as "helping the underprivileged," while the other defines it as "helping those who want to learn to learn." One measures success by scholastic failures (i.e. continuing to help the underprivileged who fail), while the other measures it by scholastic success. The task defines the outcome.

Nurses Double Their Productivity

When knowledge workers assess their productivity, and managers take action, the results are often dramatic. Consider what happened when a group of nurses at a major hospital identified what tasks were important and what tasks were not. After agreeing that patient care and satisfying physician demands were the most important functions they performed, the group quickly identified obstacles to productivity. These included chores like arranging patient flowers, answering phone calls and paperwork. When these functions were turned over to less skilled and lower-paid floor clerks, nurse productivity (as measured by patient satisfaction and time spent at bedside) soared.

Managing Oneself: What Knowledge Workers Can Expect

More and more people in the work force will have to learn to manage themselves. They will have to place themselves where they can make the greatest contribution to the company, and they will have to learn to develop themselves. They will also need to stay young and mentally alive during what may be a 50-year working life. They will be in charge of their own destinies.

These are powerful new demands on individuals, including

- **discovering what your strengths are, who you are and how you work;**
- **asking where you belong;**
- **defining your contribution;**
- **taking responsibility for relationships; and**
- **planning for the second half of your life.**

What Are My Strengths?

Many people think they know at what they are good. But often they are wrong. Today you must take the time and make the effort to identify your strengths. A century ago that wasn't important; you were born into a line of work, like farming or tradesman. That's not true anymore; people have choices. To discover your strengths, use the following technique. Whenever you make a key decision or take a key action, write down what you expect will happen. Nine to 12 months later, look at the result.

The results will, after two or three years, tell you where your strengths and weaknesses are. Then you must concentrate on your strengths. Place yourself where your strengths can be used. Work on improving your strengths.

This feedback analysis is also likely to identify areas where your knowledge is lacking.

Lack of knowledge in an area can be the result of the belief that information outside your area of expertise isn't valuable, or less important than that in your area. Or it can be the result of the arrogance of being "bright," and believing intelligence is a substitute for knowledge. If you discover this about yourself, get the knowledge you need to become competent. If you are going to succeed, you must overcome intellectual ignorance and work on acquiring the skills and knowledge needed to make your strengths fully productive.

You must also be aware that the way you interact with others will have an impact on your achievements. You must understand that manners are the "lubricating oil" of an organization. Too often, cooperation is hard to get because the social groundwork hasn't been done.

How Do I Perform?

Knowing what to do is only half the battle; you must also know how to do it. Individuals have different learning styles, and the one forced on you in school isn't necessarily the right one for you. Explore your own learning style by asking yourself some fundamental questions.

First, are you a reader or a listener? Some people respond better to the written word while others respond better to live questions. Consider President Eisenhower. When he was commander-in-chief of the Allied forces in Europe, press questions were written. His responses were eloquent. At the White House, press questions were shouted at him. His responses rambled without benefit of the written word.

Some people learn by reading or listening, and others learn best by writing. Beethoven always wrote his compositions down in sketchbooks, yet he never referred to them. Why? If he didn't write them down, he would forget, but once he did he never needed to look at them again. If this describes your learning style, start writing down what happened at meetings immediately afterward.

Once you know how you learn, act on that knowledge. If you don't, you are, in effect, condemning yourself to nonperformance.

You must also analyze your values and act on them. A simple test is the "mirror" test.

Ask yourself if the action you are about to take will make it impossible to look at yourself in the mirror in the morning. If the organization you work for wants you to act against your mirror test, leave or be condemned to frustration and nonperformance. Know your values, and you will know where you belong.

You should also consider the second half of your life. Second careers are becoming more common than ever before. Some decide mid-career to return to professional school, others leave for the ministry. Others start their own businesses or do charitable work. Mid-career changes can ease disappointment and add meaning to the second half of life. ■

Ideas Don't Move Mountains

Don't make the mistake many people make. Don't mistake ideas for actions. Many brilliant people conceive wonderful ideas and then don't follow through. They believe ideas will move mountains. In reality, of course, it is bulldozers that move mountains. Don't stop when the planning is over. That's when the work should begin.

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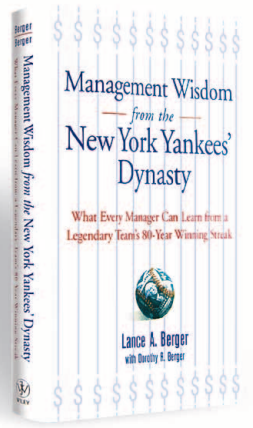
Management Wisdom From the New York Yankees' Dynasty

Lance A. Berger and Dorothy R. Berger

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FILE: HANDS-ON MANAGEMENT



What Every Manager Can Learn From a Legendary Team's 80-Year Winning Streak

MANAGEMENT WISDOM FROM THE NEW YORK YANKEES' DYNASTY

By Lance A. Berger
with Dorothy R. Berger

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THE SUMMARY IN BRIEF

At the heart of the New York Yankees' dynasty is the organization's incredible track record in managing talent. The Yankees know how to find, nurture and retain baseball stars and superstars better than anyone else.

Author Lance Berger is a management consultant to Fortune 500 companies and has served as a consultant to Major League Baseball. After looking deeply into the history of the Yankees' organization, Berger discovered that many of the same principles that made the Yankees great were also driving the success of business clients. These core principles are based on leadership, processes and culture, and have evolved over the past eight decades during the team's remarkable history.

In this summary, Berger offers time-tested management techniques that can turn any team — in sports or in business — into a long-term winner. He also shows that, contrary to popular belief, the Yankees' talent management secret isn't their payroll. In fact, most Yankees superstars — including such greats as Lou Gehrig, Mickey Mantle, Derek Jeter and Bernie Williams — have been developed internally, not bought or traded from other teams. The Yankees' secret weapon is the sophisticated talent management system Berger describes.

What You'll Learn In This Summary

- ✓ How to create a balance among superstars, stars and solid performers.
- ✓ Ways to set the bar higher than your people have ever seen it.
- ✓ What it takes to cultivate ownership values from the top down.
- ✓ Ways to make the superstar the focal point of your organization.
- ✓ How to hire the best front-line managers you can find.
- ✓ Better ways to formally recognize your informal leaders.
- ✓ What you should do to celebrate your history, heroes and legends.

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How an Organization Dominated Its Industry for 80 Years

It is rare for a company to dominate an industry for more than a few years. Time changes both customers and technologies, and allows new competitors to rise. This makes the Yankees' record over the past eight decades all the more amazing. Since 1921, the Yankees have been in the World Series 39 times and have won the championship 26 times. There are few American corporations that have been a dominant force for more than eight decades.

No matter whether you love or hate the Yankees, it is clear to anyone who looks at the team in an objective, businesslike manner that it is not just another sports team. There is something special about the team that allows it to win no matter the changing players, managers and owners. The secret is a set of 14 principles that represent the Yankees' best management practices. These principles emerged under the leadership of owner Jacob Ruppert in the 1920s and have been refined by owners and management ever since.

The 14 management principles from the history of the team's success are applicable to any organization. You don't have to be a Yankees fan or even know anything about baseball to benefit from the management wisdom from this sports dynasty. You just need an interest in building a competitive advantage in your company. The Yankees, in the context of this summary, are a metaphor for sustained organizational and business excellence.

The Big Yankee Management Myth

Not everyone agrees that the 14 principles are the basis of the Yankees' eight-decade track record. One common (and misleading) myth is that the Yankees could simply buy superstars. But this is a very simplistic way of looking at Yankee success, and it dismisses many core values and guiding principles of the dynasty. If you don't look beyond the myth that the Yankees simply buy all the best players, you will deprive yourself of powerful management knowledge that could help your organization build its own dynasty.

While it is true that under George Steinbrenner the Yankees have had the biggest payroll in baseball, offering big salaries to lure superstars from other teams is only one component of their overall strategy and culture. The reality is that, with the exception of Babe Ruth and a few others, "buying" superstars has played a small overall role in Yankee history. This is due to the reserve clause, a league regulation that once bound players to their current teams and did not permit any team to buy the services of a player directly from the player. In addition, no other team traded them a superstar or sold them one. Also, the Yankees focused their scouting and player management energies on their extensive farm system, and had no reason to look outside the organization for talent.

However, even if the Yankees wanted to buy enough superstars to fill the team, some superstars have no interest in becoming a Yankee. Also, the supply of available superstars at any time is relatively small. But they haven't needed to buy that talent because, like every other great business, they have an ability to develop great talent from within. Most of the Yankee greats, over the eight-decade history of the dynasty, were home-grown. The reason why the Yankee payroll is so high is that they have to keep great players after the team discovers them and turns them into superstars. The Yankees' recent 10 straight years of postseason play have been powered by home-grown talent.

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How an Organization Dominated Its Industry for 80 Years

(continued from page 2)

You don't need a Yankee-size payroll to build a superstar team. There is a perception that the Yankees' team is comprised of all superstars. The reality is the Yankees are a superstar team rather than a team of superstars. It is true that organizations need some minimal level of payroll to have any chance of competing on an ongoing basis with Yankee-like opponents, but it's not necessary to have the highest payroll. The secret to the Yankees' success is not mythical. It is a result of a set of 14 sound business practices for managing talent that were applied over an 80-year period. A shrewd manager can use the Yankee principles to create a winning tradition in his or her own organization.

The 14 principles described in this summary cover three main themes: leadership, processes and culture. Together, they constitute a road map for building your own dynasty. ■

PART I: LEADERSHIP ESTABLISHES THE FOUNDATION

Cultivate Ownership Values From the Top Down

The most influential principal Yankee owners have been, in chronological order, Jacob Ruppert, Del Webb and Dan Topping, and George Steinbrenner. And of those owners, Jacob Ruppert was the most important as he built the Yankees' winning tradition that won the team 10 pennants and seven World Championships under his stewardship. These were owners who were equally at home in traditional corporate boardrooms and in the Yankees' front office.

Winning owners have characteristics and behaviors that set them apart from their peers. Most Yankee owners brought an opportunistic spirit to the team and added their own special touch to the Yankee tradition. These owners were successful in influencing team results through the selection of a management staff built on ownership principles, and by shaping player behaviors on and off the field. They managed to instill in their employees a desire to win. All employees become an integral part of achieving organizational success; they are "empowered owners."

Empowered owners focus individual efforts on helping the team win the World Championship, cultivating professional skills, embracing the Yankee citizenship requirements, and constructively influencing and supporting players and management.

All employees of the Yankee organization are expected to embrace the principal owner's values and competencies, which are passed down through the executive office and field manager. ■

Hire the Best Front-Line Managers You Can Find

Successful Yankee managers had the superior professional skills necessary to manage the team. Tommy Holmes, Boston Braves pitcher under Stengel in 1942, stated, "Casey Stengel had more baseball brains in his little finger than any other manager I knew had in their whole body." Sportswriter Maury Allen gave Stengel credit for an additional skill that enhanced his technical skills in the perception of the baseball world: "He was a brilliant strategist and could play the press like Heifetz played the fiddle."

During the Yankees' dynasty, the first-level managers were uniquely suited for winning with the Yankees — but not because they had outstanding prior accomplishments. In fact, most had managed previous teams to sub-500 records. But they understood things about the Yankees that others did not. They shared the values of the Yankees' organization, of the owner and general manager, and instilled those values in their players.

The field manager, or first-level manager, represents the key formal figure (front-line authority) of an organization's structure. This person is the face of the organization that each member of the team sees every day. The team's performance is heavily determined by the operational and strategic decisions made by the field manager. The field manager serves as the bridge from ownership and management to the players.

The first-level manager in your organization is responsible for supervising the employees who develop or sell services or products. With the authority of the owners, the first-level manager plans, organizes and integrates a function or set of employee activities. The first-level manager must possess all the professional, citizenship and leadership competencies exemplified by ownership to help the organization create and sustain excellence. ■

Formally Recognize Your Informal Leaders

Chris Chambliss, former Yankee first baseman, said of team captain Thurman Munson: "He told me where I should play this hitter, told the center fielder where he should play, and communicated with the pitcher besides. A lot of guys looked up to Thurman's hard-nosed kind of play. With him, you just thought you were going to win."

Every company or team should have formally recognized team leaders. They are the individuals who excel

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Formally Recognize Your Informal Leaders

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at their jobs, who inspire others to excel and who display behaviors that bring credit to the team. There were eight Yankee captains between 1922 and 2004. They were officially designated captain for four reasons:

1. Their accomplishments exceeded the accomplishments of theirs peers.

2. They inspired others to superior performance.

3. They embodied the core values of the organization.

4. They were recognized and respected as team leaders by their teammates.

Players needed to fulfill all of these requirements before management would bestow the title of captain. At times, there was no Yankee captain as no player on the team at the time lived up to the role. The most inspiring of the team captains are Lou Gehrig, Thurman Munson, Don Mattingly and Derek Jeter, the captain of the current squad.

They are first recognized and respected as leaders by their teammates. Organizations must acknowledge and support these informal leaders. In baseball, the informal leader is designated captain. The captain is a role model who links traditional winning ways to current conditions. Leaders are anointed and not appointed: They are recognized by fellow employees as outstanding workers, great people and role models for the organization's values. They are respected, revered and emulated. ■

PART II: PROCESSES FOR DEVELOPING AND MAINTAINING A DYNASTY

Set the Bar Higher

It has often been said that people behave as they are measured. In 1920, Babe Ruth's first full year with the Yankees, the team failed to win the league title. Although the Yankees' attendance swelled that year due in part to Ruth's presence, and profits increased dramatically, owner Jacob Ruppert wasn't satisfied. Increased profits were obviously appreciated, and the team performed better than it had in the previous year, but such success was not what Ruppert was pursuing.

In 1921 and 1922, the Yankees won league titles, but lost the World Series. Ruppert was pleased with the increased performance of his team and manager, but had set his sights on a World Championship. In 1923, the Yankees won the World Series — but Ruppert was still not content: The next year he expected an even more dominant season. Winning the World Championship was the primary measure of success for the organization, and it remains so today. The bar had been set at the highest possible level, and the Yankees' dynasty was built on this definition of success.

High Expectations

To repeatedly achieve this lofty goal, all Yankee players must accept that specific measures of individual accomplishment are subordinate to winning the World Series. Expectations for player performance are high, concrete and linked to the team goal. For the organization and the players, the measures must be unequivocal.

Yankee team success is also measured by the size of the fan base relative to other baseball and sports teams. The owner's goal is to sell out the ballpark and to dominate the airwaves. Success is also equated with the variety and numbers of Yankee products sold in a multitude of outlets. The size of the fan base is the foundation for financial competitive advantage, which in turn translates into an increased ability to reinvest in the team by securing and paying for the best available talent, which ultimately results in additional fans. The Yankee goal is to put the most competitive team on the field not only to win championships but to attract and retain the greatest number of fans. In the corporate world, customers are equivalent to fans. ■

Organizational Competencies

Waite Hoyt, a Hall of Fame pitcher for the Yankees from 1921 to 1930, stated: "When we were challenged, when we had to win, we stuck together and played with a fury and determination that could only come from team spirit. We had a pride in our performance that was very real. It took on the form of snobbery. We felt we were superior people, and I do believe we left a heritage that became a Yankee tradition."

Competencies are the foundation for winning. The fundamental value at the root of Yankee pride is winning as a team. Yankee pride also refers to the team's core competencies: the skills, values and behaviors that are deemed critical to the success of each team member and the entire organization. In the corporate world, these are called institutional competencies. They are vital in guiding and sustaining substantial employee contributions to the organization.

Like accomplishments, competencies must have dimensions, measures and standards to ensure that they can be linked to substantial measurable results. They must be explicit, and players must be assessed against these competencies. Management decisions concerning each player must be guided by the assessments. The combination of accomplishment and competency assessment is the basis for player selection, development, career advancement, compensation and recognition.

Competencies are the observable and measurable skills, values and behaviors that contribute to enhanced employee performance and organizational success. Competencies must be clearly defined, articulated and embedded throughout your organization. ■

Three Benefits of Using Competencies

1. Provide periodic feedback to employees on their measurement against core competencies.
2. Establish organization-wide training, development, coaching and mentoring programs to close employee competency gaps.
3. Evaluate the benefits and costs of keeping employees with outstanding accomplishments but major inadequacies in other competency areas. Consider the long-term cost/benefit effects of such individuals.

Make Everyone on the Team A Talent Scout

One of the major sources of differentiation possessed by the Yankees is their ability to scout and assess talent. The Yankees are able to consistently maintain a high-quality team through their own special approach: Everyone is a scout.

In the Yankee organization, not just the managers identify, recruit and select talent. Everyone on the team realizes the necessity of keeping a steady flow of talent to the major league club. Individual players are always contacting players on other teams whom the Yankees are trying to trade for or sign. When the Yankees were pursuing Alex Rodriguez before the 2004 season, several players called Rodriguez to let him know that the Yankees were a winning organization and one where he would feel at home. Even after A-Rod's signing, players continued to take personal responsibility for introducing him to the Yankee Way.

In traditional organizations, the conduit for scouting external talent is typically recruiters and headhunters. However, organizations should formalize their scouting process under the human resources department, and all employees should be aware of their role in it. Scouting should be part of every employee's citizenship competency.

Everyone on the team is a talent scout. Your organization can expand its scouting field beyond the formal conduits by instilling talent assessment and scouting as an organizational value. Employees must understand their potentially critical role in bringing fresh talent into your company. ■

Create a Balance

You hear it all the time: "The Yankees are a team of all-stars." "The Yankees just buy other teams' superstars." "They have a superstar at every position." However, despite what many detractors believe to be the key to the Yankee dynasty, there are not enough superstars in the baseball player pool for the Yankees to buy and field a team of only superstars.

The Yankee mystique suggests that it has been a team of superstars (Hall of Fame level players) but the facts do not support this perception. It is impossible for the Yankees or any team to accomplish this feat because, by definition, the pool of superstars is always limited (probably no more than 2 percent to 4 percent of Major League Baseball players at any time), not all positions have available superstars, and not all superstars can or would play for the Yankees.

Superstars, Stars and Solid Performers

The reality is that Yankee success has resulted from skillful development and management of teams that reflect a careful blend of a very small number of superstars, several stars and many solid players. Highly entrepreneurial ownership and adept management have been able to carefully find, using the Yankees' own de facto competency profile, the required players to successfully fill all positions. The whole Yankee team performs better than the sum of its parts.

Every organization, including the Yankees (despite its reputation to the contrary), has finite dollars to be spent on its work force, so it must use its money wisely. ■

Establish Your Talent Strategy And Fill in the Gaps

The Yankees use talent classifications (superstars, stars, solid players, oddballs) to build a comprehensive inventory of players inside and outside the organization. The inventory enables the Yankees to implement a unique three-part strategy:

- **Identify and retain superstars in their organization and/or acquire them from competitor organizations.**
- **Ensure the battery (key positions — pitcher and catcher) has at least star and potential star backups.**
- **Make certain that everyone on the team is rated as at least a solid player.**

The Yankees have fielded many great teams over the past 80 years, but the 1998 team had more wins than even the great 1927 team. In fact, to win the World Series, the 1998 team went through two competitive championship series before it could even qualify for the World Series.

Let's look more closely at this team. This team had one superstar, five stars and three solid players among the starting lineup. It also had a solid pitching staff with several starting pitchers who were stars, and a relief pitcher who was a superstar. The catcher was a star. People might quibble with these evaluations, but this team clearly was not filled with superstars. The 1998 team also had a bench of solid players and potential stars. The team boasted five players from the Yankee farm system in the starting contingent. The leader of the 1998 team was the home-grown Derek Jeter. ■

Create a Solid Farm System

Historically, the Yankees have used a variety of statistical categories when evaluating the accomplishments of their players. For example, Casey Stengel emphasized hitters who did not hit into double plays, infielders who could make double plays, and home run hitters. This combination made his teams fast, powerful and defensively sound.

The Yankees entered the farm league business in 1929 when they purchased Chambersburg in the Class D Blue Ridge League. Two years later, they purchased Newark, an International League team. The next year, the Yankees made their most significant hire, but it was not a player. It was the appointment of a baseball executive named George Weiss to manage their minor league interests. Weiss laid the foundation for running Yankee farm teams. He was astute at selecting outstanding scouts, giving them ample budgets, and empowering them to sign prospects.

Weiss brought potential talent into the farm system, developed them, retained the best and sold off the surplus to finance later acquisitions. Weiss established the cycle of returning profits from player sales back into their farm system to ensure a steady stream of high-quality talent.

A strong farm system can cost-effectively build an organization's superstar and star base, and even trade surplus talent to fill its voids. Continual talent development protects a company against competitor raids and makes it less susceptible to being held hostage to excessive salary demands. ■

For additional information on how to implement the 'Create a Solid Farm System' principle, go to: http://my.summary.com

Pay Based on Contribution to Organization Success

Babe Ruth said, "Someday every player will be paid his true worth." Ruth's words finally rang true with the death of the reserve clause. Today, a player's salary should be based on his current and projected talent classification as a gauge of his actual and potential contribution to the team. The Yankees use this assessment of contribution as the basis for making decisions on the salaries of players on their major and minor league teams, and prospective players from a myriad of other sources. In order for this approach to be effective, the team must have accurate player assessments and a detailed knowledge of specific talent requirements. The latter typically comes from an organization-wide bench strength summary and talent management plan. Twice in their history, for extended periods of time, the Yankees failed to follow this disciplined approach. The result was a large payroll and mediocre team performance.

Most organizations can't afford to spend payroll dollars haphazardly. Missteps can lead to an inability to attract star talent or, even worse, loss of your top people to competitor organizations.

Allocate Sufficient Resources

A competitive team must first allocate sufficient resources to attract and retain superstar players. Similarly, star players are also valuable assets, and although they are somewhat more plentiful than superstars, their retention value is sometimes only slightly less significant. The last group to be considered is the solid players. Solid players should be fairly compensated with the remaining payroll budget. Solid players have a lower retention value to the team, are typically less attractive to competitors than superstars or stars, and may be less likely to move from a championship team to one that is less competitive because of small financial incentives. Companies cannot afford to lose, or fail to acquire, stars with superstar potential and superstars who are projected to maintain their superstar accomplishments.

For this reason, your organization must remember that the first principle in compensation management is not spending more than you can afford. The second principle is spending what you can afford wisely. Whatever your budget, wisely spending your money is the key to sustainable competitive success. ■

Make the Superstar the Focal Point of Your Organization

A superstar is a commodity in short supply. This makes the superstar a very special ingredient in a talent management program. That is why we single this person out for special attention. Superstars generally comprise only around 2 percent to 4 percent of the number of players in any given year. Their value to their team is immeasurable.

There are very few superstars, by definition, in the talent market. There are even fewer super-stalwarts in the talent market. This makes the recruitment, development, cultivation, deployment and retention of them integral to sustaining success.

A team must find a way to fill gaps in its bench-strength plan with actual superstars and star key positions on the parent team and potential ones in the farm system. Every time a superstar player is taken from a competitor, the transfer destabilizes the competitive environment. These teams believe that they have lost some type of competitive advantage — and they're correct. Losing a superstar is a direct threat to the success of the team. Every time a superstar or star key player changes hands, opposing teams attempt to adjust their rosters to remain competitive. This makes for a very fluid market for high-quality talent, and this condition,

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Make the Superstar the Focal Point of Your Organization

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in turn, spawns higher player compensation.

Hiring your competitor's superstars weakens the direct competitor's strength, demoralizes all competitors, greatly improves your team and creates media focus that heightens fan (customer) interest. And the Yankees are the best in the baseball world at doing exactly that.

Paradoxically, however, the Yankees did not pirate a superstar from a competitor between the early 1920s (Babe Ruth and Waite Hoyt) and 1975 (Catfish Hunter). Since then, they have used superstar acquisition in a highly selective mode. When the Yankee farm system started to produce high-quality talent, the Yankees added superstar retention to their strategy of superstar acquisition. ■

For additional information on the beloved, immature superstar Mickey Mantle, go to: http://my.summary.com

PART III: DESIGN YOUR CULTURE FOR SUCCESS

Diversify Your Talent Pool

Diversity is a success principle that evolved under George Steinbrenner. Until the Steinbrenner era, the Yankees lagged in expanding the ethnicity of the team. Baseball talent was what intrigued Steinbrenner, not the color of his players' skin. He knew that to fully implement the Yankee talent strategy no group of people could be excluded from the pool of available talent.

The Yankees' Checkered History of Diversity

The Yankees' dynasty was diminished by its failing to consider quality talent from all sources when its competitors were already doing so. Eight years after Jackie Robinson broke the color barrier, Elston Howard became the first African-American Yankee player in 1955.

George Weiss, the person responsible for building the best farm and scouting system in the 1940s, 1950s and 1960s, was shackled by his own bigotry that prevented him from utilizing the Negro Leagues as a source for introducing black players into the Yankee farm system. Weiss believed that black players could never meet all the Yankee appearance standards. To Weiss, being Caucasian was one of the requirements of being a Yankee. He declared, "I will never allow a black man to wear a Yankee uniform."

The failure of the Yankees to expand their pool of diverse players in the 1940s and 1950s reduced the number of superstars and stars available to the team in the late 1960s and early 1970s. This shortsightedness contributed to the Yankees' first dark age from 1965 through 1975. Today, the Yankees are a blend of African-American, Latino, Asian and Caucasian players. This diversity has been translated into on-field and box-office success. There are no restrictions on where the team searches for talent. The team knows that it must search even in the most unconventional places to bolster talent at all levels of the organization. ■

Reasons for Diversity

In order of diminishing importance, a review of the Yankees' behavior since 1975 suggests the following reasons for diversifying their talent horizons:

✓ Diversification expands the talent base for recruiting superstars, stars and key position stars. This enhances the team's chances in achieving its staffing model.

✓ Diversification expands the fan mix. This leads to greater ticket and merchandise sales, broader media attention, larger audiences and higher advertising revenue. The Yankees recognize that there is a huge fan base within and outside American borders that can be tapped through diversity. Japanese fans closely follow Japanese players, Mexican fans track their countrymen, and so forth.

✓ Diversification provides a variety of thoughts and emotions emanating from varied cultural experiences that enable team members to better share common goals, to investigate alternative solutions to problems and to weather tough times.

Celebrate Your History, Heroes and Legends

Perhaps no other organization is so filled with myth and legend as the Yankees. The names of the players, their monuments in center field at Yankee Stadium, the retired numbers, the stories, the pinstripe uniform, the World Championship banners, the rings they wear, all of it is part of what people think about when they think about the Yankees. This is not by accident.

Yankee folklore is transmitted through the principal owner, manager, captain, superstars and stalwarts of all types. They share the stories and acknowledge past champions. They are the daily reminders of what it takes to be a champion and the custodians of the Yankee Way. The Yankee Way is enmeshed in the team's history and every generation of Yankees builds on the Yankee Way template. Winners write history, and the Yankees have written more than their share.

Every organization has a history, values and competencies that set it apart and must be consistently con-

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Celebrate Your History, Heroes and Legends

(continued from page 7)

veyed by all levels of employees. Its history, values and characteristics form its own organization "way." When employees feel ownership for their company way, they are in a better position to pass on the tradition.

The Yankee organization has gone to great lengths to promote its history and tradition of excellence. The Yankees tell their stories, publicly celebrate past heroes and legends, and use their past successes to persuade current and prospective players to believe that they are destined to win. The Yankees are more than a team. They are an American success story that has captured the imaginations of people worldwide.

On and off the field, the Yankees have been successful at selling themselves. Beginning with the Ruppert era, each primary owner embraced promotional rules. ■

Boldly Promote Your Tradition of Excellence

The Yankees have done an incredible job of promoting the team's winning tradition to all members of the organization, from batboy to players to management to fans and the media. The Yankees began with two organizational promotional goals: associating the Yankee brand with winning, and becoming an employer of choice.

Branding the Yankee franchise so that the team name and logo are associated with pre-eminence in the sports industry is the primary goal of Yankee management. The Yankee public relations department aims to build a high level of awareness of the Yankees with the players, fans, general public and media as a championship organization and, therefore, a strong and compelling brand with charisma and mystique — one with which people can identify and to which they can be loyal because of its association with a special way of winning.

The Yankee winning way embraces professionalism, citizenship, leadership and accomplishments. This branding helps sell tickets and merchandise, increases viewership and leads to greater advertising revenues. It also increases "share of audience mind" with respect to its baseball and nonbaseball competitors.

Employer of Choice

The Yankees' second promotional goal is to establish the team as the indisputable employer of choice. As an employer of choice, the team has a better chance of attracting and retaining quality talent than its competitors. The Yankees convey the message to potential players that their team is where you come to win championships.

They accomplish these goals using a four-step strategy: Focus on team accomplishments, focus on the superstar, pick colorful and committed hucksters to spread the message, and package the team image in a classical and epic-evoking environment. The Yankees' brand was built using these four strategies, and the organization has become one of the most recognizable in the world. People associate the Yankees with winning. ■

Conclusion

The sustained success of the Yankees is not simply explained by luck or wild spending, although both have affected the evolution of the dynasty. Nor are the conditions that have buttressed Yankee accomplishments solely cloaked in myth and folklore. Yankee dynastic success is explained by a simple formula that consists of three factors that can be further differentiated into 14 principles. The three factors — leadership, processes and culture — had their roots in the Yankee organization that launched the dynasty, while the 14 principles evolved over the team's successful 80-plus-year history.

Any organization can achieve Yankee-like success and compete with top rivals if it utilizes the three-factor formula more effectively and efficiently than its competitors. Where do you begin?

First, you must establish a strong and pervasive leadership structure, beginning with leaders who can credibly influence employees to achieve a clearly defined goal for competitive success.

Second, the organizational goal of the leaders must be translated into a road map comprised of a set of credible, clear and practical processes the organization must follow to reach its goal.

Third, there must be a conscious effort by leaders to create and sustain a culture where employees are motivated to establish personal goals that derive value from their contribution to organizational success.

Once you achieve success, you must sustain it to become a dynasty. To paraphrase the great Yogi Berra, you must constantly achieve "déjà vu all over again." ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *Management Wisdom from the New York Yankees' Dynasty*, you'll also like:

1. ***Joe Torre's Ground Rules for Winners*** **by Joe Torre with Henry Dreher.** Celebrated New York Yankees manager Joe Torre reveals the 12 keys to his successful management philosophy.
2. ***Moneyball*** **by Michael Lewis.** Lewis describes what it took for one of the poorest teams in baseball, the Oakland Athletics, to win so many games.
3. ***Wooden on Leadership*** **by John Wooden and Steve Jamison.** Legendary basketball coach John Wooden presents his insights about motivating others, creating a coherent team and producing winning results.
4. ***On the Ball*** **by David M. Carter and Darren Rovell.** Carter and Rovell deliver breakthrough techniques for building a business using lessons and examples from the multibillion-dollar sports industry.
5. ***The Wisdom of Teams*** **by Jon R. Katzenbach and Douglas K. Smith.** The authors reveal the secrets of forming, serving on, and leading highly productive teams.

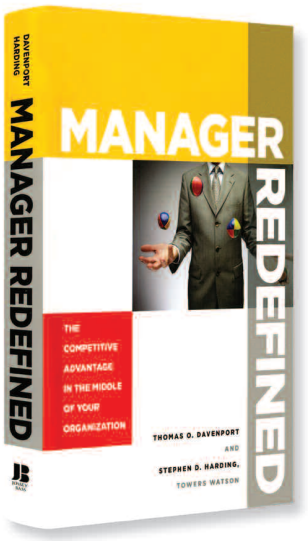
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Manager Redefined

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Manager Redefined

The Competitive Advantage in the Middle of Your Organization



by Thomas O. Davenport and Stephen D. Harding

THE SUMMARY IN BRIEF

Management and leadership have been with us since humans invented work. For most of the last two decades, however, the manager position has been under direct assault. It's become a ragged conglomeration of pieces and parts, designed to do too many things and engineered to do none of them well. People both higher and lower in the organizational hierarchy question its value, resent the authority it confers and criticize the competence of the people who do it.

In *Manager Redefined*, Tom Davenport and Stephen Harding look at the picture differently. They view supervisors and managers as centers of insight and influence, underappreciated in many organizations, but endowed nevertheless with the potential to make dramatic contributions to enterprise success. The authors challenge readers to consider the power embedded in their managers' accumulated knowledge and experience. Building and unleashing that power is the authors' aim in *Manager Redefined*.

Davenport and Harding make the case that executives and the Human Resources function should see managers as more than just message amplifiers, system executors or (heaven forbid) a necessary evil required mainly to keep employees in line. They urge companies to think of their managers instead as potential sources of competitive advantage.

IN THIS SUMMARY, YOU WILL LEARN:

- How to resolve one of the most important and often difficult aspects of management — motivating performance.
- How to build autonomy and self-efficacy among team members while maintaining accountability.
- How to unleash the power and potential of managers for company goals.
- How high-performing managers can contribute to organizational success.

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THE COMPLETE SUMMARY: **MANAGER REDEFINED**

by Thomas O. Davenport and Stephen D. Harding

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PART I: CONTEXT

Organizations (along with academics, consultants and gurus) have relentlessly elevated leadership at the expense of management.

In a *Harvard Business Review* article in 2003, Jonathan Gosling and Henry Mintzberg wrote, "Nobody aspires to being a good manager anymore; everybody wants to be a great leader." And then they added a warning note: "But the separation of management from leadership is dangerous. Just as management without leadership encourages an uninspired style, which deadens activities, leadership without management encourages a disconnected style, which promotes hubris."

What do "leader" and "manager" really mean to the functioning of an organization? The terms denote different actions and different outcomes — but what actions and what outcomes? If we extrapolate a bit from what Rear Admiral Grace Hopper said — that managers focus principally on assets, and leaders concentrate on people — we can clarify both definitions. Leadership, we submit, entails:

- Envisioning an improved situation (for instance, achieving an organizational goal, changing strategic direction, emerging from a crisis).
- Determining the best path for reaching that desirable end.
- Inspiring in others the self-motivation to reach the appealing state (that is, creating the conditions under which people feel the intrinsic motivation to move ahead).
- Boosting energy (by recognizing success, for example), removing obstacles that impede progress (political constraints, for instance) and demonstrating resilience (remaining steadfast in spite of failures), so that people can make speedy and efficient strides toward the goal.

A leader is like the captain of a 15th-century Portuguese ship sailing out of sight of land for the first time in search of gold, silver and spices. The captain envisions the destination, plots the course (with the help of a skilled navigator, of course) and engenders courage among the sailors ("Don't worry, men, I'm pretty sure we won't sail off the edge of the Earth"). Of course, the mission will fail if the boat springs a leak, the sails become shredded or the food goes rotten. Seeing to the soundness of those assets is the responsibility of a manager. With all this in mind, we suggest that managing consists of:

- Acquiring, deploying, building, preserving and exploiting assets.
- Overseeing processes and implementing systems for putting those assets to use.
- Monitoring results and making adjustments.

Without leadership, people lack the vision and courage to set sail and discover the New World. Without management, the boat sinks before it gets there.

The Definition, and the Power, of Engagement

The degree to which managers matter depends, in

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer,** Contributing Editor

part, on how effectively they contribute to employee engagement. We believe that, of all the attitudes and behaviors of employees in companies across the world, engagement best captures the energy and dedication that underlie human capital investment. Research performed by our colleagues at Towers Watson shows that engagement comprises three distinct dimensions: rational, emotional and motivational. The thinking (rational) component of engagement refers to how strongly employees understand and support the goals and values of the organization for which they work. The feeling (emotional) component of engagement describes the affective attachment that individuals feel toward their organizations. The behavioral (motivational) element encompasses employees' willingness to engage voluntarily in discretionary efforts for the good of the company — that is, to invest more of their human capital than is required just to keep their jobs.

When organizations succeed at generating engagement among their employees, those employees not only score high on the three engagement dimensions, but also channel their human capital investment into areas the company cares about. ●

Why Managers Have a Tough Job

What makes being a manager so unattractive? On one level, the answer is obvious — just look around today's workplace. As downsizing lengthens everyone's to-do lists, expanding workloads add new burdens to the manager's job. With many organizations expecting managers to act as player-coaches, both performing and overseeing work, their roles often become complex and unwieldy. Organizational flattening and widening of managers' spans of control stretch their ability to spend time coaching, or even to become acquainted with, any individual employee. It's hardly surprising that respondents to a Randstad study cited increased stress as the No. 1 reason for avoiding management responsibility. They also said they hated the idea of handling disgruntled employees (like themselves, perhaps), dealing with loads of administrative paperwork and having to terminate people, many of whom were peers not long before. Given the disinclination of people to take on manager jobs, Randstad predicts what it calls a "looming manager shortage." They recommend that, to deal with the shortfall of managers, organizations need to reconsider how they define managerial roles.

When you consider the full array of leadership and management responsibilities that fall to people with supervisor and manager titles, one thing becomes clear — managers have difficult jobs. Workload pressure from downsizing, unworkable ranges of responsibility and wide spans of control all burden managers' jobs, increase their stress levels and reduce their effectiveness. Little wonder employees are skeptical about the competence of the people to whom they report.

Work and Reward Are One and the Same

Ultimately, an employee's work and the deal that rewards him for the quality and quantity of that work are inextricably bound. Managers must recognize that, in a sense, work and reward are one and the same. They can be guided by the words of American civil rights activist and author W.E.B. DuBois: "The return from your work must be the satisfaction which that work brings you and the world's need of that work. With this, life is heaven, or as near heaven as you can get. Without this — with work which you despise, which bores you and which the world does not need — this life is hell."

We Really Don't Like Being Told What to Do

Our inherent internal conflict about leadership has an important corollary: We really don't want to follow orders. Being directed reminds us that someone else gets to call the shots. Still, if we must give up authority, we want those who have it to exercise it appropriately. As a result, we place a heavy burden on managers to hit a small target between being too assertive and not assertive enough.

The happy medium is happy indeed — it constitutes the most effective behavior in the eyes of employees. A research study conducted by Daniel Ames and Francis Flynn at Columbia University showed that managers who manifest moderate levels of assertiveness accomplished just as much as the most assertive, but with far lower social costs (in the form of disgruntled employees).

Every time a manager makes the wrong choice, he creates discontent. Of the two possible transgressions, of course, too much assertiveness engenders greater resentment.

In corporate organizations, bad boss behavior rarely leads to violence, but it can lead to lawsuits. In 2007, legislation was pending in New Jersey and at least three other states to give employees the right to seek damages if a manager created an abusive environment. In New Jersey, the bill specified that an individual who felt he or she had been wrongfully treated could sue for as much as $25,000. ●

A New Model of Manager Performance

Any group can enhance its chances for success by innovating and passing on successful methods. The goal is an edge over the competition. Corporations that achieve and sustain competitive advantage consistently deliver superior financial results.

Management guru Peter Senge has famously said that the only sustainable competitive advantage is the ability to learn faster than your competition. Although learning is certainly necessary, incorporating knowledge into what and how you produce creates the real competitive edge.

If managers play a role in the creation and application of knowledge (a key element of human capital), it then follows that they also have a part to play in achieving competitive success.

The Manager Performance Model

We analyzed our consulting experience in manager role definition and reviewed survey results from companies around the world and across the performance spectrum. Using all this information, we developed a performance model that we believe depicts how managers contribute most directly and significantly to sustainable competitive advantage. The model contains four categories of manager performance requirements:

1. Executing Tasks. This element comprises planning work, clarifying job-related roles, structuring specific job tasks, monitoring performance and making the necessary adjustments to ensure that work meets organizational needs and supports business strategy. Overseeing task execution is, in many ways, the most traditional aspect of the manager's job. Of the four performance categories, it focuses most directly on the asset deployment, process oversight and systems implementation elements that most people think of as integral to managing.

Even when the descriptors sound familiar (such as encouraging teamwork, for example), the expectations and goals of task-execution approaches will vary: Teams at Intel share quality improvement ideas; teams at Southwest Airlines scramble to serve customers; teams at SAS, a leader in business intelligence software, work with users to create new products.

2. Developing People. The next element of the performance model calls for managers to create opportunities for each employee to add to his or her storehouse of human capital. In doing so, managers create the ability for people to carry out their jobs and achieve their goals.

Southwest managers focus learning on both individual task elements and on cross-functional training so that people understand fully what others do and the team as a whole can function better.

3. Delivering the Deal. Managers play a central role in brokering the exchange of each employee's investment of human capital for the portfolio of financial and nonfinancial, intrinsic and extrinsic rewards that constitute a return on that investment. We refer to this reciprocal arrangement as *the deal* between employee and enterprise.

Intel, Southwest and SAS all understand the importance of providing an appealing deal to employees as compensation for their contributions to strategic success. Naturally, financial rewards play a part in the organizations' overall reward portfolios. The Intel jobs website, for example, proudly tells prospective candidates about the organization's incentive philosophy: "Bonuses are the major element of Intel's variable pay and are central to Intel's approach to compensation. Our philosophy is to offer a greater portion of variable pay than the market average, because this provides a strong link between employees' compensation and company performance."

4. Energizing Change. Effective managers look ahead in time and outside the boundaries of their units and their organizations to anticipate and respond to environmental shifts and to envision, plan for and create the future. Sometimes this requires managers to respond to change that is imposed and unavoidable — reorganization, strategic redirection or downsizing, for example. In other cases, innovation and creativity may spark the change, as people develop new offerings or find better ways to work. These forms of change call for varying levels of reactivity or proactivity, adaptability or resilience. ●

Constructing the Manager Role

We work with many organizations whose promotion process frequently puts highly qualified technicians into managerial roles where they fail, or at least underperform. Managers, the Human Resources department and executives all acknowledge the problem. There are many possible causal pathologies: expediency, believing that direct production is all that really counts, concluding that managers really don't matter if organizations have charismatic senior leaders. Sometimes, organizations program the manager's job to fail by promoting the right person but subsequently failing to define the job sensibly or support it effectively.

The analysis reflects sensitivity to the assumptions

many organizations bring to their conceptions of what managers are supposed to do and how they are supposed to do it. Types of skills, reporting spans and balancing work and leadership must all be considered. The point is to look at these factors together and consider how they influence each other rather than making decisions that rely too heavily on a single factor. The prize is a role definition that makes it possible for managers to execute the elements depicted in the manager performance model.

Some juggling and balancing are inevitable in the manager's job, but a thoughtful approach to defining the position can make managers' lives easier and maximize their contribution to the organization's strategic advantage.

PART II: IMPLEMENTATION

Psychologists know that we humans give ourselves far too much credit for our ability to perform rational analysis. In fact, our reasoning is fraught with deviations in judgment, cognitive faults that influence how we perceive the world and act on our perceptions.

Planning Work

From the list of logical fallacies to which humans (and therefore managers) are heir, three have a direct effect on work and project planning:

- *The framing effect.* Drawing different conclusions or taking different actions from a single set of facts, depending on how the facts are presented or labeled.
- *The illusion of control.* Believing that we can direct, or at least influence, events over which we actually have no power.
- *The planning fallacy.* Consistently underestimating the time and cost required to complete a task.

These biases influence how managers and other humans instinctively approach planning. We all experience them to a greater or lesser degree. We must recognize and deal with them if we are to succeed at the basic tasks of goal setting, resource planning and action taking, no matter what competitive strategy we hope to execute.

Clarifying Job Roles

Once the planning is finished, there's work to be done.

As with work planning, managers must overcome a set of cognitive and attitudinal biases as they work with employees to design jobs. These two are particularly relevant:

- *The actor-observer bias.* This is the tendency to attribute our own actions to situational factors and attribute the behavior of others to stable personality traits. If I feel stress before a big presentation, for example, I might ascribe it to my concern that this session will be attended by important clients, a circumstance I use to explain my sweaty palms. Conversely, if I see a colleague showing obvious nervousness before a big speech, I might put it down to his having low self-confidence. I know I'm a great presenter; I'm not so sure about him.
- *The illusion of transparency.* This occurs when we overestimate our ability to understand others' personal mental states. We believe that we know others better than they know us. In a related way, people tend to think of themselves as having complex and variable personalities, while viewing others as simpler and more predictable.

These biases threaten to impede managers' efforts to perceive accurately the complex needs and competencies of those around them and to use those insights to craft suitable work roles.

Monitoring Progress

Monitoring work progress and results, the third dimension of the manager's task-execution responsibilities, should directly reflect the logic established in work planning and job role clarification. In a product-differentiation strategy, for example, innovation matters. Therefore, the manager of the R&D unit will pay special attention to metrics indicating successful new product commercialization. Individual and team work flows will be structured to focus attention on product development, and customized jobs will provide for the free-flowing creativity necessary to inspire innovation.

Developing People

In a world where organizational focus on employee development has been compromised and learning investments threatened, managers' direct efforts to help people build their human capital take on increased urgency. An astute manager has a wide array of approaches at his disposal for engaging in direct human capital-building efforts with employees. These include:

- *Coaching.* Providing hands-on skills-improvement advice and instruction by putting learning and action close together; encouraging performance, nurturing and reinforcing success.
- *Teaching.* Imparting knowledge; learning and action may be separated by time and space.
- *Informing.* Providing information on specific job functions and broader organizational and strategic context.
- *Mentoring.* Giving the employee career guidance,

general development counseling and advice, sponsorship and support.

- *Exemplifying.* Displaying the desired attitudes and actions.

Managers may engage in any or all of these actions more or less constantly and without clear delineation of when one form of direct development stops and another begins. ●

Delivering the Deal

It is difficult to overestimate the motivational power many executives and most organizations ascribe to financial rewards. "Pay for performance" has become a largely unchallenged, albeit aspirational, foundation for reward strategies. Among respondents to our Reward Challenges and Changes survey, only 18 percent say their organizations have no formal program for differentiating performance and steering comparatively higher levels of financial rewards to people designated as high performers. Stanford professor Jeffrey Pfeffer goes to the heart of the matter when he says, "The big push for incentive pay stems from a belief that if employees were just compensated appropriately, virtually every organizational and management problem could be solved."

And how well do the programs actually work? Not very well, if you ask employees. Across our database of survey responses, less than two-thirds of employees of U.S. firms say they understand how their performance bonuses are calculated. When asked to consider their total compensation, 67 percent say they are fairly paid for the work they do. But only 43 percent believe their organizations do a good job of matching pay to performance.

Managerial Alchemy

We don't mean to suggest that incentive plans have no place in the deal between individual and enterprise. Intelligently defined and judiciously used, they have great power to signal to employees the behaviors and results the organization values most. Incentives can also play an important part in a manager's efforts to gather her team and recognize contribution — as long as the recognition encompasses more than just financial rewards. Consider this description of a reward-allocation philosophy, a paraphrase by Pfeffer of the thoughts of George Zimmer, founder of clothing retailer Men's Wearhouse: "You want incentives to be just large enough but not too large. … You want rewards to be large enough to be noticed, and you want to use them to provide an occasion for celebration and recognition, to let the group come together and share successes and enjoy each other's companionship. But you certainly don't want to make the incentives so large that they begin to drive and thereby distort behavior."

Managers who hope to use the reward tools afforded by organizations to deliver an engaging and energizing deal to employees must:

- Not just administer the organization's reward systems, but also perform a kind of alchemy, transforming extrinsic financial incentives into sources of intrinsic fulfillment.
- Not deliver the same reward portfolio to everyone, but instead create individualized deals for each employee; managers must understand that, although those deals may not differ greatly across the employee population, it's important that each person feel as though his deal is custom-tailored for him.
- Not just execute the recognition programs provided by the company, but rather create a recognition-rich environment in which formal and informal, predictable and unanticipated recognition turbocharge employee engagement. ●

Energizing Change

When organizations respond to external forces by resolving to change, they need to carve out specific roles for line managers. By doing so, they improve their chances that employees will not just accept, but also embrace, the new ways of working. One study, conducted by a team of researchers at Troy University and Auburn University, looked at how health care workers adapted to the introduction of new record-keeping technology. The team studied how nurses and other workers responded to the transition from using laptop computers for patient care documentation to using handheld devices. Nurses also had to move from printed patient care plans to automated clinical planning software. The nurses hadn't sought these changes. From their standpoint, the new ways of working were imposed by the organization. From the organization's standpoint, the potential benefits were clear. Nurses would become more efficient, improving the continuity of patient care and reducing the expense associated with copying and pushing paper.

The researchers found that individual adaptability in response to new work-altering technology depends on the degree to which managers:

- *Ensure that technology provides work support and improves performance.* When a job becomes more interesting and its mastery more fulfilling, individual perfor-

mance improves. Work process changes that add to job enrichment and mastery therefore contribute to performance. Managers needed to make sure that the new devices made jobs easier, not harder, and workers more productive, not less so.

- *Involve workers in the introduction of new technologies.* Involvement means giving the affected populations some say about when and how technology would be introduced. It requires managers to seek employees' advice on how employees, patients and customers might respond to new ways of doing things.
- *Clarify individual roles within the affected organizations before new technology comes on the scene.* Role clarity goes to the heart of rational engagement. It forms an essential connection between individual work and organizational success. Workers who have a better line of sight between their jobs and the success of the organization show more inclination to embrace changes of all kinds. Their comfort with change becomes all that much stronger when their managers help them envision a positive effect on product and service outcomes.

Choosing to Change

The manager does not act alone. His or her supportive actions must be bolstered by an organizational willingness to accept and accommodate new ideas. The sociopolitical context of organizations can at times militate against creative change, which entails, after all, a disruption of the status quo. Onne Janssen from the Netherlands looked at the relationship between manager support for innovative behavior and the perceived influence that individuals felt they had in the workplace — their belief that their actions would indeed achieve the desired effect. His research produced clear results: "Employees' sense of influence needs to be augmented by perceptions that their supervisors are likely to support their innovation. … Employees feel that their supervisors are the key actors who have the power to grant or deny them the support necessary for the further development, protection and application of their ideas."

The manager thus plays a dual role: fostering an environment that encourages and expects creative behavior, and providing the support necessary to ensure that such behavior is accepted and assimilated within the organization. ●

Authenticity and Trust

Integrity is a main pillar of authenticity. Integrity means adhering consistently to a code of high moral ethics and behavior. Consistency, in turn, forms a core element of trust. We think of authenticity and trust as sequential and complementary elements that add power to our manager performance model. In the architecture of our model, they form the foundation, the basis for strength and stability.

Connecting Authenticity and Trust

Trust is defined as the willingness of one individual to make him- or herself vulnerable to another. The acceptance of vulnerability must be grounded in the expectation that the trustee will act in a predictable way that benefits, or at least doesn't harm, the person granting trust.

Of all the elements in our manager performance model, none has a more dramatic effect on a manager's ability to work effectively offstage than reciprocal trust. If employees don't trust the people with whom they transact their business, then transactions will be few, meager and unfulfilling. Conversely, managers who foster trust, and who do all the other things we've described to make individuals and groups effective, create the environment for individual and group success.

By behaving authentically, managers establish the groundwork for trust.

Four Components of Authenticity

Authentic behavior is not a unitary, either-you-have-it-or-you-don't concept. Rather it comprises a set of attributes that any individual may display to a greater or lesser extent. A research team led by Arizona State University's Fred Walumbwa studied populations as diverse as Chinese, Kenyans and North Americans. They found supporting evidence for four components of authenticity:

- *Self-awareness.* Mindfulness about how one experiences and makes sense of the world. Self-awareness denotes an accurate understanding of personal strengths and weaknesses, and insight into how one's behavior is perceived by, and affects, other people.
- *Relational transparency.* Being consistent and genuine in interactions with others and presenting one's true and honest self to the world, without pretense, manipulation or intentional distortion. That value of transparency applies to close associates as well as to oneself; a manager strong in relational transparency helps others identify both positive and negative aspects of their behavior.
- *Balanced processing.* Willingness to evaluate all relevant information, including data that are challenging or uncomfortable, before reaching a decision. Authentic

leaders are less likely than others to ignore or distort information they may not want to hear, to deny the relevance of messages about their personal shortcomings or to punish the bearers of those messages.

- *Internalized moral perspective.* Guiding one's behavior and decisions by personal ethical standards rather than by external pressures from a group, organization or society. As Walumbwa and his colleagues explain it, a person's moral perspective is guided by deeply held values that enable the individual to avoid acting merely to please others or to attain rewards or avoid punishments. ●

Fitting the Pieces Together

Here are the summary attributes that we believe contribute most directly to a manager's success at playing the roles we've outlined across strategies, companies and functions:

- **Requisite Variety.** This concept comes from systems theory, specifically the cybernetics discipline. It means simply that a flexible system encompassing many options performs better in an uncertain environment than does a system with fewer options. That is, only variety can respond to variety. For managers, this means having the insight to recognize, and the adaptability to respond to, a range of employee attitudes and behavioral styles. The goal is efficient connection and personal rapport.
- **Cognitive Fluidity.** Cognitive fluidity goes beyond simple brain power. It denotes the ability to make intellectual connections across topics and domains. More than just balance, cognitive fluidity calls for connectivity and mental agility. A manager strong in this attribute will prove effective, for example, at determining how a redirection of business strategy will affect unit-level work planning and operational requirements; discerning the meaning for organizational structure; and identifying the ripple effects of individual employees and their deals with the organization.
- **Ability to Catalyze Action.** The essential paradox of our concept of the manager's job is that managers can perform better from offstage. This means acting as a catalyst, precipitating results without participating as a functional element in the processes used by individuals and teams. The manager-as-catalyst attribute encompasses classic competencies like results focus, bias for action and goal orientation. But we mean something more. To perform as a catalyst, a manager must combine relentless attention to what matters with a highly developed ability to get out of the way.
- **Ability to Navigate the Organization.** The ability to find and use an organization's tools and resources contributes as much to manager performance as does any other high-level attribute. This is the ultimate example of firm-specific, how-we-do-things-around-here knowledge. It requires cognitive fluidity, which enables the manager to see readily how to connect disparate resources (such as diverse learning programs) into a unified result (a practical development process for a single employee).
- **Social Intelligence.** Daniel Goleman, author of *Emotional Intelligence* and *Social Intelligence*, includes two components in his definition of social intelligence: awareness (gathering information on others and understanding how the social world functions) and facility (effective interactions using the information gathered). These attributes provide the interpersonal insight and the influence skill needed to navigate within and outside organizational boundaries. Social intelligence encompasses the authenticity that guides managers to honest understanding of their own and others' strengths and weaknesses. It's a key to working with teams from the right distance and creating the networks that provide learning contacts. Humility is essential; a sense of humor doesn't hurt. ●

Authentic Leadership

A group of researchers from the University of Nebraska has studied and elaborated on authentic leadership. They summarize the relationship between authenticity and trust this way: "Authentic leaders act in accordance with deep personal values and convictions, to build credibility and win the respect and trust of followers by encouraging diverse viewpoints and building networks of collaborative relationships with followers."

RECOMMENDED READING LIST

If you liked *Manager Redefined*, you'll also like:

1. ***Bury My Heart at Conference Room B* by Stan Slap.** Slap helps executives ignite the massive power of any manager's emotional commitment.
2. ***Managing* by Henry Mintzberg.** Mintzberg's best-seller may be the most revealing book yet written about what managers do, how they do it and how they can do it better.
3. ***Tough Calls from the Corner Office* by Harlan Steinbaum.** Steinbaum provides inspiring, thought-provoking stories and proves that in many cases, the toughest decisions an executive makes are often the ones that define his or her career.

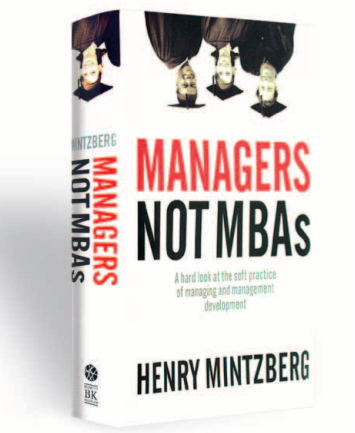
· Book 152 of 304 ·

Managers Not MBAs

Henry Mintzberg

SOUNDVIEW Executive Book Summaries®

FILE: LEADERSHIP



By Henry Mintzberg

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MANAGERS NOT MBAs

THE SUMMARY IN BRIEF

Every decade almost 1 million MBAs graduate into the economy. After two years of classes they expect to manage people who have many times the amount of knowledge gained through intensive personal experience. Those without the credentials are increasingly relegated to the "slow track" and subjected to the leadership of those who do not have the legitimacy to lead. The MBA was first introduced in 1908 and went through its last serious overhaul in the late 1950s. It is time for a change. The current system ensures that the wrong people will get educated in the wrong way with the wrong consequences. There is a better way. Professor Henry Mintzberg has designed a program, the International Masters in Practicing Management, that addresses many of the problems associated with traditional programs that profess to develop managers, but instead produce analysts ready to apply one-size-fits-all techniques no matter the context. By integrating reflective, analytical, worldly, collaborative, and action mindsets, this philosophy will not only improve managers, but also their organizations and society.

What You'll Learn In This Summary

✓ What is wrong with today's management education.
✓ What kinds of people make good managers and why they are not in business schools.
✓ How art, science and craft are all components of management, but business schools focus mostly on science.
✓ Whether MBAs are ready to perform in the boardroom once they make it in the door of an organization.
✓ How graduate business schools are corrupting education, managerial processes, existing organizations, and even social institutions.
✓ How most attempts at innovation of the managerial development process only change the delivery of the same inappropriate material.
✓ How an entirely new model, the International Masters in Practicing Management, teaches managerial practices instead of test-taking and knee-jerk decision making.

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MANAGERS NOT MBAs

by Henry Mintzberg

— THE *COMPLETE* SUMMARY

Wrong People

Conventional MBA programs do not work because they pretend to create managers out of people with no experience or expressed leadership. Leadership is a natural quality, and teaching it to someone who has never managed is like teaching psychology to someone who has never met another human being.

More art than science, when management is mixed with craft or experience, it becomes a practice. Inexperienced students cannot appreciate the practice of management, so they focus on the science, or analysis, that is the basis of most MBA programs. Management is treated like a profession that can be learned without experience and then applied in every situation. Management is actually a facilitating activity that depends on the immediate context.

At Odds With Management

Though business schools require work experience from applicants, it is an average of only four years, and their experience is rarely managerial. This particular age group is typically seeking independence from family and roots, which is at odds with management that focuses on accepting responsibility, not throwing it off. Traditionally impatient, analytical and controlling people self-select to apply just so they can move up, and worse, often move out of the one area where they have developed experience. The GMAT encourages good test-taking, not good management, and it introduces its own bias for science over art and craft.

In 1971, Sterling Livingston wrote that few people had the **will to manage** — to foster success in others over their own success. In 1932, Alfred North Whitehead labeled the **zest for business**, which is different from the zest for riches, as another important characteristic. The former is about getting the most out of *resources*, the latter about tapping the energy of *people*.

Those with the zest for business, but not the will to manage are the problem. Such people are numerous in MBA programs. They make good investment bankers, financial analysts or consultants, which is what many of them have become. Unfortunately, those who aspire to run large corporations are likely to fail in executive positions.

We need leaders with human skills, not professionals with academic credentials. In the larger organizations especially, success depends not on what managers themselves do so much as on what they help others to do. ■

Business or Management?

Will to Manage (after Livingston)	Zest for Business (after Whitehead): NO	Zest for Business (after Whitehead): YES
NO	Do research or whatever.	Do deals, or run your own small business.
YES	Consider the public or social sector; get experience as a manager, then study management.	Consider big business: get experience as a manager, then study management.

Wrong Training

Once you have the wrong people, there is no right way to develop them. Business students receive a false sense of management and propagate it in organizations. The ill-conceived pedagogy becomes so entrenched that even when the right people are sent to executive MBA programs, they learn the wrong things.

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The author: Henry Mintzberg is Cleghorn Professor of Management Studies at McGill University in Montreal, Canada. He was named Distinguished Scholar for the Year 2000 by the Academy of Management, and won its George R. Terry Award for the best book of 1995 for *The Rise and Fall of Strategic Planning*.

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Wrong Training

(continued from page 2)

The first graduate studies in business were offered by Dartmouth in 1900, followed by the first MBA program at Harvard in 1908. As other programs grew, the business community was not enthusiastic and the focus became academic. Case studies emerged midcentury and were much more popular with students for their practicality, but business research began to flag.

In the 1950s, interest in academic research picked up again, and the focus was on business over management. Business programs taught distinct functions, such as finance, entrepreneurship and marketing, but they did not teach management. Management was finally added as "strategy," but instead of viewing it as a synthesis of business knowledge and soft skills, it became another function to analyze.

Managing by analysis was narrowed to decision making, and became the norm. Much of decision making involves soft skills to identify problems, consider options, and set up holistic solutions. Professors either can't or don't want to teach soft skills, and young students aren't ready to learn them. The business school programs focus on what they can do — evaluate choices — a very narrow view of management. Students are encouraged to analyze by learning generally applicable techniques, but not by taking responsibility for specific situations.

Pedagogy of the MBA

- **Lecture**. Professors stand before the students and tell them how the real world is, but unfortunately the real world is experience.
- **Business Games**. Teams of students make decisions about pricing and production for simulated businesses on computers, but suffer no consequences if they are wrong.
- **Projects**. Students conduct fieldwork projects and consulting assignments in real companies, but without commitment or responsibilities, the projects are meaningless.
- **Case Studies**. Students read a 10- to 20-page discussion of a business situation with a protagonist at a crossroads, having to make a decision. This method promotes too much sitting around and talking — not action.

Do, See, Feel and Listen

Business school teaching methods develop leaders who think, when this world requires us to do, see, feel and listen. The programs broaden students' knowledge of business and financial analysis, but narrow their perceptions of management. ■

For Additional Information on case studies and their drawbacks, go to: http://my.summary.com

Impressions Left By MBA Education

✓ Managers are important even though they are disconnected from making and selling. The higher up they are, the more important they are, even if they only arrived yesterday.

✓ Managing is decision making based on systematic analysis. It is more science than art, and certainly no craft.

✓ Data for decisions come from brief cases or reports. To make decisions, numbers are massaged, words are debated, and perhaps ethics are considered.

✓ Under managers, organizations are segregated into discrete functions of finance, marketing, accounting, etc., each with its own set of techniques.

✓ Managers pronounce strategies to combine the functions. Though mysterious, these strategies are understood by those who learned industry analysis and have formulated many such strategies in a classroom.

✓ The best strategies are clear, deliberate and bold like the heroic leaders of the most interesting cases.

✓ After a manager formulates a strategy, all the other people must implement it or take action. Managers must always control this process, but never engage in it.

✓ Implementation is hard because business school graduates embrace change, but most others resist it. Managers have to bash bureaucracies and empower whoever is left.

✓ To become a manager or a leader who gets to sit at the top, you must first sit still in business school for two years. That enables you to manage anything.

Wrong Consequences

Though it is possible for some of the right people to get educated the right way within business schools, these programs are so rarely recognized that it barely matters. The fact remains that training elitist leaders in analysis and promoting them on fast tracks undermines our educational institutions, organizations and social fabric.

Corruption of Educational Process

Though business school programs claim to teach business discipline and understanding, they often focus more on fitting in and competition. Getting into the best

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Wrong Consequences

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school and networking reign over management, while learning to increase shareholder value triumphs over customer needs and product quality. Despite expanding classes in ethics, MBA graduates are becoming less and less concerned with the topic. School gives the students confidence, but not enough competence. Graduates are arrogant enough to get to the executive suite, but are ill-equipped to handle it. Combine the suspect education with the mindless drive to market MBA degrees like action films and it is no surprise business schools can't focus on developing responsible managers, businesspeople and citizens.

Corruption of Managerial Practice

The fact that so many MBA graduates make it to senior positions means that its effect on the practice of managing is enormous. Some of the commonalities of the MBA career path are unsettling:

- **Gateway to the Real World.** MBAs typically leap directly into consulting or investment banking where they have great opportunities for analysis and techniques, but little responsibility for implementation or direct management. The MBA is a status symbol giving students money and their hiring employers a way to screen for interest in business, if not loyalty.
- **End Run Around Management**. Increasing numbers of MBAs get into managing by going around it, straight into executive positions. They never make or sell anything, just involve themselves in functions that are not industry specific. The people who get these degrees are often impatient, aggressive and self-serving. Launching them into important positions without context only encourages them to rely on this behavior.
- **Managing Out of Balance**. MBA training should be a balance of the techniques and experience of craft, the art of insights and vision, and the science of analysis and assessments. Traditionally, the training is light on craft and art, leaving science to take over and propagate a calculating and dehumanizing environment.
- **Performance of Prominent MBA CEOs**. Though they can get to high positions, MBAs cannot necessarily perform there. MBAs constitute approximately 40 percent of CEOs in Fortune 100 companies, but familiar lists of the most admired business leaders — Buffett, Kelleher, Dell, Gates, Welch and Winfrey — do not include MBAs. In fact, CEOs with MBAs tend to have poor execution and people skills, exactly where their selection and training are weakest.

Corruption of Established Organizations

There are two ways of viewing interaction with the economy and its performance:

- **Exploitation** — Short-term improvement thriving on focused attention, precision and discipline. This is the calculating management style fostered by an MBA education. Removed from context, MBAs tend to exploit other people's experience in the absence of their own.
- **Exploration** — Experimentation that thrives on serendipity, free association, and relaxed control. It is risky, and success is neither assured nor often achieved. Exploration focuses on the creativity of the journey, while exploitation focuses on the final goal.

Businesses need both of these types, just as economies do. Without exploration, there is nothing to exploit. But two corresponding types of management have emerged — professional and entrepreneurial — and they do not necessarily mix well. MBAs tend to gravitate toward and do best in industries where they can control and fiddle with old technologies, such as marketing consumer goods. They can apply the same techniques to several products. The problem with MBAs is that they are apt to focus on one aspect — marketing, finance, or development — and throw the whole company off balance.

MBAs and Entrepreneurship

Entrepreneurship is now being taught in business schools, but like all other disciplines, it is taught assuming that the uninvolved CEO is responsible for everything. Entrepreneurs are typically artistic and visionary, and they rarely attend MBA programs.

MBAs are not known for their success as entrepreneurs. They may start their own low-tech businesses in consulting, real estate, or financial services, but they are rarely capable of the dedication and risky behavior inherent in entrepreneurship.

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The Soft Underbelly of Hard Data — An MBA's Best Friend

✓ Hard information is often limited in scope, failing to encompass noneconomic and nonquantitative factors.

✓ Much hard information is too aggregated to give insight into what is really going on behind the numbers.

✓ Much hard information arrives too late as trends and performance become facts. Often, managers cannot wait.

✓ A surprising amount of hard information is unreliable. Something is always lost or subject to distortion in the process of quantification.

Wrong Consequences

(continued from page 4)

Often, entrepreneurs are unable to run their successful organizations properly. This is typically the time when a professional manager is brought in and introduces the bureaucracy of formalization and centralization. Though both are necessary, problems arise when managers become distant, disconnected and inflexible. MBA programs promote centralization and so do their graduates. As they spread throughout the economy, they are responsible for the rise of bureaucratic management in a time, especially in high-technology industries, when we need to nurture teamwork, collaboration and networks.

Corruption of Social Institutions

These destructive effects of an MBA degree have their most damaging effects on society at large. The members of the professional or business class are becoming the leaders of our economic entities while those they lead do not respect them or believe they have the right to lead. Society is becoming stratified into a credentialed class and an experienced class, when in fact leaders should be varied and chosen for their qualities beyond credentials and affiliation.

Society is also leaning toward a selfishness that is embodied in the corporations that ignore social responsibility in favor of narrow shareholder value, and that regard CEOs as the sole generators of economic performance. These managers and heads of business are in powerful positions to make decisions to either thwart social needs or consider them. It is unsettling to know that they have learned lessons that include the idea that everything has a price, that everything needs to be black or white, and that companies are not responsible for the quality of life of their employees.

An Insidious Belief

Additionally, there is an insidious belief that a business education, which barely teaches business management, is adequate preparation to manage in the governmental and not-for-profit sectors as well. The hierarchical, money-focused model does not work well in the social sector where people work in teams and volunteer their time. Meanwhile, turning the government into a business turns people into customers instead of citizens. ■

For Additional Information on the uncertain success of CEOs, go to: http://my.summary.com

New MBAs?

Given these widely recognized problems with management education, which are many, there have been many modifications and make-overs in recent years to create better MBA programs.

Most MBA programs offer the same program: functional courses in the first year, such as finance, quantitative analysis, and international business, and then electives that are listed under the same headings. Perhaps there is a required strategy course as well. It has been this way for decades, and programs keep developing new variations. **Executive MBAs** take practicing managers who have significant experience, and teach them a curriculum designed for people with no experience. **Modular curricula** integrate functions and intensify learning by teaching shorter, interconnected modules over the course of the semester and only giving one grade. **Internet, CD-ROMs, and video conferencing** do not change the degree so much as they make the process faster. The digitalization of information only leads to more analysis and less management. **Distance learning** mixes residential sessions, downloaded lectures, and bulletin boards. Yet another way to change the MBA is to add the words **international** and **global** to describe the students, faculty or location.

Real Innovation

Imagine someone from Ghana announcing that management practices and controls exercised in Accra would work just as well in New York. That is essentially what the United States does. Americans assume their management systems are the best. But there are innovations in business management occurring around the world. Other economies have designed their own systems of management and are successful without importing the American way.

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Masters of British Airways

The author gave a speech at the British Academy of Management at which he suggested that the innovation of MBA programs dedicated to single companies was taking innovation too far. Jonathan Gosling of Lancaster University was involved in such a program with British Airways (BA) and invited the author to visit while the students prepared their "Strategy Projects." One involved BA sourcing in the Far East, another designed a strategy for Gatwick Airport, and the other dealt with a threat from an American airline. The author was impressed with the topics and how they combined the conceptual thinking of the university with the practical problems of the company. These were not students playing consultants in the "real world" or experienced managers discussing other people's cases. They were managers involved in issues they were investigating and so were acutely aware of what they did not know.

New MBAs?

(continued from page 5)

Japan traditionally has theoretical business departments in its universities directed at undergraduates. Japanese businesses have taken on the job of developing practicing managers themselves. MBA programs are rare, and though corporations used to sponsor some of their managers to do MBAs in the United States, they have been cutting back because the graduates had trouble fitting back into the local business culture and had an inclination to quit the company.

Germany has been successful since WWII as well, and many of its companies became famous for quality and logistics. Though MBAs are rare, German business leaders experience discipline-based training in their undergraduate programs, and many get doctorates. As in Japan, the focus of management is in the firm, not the profession itself. Unlike Japan, which moves its best recruits around to get to know different parts of the company, German companies tend to promote in a single function.

France has the equivalent of graduate business schools, but mostly the prestige goes to graduates of *"grandes ecoles"* in business, engineering, etc. that focus on the equivalent of undergraduate education. Graduates are snapped up and move fast, much like American MBAs. Graduates from the Ecole Nationale d'Administration are so influential that they tend to occupy a high proportion of France's leadership positions — both political and business.

The **United Kingdom** ranks second in graduating MBAs after the United States. Big-name schools tend to pick up changes and trends in America and adopt them. Smaller, lesser-known schools have made developments in highly specialized MBA programs that focus on one function or industry so that the "A" in MBA stands for accounting or aerospace. Additionally, a large majority of English MBA students stay on the job, so programs are designed more for practitioners with experience. ■

For Additional Information on the meaning of international and global business education, go to: http://my.summary.com

Developing Managers

Despite management education's attempt to bypass experience, most development does happen during the time a manager is actually working. There are many opportunities for organizations to develop management, and to use education more effectively to do it.

Development in Practice

Management education, management training, and management development exist on a continuum of experience. The first is academic and rooted in general theories and concepts unrelated to the field where they will be practiced. The second involves consultants and trainers who teach a vocational version of the first, using techniques and skills to match general knowledge with practice. Management development approaches the needs rooted in practice in specific organizations. An organization draws on whatever it finds appropriate to further develop its own managers.

There are several options to consider when designing more effective management development strategies, including:

- **Sink or Swim**: This is the most typical way for new managers to arrive on the job and struggle to find some help. Although they have had managers as models, there is little specific preparation for the new role, and sinking is common. Development is seen as a personal responsibility, and it is up to the new manager to read a book, listen to a CD, or take a class.
- **Moving, Mentoring and Monitoring**: Management is a practice like any other, so it needs an apprenticeship. Some companies offer on-the-job (OTJ) training in rotation and mentoring programs. The developing manager then receives feedback.
- **Management Development Buffet Table:** These are off-the-job courses and programs offered by outside providers but available on site, on disk, on the Web, and on screen.
- **Learning in Action:** Traditionally, this is a way to get managers to work together on projects, learn about the world of work, and take time for reflection. The trouble comes if companies use it as a way to get work done, which takes the focus off of development.
- **Corporate Academies:** Organizations are creating in-house corporate universities to focus on the development of their managers and other personnel. They are intended to develop people for a particular organization, not conduct research and grant degrees to the business community at large.

These development methods all focus on different areas — experience and the job, education and the person, and results and the corporations. They should be balanced together judiciously to develop managers in practice.

Development in Management Education

Instead of starting with what untrained youths are taught in management education, we should start with what leaders and managers need to know. Conventional education impedes learning, and something more engaging and less controlling is needed to educate the right people for management in the right ways to achieve the right consequences. Here are eight propositions to fix what's wrong in management education:

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Developing Managers

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1. Management education should be restricted to practicing managers. Instead of having students self-select into business school and then emerge onto the fast track, have organizations choose their most promising midcareer leaders who are old enough to have experience, but young enough to benefit from education.

2. The classroom should leverage the managers' experience. Managers should remain on the job while they learn in school so that their experience is as major a force in the classroom as the instructor's teaching.

3. Insightful theories help managers make sense of their experience. Education should be hands-off. Managers have to be exposed to theories so they can learn to be thoughtful and express themselves.

4. Thoughtful reflection on experience in the light of conceptual ideas is the key to managerial learning. Learning is not doing. Learning is reflecting on doing. It involves wondering, probing, synthesizing and connecting all in a struggle to do things better the next time.

5. "Sharing" their competencies raises the managers' consciousness about their practice. Competencies such as leadership or negotiating are hard to teach and therefore hard to fit into management education. They are best learned on the job. But if managers in a classroom share how they have practiced different competencies and what worked or failed, they can learn from comparing their experiences.

6. Beyond reflection in the classroom comes learning from impact on the organization. In order for management education to approach leadership, it must encourage managers to get beyond the benefit for themselves. If an organization sends an individual for education, the obligation and commitment go both ways. The learners who go away should return as management teachers.

7. All of the above should be blended into a process of "experienced reflection." The managers bring experience to the classroom, where faculty members introduce concepts, theories and models, and reflection occurs. The resulting learning is carried back to the job, where it impacts behavior, providing further experience for reflection back in the classroom.

8. The curriculum, the architecture and the faculty should be shifted from controlled designing to flexible facilitating. The idea that teaching should be divided into discrete chunks — operations, ethics, etc. — is ridiculous. Programs should weave together values and attitudes, stories and ideas, and use engaging methods of learning to hold participants responsible for reflecting together on their experience. Instead of controlling the process, faculty members should collaborate and learn as well. ■

For Additional Information on managerial competencies, go to: http://my.summary.com

New Ways for Developing Managers

Along with a group of colleagues from Canada, England, France, India and Japan, the author developed a novel plan for management education to showcase the ideas in this summary. Though the attainment of knowledge and the enhancement of competencies are important, they wanted their program to help people become wiser human beings in addition to becoming more effective managers. They developed the International Masters in Practicing Management (IMPM), which is true to the eight propositions for an overhauled management education presented in the previous article. Though parts of the IMPM can be found in other programs, the whole package cannot.

Five Mindsets

The design of the IMPM program focuses on five different mindsets, each taught in a different two-week module. The modules include reflecting back over experiences since the last module, program time to consider the impact of the learning back at work, "white time" when nothing is scheduled so that people can discuss issues they have not had enough time for, and field studies where participants visit local operations of companies represented in class.

Module I: Managing Self — The Reflective Mindset. Participants develop a reflective mind by focusing on themselves, their work, their world, and how to use experience to become more constructive and discerning.

Module II: Managing Organizations — The Analytical Mindset. Instead of traditional analytical teaching, this module offers different perspectives on analysis, studies specific frames commonly applied in business, and integrates a new point of view.

Module III: Managing Context — The Worldly Mindset. This module encourages the participants to understand that the effects of the external environment — government and legal trends, social trends, international developments, etc. — affect the company.

Module IV: Managing Relationships — The Collaborative Mindset. This module focuses on creating meaning with shared space for emerging relationships.

Module V: Managing Change — The Action Mindset. This module focuses on leader-driven macro change, middle management micro change, and personal change.

(continued on page 8)

New Ways for Developing Managers

(continued from page 7)

Though a great deal can be done in the classroom, the essential philosophy of the IMPM requires that much of it happens back on the job. The participants are expected to write **Reflection Papers** to examine how the learning from the modules fits into their work experience. Groups of participants and faculty who are in the same geographical area get together between modules for **Tutoring**, so that they can provide support and links to learning. The participants do **Self-Study** to get themselves up to speed for the Analytical Module.

The Managerial Exchange pairs participants across companies and countries, who spend a week together after the second module. **Ventures** are action learning that the participants undertake to affect change in their organizations. Finally, in order to justify the degree and make participants and others take the program and its learning seriously, the participants must do a **Major Paper**. It is not quite a formal thesis, but it is a substantial assignment including review of serious literature supported by in-depth study.

Impact of the Learning

The IMPM offers a unique opportunity for the development of managers, but is it worth it? With this degree, the employers pay, but some might think they shouldn't because employees are too mobile and busy to merit the investment. However, if companies believe in developing leadership as much as they say they do, they should view the fees as an investment in operations rather than an expense from the management development budget.

The IMPM has the added benefit of developing a better organization at the same time it develops better managers, instead of as a consequence. Change occurs throughout the length of the program and the IMPM participant returns to the organization and shares his or her learning with others.

The IMPM program has been in existence for eight years, and the retention rates have been quite high. Many companies seeking a new kind of managerial development send more people back every year.

Moving Toward Broader Diffusion

Because of the benefits of the program, it is essential to move toward broader diffusion of the Masters of Practicing Management (MPM) instead of the MBA, which focuses on better decision making through training in analysis — in general rather than in a particular context. The MPM focuses on the practice of managing in context. It strives to make better managers, by making craftspeople instead of analysts.

The author and his colleagues are currently planning to expand the concept of the MPM by increasing the number of cycles offered by the partner schools. Similarly, the practices are extended by the people who have the degree and continue teaching back at their organizations. This extension will lead to infiltration, a concerted effort to change existing programs, and then to differentiation and applying the learning of the MPM to other sectors. ■

For Additional Information on how participants reacted to the Mindsets, go to: http://my.summary.com

Developing True Schools Of Management

Management schools need a tuneup. They have been standardized and honed to such a degree that they weaken what they intend to create. Business schools function largely as starting schools when they should be more balanced as starting schools, developing schools, and finishing schools. There can also be specializing schools and enhancing schools. The old models of research, degrees, teaching and tenure should be swept away as new forms of learning develop.

Specialized Masters Programs in Business could be designed for specific functions and industries so students get what they need and learn it in-depth instead of getting what they do not need.

Masters Programs for Practicing Managers could be directed at midcareer managers with significant experience and junior people in their first managerial job.

Development Programs for Practicing Managers should become more innovative — not standardized, pared-down sources of easy money for universities.

Bachelors Programs to Educate should not try to train managers who have never had any experience. They should provide a liberal arts education provoking thoughtfulness.

Doctoral Programs for Adults should encourage candidates to master the research literature and methods, but also to stand on their own two feet, and break away from conventions.

More Research and Scholarship

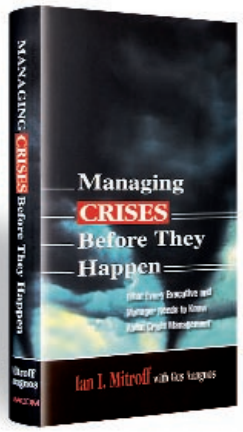
Despite students' pleas for more practical materials, we should encourage more research and scholarship in business education. Business education should be insightful and accessible to the practicing managers who will need it, not a retread of what is taught to people with no experience. Management is everywhere is society, because so much depends on organizations. It is paramount that our leaders are equipped to helm them. ■

· Book 153 of 304 ·

Managing Crises Before They Happen

Ian I. Mitroff

SOUNDVIEW Executive Book Summaries®



What Every Executive Needs to Know About Crisis Management

MANAGING CRISES BEFORE THEY HAPPEN

By Ian I. Mitroff with Gus Anagnos

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THE SUMMARY IN BRIEF

While emergency and risk management deal with natural disasters, crisis management is concerned with human-caused disasters — a permanent and prominent feature of today's societies. A sample includes the random poisonings of Tylenol capsules, the devastating Exxon Valdez oil spill, the Columbine High School shootings and the crash of a ValuJet flight into the Florida swamps.

Unlike natural disasters, however, human-caused disasters are not inevitable. They do not need to happen. As a result, the general public is extremely critical of organizations who are held responsible for the crises.

Of course, it's impossible to eliminate crises completely. But with the right crisis management (CM) tools — and attitudes — in place, a company can ensure that it can either anticipate crises or effectively manage them once they occur. This summary presents the following fundamentals about crisis management:

- ✓ **The Five Components of a Crisis-Management Framework.** Mitroff and Anagnos present a crisis-management framework that includes five components: types or risk categories of crises; mechanisms; systems; stakeholders; and scenarios.
- ✓ **How Telling the Truth Is Vital to Crisis Management.** The question is not whether the truth will be revealed, but rather when that truth will become public and under what circumstances. Crises only become worse when a cover-up is attempted.
- ✓ **Assume Responsibility or Pay the Price.** If you don't assume responsibility immediately, a chain reaction of crises is guaranteed.
- ✓ **Crisis Management Is an Exercise in Creative Thinking.** Don't go for the obvious response.

Your how-to manual on crisis management begins on the next page.

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MANAGING CRISES BEFORE THEY HAPPEN

by Ian I. Mitroff with Gus Anagnos

— THE *COMPLETE* SUMMARY

The Five Components of a Crisis Management Framework

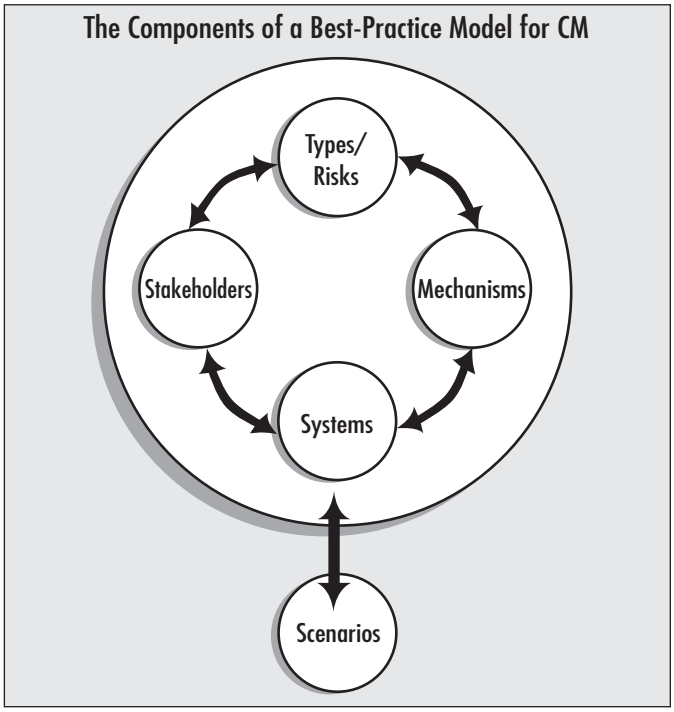
Completely preventing human-caused crises is impossible. However, with the appropriate planning and preparation, any company can limit both the duration and the damage caused by major crises. Effective crisis management also ensures that a crisis or a series of crises does not derail your major business objectives.

Authors Ian Mitroff and Gus Anagnos have developed a best-practice model that identifies the five factors companies must manage before, during and after a major crisis. These five factors are: 1) the types and risk categories of crises, 2) mechanisms, 3) systems, 4) stakeholders and 5) scenarios.

In the first section of this summary, we will look at each of these components in depth.

Types and Risk Categories of Crises

Major crises can be divided into a number of general categories. These categories include:



- **Economic crises**, such as labor strikes, labor shortage, market crash, a major decline in stock price and fluctuations or a decline in major earnings.
- **Informational crises**, such as a loss of proprietary and confidential information, tampering with computer records or a loss of key computer information with regard to customers and suppliers.
- **Physical crises**, such as a loss of key equipment,

(continued on page 3)

What Is a Major Crisis?

It's not possible to give a precise and general definition of a crisis, just as it's not possible to predict with exact certainty when a crisis will occur, how it will occur and why.

We can, however, propose a guiding definition of a major crisis. First, a major crisis affects, or has the potential to affect the whole of an organization. If it is an event that will affect only a small, isolated part of the organization, it may not be a major crisis.

A major crisis will also exact a major toll on human lives, property, financial earnings and the reputation and/or general health and well-being of the organization. Often these effects occur simultaneously. As a result, a major crisis cannot be completely contained within the organization's boundaries.

And some major crises, such as the one suffered by Barron's Bank several years ago, will actually destroy the organization.

The authors: Ian I. Mitroff is Harold Quinton Distinguished Professor of Business Policy at the Marshall School of Business, University of Southern California. He is also president of the consulting firm Comprehensive Crisis Management and was founder and director of the USC Center for Crisis Management. Gus Anagnos is Vice President of Comprehensive Crisis Management.

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Types and Risk Categories of Crises

(continued from page 2)

plants and material suppliers, breakdowns of key equipment and plants, loss of key facilities and major plant disruptions.

- **Human resource crises**, such as a loss of key executives, loss of key personnel, rise in absenteeism, a rise in vandalism and accidents and workplace violence.
- **Reputation crises**, such as slander, gossip, rumors, damage to corporate reputation and tampering with corporate logos.
- **Crises resulting from psychopathic acts**, such as product tampering, kidnapping, hostage taking, terrorism and workplace violence.
- **Natural disasters**, such as earthquakes, fires, floods, explosions, typhoons and hurricanes.

As we've already noted, natural disasters do not necessarily have the same effect on an organization, since the general public will rarely see a company struck by a natural disaster as a villain. Of course, if clear mistakes were made — for example, building flimsy factories in earthquake-prone regions — the company's reputation will suffer.

Prepare for One Crisis in Each Category

Within the general categories or types of major crises, the crises share many similarities. Between the categories, there are sharp differences. The best crisis management approach is to try to prepare for at least one crisis in each of the categories.

Most companies, however, do much less. They will consider, at most, one or two categories.

For example, most companies prepare for natural disasters. Organizations that do broaden their preparations for crises other than natural disasters often do it only for "core or normal" disasters that are specific to their particular industry. The chemical industry, for example, prepares for explosions and fires, since these crises are part of the industry's day-to-day operating experience. The same holds true for fast-food companies that prepare for food contamination and poisoning.

While companies have a legitimate reason to be concerned about crises that they know will occur in their particular industry, they must not assume that the crisis they anticipate will be the crisis they will face. The fast-food industry can be hit with a crisis that has nothing to do with food contamination.

In other words, every organization can be hit with a crisis of any of the types listed above. Take product tampering, which was listed under the "psychopathic acts" category. One naturally thinks of the food or the pharmaceutical industries as being particularly vulnerable. But what about publishing?

The Systemic Nature of Crisis Management

A complex system involves a number of intertwined parts working together. The separate parts of the system cannot exist nor function in isolation from one another. For instance, you can't remove the heart or lungs from a human body and have the human body survive. Also, because systems are so tightly interconnected, one event in one part of the system can have system-wide effects.

These characteristics of complex systems are reflected in modern society. We are much more interconnected than before. The impact of one event in our society will have much wider implications than in the past.

For example, 60 years ago, the impact of human-caused crises, such as a mine disaster or an explosion, would have been limited to one particular community or region. Today, crises can impact vast areas of the globe in little time. A rogue trader in the Far East, as was recently shown, can bring down one of the oldest blue-chip banks in the world. Or a nuclear disaster such as Chernobyl can threaten the health of people on two continents.

As a result, crisis management must always include the big picture. For example, ask yourself: "How can I temper how a crisis in one area of the company will impact the entire company?" "How can I prevent one crisis from causing another crisis or a chain of crises?"

The systemic nature of crisis management also means that it must be integrated with other important organizational programs in your company, such as quality assurance, strategic planning, environmentalism or issues management. Crisis management should never be viewed as another separate, stand-alone program.

This is exactly what happened in France to the publishers of the Larousse encyclopedias. The French being avid collectors and eaters of wild mushrooms, Larousse has a page filled with illustrations of mushrooms that are edible and, on the facing page, illustrations of unsafe mushrooms. One year, the labels on the two pages were reversed, causing the unsafe mushrooms to be labeled safe, and vice-versa. This was a case of a product-tampering crisis in an industry probably unprepared for such a crisis.

In sum, as we said earlier, every organization must prepare for at least one crisis in each of the various categories or types.

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Types and Risk Categories of Crises

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Prepare for Simultaneous Crises

Fortunately, you don't have to prepare for every specific type of crisis within each of the categories. As we noted earlier, each of the specific types within a particular category or type share strong similarities. Of course, the broader range of crises for which you are prepared, the stronger your crisis management capabilities. But in the beginning, it is sufficient to prepare for one particular crisis in each category.

One final and important note: In today's world, any crisis is capable of setting off any other crisis. As a result, companies should prepare not only for each individual crisis they've selected as part of the crisis portfolio, but also for the simultaneous occurrence of multiple crises. In other words, crisis management is strongly systemic. Like total quality management or environmentalism, if it is not done systemically, then it is not being done well. ■

Risk Analysis vs. Crisis Management

Author Ian Mitroff strongly counsels against traditional risk analysis for companies. The reason: Risk analysis mainly selects crises with which the company or the company's industry is familiar. One of the fundamental steps for traditional risk analysis is to construct models of the probability of occurrence of past crises. These models will give a higher ranking to certain types of crises based on how likely they are to occur. Conversely, the models give low rankings to crises that are least likely to occur.

However, it is precisely those crises that have never occurred before that must be anticipated. Yet, using traditional risk analyses, companies will not prepare for a crisis until it happens — at which point, of course, the unprepared company can be significantly damaged.

Mechanisms to Prepare for and Respond to Crises

We now move onto the second of the five elements of our crisis management model: mechanisms.

The best form of crisis management is preparation before the crisis occurs. For this, the company must put in place a small number of mechanisms that will help your company anticipate, sense, react to, contain, learn from and redesign effective organizational procedures for handling major crises.

The first of the mechanisms concerns signal detection.

Signal Detection Mechanisms

All crises send out early warning signals. In many cases, of course, these signals may be weak and camouflaged by noise. But if your company has the mechanisms in place to enable signals to be picked up, amplified and acted upon, then it stands a greater chance of preventing crises before they happen.

For example, make sure that a process exists for front-line employees to be able to communicate with management about their concerns. After the tragic explosion of the space shuttle Challenger cost seven lives, it was discovered that a string of memos expressing concern about the design of the shuttle were ignored by management.

The Signal Detection Chain

Dr. Judy Clair of Boston College did extensive research on signal detection in a large insurance company. This company handled billions of dollars in government Medicaid payments. The threat of fraud was extremely high.

Based on her research, Dr. Clair developed the important links in the "signal detection chain."

The first link: the signal detector.

Hearing the Signal

If a company wants to detect signals, it must have signal detectors. Although this may sound obvious, most companies do not have signal detectors in place. In other words, signals of an impending crisis may be clearly visible, but no one is paying attention.

The intensity threshold must also play a role. A signal detector must be able to read a signal and determine whether it has reached a level of intensity that indicates danger or potential danger for the company.

Because different types of crises send out very different types of signals, each company must ask itself: "What would count as a signal of the impending or near occurrence of a particular type of crisis?"

One example might be a pattern of slow, but noticeable increases in the accident rate at a particular oil refinery; this pattern may signal an impending serious accident, such as an oil spill, fire or explosion.

Of course, if there is no one or no mechanism recording the accidents, then the pattern remains invisible. The signal goes undetected.

There must also be someone at the refinery or at headquarters to read the accident reports and note the pattern. If signals go off but there is no one to recognize, record and attend to them, the signals are not heard.

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Mechanisms to Prepare for and Respond to Crises

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Signal Transmission

Once the signal is heard, the next step is to transmit the signal to the right people (and in the right form). If someone picks up a signal in your company but doesn't know to whom to send it, or sends it to people who don't know what to do with it, then, once again, the signal will fail.

In sum, it is important, when putting in place signal mechanisms, to:

- **have signal detectors in place that can pick up the signals;**
- **have intensity thresholds established so that people know when a signal indicates a dangerous situation for the company;**
- **clearly communicate what people should do with a signal when it is detected.**

One final note on signal mechanisms: It is not enough to pick up individual signals from different locations. It is possible that only when two signals are combined does the danger to the company become evident. Companies must be prepared to have a gathering point for signals, in other words, a central location where the signals can be pieced together into a larger whole.

Other Mechanisms

Without proper signal detection mechanisms in place, an organization not only makes a major crisis more likely, but also reduces its chances of bringing it under control when it does occur.

Even with the best signal mechanisms in place, however, crises will occur. Thus, your company will also need damage containment mechanisms to keep the unwanted effects of the crisis from spreading. Of course, a damage containment mechanism that is appropriate for one type of crisis will not necessarily be appropriate in containing others. A systemic and systematic CM program will feature a number of damage containment mechanisms.

Finally, your company must also have postmortem mechanisms in place that will allow it to learn from the crisis and redesign the systems and mechanism to improve crisis management in the future. Few organizations conduct postmortems of crises and near-misses — and those that do either do not perform them correctly or don't implement their findings.

When doing a postmortem, the goal is not to assign blame. It is to examine the key lessons that need to be learned. The exception, of course, is in crises that involve criminal malfeasance or negligence. ■

Four Types of Signals

Signals can be differentiated along two dimensions. The first dimension relates to the source of the signal. In this dimension, signals can either originate from inside or outside the organization.

The second relates to the kind of signal. Signals can be either technical (recorded by remote sensing devices), or noticed by people.

If you put these two dimensions together, you have four types of signals that apply to every company:

1. Internal technical signals, such as monitoring devices for hazardous operations.

2. Internal people signals, for example, people working in a plant.

3. External technical signals, such as monitoring of plant emissions carried out by environmental activist groups.

4. External people signals, including members of surrounding communities who may literally "smell" that something is wrong.

Organizational Systems

The third component of the crisis management framework involves organizational systems.

A company and its various systems can be illustrated as the layers of an onion (see box next page). The outermost layer is technology. Then come organizational structure, human factors, organizational culture and finally, at the core of the organization, top management psychology. These are the systems that govern most complex organizations.

A company's systems are intertwined, interacting with one another in many ways. Complex technologies, for example, are run by humans and thus are susceptible to human errors. Technologies are also embedded in complex organizational structures. These complex structures can also lead to errors as messages and communications must travel across different and multiple layers.

Organizational Culture

Organizational culture is a critical component of the systems involved in crisis management. For example, an organizational culture that establishes reward systems that reward certain kinds of behavior can hinder communication to the right people — and, thus, lead to wrong decisions.

One example of the impact of organizational culture on crisis management involves a power utility that

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Organizational Systems

(continued from page 5)

served extreme northern settlements. If the power failed, the inhabitants of these communities would literally freeze to death within 36 hours.

The most likely employees of this power utility to find flaws in the electrical generators that served these communities were maintenance workers. Maintenance workers were the signal detectors; they filled out logs at the end of each shift on the state of the generators. However, the culture of this power utility placed maintenance workers at the lowest rung of the company. Therefore, their logs were ignored and their warnings were not taking seriously.

The most prestigious jobs in the company belonged to the linemen, those who climbed the poles to repair the lines. The linemen were macho risk-takers — in fact, they made a point never to wear safety equipment.

Obviously, the macho culture of this organization made it susceptible to a variety of crises.

A Defensive Corporate Culture

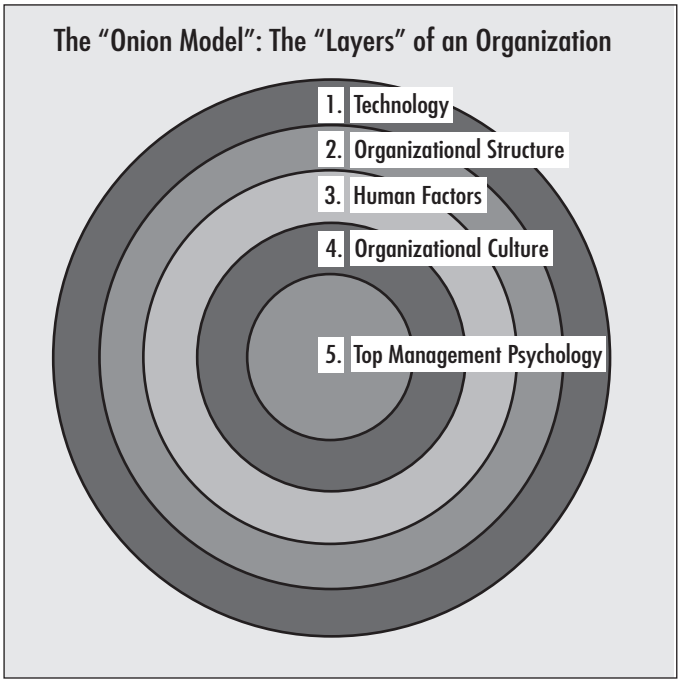
The impact of a company's organizational culture on crisis management is also apparent when we look at one of the key components of a culture: defense mechanisms. As with humans, organizations have defense mechanisms that rear up to deny vulnerabilities to major crises. These defense mechanisms can take many forms, including denial ("Crises only happen to others,") disavowal ("Crises happen, but their impact on our organization is small,") grandiosity ("We are so big and powerful that we will be protected from crises") or compartmentalization ("Crises cannot affect the whole of our organization since the parts are independent of one another.") ■

Don't Forget Your Stakeholders

The fourth element of your organization that must be involved in crisis management is the company's stakeholders.

Stakeholders include all of the internal and external parties who cooperate, share crisis plans and participate in the training and development of your company's crisis management capabilities. Stakeholders can range from your employees to such external agencies as police departments, fire departments and even the Red Cross. Another important external stakeholder is the media, which will not hesitate to judge harshly an inadequate response to a crisis.

Crisis management must include developing the right relationships with stakeholders in advance to ensure the smooth functioning of the organization in the heat of a major crisis.



Make-a-Wish Foundation and its Stakeholders

The importance of understanding stakeholders in crisis management is illustrated by a story involving the Make-a-Wish Foundation. This well-respected organization grants wishes to terminally ill children. One child, a teenager suffering from a brain tumor, wished to hunt a Zodiac bear in Alaska. When the foundation enabled the teenager to achieve his wish, it suddenly found itself under fire from numerous animal-rights organizations and portions of the general public. The foundation's mistake involved several assumptions about the organization's stakeholders. The first assumption was that the primary stakeholder was the teenager, and that other stakeholders (including the general public which supports the group through donations) would not object to the wishes of the teenager, despite any ethical or moral qualms they might have. The Foundation believed those stakeholders would share the foundation's view of the situation: Make-A-Wish had to find a way to grant the wish of a dying child as effectively as possible no matter how offensive it may be to others.

Several crisis management lessons can be drawn from this example. First, never assume the outside world sees a situation exactly as you do. Second, it's a good idea to list as many assumptions as possible about as many stakeholders as you can think of. Be careful not to overlook any stakeholders, or to accept any unwarranted assumptions about stakeholders.

This story also highlights another important point about crisis management situations: Don't solve the wrong problem precisely. The foundation focused on finding a way to fulfill the teenager's wish. Solving that problem led to the crisis. ■

You Are Now Ready to Develop Crisis Management Scenarios

Taking into account all of the four elements of the crisis management framework we've discussed above — types of crises, mechanisms, systems and stakeholders — your company can develop the fifth and final component of the framework: scenarios.

What will happen if a certain crisis occurs? How will your organization and its employees and customers react? What steps will have to be taken? These are the kinds of questions that must be answered in a scenario.

The best approach is to create a "best-case, worst-case" scenario. In the best-case scenario, of course, everything goes as planned in response to the crisis — a crisis that was anticipated. A worst-case crisis scenario, on the other hand, involves a type of crisis that the organization has neither considered — and for which it is not prepared. Also, the crisis occurs at the worst possible time — over a holiday weekend, for example. And the most taken-for-granted, well-designed and well-performing systems break down.

To summarize the framework presented by Ian Mitroff and Gus Anagnos, effective crisis management means:

- understanding and preparing for the different types of crises;
- implementing the important mechanisms that will help you prepare for those crises;
- understanding the impact of your company's systems — from organizational structure and culture to human factors and the psychology of your top management — on crisis management;
- developing the right relationships with stakeholders in advance of a crisis;
- establishing best-case, worst-case scenarios.

These five components should be used as a framework for an audit of your company's crisis management program. A crisis audit will reveal any weaknesses in one or more of these areas that might hinder your crisis management capabilities. ■

How Telling the Truth Is Vital to Crisis Management

The general framework presented here is a key tool in crisis management. But by itself, no framework, while necessary, is sufficient. In addition, crisis management must confront the question of both individual and organizational character. Specifically, crisis management must address two questions:

1. Do we (the individual, the organization) always tell the truth?

2. Do we (the individual, the organization) always assume responsibility?

This article deals with the first issue: telling the truth.

Should the Public Know?

The question is not whether you or your company should lie or tell the truth. The question is: When a crisis occurs, how much of the truth must be made public? Should a company try to fix the crisis in-house, sheltered from prying eyes? For example, if a CEO is caught in a compromising position, should that CEO be fired without any explanation? Or should every detail be made public?

There are no easy answers. But here's an important consideration: In today's society, there are no secrets anymore. None. Technology in general, and television in particular, has invaded every "back-stage" that might have once existed in the lives of people and institutions. For example, overzealous police officers might have once been able to step over the limit in their behavior without being caught. Today, police brutality is likely to be captured on videotape by passersby or hovering television cameras. Human rights organizations are even distributing free video cameras to citizens in countries with poor human rights reputations so that they can film incriminating acts by their governments.

By taking the initiative, you (or your organization) controls who reveals the truth, in what circumstances and when.

The question, therefore, is not whether the truth about an organization or individual will be revealed, but rather when that truth will become public and under what circumstances.

In light of this situation, the best approach is to take the initiative to tell the truth about a crisis. By taking the initiative, you (or your organization) controls who reveals the truth, in what circumstances and when. Ian Mitroff describes the advice he offers his clients on telling the truth:

"No matter what the crisis situation, I always advise my clients to tell as much of the truth about themselves as they are able and willing to tell. I next ask them to take the additional step and tell a bit more, and a bit more, etc. Only after both of us are satisfied that they have indeed told 'enough' of the truth to ensure that the crisis will not be perpetuated any further can they finally stop. In short, how much 'truth' do I tell my clients to reveal about themselves? More than they can stand to bear, but, unfortunately, not what the world wants to hear and to gloat over!" ■

Assume Responsibility Or Pay the Price

The next issue concerning character and crisis management is whether or not to assume responsibility. In this case, the answer is clear and unequivocable: Yes. You or your organization should always assume full responsibility.

In a crisis situation, a company will fall into the role of villain — someone who knowingly causes harm or allows harm to happen.

Villains, however, fall into different categories. "Repentant" villains accept full responsibility for the crisis, promise to correct the situation and to prevent the situation from ever reoccurring, then take action to back up their promises. One example is Lee Iacocca's response to the substantiated charges that Chrysler was falsely resetting odometers on its cars: "It happened; it shouldn't have happened; it won't happen again."

Unlike repentant villains, "damn" villains are those who knowingly cause harm and then deny that they did it. In other words, they refuse to assume responsibility for their actions. Those who continually engage in stonewalling and denial are what Mitroff calls "damningly, damnable villains." They not only created a crisis in the first place, but their stonewalling sets off a chain reaction that causes additional crises. Or to put it more bluntly, if you don't assume responsibility from the very beginning, a chain reaction is virtually guaranteed. The classic case, of course, is Watergate, in which one isolated incident snowballed until it brought down a sitting U.S. president. ■

Crisis Management: An Exercise in Creative Thinking

Crisis management requires individuals and companies to think about the unthinkable. It is, in other words, an exercise in creative thinking. Creative thinking is especially important in preventing a crisis from escalating into a worse situation.

In this article, we present two case studies showing the power of creative thinking in responding to crises.

Why Benetton Erased Its Colors

In 1999, an international incident arose between the Turkish and Italian governments over the fate of Kurdish rebel Abdullah Ocalan, who had fled to Italy. When the Italian government refused to extradite Ocalan to Turkey, Italian businesses and products in Turkey, including Benetton, Ferrari and Perelli, were the targets of widespread and violent protests. Many Italian businesses took out newspaper ads pointing to the difference between an Italian parent company and the Turks who operated them. Benetton-Turkey took a different tack. To show its solidarity with the Turkish people, Benetton-Turkey's "corporate response team" — consisting of the president, head of public affairs and head of corporate finance — developed a crisis plan that was as creative as it was effective. The plan involved going to the heart of Benetton's corporate identity — the logo, "The United Colors of Benetton" — and making a statement by removing those famous colors. In addition to removing the colors from its logo, black wreaths were place on the storefronts of all Benetton stores throughout Turkey until the situation was resolved. Also, all of the mannequins in the store windows were dressed in black indicating that the company was in a state of mourning.

Benetton-Turkey's response was exemplary in many ways. Not only was it swift and dramatic, but it recognized than an emotional response, not the logical and rational response of the other businesses, was key in diffusing the crisis. Responding emotionally, and doing the unthinkable, allowed Benetton-Turkey from becoming a hated villain.

Talking Down the Greens

Another example of thinking creatively involves the Swiss chemical conglomerate CIBA. Two German Green Party activists climbed a 600-foot smokestack and unfurled a huge banner declaring that CIBA was harmful to the environment. Rather than following the typical heavy-handed response of having the protesters forceably removed (which would only bring more publicity to their cause and create more enemies), Walter von Wartburg, head of Issues Management for CIBA, sent an emissary up the smokestack to ask them to come down and talk about their issues with him. They were told they could leave their banner up. The two Greens eventually came to talk with von Wartburg over tea.

The lesson of the story: Before adopting any solution to a problem, always ask, "Is the proposed solution likely to create even worse problems?" ■

Needed: One Champion

For an organization to successfully instill a crisis management program, it must find an organizational champion to lead the way. This champion should be a leader who has championed other system-wide programs. He or she must be able to see the big picture and make the connections between the various parts of the organization. The champion also needs to understand and be able to explain to top executives how a major crisis will derail the major business objectives of the company.

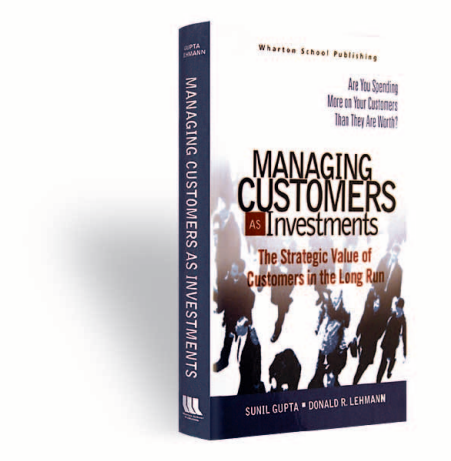
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Managing Customers as Investments

Sunil Gupta and Donald R. Lehmann

SOUNDVIEW Executive Book Summaries®

FILE: FINANCIAL/ACCOUNTING



By Sunil Gupta
and Donald R. Lehmann

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Are You Spending More on Your Customers Than They Are Worth?

MANAGING CUSTOMERS AS INVESTMENTS

THE SUMMARY IN BRIEF

Customers are important assets of any company. What does your company do to make the most out of your relationships with your customers? Do you know, in explicit, dollars-and-cents terms, what value your customers bring to your business? The authors of Managing Customers as Investments *recognize the difficulties in finding and explaining the tangible impact of your efforts to attract and retain customers.*

In this summary, they offer a set of tools that shows you the correlation between your customer assets and the value of your firm. They explain the triggers that drive this value, and how to better manage your customers and, as a result, your shareholders' wealth, as well. They unlock the metrics, show you where you are and where you're going, and provide you with the tools and tips to make your customer-related efforts more efficient.

What You'll Learn In This Summary

✓ **How customers are assets.** Customers are typically the primary source of earnings for a company. If you can estimate the value of current and future customers, then you can determine the true value of your firm.

✓ **How to calculate the value of your customers simply.** If you know the profit generated from a customer, as well as your average retention/defection rate, you can use a very simple equation to estimate the lifetime value of that customer.

✓ **How customer value can drive your marketing strategies.** Effective customer-based marketing strategies take into consideration the value that a firm provides to a customer, and the value of a customer to the firm.

✓ **How your organization must change.** Shifting to a customer-based mind-set in your business means that old product-based practices and processes must be jettisoned.

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MANAGING CUSTOMERS AS INVESTMENTS

by Sunil Gupta and Donald R. Lehmann

— THE *COMPLETE* SUMMARY

Customers Are Assets

Customers are the lifeblood of any organization. Without customers, a firm has no revenues, no profits, and therefore, no market value. Contrary to the commonly held view, creating shareholder wealth in the short run is not the main purpose of an organization. Long-run shareholder wealth is the reward for creating customer value.

The approach to linking customer and firm value discussed in this summary is based on a simple premise — that customers are typically the primary source of earnings for a company. If we can estimate the value of current and future customers, then we have a proxy for a large part of the value of a firm. If, for example, the average value of a customer to a firm is $100, and the firm has 30 million customers, then the value of its current customer base is $3 billion. If we factor in the firm's future customer acquisition rate and estimate the present value of future customers at $1 billion, then the value of its current and future customers is $4 billion. This estimate provides a good proxy for the value of the firm.

This approach differs from the traditional finance approach in two key aspects. First, unlike traditional finance, this approach builds from the bottom up by assessing the value of a customer. Secondly, it treats marketing expenditures differently than traditional approaches. If you believe that customers are indeed assets that generate profits over the long run, then marketing expenditures to acquire and retain these customers should be treated as investments, not expenses. ■

The Value of a Customer

The fundamental building block of the approach in this summary is the customer lifetime value (CLV), which is the present value of all current and future profits generated from a customer over the life of his or her business with a firm. This concept incorporates several aspects — the importance of not only current but also future profits, the time value of money such that $100 of profits today are worth more than $100 of profits tomorrow, and the possibility that customers may not do business with a firm forever.

To estimate CLV, two pieces of information are required: customers' profit patterns and their defection rate. The profit pattern is the profits (margin) generated from a customer over his or her tenure with the firm. The defection rate plots the pattern of the number of customers who stop doing business with a firm over a period of time.

Creating Metrics That Matter

Firms have historically faced enormous challenges in implementing the concept of customer lifetime value as a core business metric. This gap between theory and practice is a result of three major factors:

- **Data requirements.** Consider what data are needed to estimate the lifetime value of a customer. First, in order to know a customer's tenure with a company, one needs to track each customer or customer *cohort* (a group of customers acquired simultaneously). Second, for each customer or cohort, one needs to know its profit pattern over time, which requires projections of future profits. Third, one needs to know customer retention and defection rates over time.

The need for detailed customer data such as these has encouraged many companies to invest millions of dollars in creating customer relationship management (CRM) systems. While some companies have used these databases with spectacular results, most have failed.

- **Complexity.** In the zeal to create enormous databases, companies have lost sight of the big picture. Metrics

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The Value of a Customer

(continued from page 2)

that matter to top management must be clear, simple, forward-looking, and they must capture the big picture. CRM systems, in contrast, have become very complex and largely the domain of a firm's information technology arm, yet they have difficulty answering the simple question of what a typical customer is worth to the firm.

What is needed is a simple, easily understood metric that captures the spirit of customer lifetime value. Simplicity is key — simple methods are more likely to be used than their complex counterparts. For most decision-making purposes, it is enough to know the approximate value of the customer. Plus, when venturing into using new metrics, it is best to start with simple methods and see how they affect decisions. Additional precision and sophistication can and will follow, if necessary.

- **Illusion of precision.** Even with the most detailed and sophisticated data and modeling, estimating CLV requires a host of assumptions and subjective decisions that make it far less precise than many would like to believe.

A Simple Approach

For typical situations, the lifetime value of a customer is simply 1 to 4.5 times the annual dollar margin (profit) that is generated from the customer. To arrive at this simplification, one must make three assumptions:

1. Profit margins remain constant over the life of a customer.
2. Retention rate for customers stays constant over time.
3. Customer lifetime value is estimated over an infinite horizon.

The customer lifetime value (CLV) simplifies to the following equation:

$$CLV = m\left(\frac{r}{1+i-r}\right)$$

where the following is true:

- m = margin or profit from a customer per period
- r = retention rate (expressed as a decimal or percentage, e.g., 0.8 or 80 percent)
- i = discount rate (expressed as a decimal or percentage, e.g., 0.12 or 12 percent).

The factor to which the margin (m) is multiplied is the *margin multiple*. This multiple depends on the customer retention rate (r) and the company's discount rate (i). The retention rate depends on product quality, price, customer service, and a host of related marketing activities. For most companies, retention rates are in the range of 60 percent to 90 percent.

If the assumptions inherent to the equation do not hold, the margin multiple changes, but not much. If margins grow over time, the multiple ranges from 1 to 6, instead of 1 to 4.5. A gradually increasing retention rate has only limited impact on the margin multiple. Finally, limiting the length of projection to five to seven years (a common practice) has essentially no impact on the multiple for low retention cases, but biases the multiple downward when retention rates are high. ■

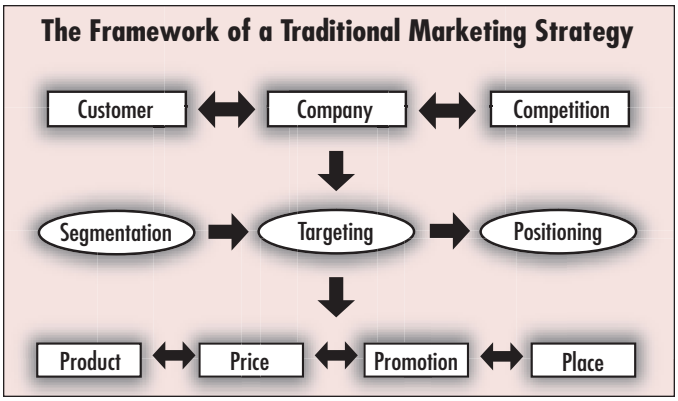
Customer-Based Strategy

For years, managers have reiterated the need to focus on customers, provide them good value, and improve customer satisfaction. In fact, metrics such as customer satisfaction and market share have become so predominant that many companies not only track them but also structure employee rewards based on these measures.

This kind of customer focus misses one important component — the value of a customer to a company. Effective customer-based strategies take into consideration the two sides of customer value: the value that a firm provides ***to*** a customer, *and* the value ***of*** a customer to the firm. This approach recognizes that providing value to a customer requires marketing investment and that the firm must recover this investment. It combines the traditional marketing view, where the customer is king, with the finance view, where cash is king.

Traditional Marketing Strategy

A long-standing approach to marketing strategy discussed in most marketing and educational forums is depicted in the following figure:



The first component of this framework is the analysis of customers, company and competition (the three Cs) to understand customer needs, company capabilities, and competitive strengths and weaknesses. If a company can fulfill customer needs better than its competitors, it has a market opportunity.

The second component is to formulate the strategy for segmentation, targeting and positioning (STP). Customers are different in terms of their needs for products and ser-

(continued on page 4)

Customer-Based Strategy

(continued from page 3)

vices, so a firm has to decide which of these customer segments it should target. After selecting a target segment, the firm must decide on the value proposition or positioning of its products with respect to competitive offerings.

The final component of this framework is to design the four Ps — product, price, place, and promotion or communication programs.

Implicit in this structure is an emphasis on providing value to customers by satisfying their needs with little focus on cost. Metrics used to measure success in this framework, such as sales or customer satisfaction, drive decisions. Missing from the framework is the explicit recognition or measurement of return on marketing investment.

Value to the Firm Vs. Value to the Customer

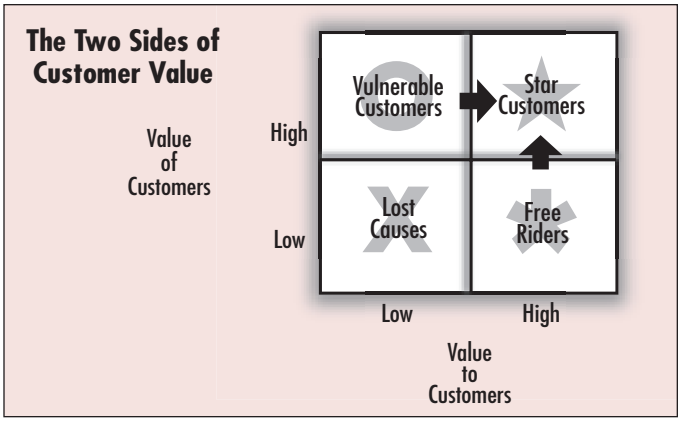
Customer-based strategy recognizes that marketing investment in customers must be recovered over the long run. Specifically, this approach highlights the two sides of customer value — the value a firm provides *to* a customer (the investment), and the value *of* a customer to a firm (the return on this investment).

A firm provides value to a customer in terms of products and services, and a customer provides value to a firm in terms of a stream of profits over time. Investment in a customer today may provide benefits to the firm in the future. The firm must assess that potential return. Since not all customers are equally profitable, investment in customers should vary by their profit potential. (See figure on right.)

The Two Sides of Customer Value

With this in mind, the following are the four key scenarios and their different values to and of customers:

- *Star Customers* get high value from the products and services of the firm, but they also provide high value in return, in the form of high margins, strong loyalty, and longer retention time. The relationship is balanced, equitable and mutually beneficial — a true "win-win."
- *Lost Cause* customers do not get much value from the products and services of the firm. Absent economies of scale — when many Lost Causes engage the firm — if the company cannot migrate these customers to higher levels of profitability, it should consider either reducing its investment in them, or even dropping them.
- *Vulnerable Customers* provide high value to the firm but do not get much value out of the company's services. These may be long-standing customers who, largely through inertia, remain loyal.
- *Free Riders* are the mirror image of the Vulnerable Customers. These customers get a superior value from using the company's products and services but are not very valuable to the firm. For whatever reason, these customers "exploit" the relationship with the company, appropriating the lion's share of the value.



Successful customer-based strategies require a company to consider both its investment in customer relationships, as well as the return on that investment.

Drivers of Customer Profitability

Customer profitability is influenced by three factors:

1. Customer Acquisition. In recent years, many companies, particularly the dot-coms, went on a binge to acquire customers in the belief that customer acquisition and rapid growth are critical to success. This belief was so strong, several companies had a mandate to acquire customers *regardless of the acquisition cost*. These costs can be substantial, and a surprising number of companies spent too much on customers who gave them too little in return. (See sidebar on next page.)

2. Customer Margin. While customer acquisition focuses on growing the number of customers, increasing customer margin focuses on growing the profit from each existing customer. In the context of retailing, this means increasing same-store sales rather than opening new stores. Growth can be achieved through a variety of methods, such as up-selling and cross-selling related products.

3. Customer Retention. In their zeal to grow, many companies focus almost exclusively on entering new markets, introducing new products, and acquiring new customers. However, these companies often have a "leaky bucket" — as they add new customers, old ones defect from the firm. On average, 20 percent of a company's customers defect every year. This means that, roughly speaking, the average company loses the equivalent of its entire customer base in about five years.

Studies show that the cost of acquisition is generally much higher than the cost of retaining existing customers. Therefore, it seems obvious then, that a firm should focus on retaining its existing customers. Unfortunately, many companies don't even know their customer retention or defection rates. ■

For additional information on how one flower company acquired customers, go to: http://my.summary.com

Expensive Customer Acquisition

Like most Web-based startup companies, compact disc retailer CDNow focused heavily on acquiring new customers in its early days. Its customer acquisition strategy used traditional methods such as TV, radio and print advertising, as well as some innovative programs. To many, including Wall Street, this made sense — a startup has to acquire new customers to become a viable business. During 1998–1999, financial markets started rewarding companies with strong nonfinancial measures, such as number of customers.

But the numbers simply did not add up. Based on company reports, the average customer acquisition cost for CDNow ranged from $30 to $55 in 1998–1999. During the same time, annual gross margin per customer was consistently in the range of $10 to $20. CDNow reported an average customer retention rate of 51 percent to 68 percent, a number that became increasingly difficult to maintain with increased competition on the Web and the ease with which customers could click over to a competitor.

Even assuming a favorable discount rate of 12 percent (for a risky young firm, the rate is likely to be higher) and a higher-than-reported retention rate of 70 percent, the lifetime value of a CDNow customer is 1.67 times its annual margin, or $16.70 to $33.40. Unless some unknown growth strategy was involved, the business model of CDNow was fatally flawed. Partly due to this expensive customer acquisition strategy, CDNow reported a loss of over $100 million at the end of 1999. In July 2000, CDNow was bought by Bertelsmann.

Customer-Based Valuation

Traditional approaches to determining a firm's valuation haven't always been helpful. The difficulty of valuing high-growth companies, such as dot-coms, by traditional methods led to a series of new metrics and methods. One of these was the number of customers, or "eyeballs." This metric was based on the assumption that growth companies need to acquire customers rapidly in order to gain advantage and build a strong network. Things changed after the dot-com bubble burst. These days, financial analysts are skeptical of such nonfinancial metrics, *particularly* eyeballs.

The value of a customer provides a critical link between marketing decisions and firm value. All the profits and cash flows (forming the basis of firm valuation) come from customers buying a firm's products and services. If one can assess the lifetime value of one customer, then one can also estimate the value of the entire current customer base. Knowledge of customer acquisition and retention rates enables one to estimate the number and value of future customers. The value of a single customer provides the building block for forecasting the cash flow — and, thus, the value — of a firm.

The purpose of any good valuation model is not to simply estimate the value of a firm, but also to provide guidelines to improve it. What are the key drivers of firm value? Since customers form the core of any business, and analysis suggests that customer value provides a strong proxy for firm value, factors that drive customer value directly impact firm value. There are two aspects on which to focus: the impact of marketing actions on firm value, and the impact of marketing and financial instruments on firm value.

Impact of Marketing Actions on Firm Value

Marketing actions are generally designed to improve acquisition costs, margins, and the customer retention rate. While many companies ignored customer acquisition costs during the dot-com bubble era of the late 1990s, there is now a greater emphasis on cutting those costs. Programs designed for cross-selling and up-selling, as well as customer loyalty programs, are currently employed to improve customer satisfaction and, thus, customer retention. While many of these programs serve multiple purposes, marketing managers have to allocate resources to several competing marketing programs. How should they make these critical decisions?

One way to do this is to examine how changes in acquisition costs, margins, and retention rate alter customer and firm values. Analysis has shown that improving customer retention has the largest impact on customer value. Specifically, it is estimated that improving retention by 1 percent has an effect on customer value five times larger than a 1 percent improvement in margin, and 50 times larger than a 1 percent improvement in acquisition cost.

Impact of Marketing and Financial Instruments

The discount rate or cost of capital is a critical variable in calculating the net present value of any cash flow stream and firm valuation. The finance community has for years focused on measuring and managing a firm's cost of capital. In contrast, the marketing and business community has just begun to measure and manage customer retention. Therefore, it is important for executives to understand the relative impact of marketing and financial instruments on firm value so they can allocate time and resources appropriately.

To compare the relative importance of marketing and financial instruments on firm value, focus on customer retention as a marketing instrument, and the discount rate as a financial instrument. Analysis shows that, on average, a 1 percent improvement in customer retention enhances customer value (and in turn, firm value) by about 5 percent. A similar decrease in the discount rate increases customer, and therefore firm, value by less than 1 percent. Thus, the impact of retention is more than five times the impact of the discount rate. ■

Customer-Based Planning

Since the value of customers is so critical, managers must know how to improve that value and, as a consequence, the value of their firm. One key way to do this is to use a planning process based on customers and customer data, a process consisting of these four steps:

1. Identify customer objectives.

2. Understand sources of value to customers.

3. Design marketing programs with these things in mind.

4. Use appropriate customer metrics for assessing the effectiveness of your programs.

Customer Objectives

There are three ways to organically grow your business — acquire new customers, retain existing customers, and get existing customers to generate more revenues and profits. Which method should be the focus of your energy and resources? One simple, effective way to address this matter is to create a profit tree for your business — a representation of your business that traces all the branches through which profit flows to the organization. This tree also highlights the critical bottlenecks that help you identify key customer objectives.

To generate such a tree, you must effectively follow a potential customer through various steps in the organization to see how that customer generates profit for the firm. This process also highlights the various decision points for you, and puts in explicit terms such aspects of your business as how you define your market, how you define your target customers, what your client conversion rate is, what types of clients you serve, what the average value of a client is, and more.

Such an analysis brings three points into clear relief:

1. You cannot design effective marketing programs without having a clear sense of the key decision points in your profit tree.

2. Programs cannot be viewed myopically, since most programs impact several aspects of your business. This means each manager should define clear and measurable objectives for such programs.

3. The analysis provides concrete guidelines for marketing investment. This provides a tangible metric for designing and evaluating a program.

Understanding Sources of Value to Customers

It is essential to understand the value your product or service provides to a customer. You must understand why a customer should buy from you and not from your competitors. Understanding the sources of customer value helps design effective programs.

For additional information on a sample profit tree, go to: http://my.summary.com

Marketing Lipitor

Pfizer's cholesterol-reducing drug, Lipitor, was a late entry into a market whose leading medicines were producing more than $1 billion in annual sales. Lipitor became a market leader quickly not by siphoning off customers from competing drugs, but by expanding the market with new customers.

Although clinical trials showed that Lipitor had slight superiority over other drugs of its kind in reducing bad cholesterol (LDL) levels, it did not have studies to prove that individuals treated with Lipitor experienced fewer deaths from heart diseases.

Instead, Lipitor teamed up with the American Heart Association to launch a national ad campaign which emphasized that almost 57 million Americans were not meeting their LDL standards, and 26 million had LDL levels high enough to warrant drug treatment.

Pfizer supported this campaign by sending its message (and its considerable sales force) to general practitioners, in addition to cardiologists. This resulted in enormous sales of the drug — nearly $9.3 billion in 2003 alone.

Customer value depends on the benefits offered and the costs involved. Value is very different from cost — an item costing only pennies to produce may be worth thousands of dollars if it solves an important problem efficiently. Likewise, a product that is expensive to produce may have little value.

Customer value involves two basic notions of value — category value, which assumes no competing brand exists; and relative value, which involves comparison of the product with other products in the category. In general, the value provided by a product or service to customers can be grouped into three categories:

- **Economic Value.** What economic benefit does a customer derive from using a product? What is the net monetary advantage gained from using a product, versus its alternatives, over the life of the product? As important as economic value can be, it is not the only, or even the most important, basis for purchase. The *relative advantage* of a new product is only one of the many factors for its success. Other factors include *compatibility*, *complexity*, *observability*, *risk* and *divisibility*.
- **Functional Value.** This is defined by those aspects of a product that provide measurable, functional or utilitarian benefits to customers — the performance features of a product. There are well-developed research methods to quantify the value that customers derive from each functional aspect of a product. One of the most commonly used methods is conjoint analysis, in which customers compare different alternatives and consider

(continued on page 7)

Customer-Based Planning

(continued from page 6)

the trade-offs involved. By asking customers to rate different products, researchers learn their preferences, which can then be fed into product and marketing designs and pricing strategies.

- **Psychological Value.** Psychological value focuses on intangibles such as brand names, as well as images and associations with a certain brand. As markets mature and competitors catch up with one another in technology and product features, psychological benefits become key differentiating factors. Although measuring psychological value poses a major challenge due to the intangible nature of the benefits, significant research has been done to measure *brand equity* — the value of a product beyond its economic and functional value.

Designing Marketing Programs

The nature and number of marketing programs that can be designed to influence customer value and achieve customer objectives of acquisition, retention or expansion are limited only by your imagination and creativity. Some programs to consider include the following:

- **Managing customer "touchpoints."** Value does not come solely from a product's functional features. Equally important are the emotional, self-expressive and experiential benefits that occur at every touchpoint with a customer. These and other factors (store layout, interaction with employees, and other aspects of the customer's interface with your business) comprise the customer's experience. All of these factors must be integrated in order to generate a positive experience for the customer, and to help ensure that you retain his or her business.
- **Loyalty programs.** Since American Airlines introduced its frequent flier program in the 1980s, loyalty programs have become ubiquitous in nearly every industry, from airlines to hotels to supermarkets. More and more companies use these programs for developing relationships, stimulating product or service usage, and retaining customers. The design of the program is key: To get customers to buy into it, you need to offer the right things to the right people.

Assessing Effectiveness of Programs

You cannot manage something that you cannot measure. Metrics matter in this regard, but there can be overkill — measuring too many things can lead not only to a lack of focus, but also to an unnecessary diversion of resources. Therefore, management must design a set of relevant metrics that (a) impacts business profitability, and (b) can be monitored easily on a regular basis to give the firm a sense of its business health.

Firms should monitor two sets of metrics: customer-focused (which assess value to the customer) and company-focused (which help assess value of the customer to the company). The first category includes measures such as awareness, associations, attitude, trial/usage, loyalty, and word-of-mouth activity, as well as satisfaction.

The second category of metrics includes the building blocks of the value of a customer, some diagnostics about where value is migrating from, and the costs of acquiring and retaining customers. These numbers directly enter the CLV formulation and hence are critical to measure. They also provide criteria against which to measure and evaluate marketing program spending. ■

Johnson & Johnson Opens Arteries and Opportunities

Many companies use the concept of economic value in launching new products and setting prices. For example, Johnson & Johnson makes stents — tiny metal pieces used in patients to prop open clogged arteries after an angioplasty procedure. Since the arteries tend to get re-clogged with scar tissue, about 15 percent of patients treated with conventional, bare-metal stents need a second angioplasty procedure within six months.

The newer generation of drug-coated stents reduces the need for repeat procedures to less than 5 percent of the cases. This 10 percent reduction in complication provides a significant economic benefit to insurance companies and hospitals alike. As a result, Johnson & Johnson was able to launch its stent effectively with a price of $3,195 in the United States, more than $2,000 above the price of a metal stent.

Customer-Based Organization

The value of a customer is more than a concept, tool or metric. It is a mind-set. Its implementation requires a cultural change within the organization and needs to be supported by appropriate changes in the organizational structure and incentive systems.

From the perspective of a firm's organizational structure, a customer focus requires dramatic changes. For example, a firm with a focus on product management will have managers of different products trying to maximize their own profitability to fit a product-centric agenda. This structure does not facilitate the transfer of relevant customer information across departments. In fact, in many cases, conflict will arise between departments.

Customer management provides a complete picture of a customer across products, while a product management

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Customer-Based Organization

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system looks at one product at a time, and therefore provides only a partial view of a customer. Therefore, the product management system is deficient for at least two reasons. First, each product manager knows whether a customer buys or does not buy his or her product, but does not know the firm's share of that customer's wallet. This lack of information can lead to many potential problems. A second major problem with the product management system is that it can create inherent conflicts among product managers and departments — among them communication disconnects and incentive-related hoarding of resources.

Incentive Systems

A new organizational structure must be supported by an appropriate incentive system to reward employees — an incentive system with two objectives. These are:

- First, the system should be designed to avoid inter-product conflicts. This can only be achieved if the objective of each manager is not to maximize the profitability of his or her brand, but rather to maximize the profitability of a customer.
- Second, as the metric changes from brand profitability to customer profitability, the incentive system should also recognize and reward the key elements that drive customer profitability. For example, customer retention has the largest impact on customer profitability, but most companies reward their sales force on the basis of either total revenue or acquisition of new customers. A focus on revenue misses critical cost elements, and a focus on customer acquisition can lead to disconnects where sales forces are compensated solely or mostly on the basis of new accounts acquired.

Appropriate Training

Incentive systems can change employee behavior to make it compatible with a firm's objectives, but it must be supported by appropriate training. While a product orientation requires an employee or a manager to be an expert in his or her product only, a customer orientation requires that employees know about multiple products and understand customer needs more than product characteristics. This broadening of employee knowledge requires new skills and training.

Additionally, a customer orientation means that employees "own" a customer and, consequently, customer problems. This cultural change also requires training and appropriate structure to support such behavior.

Front-line employees must also receive specific training. These are the people with whom your customers come into contact most often. How they behave and interact with customers has a critical impact on customer satisfaction and retention.

Common Mistakes

Simply proclaiming a customer-based strategy is not enough: It must be applied sensibly. The biggest problems in doing so tend to stem from taking a myopic view of its implementation. Several common flaws are then prevalent, including:

- **What's in it for them.** Many so-called customer strategies focus on what's in it for the company, and largely ignore what's in it for the customers. The consequence is often optimistic (and unfulfilled) forecasts, as well as unplanned customer defections.
- **Failing to consider what they will be when they grow up.** Never assume customers will remain as they are at present, and ignore the pattern of margin likely to occur over time.
- **Rose-colored glasses.** This assumes that "great things are possible" in terms of growth in both customers and margin per customer. People sometimes mistake possibilities for probabilities when they should balance current results with rational exuberance.
- **Alone they may be trivial, but together they matter.** A common manifestation of this thinking occurs in evaluating developing economies, where low income averages lead many firms to rule out entire countries. This approach ignores the fact that potential often exists even if the majority of the population were not high-potential customers.
- **No customer is an island.** Even small customers destined to remain small can be important because of what they can do to influence others.
- **It's about us.** Customer-based strategy can lead to inadequately accounting for competition. This manifests itself in unjustified complacency, assuming current customers are more secure than they are, and in being overly optimistic about growth prospects.
- **Throwing out the baby.** Totally dismantling product-based or brand-based organization structures in favor of a customer-based structure is not advisable. Successful organizations will find ways to integrate these different perspectives. ■

SOUNDVIEW Recommended Reading List

If you liked *Managing Customers as Investments,* you'll also like:

1. ***The Loyalty Effect*** **by Frederick Reichheld.** Reichheld shows how the longer customers stay with a firm, the higher the profits generated from them.
2. ***The Agenda*** **by Michael Hammer.** Hammer, one of the world's foremost business thinkers, creates a map to help businesses survive in today's customer-dominated era.
3. ***Scoring Points*** **by Clive Humby and Terry Hunt with Tim Phillips.** The authors reveal the secrets behind one of the world's most successful retail customer loyalty programs.
4. ***The Brave New Service Strategy*** **by Barbara A. Gutek and Theresa Welsh.** The authors explain how to differentiate between true relationship businesses and what they call "encounter" businesses.
5. ***The Customer-Centered Enterprise*** **by Harvey Thompson.** Thompson teaches you what steps you need to take to make your business customer-centered.

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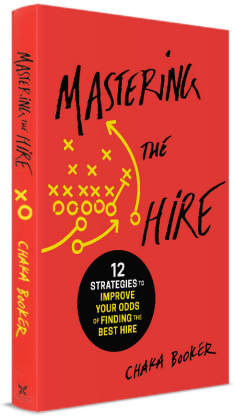
Mastering the Hire

Chaka Booker

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Executive Book Summaries®

Mastering the Hire

12 Strategies to Improve Your Odds of Finding the Best Hire



by **Chaka Booker**

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THE SUMMARY IN BRIEF

Research shows you have a 50 percent chance of hiring the right employee—and a 50 percent chance of hiring the wrong one. Hiring the wrong person siphons your energy and erodes team culture. Replacing them is stressful and can cost over $40,000 per re-hire. It's a toss up, but it doesn't have to be.

With the right tools, all of that can be avoided, and you can consistently make great hires. After years of scientific research and first-hand interview experience with thousands of candidates, Chaka Booker has created a system that helps employers consistently make great hires.

In ***Mastering the Hire***, Booker provides 12 proven strategies that have been used to accurately identify the right talent 90 percent of the time. Whether you're a hiring manager, business owner, CEO, search consultant, team manager, team member, novice or expert interviewer, ***Mastering the Hire*** is for anyone who wants to beat the hiring odds.

IN THIS SUMMARY, YOU WILL LEARN:

- To manage intuition: when to trust it and when to put it aside.
- To structure interview questions to help candidates tell the truth.
- To know when to apply or release pressure during interviews.
- Tools for removing bias to give you a competitive advantage.
- To reimagine the hiring process.

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Introduction: The Coin Toss

What is the purpose of a job interview? According to Frank L. Schmidt, a psychologist renowned for his research in personnel selection, the value of an interview lies in its "predictive validity"—the ability to predict future job performance. The logical next question then is, do job interviews predict job performance?

To answer this question, Schmidt partnered with psychologist John E. Hunter and conducted a meta-analysis on 85 years of research on personnel selection. The results were sobering. At best, the methods had a predictive validity of 54 percent.

Fast-forward more than two decades and little has changed. A recent Gallup study found that when it comes to management talent, companies fail to choose the right candidate 82 percent of the time.

The reason for those odds is simple. The two people who face each other at the interview table don't do it often enough to do it well. What are the odds of a great decision coming from that table? About the same as tossing a coin.

The Black Box

Organizations don't need candidates that interview well. They need candidates that can do the job well. That means they need interviewers that interview well. It is the interviewer who must have a great interview, not the candidate.

For most interviewers, the relationship between interview practices and accurate hiring decisions is a black box where the effect of one on the other is a mystery. We can all point to candidates we interviewed who turned out great. We can also point to those who didn't. But can we point to what we did during the interview that led to either result? That's the black box. Without knowing what is inside that box, we can't consistently replicate our successes. We can't beat the odds.

But there are assessment methods that are most effective at predicting who a candidate is and what they can do. Beating the odds is about recognizing those patterns. What follows are some of the patterns, rhythms, and regularities of successful interviewing distilled into strategies and practices that anyone can learn.

Interviewing should never be a game of chance. Hiring does not have to be a coin toss. Regardless of your starting point, you can increase the odds of finding great talent. That is the goal.

Part I: Reducing Interference

The moment you step into the interview room, human nature kicks in and you and the candidate instinctually begin reading each other. Signals, social cues, and assumptions fill the space between the two of you, influencing your behaviors and your decision-making processes.

Some of the signals are interpreted inaccurately or have nothing to do with assessing the candidate—they are interference. Your job is to understand and minimize the noise that interferes with an accurate read of the candidate's talent.

Strategy 1: Intuition, Know Thy Place

A common phenomenon in candidate selection is a stubborn reliance by interviewers on their intuition. We would all like to believe our instincts are razor sharp and our gut reactions are in tune with reality.

Research published in the *Journal of Personality and Social Psychology* found that first impressions tend to be incredibly accurate. But there is also good reason to be extremely cautious about first impressions. All the studies indicate that first impressions are subject to stereotyping and prejudice.

Sometimes first impressions are accurate. It's not that intuition doesn't have a place, but that you must know its place. To increase the odds of making a strong decision, you need to manage subjectivity, so you can determine the relevance of a first impression.

Practice: Park your first impressions. Eliminating first impressions would go against human nature, so don't try. Instead, go in the other direction. Acknowledge that first impressions exist and then use a practice that allows you to determine if the early impressions are accurate and relevant. That practice is called "parking your first impression." You park your first impression by documenting it the moment it happens. That practice moves it from the brain, where it quietly impacts decisions, and places it in the open, where it can be examined.

Before you are about to interview someone, write down "Yes," "I don't know," "No." Once the interview begins, within the first few moments, make a mark on the line indicating what your first impression is: "Yes, they are a strong candidate." "I don't know if they are a strong candidate." "No, they are not a strong candidate."

Now that you have logged your first impression, your job is to ignore it. This part of the process is critical; otherwise,

Behavioral interview questions generally contain some signal indicating what the answer should be.

you will seek evidence during the interview to justify your first impression. In psychology, this is called confirmation bias. To avoid it, remind yourself that your first impression is a single data point to be considered after the interview along with other evidence.

Strategy 2: Candidates Don't Answer Questions. They Answer People.

Controlling the influence of first impressions on your decisions is only part of the battle against interference. Influence flows both ways. You must also control the influence you have on the candidate during the interview.

Candidates are constantly reading interviewers for cues. Not only can they tell if you like or dislike an answer, they are good at adjusting accordingly. Because of this dynamic, the interviewer can unknowingly do more than just gather answers from the candidate. If not careful, the interviewer can push the candidate to provide certain answers.

Practice: Interview like a poker player. Professional poker players understand social cues and hone the ability to read their opponents' faces to help determine their next moves. But maintaining a consistent expression isn't just for Vegas high rollers; it is an essential skill for an interviewer. To control for the impact your behavior has on the candidate's performance, you must present the same facial expressions across candidates.

A facial expression that maintains consistency across candidates and builds trust with each candidate is the goal. If you are wondering what trustworthiness looks like, the answer is simple: It is an expression that is slightly positive and friendly. Present the smallest of smiles, a slight upturn at the corners of your mouth.

For optimal results, accompany this expression with a set of standard positive responses for all candidates: Give head nods and small encouraging smiles during the interview. Give verbal signs of affirmation that seem positive but are neutral. For example, at the end of the candidate's answer or even during the answer, the interviewer should say, "Got it," or "I understand."

Your expression and affirmative responses acknowledge that you are listening and are in a positive mood, but the comments themselves are neutral. They don't indicate that the answer is right or wrong, just that you hear it.

Strategy 3: The Right Question Asked Wrong Is the Wrong Question

We don't only send signals to candidates through social cues and explicit behaviors; we also send them through the structure of the questions we ask. Behavioral interview questions generally contain some signal indicating what the answer should be.

For example, if you ask a candidate, "Give me an example of a time that you had to learn something quickly," the candidate will know that the right answer involves them demonstrating they have learned quickly, whether they have had to learn quickly or not.

Fortunately, questions can be designed to promote honesty, rather than interfere with it, and candidates can be pointed toward the truth.

Practice: Remove the signals. If the role you are hiring for operates in an unstructured environment, you could ask a traditional behavioral question:

Interviewer: Give me an example of a time you successfully worked in an unstructured environment and had to move work forward without guidance.

This answer doesn't just signal what you want, it plainly tells the candidate you are looking for a person who can move work forward without guidance. If they haven't done this, they will create an answer—or more likely contort another answer they prepped in advance—to fit the question.

Instead, make it more open-ended.

Interviewer: Have you ever worked in an unstructured environment?

They will still sense that the "correct" answer is yes, but you have increased the odds of getting at the truth by allowing for an honest answer.

Part II: Pressure Management

What makes interviewing hard for candidates is pressure. There are two types of pressure the candidate feels: the type you apply as the interviewer and the type they put on themselves. The pressure you apply that leads to a better answer is necessary. The candidate's self-imposed pressure is unnecessary and gets in the way of accurate assessment.

There is also a pressure that you experience as the interviewer. This pressure shows up after the interview when you feel the need to make the right decision. Knowing how to release pressure, apply pressure, and make decisions under pressure will shift the odds in your favor.

Strategy 4: To End With Truth, Start With Trust

Every candidate enters the interview room with a degree of uncertainty about what to expect. They are about to sit across the table from someone who controls their future. Regardless of how confident or comfortable they seem, they have their guard up to protect themselves. The protection is necessary because each side wants something the other has, and neither is sure they want to give it up.

The interviewer has a job they are holding for just the right person. The candidate holds the truth about who they truly are and what they can do. But they don't know if what they have is what is being sought. That pressure makes the candidate not sure how much of themselves they should reveal.

From the first moments of the interview, you must create an environment that allows the candidate to willingly reveal their true selves. Lowering the pressure will get them to lower their guard. To do so, make three things clear: You and the candidate are equals. You and the candidate are working toward an outcome together. It is in both of your best interests to be open and honest.

Practice: Minimize physical barriers. If there is a physical barrier between you and the candidate, you must minimize it to increase a feeling of equality. In most interviews, you are behind a desk or a table. Don't stay seated. Break the barrier. Step from behind the desk or table to shake hands and introduce yourself. The message you are sending is that you are equals standing on the same ground with nothing between you.

Make sure there is water in the room. Ask if they would like some. And pour it for them. The message again is clear: "I'm not above you. I'm here to help."

Next, call attention to the fact that there is a physical barrier between the two of you. Interviewer: "I usually don't like to have such a big space between me and someone I'm interested in learning more about, but we'll do our best to make this work." The message you are sending is that, despite the barrier, you are still on the same side. Their guard isn't completely down yet, but it's dropped an inch or two.

Strategy 5: You're Not Assessing the Candidate. They're Assessing Themselves.

During an interview, you are the one asking the questions. So far, so good. But when you analyze what happens next, the belief falls apart.

The first thing the candidate does in response to a question is delve into their brain, selecting from a range of experiences, perspectives, and opinions. When they come back out, they share what they found. You then ask them what they did well, what they could have done better, and what they would do differently next time.

None of this is you assessing the candidate. What you have just done is ask the candidate to retrieve a memory and assess it themselves. You are judging the quality and relevance of their self-assessment.

When you tilt the interview to look at it from this angle, you expose two problems. First, interviews rely entirely on the candidate's ability to accurately recall events, results, and decisions.

Second, your assessment relies on their ability to evaluate themselves. Science suggests those are big problems. Countless studies show that stress negatively impacts working memory. Research also shows self-evaluation is inherently difficult. People often have the wrong view of their own competence because they don't have enough subjective information to accurately self-assess.

So, not only are we asking candidates to remember something under sub-optimal conditions, we are also asking them to do something humans aren't good at doing. Now that we see the interview in a different light, let's bring science back on our side, remove unnecessary pressure, and improve the odds.

Practice: The memory anchor. To lower the memory hurdle, you should intentionally use the resume as a "memory anchor." The memory anchor protocol is simply the following: At the start of the interview, ask the candidate if they have their resume. If they do, ask them to pull it out and feel free to use it to help answer any question.

If they don't have their resume, provide them a copy. Your job is to lower the psychosocial stress of interviewing and help the candidate access their thoughts. You want them to reflect on those thoughts and give you enough insight to help with your ultimate decision.

As an interviewer, your goal is not to apply extreme pressure, nor do you need to know each candidate's tipping point.

Strategy 6: Pressure Clarifies and Reveals Potential

Minimizing pressure is good when it leads to better insight and more accurate decision-making. Pressure, however, also has its benefits. A considerable amount of studies have been done in the fields of sports, law enforcement, the military, student performance, and leadership. In all fields there is a point when pressure goes from enhancing performance to hindering it. But that tipping point varies across people and settings. What is consistent is the finding that pressure which challenges people is helpful, and pressure that threatens is not.

As an interviewer, your goal is not to apply extreme pressure, nor do you need to know each candidate's tipping point for optimal performance. You need to know how to appropriately challenge candidates to gain insight for an accurate assessment. How you apply pressure that challenges candidates depends on the type of insight you are pursuing.

Practice: Keep questions lean and follow-ups specific. Whenever you ask questions during an interview, you inevitably will get an answer that does not provide the information you need to help make a decision. There are a range of reasons for this—none of them should have anything to do with your questions themselves. Strategy 3 showed how to remove signals from a question. A rule of thumb to accompany that strategy is keep the question as short as possible, keep it open-ended, and use specific follow-up questions.

Keeping the question short and open-ended puts you in stronger position of control. Not only because of fewer signals but because once the candidate starts talking, the follow-up questions can be targeted to gather specific and relevant information.

The following are ways to frame a follow-up question to gain clarity:

- "That answer was very general. I could use some more specifics to help me understand."
- "I'm not clear on what role you played and what you accomplished in that example."
- "I don't understand what the goal of that project was and whether you got there."

This should then be followed by

- "Can you give me a better answer than that?"

Strategy 7: Stop rationalizing

Think of a hiring mistake you've made, and you can likely recall moments during their interview process that indicated it wouldn't end well, but you pressed forward and hired the candidate anyway. Whatever the pressure, at the core of this faulty decision-making is our brain's ability to rationalize.

Rationalization helps reduce cognitive dissonance, an uncomfortable psychological state produced by discrepancies between actions and attitudes.

The key to conquering this self-deception is understanding that in the moment—when we make mistakes that we need to rationalize—*we know we are making a mistake*. That's precisely why we rationalize. Rationalizing requires your brain to first recognize you are being irrational—only then does it begin the process of justifying. That moment of recognition is what strong interviewers learn to identify and control.

Practice: Premortem. The trick is to have the same clarity of thought during the decision as you will after the decision. When you are leaning toward hiring a candidate, potentially against your best judgment, conduct what cognitive psychologist Dr. Gary Klein calls a "premortem" before making a final decision.

Conducting a premortem will feel like a counterintuitive approach because rather than envisioning success with this candidate, you envision failure. Imagine hiring the candidate, and then imagine every concern you have about the candidate becoming true. Imagine all the bad ways this will play out. The deadlines they will miss. The relationships they will damage. The decrease in team productivity.

Imagine firing them because of what you knew during the interview. Imagine having to restart the hiring process.

Articulating what could go wrong brings you back from the brink of doing what you want and forces you to think more clearly about what you need. You may still decide to hire the candidate. But if you do, you've shifted the odds toward it being the rational decision versus the one you rationalized.

Part III: Sharp Tools

Like a physician, the interviewer's job is to diagnose. Physicians use a structured process of question, answer, and examination to gather insight. When the issue is complex, they draw blood. An interviewer's job, to delve into the candidate's mind, is complex. It also requires them to draw from the candidate. But not blood. Answers.

The stakes during an interview are not life or death, but errors can lead to pain that could have been avoided. The interviewer's tools must be as sharp as any physician's instruments. The tools must be clean so as not to pollute the answer. The interviewer must know which tools to use when and what to look for in the answer they've drawn.

Strategy 8: An Interview Is a Glimpse

The modern meaning of interview is tightly associated with assessing talent. The original meaning of the word from the 16th century, of Middle French origin, is "entrevue," derived from "s'entrevoir," to see each other, visit each other briefly, have a glimpse of. An interview is only a glimpse of someone else.

The brevity of the interaction points toward two things. First, use the time well. Leave nothing to chance. If something is only working 50 percent of the time, then strip it down, keep what works, and rethink what doesn't. Second, to get a full picture of the candidate, take each glimpse from a very different angle.

Practice: The reverse interview. A candidate who looks strong on paper doesn't always turn out the same in person. By the time you realize that, you've already invested several hours interviewing the candidate live. You can gain some of the same insight and save time by spending 20 minutes conducting a phone screen. A phone screen often boils down to four basic pieces of information: Do they communicate well? Have they done research on the organization? Why are they interested in the role? Clarifications based on their resume.

Use these four areas to conduct the reverse phone screen. This turns the tables and gives the candidate 10 to 15 minutes to ask the interviewer the top 10 questions they have about the role, the organization, etc. The interviewer then takes five to 10 minutes to ask the candidate a few questions. With this flipped structure, the questions that candidates ask and how well they prepare tell you a ton about them, yet your preparation is minimal. To make this work, notify the candidate in advance via email of the reversed structure. This gives them time to prepare.

Strategy 9: Break Down the Fourth Wall

In the world of theater, the fourth wall is the term for the imaginary wall between the audience and what occurs on the stage. This wall exists in the world of interviewing as well. In an interview, you are the audience and the candidate is on the stage. Since you can't step onto their stage, you must observe from your seat and determine if the story being told is an accurate reflection of reality.

The traditional interview as your only mechanism means you must rely on learning about the candidate through their recounting of events. Using additional approaches breaks the fourth wall and gives you a completely different lens to look through.

Practice: In-basket assignments. In-basket assignments are activities you give the candidate to complete in advance and then you discuss them during one of the interviews. Think of in-basket assignments as homework for the candidate. The approach takes some up-front preparation by the interviewer but can be used time after time and does not have to be complex or require a lot of planning. The key is to choose assignments that mimic the work they will do on the job. Have them create a presentation, or have them do an analysis. Have them review part of your strategic plan. Have them research a topic and write a memo.

Regardless of the assignment, conduct the discussion with the candidate the same way you would with a team member. Try to re-create what it would feel like to have a meeting with you. That will give you a better sense of what working with them may be like. It also has the benefit of giving the candidates a feel for the work and what interaction as a team member is like. The interview is a glimpse of each other, and in-basket assignments are a perfect opportunity to make it a two-way experience.

Part IV: Identity and Bias

When a candidate sits at the interview table with you, they

The first step toward controlling biases is to think about what your biases might be and write them down.

represent two people: the person they are and the person you think they are. The bigger the gap between reality and perception, the higher the odds of the wrong decision being made. The opening chapters discussed the interference that fills that space. There is another culprit whose existence serves to keep reality and perception apart. That culprit is bias. This section is focused on making effective hiring decisions at the intersection of identity and bias.

Strategy 10: Biases Are Unspoken Criteria

In practice, biases fall into two categories: the ones people will admit to and those they won't. The biases in that second category tend to include race, gender, sexual orientation, religion, etc. Unconscious or not, the larger problem is those beliefs are rarely discussed. Yet the biases that spring from them lurk in our minds during the interview, quietly impacting our decisions. They become unspoken criteria that wedge between who the candidate is and who we think they are.

Your goal isn't to suddenly shift everyone's unspoken beliefs through a set of interview practices. Your goal is to make them aware of how their beliefs can negatively impact their behavior and how increased self-awareness makes them better decision makers. You won't get far if you start with a discussion about their most controversial biases. Instead, leverage the research that shows an effective approach to managing bias is to tap into people's desire to be fair-minded.

To get there, start simple by explaining that bias isn't a dirty word defined exclusively by racism, sexism, homophobia, or the like. A bias is just a tendency to believe some categories of things (people, ideas, products, etc.) are better or worse than others. Synonyms for bias include "non-objectivity," "partiality," and "one-sidedness." Whether a bias is helpful or hurtful depends on whether the underlying belief is relevant or not.

Seemingly innocent biases, such as preferences for strong handshakes, types of attire, or certain personality traits, are where you want to start. They get people to acknowledge that bias exists.

Practice: The bias list. The first step toward controlling biases is to think about what your biases might be and write them down. To increase the odds of accurately assessing someone else, you must recognize the triggers of certain emotions, assumptions, and reactions in you. Putting thoughts in writing is a powerful way to make your thinking concrete. This mechanism for capturing the "unspoken criteria" makes it easier to manage. It allows you to compare your biases against the actual criteria needed for the job.

For example, some people dislike candidates who give weak handshakes or have a heavy accent. As with first impressions, the point is not to immediately view biases as wrong but to stop them from hijacking your decisions before you have a chance to determine if they should be part of your criteria.

Strategy 11: Be Mindful

Gaining control of first impressions and creating bias lists helps disrupt automatic thinking. But the best interviewers take it a step further. They spend time specifically learning about issues related to identity. They also spend time thinking about what they think about those issues. "Thinking about what they think" is a subtle nuance worth exploring. One level of learning is to gain exposure to issues of identity that others may struggle with. A higher level is to then question what you believe about those issues and why you believe them. That practice of introspection is a type of mental preparation called mindfulness.

Psychologist Dr. Jill Suttie defines mindfulness as a mental state that involves an increased awareness of our emotions, thoughts, and surroundings, accompanied by a sense of nonjudgment. Research has shown that mindfulness can be used to overcome the impact of bias and prejudice on decision-making.

Practice: Mindfulness through reading. Increasing your mindfulness can be achieved by reading an article about the impact of implicit bias on issues of diversity shortly before you interview. After you read it, reflect on what you agree with and what elements of the reading might apply to your thought processes. A simple internet search will provide a wealth of reading options. The reading does not need to be long nor does it need to be complex.

If you have capacity, do this practice the evening before you interview and then peruse the reading again the day of the interview, shortly before you conduct it. Brief moments of this specific type of mindfulness have been shown to create positive effects against bias.

Strategy 12: Culture Fitness, Not Culture Fit

The term "culture fitness" serves as a reminder that, before you assess for culture fit, you need to get your culture in shape. On one hand, you may be in an organization where that means you need to improve your culture. That's unfortunate, but as you work to solve that problem, you will still be hiring people into that culture. On the other hand, you may have a good culture, in which case you need to get the definition of your culture in shape.

The word "fitness" also brings us back to the topic of bias. While your organizational culture may not be constantly changing, it should be constantly strengthening. A culture that is constantly strengthening requires openness to pressure from new perspectives and approaches. Fitness signifies the opposite of status quo and stagnation. If your culture is "fit," bringing in people who force you to stretch is healthy and an opportunity to consider rather than avoid.

Practice: Culture add. Before coming to a verdict involving culture fit, spend a moment in self-reflection. Ask yourself, "Can this candidate add something to our culture that we may not realize we need?" Perhaps this candidate not "fitting" could be valuable in terms of their personal experience, thinking style, identity, or other indicator that may initially signal a lack of compatibility.

When it comes to identity, your organization's and the candidate's, you need as much help as possible. So, get the candidate's input as well with the following question: "Based on your experiences either with us so far or your experiences in other organizations, what insights, viewpoints, or perspectives can you bring that others might benefit from?"

From boardrooms to corporate hallways to classrooms to meeting rooms to interview rooms to any setting where decisions must be made, instinct and good fortune are not enough.

Mental preparation serves as a foundational tenet for every practice discussed above. All the hard work of understanding the person across the table can be undone without an understanding of yourself. Don't rush into the interview room, crumpled question packet in hand. Pause. Take responsibility. Note your first impressions. Manage your body language. Reword the question. Build trust. Let the question breathe. Be mindful. Know your target. Pause. Prepare.

Let the 12 strategies help you shift the odds away from a coin toss and toward great talent.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***The Talent Powered Organization: Strategies for Globalization, Talent Management, and High Performance*** by Robert Thomas, Peter Cheese, Elizabeth Craig
- ***The Rare Find: Spotting Exceptional Talent Before Everyone Else*** by George Anders



Chaka Booker is a managing director for The Broad Center, a national organization focused on leadership development. For over a decade, he has crisscrossed the country identifying and developing talent from a wide range of industries. He has interviewed nearly 3,000 professionals from Fortune 500 companies, the military, graduate schools, consulting firms, and leadership programs, as well as the public and social sectors. He is a Pahara Fellow at The Aspen Institute, a *Forbes* contributor on leadership and entrepreneurship, and has written for the *Stanford Social Innovation Review*.

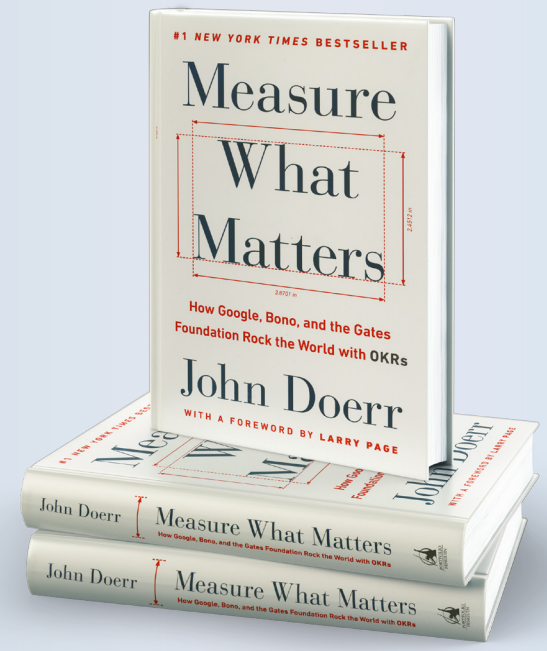
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Measure What Matters

John Doerr

BOOK SNAPS™
Zooming In On Your Next Read



Measure What Matters

How Google, Bono, and the Gates Foundation Rock the World with OKRs

by John Doerr

John Doerr is the chair of venture capital firm Kleiner Perkins, which he joined in 1980. By investing in some of the world's most successful entrepreneurs and companies, including Amazon, Google, Intuit, Netscape, and Twitter, he has helped create more than 425,000 jobs.

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Rock Your World With OKR Superpowers

Imagine a small company with only forty or so employees in the highly competitive search engine space. Its technology is amazing, its founders are true visionaries, and its growth is explosive. However, those founders have clearly grabbed a tiger by the tail and are holding on for dear life. They have no business plan—at least, not one that analysts would consider to be strategic—and every exciting opportunity ahead of them could just as easily turn out to be a catastrophic failure. What would you do?

In his new book, *Measure What Matters: How Google, Bono, and the Gates Foundation Rock the World with OKRs*, legendary venture capitalist John Doerr takes us behind the scenes of his $12 million investment (the largest of his career at the time) on behalf of his company Kleiner Perkins in an entrepreneurial venture called Google. If you hadn't heard, things have turned out fairly well for Google. That workforce of forty employees has since grown to more than 70,000, giving Google (and corporate parent Alphabet) a market capitalization of over $700 billion.

It would be easy to assume that this book is nothing more than a retrospective on Doerr's greatest investments. To be fair, he has plenty in his portfolio—Amazon, Netscape, Intuit, and Twitter to name a few—but that's not what's on offer here. What the author presents is a deceptively simple playbook that, if followed to the letter, can lead any organization to new levels of operational excellence.

By his own admission, the process delivered here is not of Doerr's creation. He learned it as an engineer in the 1970's from Andy Grove at Intel, still one of the best-run companies Doerr has ever seen. He considers Grove to be "the greatest manager of his or any era." The process is an unwavering focus on OKRs—*Objectives* and *Key Results*. Objectives define *what* the company is aiming to achieve; key results delineate *how* those objectives will be achieved through "specific, measurable actions within a set time frame."

Don't confuse this process with key performance indicators or KPIs. They are a measurement of past performance on a process or project that's already in place. Metrics are established at the outset, often as a benchmark against competitors or industry averages, and performance is then measured against those KPIs as an assessment of efficiency. For future planning, KPIs document incremental improvements. OKRs, by contrast,

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> **Wrong choices are inevitable, no matter how visionary and infallible you may consider your leadership to be.**

represent a commitment to larger scale projects—stretch goals like Jim Collins' and Jerry Porras' Big Hairy Audacious Goals (BHAG's) from *Built to Last*—where you may be taking the company in a completely new direction or embracing growth targets far beyond the incremental approach of KPIs.

Superpowers

Google's explosive growth record could easily appear to endow OKRs with implied superpowers, and Doerr does use the term in a very tongue-in-cheek classification of specific components of the process, but it is the simplicity and consistency of application that makes it so powerful. When Doerr became a venture capitalist, he shared the process with fifty different organizations. "Where the process was faithfully practiced, it worked."

Superpower #1: Focus and Commit to Priorities

The decision to focus on a limited number of options over the next three (or six or twelve) months represents a commitment of both word and deed. OKRs demand the discipline to both commit to specific priorities as well as to walking away from other options that have been distracting and diluting your focus. When those priorities are clearly communicated to your leadership team, you now have a baseline for assessment and a compass to monitor your future direction. Wrong choices are inevitable, no matter how visionary and infallible you may consider your leadership to be. For that reason, the KRs, while future-focused, should have a short-enough time horizon to be able to flag those wrong choices before any damage is done. Doerr refers to the example of Lee Iacocca's Ford Pinto, where the pressure to deliver on a BHAG, a budget-priced subcompact car to compete with fuel-efficient Japanese competitors, led to critical safety checks being overlooked. The objective of a car that was "under 2,000 pounds and under $2,000" might have been highly motivational and PR-friendly, but it led to a catastrophic decision to sacrifice a one-pound piece of plastic that cost one dollar that could have prevented the puncturing of the gas tank.

Paring back your list of goals may result in some lucrative opportunities being left on the table, but developing the emotional maturity and discipline to stick to a plan (while communicating a clear and consistent message to your team) will be worth more in the long-term than any short-term gain made from chasing every shiny object that crosses your path. For Google the guiding principle for priorities came from its mission statement: *Organize the world's information and make it universally accessible and useful*. A grand vision by any standard, but clear enough to guide the company through the development of Android, Google Earth, Chrome, and acquisitions like YouTube. Chrome and YouTube are examined at length in two separate case studies to explain the OKR process step-by-step.

Additional case studies are presented by Brett Kopf, cofounder of the academic texting platform *Remind*, and by Jini Kim, cofounder and CEO of Medicaid data platform *Nuna*. In both cases, the struggle with the perceived simplicity of OKRs resonates loudly. It may make perfect sense on paper, but implementation can be a struggle and requires some trial and error.

Superpower #2: Align and Connect for Teamwork

The foundational culture of OKRs is a meritocracy. Transparent communication allows the cleansing action of sunlight to overcome the toxicity of "organizational poisons—suspicion, sandbagging, politicking." If everyone has access to information on what everyone else is working on, the likelihood of a group being left alone to work on the wrong thing is greatly reduced. Yes, this goes against the notion of highly creative "skunkworks" working outside of normal corporate parameters, but transparency breeds collaboration and reinforces the organization-wide commitment to established priorities.

The MyFitnessPal case study, written by cofounder and CEO Mike Lee, offers a fascinating summary of maintaining communication and direction during periods of exponential growth. Focusing on developing platform-specific versions of the app (Android, Blackberry iPhone, iPad) was challenging but manageable. When the user base then jumps to 35 million across all of those platforms in 2013, maintaining direction, momentum, and communication becomes a completely different proposition. OKRs enabled the company to maintain its alignment by constantly challenging the notion of what really mattered. For 2014, the company added 27 million new users on its way to 80 million total registered users.

The Intuit case study, written by Chief Information Officer Atticus Tysen, emphasizes the adaptability that a commitment to OKRs can develop within an organization. Intuit's track record of developing world-beating products—Quicken, TurboTax, and QuickBooks—has kept the company on the list of the "World's Most Admired Companies," for over fourteen years running. However, that success is based as much on the company's ability to get back-up after stumbling as it is on launching winners right out of the gate. One of the keys to that success is a commitment to transparent communication of OKRs across the entire organization for a specific purpose. In Tysen's words: "We didn't want bureaucratic compliance, we wanted enthusiastic compliance." That enthusiasm bred engagement at a higher level than any motivational speech from the CEO could have achieved.

Superpower #3: Track for Accountability

Since the objective of every KR is achievement, Doerr advocates for designated *OKR shepherds* to manage the "late adopt-

> . . . the belief that individual human performance can be reduced to numbers is fundamentally flawed.

ers, resisters, and garden-variety procrastinators." To support those shepherds, the OKR process needs a simple system to track progress, with the joint intentions of keeping people engaged and on-track. The 'traffic light' idea of a green light for 'on track,' a yellow light for 'needs attention/modification,' and a red light for 'stop' (achieved or outlived its usefulness) provides a framework that is easy to grasp and even easier to communicate across an organization.

The Gates Foundation case study, co-written by cochairman Bill Gates and former CEO Patty Stonesifer, underlines the critical need for a tracking system—especially when the O of your OKR is to change the world. With a blank sheet of paper and the luxury of a very large blank check—Bill and Melinda Gates seeded the foundation with $20 billion in 2000—the need for detailed management of resources was arguably even greater than the typical organizational battle for project funding. As Gates notes: "Suddenly it's both a start-up and the biggest foundation in the world."

Setting big goals was the easy part. Eradicating malaria, or vaccinating every child everywhere, were highly aspirational and engaging, but the challenge came with measuring progress against them. If your goal is to eradicate malaria by 2015, how do you know where you are in 2013? In Stonesifer's words: "OKRs allowed us to be ambitious and disciplined at the same time." The objective of global vaccination of children, for example, was measured using the 80/90 rule from the Global Alliance for Vaccines and Immunization where: "80 percent of districts would have 90 percent or more coverage."

Superpower #4: Stretch for Amazing

The vision of OKRs is undeniably aspirational. The process may be internally focused in terms of measuring progress, but the objectives are, by definition, future-focused and, to borrow Jim Collins' definition of a BHAG, designed to capture the imagination and grab people in the gut.

Larry Page at Google preached "the gospel of 10x," launching Gmail with a full gigabyte of storage, five hundred times more than the competition. From Page's perspective, you achieve that level of performance by getting your people to be "uncomfortable excited," and to have "a healthy disregard for the impossible." The launch of Google Chrome and the exponential growth of YouTube are documented in detailed "stretch" case studies.

From OKRs to CFRs

Part two of *Measure What Matters* questions the larger issue of effective workplace communication. Doerr is adamant that OKRs need transparent communication as much as we need air to breathe. If your current communication practices are ineffective, your commitment to OKRs may be doomed from the start. The worst offender, from Doerr's perspective, is the annual performance review, which he considers to be "costly, exhausting, and mostly futile," taking-up, on average, "7.5 hours of manager time for each direct report." If the documented recency bias weren't bad enough, the belief that individual human performance can be reduced to numbers is fundamentally flawed. Doerr quotes Albert Einstein to underline this point: "Not everything that can be counted counts, and not everything that counts can be counted."

If OKRs are to succeed as a transformational process, they need an equally transformational system of *continuous performance management.* The instrument for this task is, the author believes, CFRs—*Conversation, Feedback, and Recognition.* Conversations must be authentic, frequent, and aimed at driving performance. Feedback must be bidirectional with the objective of evaluating progress and offering clear guidance for future improvement. Recognition must also be authentic to express appreciation for the contribution of deserving individuals.

CFRs occupy the same cultural footprint as OKRs, with an explicit commitment to "transparency, accountability, empowerment, and teamwork." As Doerr advocates: "They give OKRs their human voice." The case study of Adobe, written by Executive Vice President of Customer and Employee Experience, Donna Morris, examines a transition from "antiquated" and "demoralizing" annual performance reviews to a continuous performance management system named *Check-in* that changed the emphasis of interpersonal communication from measuring performance to enabling development.

Culture

The ultimate deliverable of OKRs and CFRs is culture change. The case study of the ONE campaign written by cofounder Bono underlines the transformational power of a dramatic philosophical change in culture. "Pivoting from working *on* Africa to working *in* and *with* Africa," changed the foundational culture of the campaign from helping developing countries to empowering those countries to grow on their own.

Doerr's approach in presenting OKRs is surprisingly low-key. Given the overwhelming evidence and the heavyweight case studies presented, it would be easy for this book to become evangelical in tone. Instead, the author delivers a deceptively simple but nonetheless pragmatic path to operational excellence. There are some consultants to add a dash of gravitas (Collins, Drucker) but Doerr's glowing admiration is reserved for Andy Grove to whom OKRs are freely attributed. If, in the end, you remain skeptical of a process that seems, on the surface, to be too obvious, consider that anything that advocates for transparent interpersonal communication and providing clear guidance for achievement at every level of an organization is surely worthy of consideration.

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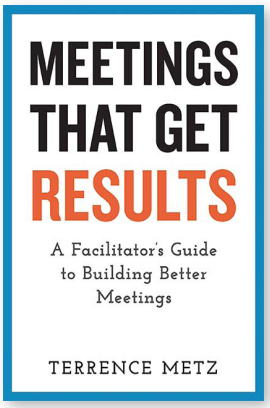
Meetings That Get Results

Terrence Metz

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Meetings That Get Results

A Facilitator's Guide to Building Better Meetings



by **Terrence Metz**

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THE SUMMARY IN BRIEF

There's nothing more frustrating than an unproductive meeting—except when it leads to another unproductive meeting. Yet, every day millions of people conduct meetings—in person or online—without the critical understanding or formal training on how to plan and lead them effectively.

Meetings That Get Results offers a structured method to ensure that meetings will produce clear and actionable results. Meetings that are profitable and productive ultimately lead to fewer meetings. This book offers a significant edge by empowering readers to help their groups create, innovate, and break through the barriers of miscommunication, politics, and intolerance; shows how to help others forge consensus and shared understanding; and offers proven agenda steps, tools, and detailed procedures.

In a world of back-to-back meetings, ***Meetings That Get Results*** explains the how-to details behind game-changing tools and techniques. Ultimately readers will be able to resolve or manage common problems, inspire creativity, and transfer ownership to their meeting participants.

IN THIS SUMMARY, YOU WILL LEARN:

- Why great meeting facilitators are servant leaders.
- Three essential communication skills for meeting facilitation.
- Easy steps for structuring and designing effective meetings.
- Detailed strategies for planning and making decisions.

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Introduction: Launching

In a world of back-to-back meetings, you barely have time to find the right resources and training to become a better leader. Yet, while you would not attempt to build a boat without the proper training, equipment, and support, every day millions of people are conducting meetings without critical understanding of or formal training on how to be an effective meeting leader in person or online.

Rarely do events, meetings, or workshops proceed in a linear fashion. They don't just "start here" and then "end there." Rather, they continually loop and twirl—for reasons such as these:

- Someone joins the meeting late, online or in person.
- A subject matter expert gets called away unexpectedly and upon return discovers that some critical information was not included.
- You are asked to go back and add something.
- Someone changes her mind because her introspection has found a connection between a few things previously not considered.
- Two people start arguing because they refuse to agree with each other based on "principle."
- You need to fully define something.
- You do a poor job handling participants' electronic leashes (cell phones, laptops, etc.), and when every one wakes up, they quickly unravel what has already been accomplished.

Making It Easy

Business facilitation is a method that removes all distractions, making it easy or attainable for a group of experts to gain traction by focusing on the same question at the same time, led by a meeting facilitator who knows how to sequence questions, ask questions with precision, and guide consensual understanding and agreement around optimal solutions for that specific group of experts.

When a group of subject matter experts manages to stay focused, miracles can happen. What follows is a method for managing anything that develops or erupts during your meetings. It will make it easier for you to be a credible meeting leader and meeting facilitator when leading diverse types of meeting sessions, for all types of groups, organizations, teams, and tribes.

Serving: Discipline of Servant Leadership

In most organizations, change begins during meetings. The problem is that meetings often fail for one of three reasons:

- The wrong people are attending (rare).
- The right people attend but are apathetic and don't care (rarest).
- The right people care, but they don't know how to conduct an effective meeting (bazinga!).

In recent centuries we relied on executives and managers for their experience and machine knowledge. As leaders, they told us what to do. Today's complex knowledge base and knowledge transfer technique, however, require a new breed of servant leaders. Most of them are trained to avoid problems attributable to weak meeting leadership, poor facilitation, and lack of meeting design. This new breed is not a person but a role—the role of the meeting facilitator.

The Servant Leader Solution

As a servant leader and meeting facilitator, you become the change agent, someone who takes meeting participants from where they are at the beginning of the meeting to where they need to be at the conclusion. All leaders must know where they are going. They must know what the group is intending to build, decide, or leave with when the meeting is done. Effective servant leaders also start with the end in mind.

A neutral meeting leader values rigorous preparation, anticipates group dynamics, and designs the meeting accordingly. The meeting leader becomes responsible for managing the entire approach—the agenda, the ground rules, the flow of conversations, and so on—but not the content developed during the meeting.

Facilitation Liberates Leaders

In the past, leaders needed to be experts on content. Today, organizations already employ and engage a wealth of subject matter experts. What organizations need are leaders who know how to be facilitative while managing context. In the past, leadership was about giving answers. Today, leadership is about asking precise and properly sequenced questions while always providing a safe environment for everyone's response.

Imagine the following scenario: Your team is tasked with developing a plan to solve the problem of employee burnout in the cybersecurity department. To assess the value of

Mastering three concepts
will enable you to lead any group
in any type of situation.

proposed solutions, the team needs to know the purpose of the cybersecurity department—why it exists.

A "presenter" might access the cybersecurity department charter from human resources. In most organizations, this task would take from 15 minutes to five hours or longer. Then the presenter might spend another 15 minutes putting together PowerPoint slides and then take five minutes to present the slides and another 10 to 20 minutes to manage questions and answers about content on the slides. Call it one hour total, minimum. At the conclusion, the presenter owns the content on the slides.

Alternatively, you, as the meeting leader, can use a procedure, such as the Purpose Tool (explained further below). The Purpose Tool distills a consensual expression about the purpose of the cybersecurity department directly from the subject matter experts who understand both the purpose and the problems in the department today. In 15 minutes or less, you can lead the team to build an expression of shared purpose using the Purpose Tool. Most important, at the end of the 15 minutes, the meeting participants, not you, own the results.

Leading: Be a Servant, Not a Senator

Clear leadership consciousness integrates the why, what, and how. Exceptional meeting leadership also requires keen awareness and the ability to describe to participants where they are going (so they know what "done" looks like); why the meeting is important (if it is not, it should not take place); what questions they need to answer and in what sequence; meeting roles and rules, leading to who does what; planned activities and procedures, leading to how participants will get done.

Mastering three concepts will enable you to lead any group in any type of situation:

- The holarchy, or graphical view, operating throughout an organization.
- The trichotomy, or first-cut analytical method, for applying structure that immediately divides complex issues into three manageable portions.
- The meeting roles that must be respected because you want subject matter experts to strive for objectivity and, therefore, leave their egos and titles in the hallway.

Holarchy: It begins with DONE. In his book ***Holism and Evolution***, Smuts defined holism as "the tendency in nature to form wholes that are greater than the sum of the parts through creative evolution." In a holarchy, each cell is both a whole and a part; systems are nested within one another.

An effective leader begins by documenting the meeting objectives, frequently called deliverables. To understand the value of a deliverable, it should be viewed with respect to its impact on all other objectives of an organization, as part of the organizational holarchy. The organizational holarchy represents the web of interdependent connections throughout an organization. The holarchy represents the unity of all the objectives, from business units to answers developed in meetings.

Understanding the organizational holarchy requires one to "begin with the end in mind," as Steven Covey put it. If actions taken or decisions made within an organization do not harmonize with the organization's purpose, stay within the organization's scope, and support the organization's objectives, the actions or decisions are unwarranted. For this reason, before we begin our meeting, we need to know what DONE looks like. In other words, where are we going?

Trichotomy: Foundation of structure. The structure of trichotomy helps you break down complex issues into manageable pieces. Structure begins with the trichotomy as a function of will, wisdom, and activity. In sequence, the trichotomy of meeting discipline fundamentally looks like this:

- **Will:** Why is something important (abstract thoughts)?
- **Wisdom:** What are we going to do to support it (transformation of the abstract into the concrete)?
- **Activity:** How are we going to get it done (clear and concrete actions and results)?

Become a disciplined leader by applying structure before

your meeting begins. Once you develop awareness about where and why you are leading a group, apply critical thinking and discipline to understand what is needed. Then you can determine how you are going to lead a group to build it consensually.

Consciousness: Meeting roles. Effective meeting leaders frequently perform four roles. When all four roles are performed by one individual, it makes that person much, much more than a facilitator; that person becomes the meeting leader. The four roles include these:

- Meeting coordinator (reserving meeting rooms and arranging for coordination, refreshments, supplies, and travel).
- Meeting documenter (documenting outputs and inflection points, not verbatim conversations; distributing meeting notes; managing edits, document versioning, and archiving).
- Meeting facilitator (conducts meetings; diplomatically channels diverse ideas into meaningful action; directs groups toward shared purpose and objectives; galvanizes consensus while remaining resilient about managing uncertainty and other open issues).
- Meeting designer (helps stakeholders codify deliverables and draft agenda steps; develops succinct questions to be answered; structures the sequence of questions; specifies tools and procedures for converting answers into final form such as a decision, plan, recommended solution, and so on).

Facilitating: Making It Easier with Three Core Skills

There are three core skills for meeting leaders who value facilitation, servant leadership, and getting DONE faster (structure). As meeting facilitator, you need to command these core skills but, at the same time, remember to always reduce or eliminate distractions so that your group stays focused.

Speaking and questioning clearly. Clarity represents the extent to which a speaker's intent secures the understanding they seek. Unfortunately, numerous filters and obstacles stand between a speaker's intent and a listener's understanding, such as biases and prejudices, perceptual challenges, speaking mannerisms, technology hiccups, vague word choice (lack of rhetorical precision).

Strive for precision, especially with your questions. For example, "Under what circumstances . . . ?" is immediately more effective than "Are there any circumstances . . . ?" In addition, "Who would like to share their thoughts . . . ?" does not compel a detailed response as well as "What are the arguments supporting [or against] . . . ?"

Actively listening and observing constantly. For servant leadership and effective facilitation, active listening becomes indispensable. As a practitioner, you will discover that feeding back (reflecting, restating) what the participant said never compares to the value of understanding and sharing why they said it.

People don't care what you know until they know that you care. Genuine active listening connotes empathy and requires four activities:

- Contact—Connect with the participant who is speaking. Make eye contact. Maintain an open posture.
- Absorb—Take in all aspects of what is being said. Do not judge or evaluate.
- Reflective feedback—Mirror, reflect, or give feedback about what you have heard and why the participant's claims are valid.
- Confirm—Obtain confirmation that you heard the participant's message accurately. If not, start the sequence over again at the beginning by having the participant restate his or her view.

Remaining neutral and controlling context without fail. Neutrality may be your most significant challenge, but it is also a defense mechanism. Being neutral means letting go of the "I," the ego, a personal stake in the specific output of a meeting. Neutrality means staying focused on the Meeting Approach, not a specific solution.

Neutrality represents a discipline that does the following:

- Conveys acceptance of opposing views.
- Draws out quiet people and perspectives.
- Prevents facilitator alignment with "sides."
- Validates the Meeting Approach.

Collaborating: How You Manage Conflict

Meeting conflict derives primarily from individual thinking styles, individual behavior, group dynamics, and oth-

er situational factors, including the facilitator and their environment. The meeting facilitator is not responsible for resolving conflict. However, they must have a procedure for (and therefore be confident about) managing arguments, conflicting claims, and contradictory evidence.

> Rules help you and the group establish decorum, keep conversations on track, and get DONE faster.

Ground Rules

Ground Rules provide norms for the behavior of groups. Rules help you and the group establish decorum, keep conversations on track, and get DONE faster. Ground Rules apply to participants equally and, therefore, are unbiased. Consider these primary ground rules:

Be here now. Encourage people to keep laptops down and phones on stun (vibrate only). Do not permit text messaging during the meeting.

Silence or absence implies consensus. As meeting facilitator, you must stress that each participant has a fiduciary responsibility. If participants have content relevant to the conversation, it is their duty and responsibility to mention it.

Consensus means "I can live with it." Carefully define consensus so that people know it does not necessarily mean that they will get their "favorite" outcome. However, consensus does imply that we are 100 percent in agreement to support the result, though it might not be everyone's or even anyone's personal favorite.

Make your thinking visible. People do not think causally. They think symptomatically. For example, two people eating the same type of curry may argue over how "spicy" it is. To one, the curry is hot. To the other, it is not. They are both correct. A great meeting facilitator will get the two people to "objectify" their claims so that they both can agree that the curry rates 1,400 Scoville Heat Units.

No hiding. For video conferences, enforce a rule that prohibits people from turning off their live video stream. When people are hidden, no one has any idea what they are doing or if they are even listening.

Conflict as Challenge and Opportunity

There is no instructional class in the world that will teach you how to facilitate a resolution to all meeting conflict, especially arguments. Sometimes, people or parties refuse to agree simply because they do not like each other. It is not your responsibility to resolve the conflict. However, you can rely on four steps to help you manage meeting conflict that frequently yield consensus:

Confirm or clarify purpose. Effective conflict resolution depends on shared purpose. Competing purposes lead to competing solutions.

Document positions and interests. When meeting conflict develops, participants may hear what was said, but they need to understand under what conditions the position holds true (and remains valid or not). Understanding the why behind their positioning requires additional challenge, leading to disclosure of their true interests.

Appeal to objectives. To help resolve conflict, learn to sequentially appeal to objectives, starting with the objectives of the product or project and then proceeding with objectives of the department or program, of the business unit, and of the entire organization that your meeting supports. If the CEO were in the meeting, which argument would he or she say better supports organizational objectives—and, more important, why?

Escalate. If the first three steps, in sequence, fail to drive consensual resolution, escalate decision-making by taking the documented positions back to the executive sponsor, steering team, or decision review board.

Structuring: Meeting Design Made Easy

No group wants the leader to ask group members how they want to proceed. They need a meeting leader prepared with the right approach and tools who will tell them how to proceed, keep them focused on the right questions, and explain how their responses support the deliverable (getting DONE).

Successful meetings demand a clear purpose (beginning), a meaningful Meeting Approach (middle), and a consensual

review and wrap (end). A Basic Agenda lists the Agenda Steps (topics to be covered) and is used by participants to track progress.

An Annotated Agenda describes in detail how the facilitator will lead the group to get DONE. Each Annotated Agenda includes a Basic Agenda but details and explains the tools used during each Agenda Step. Each tool uses procedures that a meeting facilitator unveils at appropriate times as discrete activities, questions, tasks, and visual prompts.

By using tools, each Agenda Step produces its own deliverable, such as prioritized criteria or a decision or assignments.

Use the following guidelines for every significant meeting you lead:

1. Codify the purpose and scope of the meeting: What project or product are you supporting? Stipulate what it is worth in currency and FTP (Why is it important? How much is at risk if we fail?).

2. Articulate the deliverables: What specific content represents the output of the meeting and satisfies what DONE looks like?

3. Identify known and unknown information: What is already known about the organization, business unit, department, program, product, or project? What information is needed to fill the gaps?

4. Draft Basic Agenda Steps: Compose a series of steps from experience or other proven approaches that would be used by experts to build the plan, make the decision, solve the problem, or develop the information and consensus necessary to complete the deliverable and get DONE.

5. Review Basic Agenda for logical flow: Walk through the Agenda Steps with others to confirm that they will produce the desired results.

6. Identify meeting participants: Determine the optimal subject matter expertise you require or the meeting participants who can provide the information required.

7. Detail the procedures to capture information required: Gather and assemble specific questions that need to be addressed, even questions for which subject matter experts are seeking answers. Sequence the questions optimally. Build your Annotated Agenda, including the appropriate Tools and activities to produce the information.

8. Perform a walk-through with business experts, the executive sponsor, project team members, and anyone else who will listen to you.

9. Refine: Make changes identified in the walk-through, edit your final Annotated Agenda, firm up your artifacts, fill out your glossary, complete your slides, distribute your handouts, and rehearse.

Planning Approach for Any Group: Who Does What, by When?

The word "plan" can be defined with three words (preferably five), namely "who does what" (by when)—that's a plan. This section shows you how to facilitate consensual agreement around those answers for any group.

A robust Planning Approach defines vision factors, success measures, actions, and responsibilities. While a planning session's input begins with why a group exists, the output documents what team members agree to do.

Here is a Basic Planning Agenda:

- Launch.
- Mission (why are we here?)
- Values (who are we?)
- Vision (where are we going? How do we know if we got there or not?).
- Success Measures (what are our measurements of progress?
- Current Situation (where are we now?)
- Actions (what should we do?—from strategy through tasks).
- Alignment (is this the right stuff to do?).
- Roles and Responsibilities (who does what, by when?).
- Communications Plan (what should we tell our stakeholders?).
- Review and Wrap.

Let's discuss the first three of these. **Launching** is when you introduce yourself and stress the importance of meeting roles; unveil your meeting purpose, scope, and deliverable; cover "administrivia" to clear participants' heads from thinking about themselves; provide a check-in activity or icebreaker, especially for online meetings and workshops.

Values define the principles or internal rules, laws, policies, and philosophies of conduct—the "stuff" we carry with us and value.

You also carefully explain the logic behind the sequence of your Agenda Steps; explain how Agenda Steps relate to one another; and share Ground Rules.

Mission defines the why of any business area or organizational scope. Mission expresses why the participants, or group, or organization show up—the purpose and reason for their existence. The Mission expression provides the foundation upon which other Planning Approach Agenda Steps are built. Each subsequent Agenda Step refers to the Mission expression (as purpose), ensuring harmony with the Mission of the group and organization.

For example, the Ritz-Carlton's mission is "Ladies and gentlemen serving ladies and gentlemen."

Values define the principles or internal rules, laws, policies, and philosophies of conduct—the "stuff" we carry with us and value. They answer simply, "Who are we?"

Values may be narrative descriptions of policies or philosophies. They may be full-sentence descriptions or phrases. For example, "The Ritz-Carlton experience enlivens the senses, instills well-being, and fulfills even the unexpressed wishes and needs of our guests."

Keep in mind that groups can identify both descriptive values (we are this way and walk the talk) and prescriptive values (hopes and aspirations). The former is associated with traditional management, while the latter is more associated with servant leadership.

Deciding About Anything Approach: Agree on the Why Before the What

Frequently you discover that people have similar purposes, values, and criteria, and yet they cannot agree. Why? People cannot agree because they have different priorities.

This section shows you how to forge consensual decisions by developing purpose, options, and decision criteria. Whether you are deciding which new software to use, which product to develop, or which corporate acquisition will be your most valuable target, several building blocks are required for all decisions:

Purpose of the object. The purpose of the object establishes the why before the what. Understanding why is so critical to building consensus that it needs to be listed as a separate Agenda Step, even though it may take less than 10 minutes to accomplish. Use the Purpose Tool to construct a basic requirement (I want X so that I can do Y) or to build consensual expressions that capture the benefits, intent, purpose, and reason for any scope of work. Prompt your participants: "The purpose of [insert object] is to . . . so that . . ."

Options (for the Object). This is a list of options, the myriad objects from which to choose. Depending on the situation, these could range from a few (for example, half a dozen) to many (dozens). Facilitate a quick and thorough Listing with no discussion.

Decision criteria (for the object). Decision criteria capture the reasons for deselecting or getting rid of poor options. While engaging in some Listing activity associated with Brainstorming, do not mandate or enforce that "all ideas will be allowed." Here we are restricting ourselves to appropriate reasons. Embrace the sense of "no discussion," but also confirm appropriateness if there is any doubt.

Deselecting and decision. Deselecting and decision smash together the options and decision criteria. The result is a consensually agreed-on decision, selection, or determination of the object. Eliminate any options that do not satisfy mandatory requirements such as not exceeding budget. Eliminate any options participants personally object to after they give specific reasons for their objection and those reasons are considered valid by others.

The simplest and most frequently used PowerBalls Tool provides quick support, especially for deselecting. PowerBalls help a group quickly and simply prioritize, using the Pareto principle (also known as the 80-20 rule) to help a group deselect and eliminate as many options as quickly as possible.

Controlling: Online Challenges and Special Situation Tools

Effective online facilitation requires line of sight, listening skills, conflict management acumen, and meeting design. In fact, learning what to do remains most critical, because how you complete facilitated meetings can be easily modified once you know what to do.

The larger the group, the more your meeting facilitation skills need to keep any one person from dominating online meetings. Remember, scope creep begins in meetings.

Research and results are quite clear: You can expect online meetings to take much longer to accomplish the same amount of work than in-person meetings. Participants stay more fully engaged when they are observed, can observe others, and "feel" nonverbal clues and intonations. Moreover, 30 to 60 percent of "meaning" (the intent behind the words or message) is communicated or expressed outside of the words that are selected.

Launching

Getting and keeping people involved takes a concerted effort from start to finish. Get off to a good start by setting a good example:

- Log in first and early.
- Set camera at face height, or very slightly above (not below, looking up at rolled chins and nose hairs). Look at the green dot on the camera, not your monitor. Please smile.
- Introduce each participant to subsequent arrivals.
- Lean forward into the camera to command attention. Your head should normally occupy about 25 percent of the screen.
- Confirm early that every one can hear each other clearly.
- Provide Ground Rules and then enforce them. Add the Ground Rule "no hiding."
- Consider assigning people separate roles to help you, such as a time-keeper or a specialized note-taker for each of the following: action items, decisions, communications about who needs to be informed what updates, and so forth.
- Establish and enforce protocol demanding that speakers announce their names (or nicknames) when taking a turn speaking.
- Regularly remind participants where you are in the agenda, preferably with a visual indicator.

We're all connected. On occasion, our cords get knotted. World-class facilitators are servant leaders. Potent servant leaders should be facilitating, because facilitating removes knots, making it easier for connections to flow.

The first step to becoming a world-class meeting facilitator is to be a servant leader, and the first step to becoming a world-class servant leader is to become conscious of natural law and the importance of helping others remove their knots.



As a Certified Structured Professional Facilitator (CSPF), lead instructor, and managing director of MG RUSH Facilitation Training and Coaching, Terrence Metz is passionate about training students to lead meetings that produce clear and actionable results every time. His professional experience has focused on mergers, organizational design, problem solving, process improvement, product development, and strategic planning. His decision- making tools for galvanizing consensus, including Perceptual Mapping and Quantitative TO-WS Analysis, are used worldwide.

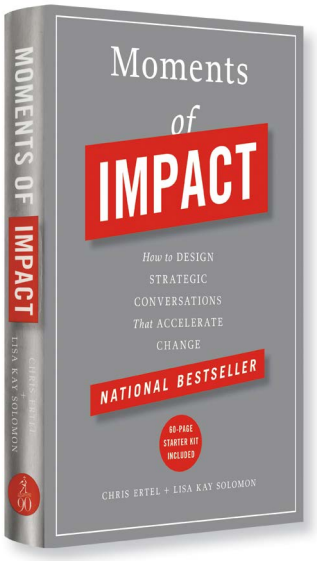
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Moments of Impact

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Moments of Impact

How to Design Strategic Conversations That Accelerate Change

by Chris Ertel and Lisa Kay Solomon

THE SUMMARY IN BRIEF

In our fast-changing world, leaders are increasingly confronted by messy, multifaceted challenges that require collaboration to resolve. But the standard methods for tackling these challenges — meetings packed with data-drenched presentations or brainstorming sessions that circle back to nowhere — just don't deliver.

Great strategic conversations generate breakthrough insights by combining the best ideas of people with different backgrounds and perspectives. In *Moments of Impact*, authors Chris Ertel and Lisa Kay Simmons "crack the code" on what it takes to design creative, collaborative problem-solving sessions that soar rather than sink.

Drawing on decades of experience as innovation strategists — and supported by cutting edge social science research, dozens of real-life examples and interviews with over 100 thought leaders, executives and fellow practitioners — the authors unveil a simple, creative process that leaders and their teams can use to unlock solutions to their most vexing issues.

IN THIS SUMMARY, YOU WILL LEARN:

- The key differences between meetings and strategic conversations.
- The five core principles for designing strategic conversations.
- How to effectively confront resistance, or the "yabbuts," in your organization.
- Things that strong strategic thinkers do habitually.

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For additional information on the authors, go to www.summary.com or visit www.momentsofimpactbook.com.

Introduction

Faced with a tough challenge that calls for collaboration — such as increasing competitive pressures or a shift in business models — most leaders will reach for one of two well-worn devices: the standard meeting or the brainstorming session. While both are fine for many situations, neither is sufficient for dealing with messy, open-ended challenges.

There has to be another option — and, thankfully, there is. Strategic conversations are the third way. A strategic conversation doesn't feel like a regular meeting or brainstorming session. It is its own distinct type: an interactive strategic problem-solving session that engages participants not just analytically but creatively and emotionally. The defining features are that the stakes are high, the answers unclear, and the participants are expected to create real insights together — rather than play out prepared scripts — across organizational boundaries.

Adaptive Challenges Call for Adaptive Leadership

Ronald Heifetz, a leadership teacher at Harvard Kennedy School, draws a critical distinction between technical and adaptive challenges. *Technical challenges* involve applying well-honed skills to well-defined problems — such as building a bridge or organizing a production line. Technical challenges may be complex, but they can still be resolved within well-understood boundaries. In these situations, more traditional, hierarchical approaches to leadership work well.

Adaptive challenges, by contrast, are messy, open-ended and ill defined. In many cases, it's hard to say what the right question is — let alone the answer. Many of the most important strategic challenges that organizations wrestle with today are adaptive challenges. Navigating and solving adaptive challenges demands a different set of leadership muscles — such as asking penetrating questions, winning the full engagement of colleagues, and connecting insights from different sources in real time.

Leaders face a world-class dilemma: They need to make good strategic choices under uncertainty while engaging more people with different perspectives more effectively in the process — and do it all faster, too. To do this well, we've got to put the people back into strategy — in a much smarter way. Today, more than ever, strategy is the conversation.

Designing a Strategic Conversation

You probably already know how to run a pretty good meeting. You know that you need clear *objectives* that are reasonable given the time you have. That you should invite *participants* who can help meet those objectives. That your *content* — presentations and reports — should lay out the issues clearly. That the *venue* should be the right size for your group and contain the necessary equipment and supplies. That your *agenda* should end with next steps, roles and responsibilities.

This basic model works well for the vast majority of meetings: routine check-ins, formal board meetings,

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planning sessions and the like. But not when it's time to have an important conversation about critical yet ambiguous issues. That's when you need a more powerful tool. It's critical to recognize early on when you are facing an adaptive challenge, call this out explicitly, and start designing your session as a strategic conversation.

The Five Core Principles of a Well-Designed Strategic Conversation

Designing an effective strategic conversation requires that you cover all the basics of a well-organized meeting — and a good deal more.

Designing a strategic conversation means creating a shared experience where the most pressing strategic issues facing an organization are openly explored from a variety of angles. An experience where all the assumptions that make up your mental maps about how the world works — and how it is changing — are examined. An experience where new stories about your future success are explored, tested and refined. An experience that engages a group in a deeper level of discussion than they thought possible.

The five core principles below are the main components of our process for designing strategic conversations.

Core Principle 1: Declare the Objectives ➔ Define the Purpose

A well-organized meeting requires that … you start with a clear set of objectives and desired outcomes that make sense and are realistic given the time available. *A well-designed strategic conversation* also *requires that …* you develop a clear sense of the change that this group of people needs to make together — and how this conversation will advance that process.

Core Principle 2: Identify Participants ➔ Engage Multiple Perspectives

A well-organized meeting requires that … you identify the most appropriate participants for a given session and prepare them well in advance. *A well-designed strategic conversation* also *requires that …* you dig deeper to understand the views, values and concerns of each participant and stakeholder group. Ultimately, it requires that you find ways to create value from the intersection of diverse perspectives, experiences and expertise that live inside any organization.

Core Principle 3: Assemble Content ➔ Frame the Issues

A well-organized meeting requires that … all content be highly relevant to the objectives and clearly communicated. *A well-designed strategic conversation* also *requires that …* the content and issues are *framed* in a way that illuminates different aspects of the adaptive challenge you're wrestling with, including how the various parts relate to the whole. A good frame helps makes insights "stick" and thus accelerates progress on tough issues.

Core Principle 4: Find a Venue ➔ Set the Scene

A well-organized meeting requires that … you find an appropriate venue given the size of your group and the nature of the meeting. *A well-designed strategic conversation* also *requires that …* you make thoughtful choices about all elements of the environment — from the physical space to artifacts to aesthetics. Like a great theater production, all the parts should come together in a seamless and integrated way.

Core Principle 5: Set the Agenda ➔ Make It An Experience

A well-organized meeting requires that … you follow a logical sequence of agenda items, typically starting with some form of orientation and ending with next steps. *A well-designed strategic conversation* also *requires that* you attend to the emotional and psychological experience of participants. A great strategic conversation is not just an intellectual exercise — it's an exhilarating and memorable experience.

Define Your Purpose

Imagine that your organization is facing a thorny adaptive challenge. Maybe an aggressive new competitor is stealing your market share, or an attractive but complicated growth opportunity is opening up.

Once an organization recognizes that it's facing an adaptive challenge, it typically sets out on a winding road of exploration, discussion and action that eventually leads to decisions and results. It comprises many different interactions and touch points that unfurl over time, including informal discussions, intensive research, formal review meetings, working-team sessions and — most important — strategic conversations.

This kind of creative problem solving follows an arc of divergence and convergence. You start by taking a broad perspective on a challenge, then gradually shift into identifying and winnowing down possible solutions over time.

Key Practice 1: Seize Your Moment

Strategic conversations are pivotal, synthesizing moments within this larger process. They enable a group to achieve new levels of clarity and coherence about their adaptive challenge — and help move leadership teams toward deeper levels of shared commitment and understanding. While an adaptive challenge rarely gets "solved" in

any one conversation, a well-designed session can release tremendous energy and create forward momentum. These moments of impact propel a group forward, often opening new avenues of insight and alignment along the way.

Key Practice 2: Pick One Purpose

Strategic conversations have just three overarching purposes: Building Understanding, Shaping Choices or Making Decisions. Any strategic conversation you can imagine will sort into one of these categories. A well-designed strategic conversation must focus on one — and only one — of these three types. If your group doesn't know much about the issues — or has sharply divergent opinions on them — you need to run a Building Understanding session. If they have tons of knowledge but are spinning their wheels on what to do, it's time for a Shaping Choices session. Only when you've done both of these jobs well should you consider calling a Making Decisions session.

Key Practice 3: Go Slow To Go Fast

An important part of running any good meeting or strategic conversation is getting to a clear list of next steps. When approaching a strategic conversation, it's common for participants to push for agendas that drive faster toward agreement and decision making than is realistic. That's a problem because people need time and space to process together the complexity of adaptive challenges. Groups that make the effort to get to a true moment of impact — that is, some deep alignment on important insights — recognize this as progress. After they reach this point, they can usually start taking action — fast.

If you leave a strategic conversation without consensus, no list of next steps — no matter how "action oriented" — is likely to help. By contrast, when your group walks out of the room with genuine agreement around some important new clarity, you can always sort out next steps later.

Engage Multiple Perspectives

Adaptive challenges require leaps of insight that usually only come from combining ideas from different places in new ways. Anywhere people are generating new ideas at a standout clip, you'll find a rich ecosystem of diverse perspectives coming together.

Great strategic conversations do this, too. They capture some of the magic of the coffeehouse, the scientific lab, and the after-hours bar where great cooks or musicians or entrepreneurs swap their latest ideas. To get some of this magic working for you, you have to do at least three critical things: bring together the right perspectives, create a common platform for collaboration, and carefully lean into the most important differences of opinion in a way that sets off a "controlled burn" of contained and productive conflict.

Key Practice 1: Assemble a Dream Team

Getting the best possible group into the room is key to a successful strategic conversation. Yet, most project teams are both too inclusive and not inclusive enough. While they fill the list with people they feel obliged to include, they end up excluding — or don't even think of — other people who could be a huge help. From the extensive research on creative collaboration, three findings are especially relevant to pulling together a dream team for your next strategic conversation:

1. Good ideas often come from bridging the gaps between people and groups with different areas of expertise. In the lingo of social network theory, most people live in dense "small worlds" of social connection that are separated by gaps or "structural holes." People who can bridge these gaps create valuable connections between people and ideas.
2. Novel solutions to stubborn problems often come from outsiders and nonexperts. The history of innovation is full of stories about outsiders who discovered breakthroughs that took experts by surprise.
3. The most productive groups are often those with moderate levels of familiarity. If a group works together on one project after another, they can get stuck in habits and routines that aren't conducive to creative insight.

Key Practice 2: Create a Common Platform

Once you've got the right perspectives lined up for a session, you need to start building a *common platform* for creative collaboration. This is an important task because strategic conversations can sometimes raise uncomfortable uncertainties, create status anxiety, carry real potential for loss, and raise the possibility of conflict. A critical part of your job is to find ways to offset and manage these stresses.

Eight key "planks" that make up a strong common platform for strategic conversation include having a sense of shared purpose and objectives, a sense of group identity and community, a common understanding of the challenges, a sense of urgency, a shared language system or

common definition of key terms, a shared base of information to drawn upon, the capacity to discuss tough issues, and common frames through which to see the issues.

Key Practice 3: Ignite a Controlled Burn

Once you've got a diverse group standing on a common platform, it's time to start mixing it up. We like to think of talking about challenging topics as setting off a "controlled burn" — similar to the kind that firefighters create to protect and nurture forest ecosystems. Below are eight different ways to get a group to talk about combustible topics while keeping a bit of distance from the heat that they throw off:

- Take a longer time perspective on the issues.
- Take an "outside-in" perspective, focusing on external drivers of change.
- Turn the challenge into a game or simulation.
- Focus the discussion on key assumptions, not conclusions.
- Have people walk in the shoes of others.
- Make the group grapple with tough trade-offs.
- Agree on neutral criteria for making choices.
- Set and maintain clear boundaries and ground rules.

Frame the Issues

To make progress on adaptive challenges, you as the strategic conversation designer need to do more than just gather all the relevant data for participants. You need to make smart choices about where and how to direct their attention within this mass of complex and often conflicting signals.

As the word suggests, a *frame* is a strong focusing device — a set of operating instructions for the mind. Good frames for strategic conversations turn your attention to what matters most while lighting up your peripheral vision at the same time. As a strategic conversation designer, an important part of your job is to frame (and reframe) the issues in a way that directs the attention of your group in productive ways. Here are a few key practices that can help you enable your group to arrive at shared insights more quickly and effectively.

Key Practice 1: Stretch (Don't Break) Mindsets

Your participants will surely bring their own frames — often implicit, unstated ones — with them to your session. When creating any frame for a strategic conversation, you need to keep one eye on the content and one eye on the perspectives of your participants. This means working hard to understand these perspectives before developing alternative frames. It also means testing your frames with a few key people ahead of time to make sure they resonate. When you create frames that stretch — not oppose — participants' mindsets, they have a good chance of becoming "sticky," laying a strong foundation for strategic conversation.

Key Practice 2: Think Inside *Different* Boxes

Groups facing adaptive challenges are often exhorted to "think outside the box" — an overused cliché that doesn't provide instructive guidance. To get to creative solutions, you need to help your group approach their familiar challenges from a number of angles and lenses. You need to help them think inside boxes that are different from the ones they're used to. Options include scenario planning, simulations and role-playing activities, such as taking on the personas of specific customers to find and solve problems from their point of view.

Key Practice 3: Choose a Few Key Frames

Most strategic conversations are built around a small number of key frames, usually three or fewer. In choosing these frames, your main goals are to focus attention in the right places and to ensure that group members are solving the same puzzle together at the same time. Frames can take many forms, including questions, catchphrases and metaphors, visual frameworks and stories.

For example, framing a focal question is one form. Pollsters have known for ages that the way that you frame a question can have a major impact on the answers you get. This observation also applies to strategic conversations, where a well-framed question can be one of your most powerful tools. At other times, a meme can become a framing concept, a catchphrase that acts as shorthand for a more complicated idea or argument. With visual frameworks, a simple visual image is one of the best ways to help a group see the same thing at the same time.

Finally, a critical form is the *output frame*, a bridge between what happens in a session and what needs to happen next. Creating a "sticky story" can be an especially effective way to ensure the insights of a session live on in an organization. Stories are natural translation tools: They tell what happened in a way that engages our imagination and makes us want to learn more.

When designing your next strategic conversation, you'll want to spend serious time thinking in advance about both your *input* frames — how you are setting up the problem and content of the session — and the kind of *output* frames you hope to leave with. As your frames

get smarter and more evolved, so should the choices and actions your group makes as a result.

Set the Scene

Most people, when charged with finding a meeting venue, will ask, "Where's a place that has everything we need?" Black-belt (expert) designers of strategic conversations ask instead, "Where and how can we create the best environment to support our purpose?" Instead of thinking like a project manager or an event planner, they think like a producer and a host. They fuss over finding the right kind of space — then work hard to make it their own. They bring visual thinking into the program. And they *do* sweat the small stuff — big time.

Key Practice 1: Make Your Space

Scant attention paid to meeting spaces violates not just common sense but reams of research on the ways that space shapes our mood, behavior and productivity. Access to natural light has been found to boost academic performance, workplace productivity, psychological well-being and physical health. The color scheme of a room can impact how people approach problems, with blue walls fostering creativity and red ones raising urgency. Moderate levels of ambient noise inspire higher productivity.

A space doesn't have to be loaded with extras to support a strategic conversation — it just has to get the basics right. We think of these basics as making up a *shell space*, which can then be customized for a specific purpose and group. A checklist of basic room requirements for strategic conversations includes making sure the room size doesn't feel cramped or cavernous; that the shape allows everyone to see and be easily seen; that the space works well for both plenary and breakout sessions and includes windows; wall space for hanging materials; comfortable seating and minimal visual distractions.

Key Practice 2: Get Visual

People are natural visual thinkers. Field research shows that vision trumps all other senses when it comes to how humans learn and remember. For a strategic conversation, you have at least six kinds of visuals to think about:

1. **Prepared materials**, such as slides, posters, handouts or timelines.
2. **Process templates**: worksheets or templates designed to help guide participants through a series of steps.
3. **Frameworks**: visual models that help structure conversation and connect individual issues to a larger challenge.
4. **Prototypes**: drawings or other renderings of working-draft ideas and solutions.
5. **Live capture**: Flip charts, graphic recordings, photographs and digital interfaces that capture and curate content in real time.
6. **Emergent sketches**: any visual interface used for real-time exploration and idea building, such as mind-mapping, doodling or a graffiti wall.

Almost every effective strategic conversation features some combination of these elements. The key is to be thoughtful about which ones to use — where, when, why and how.

Key Practice 3: *Do* Sweat the Small Stuff

Obsessive attention to detail is a hallmark of all great design. Steve Jobs of Apple was renowned for his insistence that all parts of the Apple system — devices, software interfaces and retail experiences — be elegant, integrated and consistent. Designers of strategic conversations are no different. They know that little details matter. So they fret over them, always scanning for opportunities to shrink risk factors and improve participants' experiences.

One major risk in any session is distraction. Strategic conversations require extended periods of focused conversation — a rarity in our age of hyperactive multitasking. People will often jump at any excuse to shift their attention elsewhere. Black-belt designers are tenacious about hunting down and banishing all sources of distraction. This means making sure that all equipment and supplies are in place; the room temperature is moderate; the furniture is comfortable; nearby noise levels are low; and food will be delivered at a reasonable time and place.

When you get the small stuff right, people notice it — often subconsciously — in a way that increases their engagement and confidence. When you mess it up, people really notice it — in a way that can undermine their trust in you and in the process.

Make It An Experience

When planning a strategic conversation's agenda, your primary goal should be to *create a powerful, shared experience*. This way you can strike the right balance between your content and your people. This focus on experience may sound counterintuitive. Many people think of "experience" as a nice-to-have additional layer — such

as kicking off a session with a pleasant dinner, finding a great off-site venue, or making sure the meeting materials look pretty. But the experience of a strategic conversation means much more than this. It means looking at the session as a psychological and emotional journey as much as an intellectual one.

Key Practice 1: Discover, Don't Tell

Serious research shows that people have a remarkable cognitive immunity against learning from presentations — even when they want to. Lectures don't work for two reasons: 1) They overload listeners with more information than their brains can handle at one time, and 2) the listeners are passive. By contrast, what does work, in study after study, is *experiential learning* — enabling people to discover key insights and concepts for themselves, with a bit of guidance.

Joe Redish, a physics professor at the University of Maryland, helps students learn Newton's second law of motion by dropping two balls of different weights simultaneously from a second-story window. Intuition tells us that the heavier ball should land first, but Newton's law says that's wrong. When the two balls hit the ground at the same time, Newton's law becomes hard to forget, long after the formula has faded from memory. Lessons learned from vivid experiences such as this are fiendishly hard to unlearn.

Key Practice 2: Engage the Whole Person

Designers have long understood that reason and emotion are interconnected. In his classic book *The Design of Everyday Things*, cognitive psychologist and design theorist Don Norman shows in detail how great designs — of products, buildings or services — engage and delight their users as whole people.

The best strategic conversations are like this, too. They engage your head and gut equally, and you're not asked to make choices between the two. A common assumption is that we should keep our passions out of important meetings, as unchecked emotions can bring out our worst instincts and subject us to all kinds of biases. But a roomful of hyperrational Mr. Spocks can't solve an adaptive challenge.

When designing a strategic conversation, ask, "How can we best engage participants as whole people? How can we tap into their logical *and* emotional selves in a way that leads to smarter choices and action?"

Key Practice 3: Create a Narrative Arc

At first glance, setting the agenda for a strategic conversation is essentially the same as for a standard meeting. In both cases, you need to generate a list of topics and activities, then sort them into a logical sequence that fits into the allotted time. However, black-belt designers approach their agendas with a different mindset. They think in terms of creating a "narrative arc" — a flow of activities that moves from beginning to end, just like a good story line.

The narrative arc concept comes from the world of drama. A five-part structure — introduction of characters, rising action, climax, falling action and resolution — captures the arc of most plays. But given that strategic conversations are more fluid than a play or a movie — participants have more say in where the story goes — black-belt designers don't follow a set formula in crafting their arcs. Rather, they customize the experience based on an understanding of the specific group of people and the issues they're facing. The next time you approach an agenda for a strategic conversation, try thinking less like an air traffic controller juggling a list of topics and interests — and more like a screenwriter or deejay.

Confronting the 'Yabbuts'

Now that you're familiar with how to design strategic conversations, it's time to visit the dark side. By this point, we suspect you've collected a good number of yabbuts in your head. That's the word that innovation-strategy pioneer Larry Keeley uses to describe thoughts like "Yeah, sure this all sounds good — but here's why this would never work in my organization." Most of the time, when a session flops, it's because it fell victim to at least one of three big yabbuts: politics, near-termism, and what we call the karaoke curse.

Yabbut 1: Politics

The phrase *political organization* is redundant; all organizations are political. Every participant at a strategic conversation brings self-interest to the table, even if few of them will talk about it freely. But while there's no such thing as "no politics," there is a continuum that runs from "bad" to "good." Bad politics is about individual self-interest, control over resources and empire building. Good politics, by contrast, involves honest debate about ideas, values and an organization's future direction.

To be sure, there are many shades of gray in between. Most people will enter a strategic conversation with mixed motives. Even "good" politicians must work to gain and retain power in order to be effective. The key is to keep a watchful eye out for common political pitfalls and address them in ways that can steer a strategic conversation away from bad politics and toward the good. Common

pitfalls include refusing to declare who has decision rights, faking participation, excessive deference, agenda hijacks and others.

Yabbut 2: Near-Termism

In today's rapidly changing environment, all organizations need to balance short-term goals with long-term growth if they want to thrive beyond the next few quarters. Unfortunately, near-termism is hardwired in our brains. One of the best-documented cognitive biases is temporal discounting — that people predictably put higher value on benefits or costs that are in their face now over ones that will come later. Temporal discounting is a big part of the reason we fail to exercise, succumb to tempting foods, "forget" to floss our teeth, neglect to save for retirement, or suffer from disabling addictions.

In the famous Stanford Marshmallow Experiment, researchers found that the ability of children to delay gratification by choosing to take two marshmallows in 20 minutes rather than one marshmallow now had long-term predictive value. In follow-up studies, preschoolers who were able to wait the extra time had greater self-control and success as adults. Organizations could learn a lot from these kids. We need more incentives to offset the powerful effects of temporal discounting — not reinforce it — if we want to thrive for years to come.

Yabbut 3: The Karaoke Curse

Ever been to a karaoke bar? After a couple of drinks, even a midlevel marketing manager might believe he can belt out Sinatra's "My Way" as well as the chairman of the board. After all, it *looks* easy when other people sing well. *Karaoke skills* is our term for areas where people's confidence tends to exceed their competence.

Strategic conversations tend to surface a number of karaoke skills, such as presenting, group facilitation or collaboration skills. But the most important is strategic thinking. Like any serious skill, strategic thinking takes time to master, and you can quickly spot a black belt (or a karaoke performer) when you see one in action. Here's a short list of things that strong strategic thinkers do habitually:

Systems thinking: Construct — and constantly tinker with — mental models about how their business works to solve problems and spot new opportunities.

Scanning and pattern recognition: Perpetually scan for new data points and insights from a wide range of sources — including those beyond their industry.

Challenge own assumptions: Invite other people to challenge their thinking as well as their underlying thought processes.

Balance future and present orientation: Consider the future and the present needs of their business at the same time, without conflict.

Synthesis and storytelling: Take observations and ideas from a wide range of contexts and combine them into coherent stories about future options.

Hypothesis testing: Look for quick-and-dirty experiments to test emerging hypotheses and see what works.

Make *Your* Moment

Strategic conversations counteract the yabbuts. Defining a clear purpose and engaging multiple perspectives help to neutralize bad politics. Giving people a visceral experience of future possibilities keeps near-termism at bay. Framing the issues enables better strategic thinking and more creative solutions. In well-designed strategic conversations, the yabbuts don't disappear. But they get starved of oxygen long enough to get important work done.

That's when you — a budding black-belt designer — can raise your ambition and lean in harder. Because your real goal is not just to neutralize the yabbuts. It's to get people focused on creating a better future with a sense of common purpose in an environment where creativity and collaboration can flourish.

When leaders show the capacity to face an adaptive challenge, they can propel their organization forward in powerful ways. Confidence and optimism become contagious. People spend more of their time thinking about and planning great things they can do next. Designing great strategic conversations is challenging and rewarding work that can also be fun. Most important, it's one way that just one person can have outsize impact on the future of an organization — and beyond.

So go ahead, make *your* moment. And when you do, don't be too surprised to find that you're pushing on an open door.

RECOMMENDED READING LIST

If you liked *Moments of Impact,* you'll also like:

1. ***No More Pointless Meetings*** **by Martin Murphy**. Murphy reframes the entire concept of collaboration and introduces four "Work Sessions" that replace meetings to get more done faster than ever before.

2. ***Just Listen*** **by Mark Goulston.** Goulston reveals the secret of how to get through to anyone, even when productive communication seems impossible.

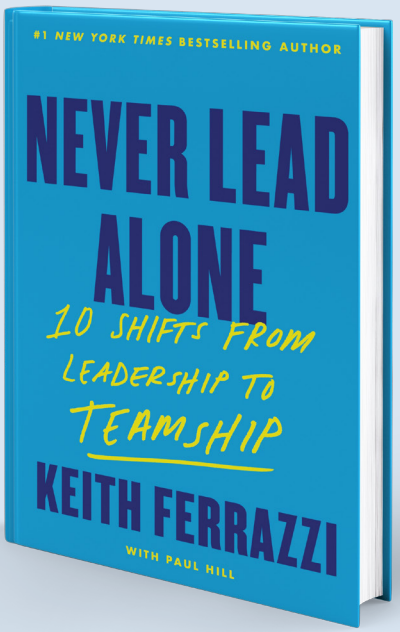
3. ***Stop Workplace Drama*** **by Marlene Chism.** Chism shows how to change the way you and your organization confront and work through problems and implement effective strategies in a drama-filled organization.

· Book 159 of 304 ·

Never Lead Alone

Keith Ferrazzi

Book Snaps™
In-depth reviews of best-selling business books.



Never Lead Alone

10 Shifts from Leadership to Teamship

By Keith Ferrazzi

Keith Ferrazzi is an entrepreneur and global thought leader in high performing teams and Chairman of Ferrazzi Greenlight and its Research Institute. He is the author of the #1 New York Times bestseller *Who's Got Your Back* and bestsellers like *Never Eat Alone, Leading Without Authority,* and *Competing in the New World of Work.* He is a frequent contributor to Harvard Business Review, the Wall Street Journal, Fast Company, Forbes, Inc, Fortune, and other publications. Ferrazzi's twenty-year history of transforming C-Suite executive teams has made him an agent of transformation among the world's greatest and most sought-after coaches.

A Book Review by Soundview

Mobilize the Full Potential of the Team

Keith Ferrazzi's book, ***Never Lead Alone: 10 Shifts from Leadership to Teamship*** focuses primarily on what members of a team can do to improve overall work output and organizational success. As will be shown, Ferrazzi believes that too many companies rely on the solid leadership of key individuals rather than hold all people accountable for increasing productivity and success wherever and whenever they can. Ferrazzi recommends reliance upon the use of diagnostic tools within teams to both help gauge and improve teamwork within organizations. He notes from the outset that the diagnostics he recommends are not very effective if the questions are just given to team members. The questions become much more effective if they are explained in detail to team members. Then when the diagnostics illustrate areas in which improvement can be made, Ferrazzi gives concrete steps for how organizations can improve in these areas. His book is one about promoting teamwork rather than about being a more effective leader from the top. It is about elevating a whole team rather than holding one person in an esteemed and prized position.

Co-Elevation

Ferrazzi begins his book with a discussion on the importance of teamship. He believes that a switch to collaboration is key. Ferrazzi goes back to his childhood to discuss his father's employment in the steel industry during Ferrazzi's childhood. His father would complain that he was urged to slow down because "he was making the boss look bad as he was outworking his peers and throwing off the measured piece rate by his work pace." While Total Quality Management practices would have allowed his father to help his team shine, the steel industry did not adopt these practices. Ferrazzi's ambition and education led him to want to help the manufacturing industry from the inside. This led him to advocate for teamship because good leadership alone cannot help the best teams. Quality teamwork is the only thing that can. For Ferrazzi, "the shift to teamship has two driving forces: co-elevating behaviors" and "twenty-first-century collaborative processes and tools" which require teams to abandon the importance they place on meetings. Ferrazzi then breaks down this shift to teamship into

"behavioral practices and process shifts" that he then discusses in detail throughout the rest of his book.

The first shift Ferrazzi recommends is "shifting from hub-and-spoke to the leader to co-elevation of the team." The main rule he promotes is a commitment to "all goals of the team and each other to get there." To illustrate the importance of this rule, Ferrazzi tells the story of Sergey Young who was attempting to open up his own time while achieving 10x growth in his professional life. It turned out that what was limited the progress of his team was his own hard work and ambition. He needed his team "to become the growth engine." He knew he had a strong team, but he needed to figure out how to get them to work together. His team needed to commit themselves to the concept of co-elevation which "is the set of behavioral commitments among a team to the mission and to each other." Teammates needed to stop merely co-existing and start working together. Ferrazzi writes about the importance of a team's social contract which refers to the practices, behaviors, and beliefs that help increase accountability. No longer is the leader solely responsible for making changes to improve the team. Everybody on the team holds this responsibility to make positive changes. This shift often focuses on "an awakening to the hope and possibility that a new set of behaviors and level of performance is possible."

Candor, Bonding, and Resilience

The second shift Ferrazzi discusses is a shift "from conflict avoidance to candor," and it requires teammates to speak courageously. In order to create this "culture of candor," Ferrazzi recommends "The Things That Matter Outlier Team Meeting" which is a type of meeting Bill Connors uses at Xfinity. The purpose of this type of meeting is to get teammates to talk about even the most difficult situations in a public meeting rather than after the meeting in private which is what people tend to do. Ferrazzi quotes Connors as saying that "If you do that [talk about areas in which growth is needed publicly rather than privately,] you can start to condition the whole employee base with being comfortable with candor and setting a new standard for high-performing teams." Ferrazzi gives numerous strategies for increasing candor in teams. Among these are conducting small meetings with as few as three people to discuss difficult issues. These mini-teams then report back to the larger team. Another strategy Ferrazzi recommends is making sure to hire people skilled in candor in the first place. Teams need to come to an appreciation of the value of feedback as the gift that it is.

"Purposeful team bond-building" is the focus of Ferrazzi's next shift as teammates focus on becoming ever more bonded to one another. This helps loosen the grip of functional silos. Ferrazzi states that "Only 41 percent of team members believe caring, trusting, and supportive relationships exist with their peers," and "Fifty-eight percent of employees say that they trust strangers more than they trust their own associates at work." This can stem, in part, from resentments that have grown over the years after trust has been broken. Oftentimes bonding within teams has happened through chance encounters in the office, but now that people frequently work remotely and with a desire to change things rapidly, there is no time to rely on these serendipitous encounters. Trust comes in three forms: "professional trust, structural trust, and personal trust," all of which are crucial. Ferrazzi recommends three different practices to help build trust. The first he calls sweet and sour in which teammates spend the first five minutes of a meeting discussing something that is going well and something that is challenging in their life at the moment. Second, he recommends deeper personal professional check-ins which are longer than sweet and sours and that give each person in a team a few minutes to discuss "where you might be struggling, personally and professionally." He also recommends intimacy dinners which happen four times a year and in which people tell "the stories that made us who we are today."

Ferrazzi's next shift asks the reader to shift away from focusing on individual resilience in an attempt to prioritize team resilience. This requires people to be constantly lifting up their teammates. This also requires all members to focus on being members of their team. Ferrazzi describes how Cisco used this philosophy by asking their team "members to read obvious warning signs of a coworker struggling" which could consist of actions like turning off the video feed during meetings and contributing less to the discussion as a whole. Ferrazzi refers to resilience as "a team's ability to sustain the energy we all have for the work and commitment to support each other's mental and emotional well-being." Ways to prioritize team resilience include performing an energy check in which members are asked to numerically rank their level of energy at the beginning of a meeting. Not all members need to be incredibly energetic. Everybody has their role to play. What is important is to look for dips in energy. He also recommends performing a resilience check in which each month teams focus on "topics shown by research to erode resilience" in an effort to gauge how team members feel their team resilience is. In these ways, organizations can actually help improve the well-being of their members which will in turn help the team as a whole.

Meetings, Agile, and Celebration

Ferrazzi's fifth shift refers to building more broadly and boldly "through meeting shifting." Ferrazzi believes "we're now in the third wave of the reinvention of work." The first wave focused on "Total Quality Management (TQM) and Six Sigma," and the second wave centered around "agile software engineering." Both of these waves were spearheaded by engineers, but our current third wave requires the work of human resources because this wave is concerned with people coming back into work. Ferrazzi believes organizations should focus on how to move forward with work rather than simply getting back to work. Work must be untethered in four different ways. First, "Teamship is untethered from the traditionally siloed org chart" meaning that companies must rethink how they define what a team is and which members from a different parts of an organization should be a part of a particular team. Second, teams must "embrace radical adaptability" and avoid merely being reactive. Third, teams must act both in broad as well as in big manners. This requires teams to embrace collaboration as a way to enable diversity to "give us the bolder ideas we need." Finally, teams need to "untether from meetings as the primary form of collaboration" because there are numerous ways

> *. . . traditional meetings work for people who can think on their feet. Many do not perform their best in these meetings because they need to take a moment to process information."*

beyond just in-person meetings to deal with issues. After all, traditional meetings mainly work best for people who can think quickly and on their feet. Many people do not perform their best in these meetings because they need to take a moment to process information before being able to properly respond. Ferrazzi details the collaboration stack which consists of asynchronous, remote, hybrid, and in-person collaboration all of which work best for different purposes.

The focus of Ferrazzi's book then turns to agile as the optimal operating system for teams. Ferrazzi quotes IBM CEO Arvind Krishna as saying, "It's not the instinct of most executives to operate in agile because what has most likely made them successful and put them into senior positions is that they were able to progress and innovate by coming with a suggested outcome all packaged up with a bow around it and presenting it to the boss." Agile, on the other hand, requires people to show their work, even the messy parts. Nickel LaMoreaux, also of IBM, says that the benefit of agile is that it breaks "complex problems into manageable pieces and timelines." Ferrazzi notes that it can be difficult for companies to fully implement agile across an entire enterprise, but Ferrazzi focuses in his book on the basics that can help all organizations. In this vein, Ferrazzi focuses on key aspects of agile. He starts with "creating a customer-centric agile brief," breaking projects down into small pieces and then stress testing those smaller pieces. Teams must also be empowered to improve between sprints. Finally, a clear process must be in place for teams to make speedy and great decisions that details everybody who must be involved in the decision. Ferrazzi goes into more detail in his book about these different steps organizations can take.

Next Ferrazzi recommends "shifting from a culture of scarce praise to peer celebration and recognition." In this section Ferrazzi quotes Carol Clements of JetBlue saying that she wants her team to be excited about coming into work. She wants those in her organization to feel valued and to feel like they contribute in a meaningful way. Ferrazzi says that "our research shows that teams don't celebrate enough," and that frequently a lack of recognition is what prompts people to leave their jobs. Ferrazzi believes that even underperformers should be celebrated. After all, pushing struggling people down even further will prompt them to produce even less, and that is precisely what avoiding celebration does. He talks of the value of celebrating "the highs that they are achieving and…[the] things that you want them to achieve." He describes numerous different types of celebrations that organizations can employ. One of these is seeding recognition. This type of celebration is impromptu, and it asks people to drop "praise you know will get back" to people. As an example of this, he describes one time when he heard an employee's father was not doing well. Ferrazzi called the father and told him how great the son he raised was and how well he has done at work. These words made a lasting impact on both the employee and on his father. Another tactic Ferrazzi recommends is what he calls "exploits of the week" in which individuals highlight people or teams each week who deserve praise. This type of praise reinforces those very behaviors that are being praised. Ferrazzi also talks about the benefits of peer celebration that occurs when teams round-robin share monthly about where they see people excelling. In these peer celebrations, each team member is tasked with praising other members of the team.

Diversity, Coaching, and Alignment

The case has already been made that diversity is important in organizations, but Ferrazzi believes that "how we interact as diverse, equitable, and inclusive teams remains an underrated and underexplored topic." Ferrazzi believes that "a diversity of people and voices achieves breakthrough performance." He delves into three different practices teams can implement to help maximize their DEI efforts. First, teams need to focus on otherness. Ferrazzi states that "The power of otherness is that it recognizes that the workplace is a microcosm of society." These differences ought to be celebrated. Ferrazzi talks about how he felt like an other while a student at Yale because he had a blue collar upbringing. In addition, early in his career he felt like an outsider because of his homosexuality. Teams ought to listen to the ways in which teammates have felt like an other because it will help them appreciate the different perspectives people hold.

Next, teammates ought to focus on privilege and obstacles. He is clear to note that privilege and obstacles affect people of all demographics. Having a certain privilege in life does not mean a person does not have very real obstacles in other areas of life. Privilege merely acknowledges that certain things in life are easier under certain circumstances. For example, it is easier to have money than to not have money. This conversation can be hard in fragile teams, and outside help may be needed. Ferrazzi states that, "It's not about victims or villains. It's about understanding who we all are and the hidden advantages and obstacles that we've experienced along the way." Finally, teams need to "hold out for the right slate." This means that if the candidates for a prized position are not diverse, then an organization is better off waiting until they have found ample diverse candidates to make a decision.

Ferrazzi's penultimate shift refers to "shifting to a team of

seekers who are each other's coaches." He talks about e.l.f. Beauty. Common belief originally did not hold that it would be possible for an online cosmetics company to thrive because the belief was that cosmetic decisions were too intimate to be made anywhere but in an in-person store. The people at e.l.f. Beauty proved this wisdom wrong as they created a successful cosmetics company. CFO Mandy Fields describes how she was coached by the company's CMO about her storytelling abilities. The CMO told her that instead of answering questions directly, Fields would be best served by taking her listener through an exploration of how she came to her answer. The CMO helped Fields hone this skill, and Fields in turn helped the CMO understand the financial side of the organization better. This is co-elevation, "the commitment to the mission and commitment to care about each other enough not to let each other fail."

A prized value at e.l.f. Beauty is candor, and the company tells new employees this from the very beginning. Everyone is responsible for caring about and for supporting everybody else. They do this through everyday feedback as well as through biannual team meetings where the primary focus is on giving feedback. To facilitate candor and feedback, Ferrazzi recommends Open 360. This requires every person on a team to share various information about each person. The focus is both on strengths and on areas in which improvement is needed. This requires trust and a solid commitment to the betterment of each other.

Second, he recommends "Dial Up/Dial Down." This is primarily a self-reflective exercise in which team members evaluate their performance and commit publicly to either dial up and do more of a good behavior or to dial down and do less of a negative behavior. Teammates share their commitments to aid in accountability. Finally, he recommends a "5/5/5 learning roadmap" in which teammates share progress on their goals for five minutes and then answer questions from teammates about their roadmap to success for five minutes before finally spending five minutes in which team members give "double-barrel feedback."

Ferrazzi's final shift is "from silos to alignment." After all, "Siloed organizations are unaware of the challenges and needs of their peers so they maximize for their piece of the pie." He believes that "members of world-class teams know what their teammates are working on, what goals are being activated; they know everyone is aligned on the same critical mission." To increase alignment, Ferrazzi recommends a collaborative problem-solving teamship practice where teammates consider their mission, what remarkable things will be there when they are about to achieve that mission, what the biggest obstacles to attack are, and what is "most likely to derail" the team.

Ferrazzi's goal is to help his readers more fully understand the importance of focusing on a teamwork mentality. A mentality focusing on leadership is centered around a person or a small group of people. What Ferrazzi advocates for is that all team members lift one another up. Throughout his book, Ferrazzi effectively gives questions organizations can ask of their teams to accurately assess where teams fall on a number of important issues. He then gives tactics that team members can use in order to improve on the areas they need to in order to succeed. He also provides obstacles for teams to look out for. Because of its clear layout, use of real world examples, and actionable items, his book is easy to understand as a company strives to improve the efficacy of its teams.

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Next is Now

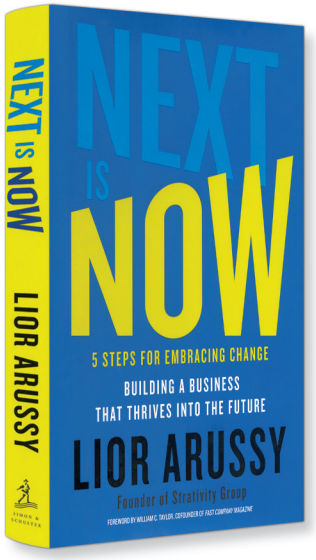
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Next Is Now

5 Steps for Embracing Change — Building a Business That Thrives Into the Future



by Lior Arussy

THE SUMMARY IN BRIEF

The old business model of adapting to change for continued success is dead. Change is the new normal. There are no more periods of stability and predictability. There is only change. This continuous upheaval can undercut morale, decrease productivity and decimate profits, or it can be a game-changing opportunity.

A leading authority on customer-centric business transformation, Lior Arussy illuminates the path to opportunity. In *Next Is Now,* he helps corporate leaders and their employees view change as an opportunity to become invested, drive that change, and achieve more success and job satisfaction than if change were simply implemented from the top down.

Based on his experience working one-on-one with major corporate clients, Arussy shares his five-step Future Ready Impact program and guides change-impacted employees and business owners from a victim mentality to one of participation and ownership. For organizations seeking to thrive in the drastic, continual change that is now their everyday reality, *Next Is Now* offers groundbreaking, essential guidance.

IN THIS SUMMARY, YOU WILL LEARN:

- Why we fear and resist change and how to overcome those fears.
- To find your core cause and use it to ride the waves of change.
- A five-step process for not just managing but thriving in change.
- How to lead change resilience.

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Change Resilience

Entire industries are disappearing and undergoing fundamental changes at a pace we have never encountered before. The music business was altered forever with the creation of iTunes and streaming services. The automobile industry is starting to feel the pinch from ride-sharing companies like Zipcar. Banking is now done online with a slew of new financial empowerment tools that turn every millennial into an educated banker. Travel agents? A distant, fading memory.

Our natural reaction to all of this change is resistance. And the more change thrown at us, the greater our resistance.

If we are not future ready, we reject it. But the price of our aversion to change is a loss of marketplace relevance. It hinders our ability to continue to make an impact on a world that's evolving faster than ever before.

If employees are emotionally ready for change, the chance that a new strategy will succeed is exponentially higher.

The human body can only handle so much change — and the same is true of an organization made up of large groups of human beings. So whether you're leading a change at your organization or being asked to take part in one, take heart: In this approach, we start by remembering everything that doesn't change.

We do this by identifying our "core cause"— our individual or organizational responsibilities, our mission, our values. Your core cause is a bridge that stretches from your past or your company's earliest days into the future. If your connection to your core cause is strong enough, you'll be supported the whole way.

Defining Your Core Cause

Your core cause is the reason you exist. The higher purpose that drives you. It is usually defined by the people you serve or who are enjoying the benefit of your efforts: How do your customers use your product or services? What does it empower or inspire them to do? How does it make their lives better or easier?

For teachers, a core cause might be to educate and inspire, not the tests and quizzes they give. For bankers, it is the creation of financial confidence among their clients, not the spreadsheets or formulas they use.

When you feel deeply connected to your core cause, specific tools and processes lose their power over you. The tools will always evolve. The core cause will not.

Fear of Change

People's responses to change have nothing to do with logic. We're hardwired to hold on to the Now instead of embracing the Next. After all, the Now is comforting and predictable. We do not want to leave this presumably safe, familiar place. It is reassuring and comforting. Losing it is like losing a piece of ourselves.

The Next, on the other hand, is hard. Why? In a word: *fear*. Anything that deviates from the status quo scares people. We reflexively resist new ideas and new ways of doing things because we cling to the past.

People will frequently express concerns about the future such as "What will it be like?" Such statements, however, are deceiving. If you attempt to address them, you will miss the deeper, underlying issues.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Kylie O'Connor,** Graphic Designer; **A. Imus**, Contributing Editor

Underneath every future-based fear, there are two deeper fears: fears rooted in the past and fears triggered by the challenge to one's identity. When people are stuck in the past, they struggle with how to contextualize their past performance with a need for change. They need to place their performance in a positive light before they can engage with the future-based fears.

Identity-based fear takes this a step deeper. Often people feel that the upcoming change is a threat to who they are and not just what they do. They struggle with more existential questions about the impact of the future on their values and how they define themselves. Addressing those deeper fears is essential to preparing for the future.

The Judgment of the Past

Sweden is rapidly becoming a cashless society. One in five transactions happens digitally, and cash payments amount to less than 2 percent of the value of all payments in the country. Retailers aren't required to accept physical currency and many don't, preferring payment by credit card or smartphone. Swedes can't even use cash to pay for public transportation and many other key services.

As a result, many Swedish banks no longer keep cash on hand or allow deposits. ATMs are vanishing rapidly. Most financial transactions of any kind are completed electronically, and the trend is only accelerating.

For a Swedish bank teller with decades of experience at the counter, cashless banking tells her, "You're useless." She will struggle to reconcile the hard work she has invested over the years with the shiny new technology that renders all of it obsolete. She will wrestle with accepting what is, to everyone else, an unambiguous improvement.

Typical change initiatives are so preoccupied with celebrating the future that they fail to recognize the importance of the past and those who labored to get the organization here. It is only when we respectfully acknowledge the significance of the past that we begin to get people unstuck. This requires proactive communication and a genuine understanding of the history of the organization leading up to the change.

If you're leading a change program at your organization, it's your job to make people comfortable by creating a meaningful transition between the past and the future. If you're an employee tasked with adapting to a new change, you have the opportunity to help your colleagues and customers embrace the change by demonstrating the connection between the past you've lived and the future you will build.

The Secret to Change Resilience: Engagement

If you're currently resisting a change, ask yourself, "Am I truly engaged with the process or its proposed outcome?" Be honest.

If you don't know the answer, here are some other questions to ask: "When asked to make a change, do I think creatively about how to approach it?" "If I'm driving the change at my organization, do I ask employees for their ideas?" "When charged with making a decision or solving a problem, would I prefer to defer to my managers so I'm not held responsible?" "Do I give my employees opportunities to solve problems related to change?"

Much like good customer service, creativity around change cannot be dictated from the top. Employees need to personally decide to change — and to think creatively about how to change. A paycheck only buys your employees' passive attendance — but compliance isn't enough. You need engagement.

In 2016, the consulting group Strativity launched a nationwide study of 30,183 adults, in an attempt to better understand employee engagement. The study found that when people are inspired to act, understand the need they are addressing for their customer, and have their role in making an impact clearly communicated, they are ready to make a difference.

In other words, people demonstrate the highest engagement not when their personal needs are being met but, rather, when they feel empowered to make an impact and help others. People in the study felt most engaged when they were doing something meaningful with a clear impact on a real human being.

An organization that provides its employees with the tools to make a real impact on people's lives is the company that will have the most engaged employees. Consider these three drivers of engagement:

- **Engagement Driver #1**: Give people the power to have an impact on someone else's life.
- **Engagement Driver #2**: Put customers at the center, and empower people to serve them.
- **Engagement Driver #3**: Give employees personal ownership of the strategy.

Whether you're being asked to embrace some new change at work or you're willingly embarking on a personal transformation, the same drivers apply. If you want the change to stick, ask yourself how it could benefit others.

Are You Future Ready?

Are you ready to embrace the unknown? To be proactive and stay ahead of the game? To own your destiny — and use your skills to help others?

The following five-step Future Ready Impact process was designed to help you get there — and to take your colleagues and your organizations with you. These five steps are designed to accelerate change and guide you to the next place you belong. They will empower you to be the authority of your life.

Step 1: Face It!

The first step in embracing change is getting honest with yourself about the reason for it: anything from industry trends and technology advancements to a changing customer base or environmental factors. Your challenge? Face the change squarely and objectively and decide your next step.

Facing the facts is difficult. Therefore, we wear different lenses when we face any data suggesting that change is needed. These lenses come in many different colors. None of them, unfortunately, are the ones we need: the colorless lenses that allow us to see clearly through to the mirror.

The blue lenses tell us the change is doomed from the start. Why bother changing? It won't help. The red lenses make us mad. The data must be wrong — it certainly contradicts what we believe to be true.

Pink lenses see the status quo as rose-colored, diminishing the intensity of the data and the sense of urgency. "I'm working on it already," we tell ourselves with a smile. "It's all good." The green lenses tell us change is too expensive. Staying the current course is the prudent financial approach.

The black lenses simply will not see anything. We know our job so well that we don't have to pay attention to industry news and trends. Just keep doing the same work, and everything will be fine.

Do you remember the Wells Fargo fake accounts fiasco of 2016? Employees at the bank created millions of fake accounts for real customers in order to boost their sales figures and make more money. This disaster resulted in the firing of 5,300 employees and eventually led to the resignation of the company's longtime CEO on October 12, 2016.

A case of denial on an astronomical scale. How could so many people see the facts and not address them? How could so many people believe they would get away with this? What were they planning to tell their customers about the fees they were charging for fake accounts?

We are not dealing with one rogue person here. This was an institutional approach. Their aggressive sales quotas — the green lenses — biased the judgment of 5,300 employees who were able to put their integrity aside and even risk their jobs to increase profits. For many people, our preoccupation with the here-and-now is enough to keep us oblivious to the inevitable change happening all around us.

What Would a New CEO Do?

That's the question Andy Grove, the legendary founder of Intel, would ask at critical strategic junctures: "What would a new CEO do?"

In his book *Only the Paranoid Survive*, he describes how this little game would help him look at problems with a fresh set of eyes — and without worrying about politics. He wanted to face the facts squarely and without any personal biases.

We can take a cue from Grove whether we're driving a change initiative, being asked to embrace a new tool or system, or approaching a change in our personal lives.

If you're a manager, put your employees in the CEO's seat. Let them face the same facts you've been given and reach their own conclusions. It is amazing what happens when instead of forcing employees to be passive recipients of change, you ask them to join you in analyzing harsh realities. Many initiatives fail because leaders don't take this step, giving employees a perfect excuse not to change. By putting employees in the driver's seat, on the other hand, you allow them to engage with the facts and reach their own conclusions.

As for those of you who've been asked to change or who are proactively diving into the Next, try imagining the advice you would give to someone seeking the same results. Pretend you have no emotional entanglement. As you consider the complexity of the problem before you, you will start to see a clear direction for the future. You will start to sense the urgency — and understand why a change is necessary.

Step 2: Analyze It!

Step 1 asked you to suspend your fears and emotions. Now, Step 2 asks you to turn them loose. Without understanding how your emotions are holding you back from changing, you cannot successfully move forward.

A rational decision alone will not turn you into a champion for change. Our emotions often make the choice about whether innovative strategies are adopted or not.

Emotions matter. They are the bloodline of change. Before developing new skills, we must develop emotional readiness.

Fear of Getting Hurt

When designing a cancer treatment center experience, it's important to consider every aspect — everything from the look of the waiting room to the amenities available in each treatment room. But you can design the most comfortable and soothing center in the world, and if the employees are not engaged, patients will feel no comfort.

When the subject of emotional engagement came up with nurses at the cancer treatment center Strativity had been asked to design, their reluctance to truly engage with patients was surprising. While they knew quite well the importance of connecting emotionally, they worked to maintain boundaries with patients whenever possible.

When asked about it, they explained it was a method of self-preservation. The pain their patients experienced — and the fact that some didn't make it — was incredibly difficult for the nurses. As a result, they were not willing to open up. They were afraid to get hurt. As one nurse put it so succinctly, "I do not want to go to any more funerals."

Many of them saw their patients' suffering and deaths as a sign of the nurses' inability to connect with them. Despite all their efforts, many patients didn't get better. Thanks to that deep emotional insight, Strativity decided upon an approach that addressed the nurses' frustration and sense of helplessness.

They began to design the patient experience as a journey, not as a destination, redefining the role of the nurse as a personal guide. No longer did nurses need to feel responsibility for "solving" the patient's illness. Instead, they could act as the patient's companion. By recognizing the nurses' distress and sense of impotence, a new approach to managing change was developed.

The results were phenomenal. The nurses felt a new sense of purpose and fulfillment. The patients' reaction to this authentic care was beyond wildest expectations. Some even got tattoos of the logo of the cancer treatment center in appreciation.

Change may be painful, but there's no use ignoring it. Addressing the root of the pain and fear often helps you come up with the right solution for everyone.

Here's another fear: FOMO — the fear of missing out. FOMO is a term that has gained popularity in recent years, especially on social media.

When it comes to exciting new changes in our world, a little bit of FOMO can actually drive us to overcome our fears and embrace change. If our doctor recommends a new treatment regime for managing a chronic disease, skipping it would mean giving up on our future, on everything from seeing new places to experiencing our children's growth. Ignoring the latest technologies may prevent us from communicating more effectively with our loved ones.

Every change brings with it a new promise, a promise we will most definitely miss if we do not adapt in a timely manner. You could miss out on a life experience or an opportunity to make an impact on the world. Is your fear worth missing out on something so important?

Step 3: Redefine It!

Now it's time to accelerate your commitment to change. Acknowledging our fears does not mean we should let them dictate our future. In this phase, we will bridge the gap between past and future. We will personalize the change and understand the role it plays in our life's journey. This phase enables us to view change as a continuation of — not a departure from — the past.

After attending a session focused on teaching frontline employees to think like their customers, John, a product manager, decided to take action. He approached his colleagues, more than 200 of them, and asked them a simple question: "Who do you work for?" John asked each colleague to write his or her answer on a piece of paper and hand it to him. They all complied without thinking too much of it. After all, the answer was clear.

For the most part the answers were consistent. Employees worked for management: the people who hired them, the managers they reported to, the ones who could fire them.

After reading all the answers, John shared the following insight: "One day, your direct supervisor will retire. You don't work for him. One day, the CEO will get another job elsewhere and leave you behind. You don't work for him. One day, the head of sales will win the lottery and move to Jamaica without as much as a backward glance. You don't work for him either. One day the shareholders will sell their stock and move their investments elsewhere. You don't work for them either. We all have one ultimate boss. It's our customer."

We often forget this simple yet invincible truth. No customer = no business = no job. It is as simple as that. If customers stop entering your store or visiting your website, the game is over.

Recognizing this is a critical step toward discovering your cause. You may not directly interact with customers every day in your line of work, but somewhere down the line there is a customer who needs you. Every job, every transaction has a customer. That person needs you to deliver

to the best of your ability. The only way you will do so is if you recognize how much that customer needs you.

What's Your Core Cause?

It's time to identify your core cause and assess how it's connected to the change you're facing. The following two exercises will help you achieve this goal.

Exercise 1: Choose your cause. Imagine that you are free of any financial worries or obligations and have the opportunity to volunteer with the charity of your choice:

- Which charity would you choose? An organization dedicated to health-care reform? A mentoring program for kids? An environmental protection group?
- Why would you choose to volunteer there? Is it because you're attracted to manual labor, specialized work or fund-raising?
- How would you feel while volunteering there?
- What would you be known for at the charity? Would you be the comic relief, the one who always sees the silver lining, the person who wears his heart on his sleeve, the strategic thinker or the most dependable volunteer?

Exercise 2: Define your mission. Now use your answers from the previous questions to identify your mission. The previous exercise should focus your thinking and allow you to assess yourself in the most pure, unbiased, unrestricted way.

- What do you love? (your mission).
- Whom would you love to help? (your world).
- How would you like to impact them? (your skills and values).
- What future do you want to create for them? (your hope).

The answers to the above questions should allow you to answer the following questions: 1. What values define you? 2. How would you like to make an impact on the world?

Now that you know your cause, you are ready to redefine any change you face so that it aligns with who you are. Understanding how this change will affect the lives of your stakeholders and what your desired impact is will help you view change as a friend and not a foe.

Step 4: Grow It!

Now it's time to build your confidence in your ability to work or live the change effortlessly. To achieve this, we need to grow our skill sets.

During this step we will operationalize the cause that inspires us and apply it to our everyday activities, behaviors and interactions with customers. Operationalizing an idea means bringing it to life, making it real and relevant.

Change needs to be properly scaled — so we're going to start small by practicing our new behaviors in low-risk ways.

To make an impact, you first need to understand your customer. But this is not always easy. If you love music and you serve people who love music, you can relate. But the cardiologist who's never had a heart attack will never be able to fully understand what his patients are experiencing.

Operationalizing your commitment to change isn't just about adding in a new task here or there. Rather, it's about examining how you spend each day and determining where the new change will have an impact and how it will alter the way you perform. Here is a recommended process to "rehearse" the change:

1. Map your daily activities and responsibilities. What are you in charge of? How are you being measured? How do you fulfill your responsibilities? List all of your activities and the customers who benefit from them.

2. Identify the impact a change will have on your daily operations and activities. How will the change impact your activities? What will you have to do differently? What will stay the same? What might be eliminated altogether? What will the impact be on time available to you?

3. Visualize your new activities with the change. What will a typical day look like for you? How will it make you feel? How will it impact your customer? What does it do to the time available? What tools would you need to execute it? Draw a clear image of the newly delivered activities.

4. Create a step-by-step diagram of the new ideal state. What skills do you need to master? What behaviors should you adapt? What behaviors should you stop?

5. Develop a communication plan. Imagine you are communicating the change to your customers. How will you explain the need for it? How will you communicate the customer's role? How will you explain your future role? What will be your choice of words?

Let's look at a banker whose goal is to start operationalizing her job as the Creator of Customer Financial Security. Yes, the change she's grappling with is her bank's use of a new digital platform. But that doesn't change her role as someone whose job is to help customers feel like their financial lives are safe and secure.

We can actually rehearse how she can deliver the same exceptional service using a new set of tools: A customer arrives to discuss her unexpected divorce. Her husband

has always managed their finances, and she is now left with no clue as to how to move forward. Her life as she knows it is in ruins, she's an emotional wreck and now her financial world is in an equally dismal state. What does she need right now?

The old banker would have responded that the customer needs a line of credit, a new credit card, maybe a new checking account — all of which the customer can apply for via the new digital channels. But the banker in touch with her core cause will recognize that the customer's real need is for clarity and support. She needs to regain control over her life. She needs to develop new financial understanding. Without an emotional readiness and a sense of control, no financial product is going to make a difference. What she needs right now is a sense of hope and reassurance that the loss and sense of destruction she feels in this moment will not last.

Thanks to digital platforms that can perform a lot of the banker's old tasks, she is liberated to spend more time providing comfort and understanding to this particular customer. She can guide the customer's next steps, helping her see which products will best suit her needs. Helping the customer create a budget and enlisting her in digital alerts that will enable her to manage her budget correctly will create the sense of control — and hope — that she currently lacks.

By fusing the power of digital tools and human empathy, the banker can create a lasting memory and a value her customer will not forget. At the end of the day, in her moment of truth, she was there for someone who needed her.

Step 5: Own It!

To own change, you need more than just determination. You need a plan with goals and milestones. You need to celebrate successes and create a process for learning and adapting to whatever new changes come your way.

Many people have a vision of success but have no plan to operationalize it. Others have the opposite problem: They take all the right steps but fail to recognize success when it arrives. They simply let it pass by without any sense of jubilation and accomplishment.

To be change-resilient, we must address both issues. How? By developing an "ecosystem of success"— a set of activities that will allow you to activate new behaviors and weave them into your life. Consider the following activities:

Visualize success. Start by painting a clear picture of success — then move backward to identify the steps to get there. What do you need to stop doing? What do you need to start doing? What steps are required to achieve this journey?

Create daily rituals. A passionate, authentic daily ritual will get you aligned and connected. Building a ritual requires confidence and practice. Such rituals remind us of our commitment, reinforce the rationale behind it and demonstrate that we are making progress. They should refocus your attention on your core cause and remind you of what you need to do differently to bring your commitment to life.

Plan to fail. We need to recognize the temptations, time pressures and inevitable obstacles, and accept them. We will fail on our journey. We can also forgive ourselves — as long as we know we are ready to get back on track. So plan to fail. Accept it. And keep going.

Capture the success stories. As you venture on the road to personal or professional transformation, you're going to achieve a number of quantitative objectives. But first you will experience qualitative progress. A qualitative result is a story about the impact you've created. These reaffirming stories build your character, confidence and commitment to continue on the journey toward transformation.

Daily experiments. One way to get yourself future ready is to start experimenting in different areas of your life. Push yourself — but do so gently. When was the last time you tried a new PowerPoint template? Animation? Or *any* new feature? As you see that you start reaching your goals, extend your boundaries bit by bit.

Solicit feedback. Ask people for honest feedback. Invite them to rate — and even coach. Most of us rate our own performance as above average and declare victory before it is achieved. Let others help you reflect more accurately and support your progress.

Celebrate success — reward yourself. Reward yourself for sticking to the change plan and making it this far. At every milestone, take some action to make success visible and celebrate it.

Leading Change Resilience

Let's focus on how to lead change. If you start making positive changes in your life, you can bet people will start

asking how you did it. Here's your opportunity to think about how to scale your efforts so that you can help others live their core causes. This requires you to think about how the change will affect those around you and how to bring others on board to support your efforts.

Know your ecosystem. In the world of performing arts, Deborah Rutter is regarded as a true change agent. As the CEO of the John F. Kennedy Center for the Performing Arts, she is working to leverage its rich heritage while ensuring its continued relevance. Her first piece of advice? "Know your cultural ecosystem." In other words, change resilience ought to be developed based on what is natural to people and, therefore, intrinsic. Do not attempt to change who anyone is; rather, make sure your initiatives take into consideration their beliefs and values — and build from there.

The sum total of everyone's decisions. Leaders need to accept the fact that their role is not to decide but, rather, to empower decisions. After all, it is not the BIG decision made in the boardroom that matters much. It is the millions of small decisions employees make every day that activate the desired change in many ways.

Success isn't guaranteed. Transformation is, by definition, risky. You are attempting to do something you've never done. You don't know how it will work. That is part of the excitement and the fear. When you repeat something you've always done, on the other hand, that's safe. Unfortunately, it's also no longer special or distinctive. You can't have it both ways. If you want the excitement of the new, you must assume the fear of the unknown.

Nurturing employee engagement. As a leader, your main purpose is to help others reach new heights of performance. The more they achieve, the better your results will be. Consider the following techniques to create a culture of engagement:

- Set aspirational goals to motivate them. What is the next "exceptional" for them?
- Identify the tools they need to succeed, and empower them to accomplish their goals.
- Provide a safety net that allows them to feel comfortable to experiment and do things they've never done before.

Sharing impact with those working behind the scenes. If your organization does not serve customers directly or only provides back-office support, then sharing impact becomes even more critical. Use stories or customer testimonials to make the impact on customers clear to everyone at your organization. Every completed task should include a description of the impact it made on real people who live with the outcome of the team's work.

Do the human thing first. When you live by your core cause, doing the human thing first becomes almost as natural as breathing. Put people first, and the rest will follow. Employees who know that their organization puts people first will be more apt to act responsibly and proactively — even in the most challenging moments.

Proud to be here. Take a look around you. Are your people proud to be here? This does not mean just when you participate in a Habitat for Humanity project or during the alcohol-infused holiday party. This means on a day-to-day basis. Do they look happy? Are they sharing their work with pride? Do they see the connection their work has and the impact they are making? Pride is not a passive state of nirvana. It's active and it's powerful. It means empowering everyone to ask, "What's Next?"

Trust your conviction. Fear and doubts are a natural part of any transformation. Hold on to the cause and stay confident. As doubts try to creep in, recognize that the unknown aspect of transformation can be a source of excitement.

We all have the opportunity to start viewing change as a liberation. A world in which people stop changing is a world without progress. Our job as human beings is not to just accept the world the way it is but to build it as we want it to be.

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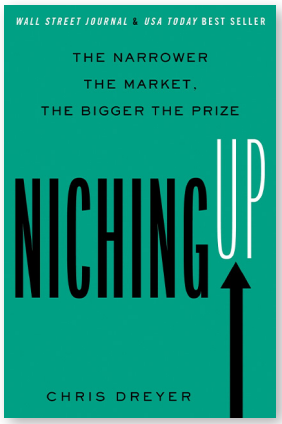
Niching Up

Chris Dreyer

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Executive Book Summaries®

Niching Up

The Narrower the Market, the Bigger the Prize



by **Chris Dreyer**

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THE SUMMARY IN BRIEF

Chris Dreyer didn't begin his professional journey thinking he would establish one of the most successful SEO agencies in the country. In fact, he studied history in college and landed his first job as a detention room supervisor for a local high school (this wasn't part of the plan, either). When his Google query, "how to make money online," directed him to digital marketing courses, Chris found his calling. Soon his own sites ranked number one for "double chin," "stained concrete," and "acai fruit." The rest, as they say, is history.

Now, Rankings.io hits the top of industry lists year after year as an SEO agency for personal injury lawyers. The company is one of the best for a simple reason: Chris has found his niche. In ***Niching Up: The Narrower the Market, the Bigger the Prize***, Chris Dreyer reveals the path to enduring notoriety and long-term profitability by way of a streamlined, specialized market focus. He debunks the myths associated with selecting a specific target and shares his stories of making it big by reducing his prospects. Sometimes success is about having the right mindset. Through Chris's personal stories of lessons learned and how he's learned them, you'll realize that good opportunities come to those who simplify.

IN THIS SUMMARY, YOU WILL LEARN:

- How to see your business through the niching lens.
- The benefits of niching.
- How to apply niching to any business vertical.
- How to figure out if niching is right for you.
- How to niche with the data you already have.

Introduction

"Niching up" means moving forward from a place of abundance and growth. Many individuals' biggest fear with niching is that by saying yes to one area, they're saying no to many others. But in reality, niching provides opportunities and gives you optionality.

By saying no to some things, niching opens the door to many things—including more or better possibilities. Far from narrowing your options, niching up opens a world of possibility to say yes to the people who are right for you and your business—the ones you are best suited to help.

Through the stories in this book, I hope I am able to help you learn from my journey with niching—both from my mistakes and what I got right. Along the way, I'll help you to see your own existing business, or the business you dream of founding, through the niching lens.

You'll understand the many benefits niching can offer, and how it can be easily applied to any business vertical. You'll learn how to figure out if niching is right for you simply by determining who it is that you are able to serve best and most efficiently. Finally, I'll show you that you don't need to undertake a ton of research or spend money to do any of it. You already collect all of the data that you'll need.

Attack of the Cons

When you do something that no one else is doing, you stand out. Every coach and entrepreneur loves to refer to niching as the Holy Grail of owning a business, and they always talk about the pros, but they tend to skip over the cons. But the reality is that there are both advantages and disadvantages to niching. The pros far outweigh the cons, but those cons do exist and we need to address them.

When you niche there is a smaller market and, therefore, fewer buyers. It can be more difficult and cost you more money to get in front of your target audience when dealing with a niche. Niching also introduces competition. Once you decide on a niche, there is a lack of diversity in your work.

Industry risk is another easily envisioned con of niching. Another potential con of niching is product perfection. When you niche, you may make things more difficult for your buyers by increasing the amount of effort and sacrifice they have to make.

Different industries and different markets are going to experience these cons at differing levels. The remaining chapters will focus on the advantages of niching up and how to use those advantages, well, to your advantage.

Awareness

Before you decide to niche, you should start broader by gaining more experience in your desired industry. If you just decide to go narrow out of the gate, it could be difficult to find buyers—or to even know which is the right niche for you. When you go broad and gain more generalized experience, you will have more awareness about your industry and market, as well as about potential niches.

Another benefit of first looking at the broader picture before choosing a niche is the ability to discover whether or not you have a natural competency in that niche. Once you do decide on a niche, you can identify opportunities you previously didn't even know existed.

You should choose a niche only after you've had those experiences, and you understand what you have a passion for and the competence to do, and the data supports you in choosing that niche. That's when you will begin to discover those other opportunities that weren't even available to you until you find your niche. Once you have decided to niche up (if that's what's right for you), you'll begin to experience the next advantage: becoming an expert in your niche.

Expertise

In his book *Outliers: The Story of Success*, Malcolm Gladwell posits the "10,000 Hour Rule." This is the notion that it takes roughly ten thousand hours of practice and repetition to become an expert in any single discipline. Expertise is important when niching up because people make buying decisions based upon two things: trust and their expectation that the individual they're buying from will achieve the outcome they're looking for.

When you are an expert in a niche, you gain two of the primary motivators we, as humans, all share: wealth and status. You are the best at what you do, so you can charge more. And, you are the best—the winner—and people want to work with and buy from the best. Niching up also brings status because you are going against the norm.

To become the best, you have to learn from the best. When you seek to get better at something, find someone who is already an expert in that subject to learn from. That is the

quickest way to accelerate your learning.

Premium Pricing

The first reason you can charge higher fees is because your customers are paying for your experience and expertise. The second reason you can charge more when you're an expert is because you're worth it. You understand the value you're delivering, and your clients will pay more for that value.

In order to increase your pricing, you have to first become an expert so that you're worth it. But in the beginning, when you are learning your craft and still working to become an expert, charge lower fees and create a low barrier to entry. Establish a track record of success and, as you do, raise your prices accordingly.

Pricing may vary based on the industry, because the niche you choose dictates how much something is potentially worth to your market. Once you have the stats to support your expertise, you then have to ask: how much are your buyers willing to pay? And what will they receive for that price? When considering pricing, you have to figure out the benefit that your customer or client will receive—how it will help them achieve their desired outcome.

Of course, you'll eventually hit a point where people—even your biggest supporters—won't continue paying more. The solution is to increase the value that you provide.

Conversions

This chapter focuses on another advantage of niching: having a higher rate of conversions. As we've established, every sales conversation is really a conversation about trust. By niching, you are aiming to show that prospect that you have experience, focus, and expertise in your area, so they are more likely to trust you. Because of that increased trust, you are more likely to convert those conversations into sales.

That completes the loop: you know what you are doing, so you have confidence; your prospect sees that confidence and develops trust in you; then, after converting them to a customer, you give them the outcome they want; and finally, your confidence is cemented both in your actual expertise (you did the thing!) and in your customer's perception of your expertise.

Additionally, niching up allows you to be more specific, which also helps increase conversions. Because you're solving a problem for one smaller group of people, for whom your product or service is designed, you can easily put words to that problem. Being specific makes you substantially more memorable and creates the perception of deeper expertise.

Finally, when you put all of this together—the trust, the proof, the confidence, and the specificity—niching helps you develop rapport with prospects more quickly, which makes it easier to convert them to clients.

Relationship Equity

When you are developing these relationships in your niche, you may start by working with smaller businesses or clients. As you gain experience and establish a track record of success, people in your market will grow familiar with you, so you can be seen as trusted. When they trust you, they are more likely to introduce you to their peers. This is how you can become a thought leader.

Join communities or associations your target audience are members of. Go to the conferences they go to, and spend time where they congregate. Once you get to know people and do business with them, your relationship network can grow exponentially.

Be a fan, not a stalker. A fan gives praise, accolades, and validation. If you start following someone in your niche wherever your people hang out online, don't be that person who just looks at their pictures all day. Comment on their posts, engage with them, and try to be helpful. If you're in person at a conference, go up to them and have a conversation about a recent win or something positive about them.

When you lead with value first, it lowers people's guard. It shows that you are a person of value, not just a taker. That can be an opening to a relationship. If you give value, other people are more likely to value you.

Referrals

A great way to help people and add value (which, as we also saw in the last chapter, builds relationship equity) is to give referrals. The best way to create a referral relationship is to give a referral, to give value. Even if you are not the person delivering the end goal, by giving a referral you are still helping someone achieve their desired outcome. You are still delivering value.

The best referral opportunities benefit three people: the person giving the referral, the prospect who is being

referred, and the person receiving the referral. Referrals create and build relationships, which can lead to marketing opportunities like speaking engagements, webinars, blogging, or podcasts. The number one way to get referrals is to give referrals.

Efficiency

We've talked about all the other pros of niching up that you've read so far, and this concept of efficiency ties them all together. You can be efficient with your processes, but you can also learn to be more efficient with referrals, with relationships, with conversions, and everything else just by gaining experience performing in one area with such expertise. By becoming more efficient, you can make more money, too.

Being efficient means using your resources without waste, and one of the most important resources we all have is time. The overarching benefit of being more efficient—and of niching overall—can boil down to one word: time. That's where value is created. That's also where profit is created. Time is what lends itself to trust, and a transaction is a form of time.

Conclusion

We've talked about wealth and status, and niching up gives you both. It leads to greater profit margins, and you also improve your status because you're better at what you do, you are an expert in the space, and you're confident in the results you deliver. Niching up gives you a sense of gratification, a sense of confidence, and a feeling of goodwill, knowing that you can truly serve the people that come to you, who need your help.

In a world of saturation and competition, all of us just want the best. When you niche, you focus all your efforts on doing what is best to help your customers. If you're a business owner and you have a passion for helping a certain market, I would encourage you to go all-in—to think not about the cons of having less, but to look at all the advantages of what niching up can mean for you, from the perspective of wealth and happiness.

If you find yourself competing in a red ocean with a ton of competition, you may benefit from looking at your audience and seeing who you can truly help provide the most value to. Find your own blue ocean—and remember: the narrower the market, the bigger the prize.



Chris Dreyer is the CEO and founder of Rankings.io, an SEO agency specializing in elite personal injury law firms and 5x consecutive member of the Inc. 5000 during the years of 2018-2022. Rankings.io received the UpCity Excellence Award in 2019 and 2020, an honor reserved for the top 1 percent of the nation's marketing agencies. In addition to owning and operating Rankings, Chris is a real estate investor and podcast host, and was included in The Silicon Review's 30 Best CEOs of the Year 2021. He is a member of the Forbes Agency Council, the Rolling Stone Culture Council, Business Journals Leadership Trust, Fast Company Executive Board, and Newsweek Expert Forum.

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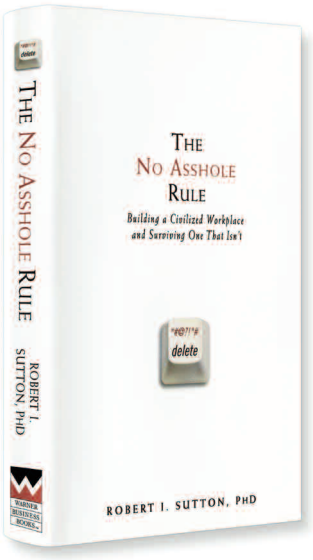
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No Asshole Rule

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The No Asshole Rule

Building a Civilized Workplace and Surviving One That Isn't



by Robert I. Sutton, Ph.D.

THE SUMMARY IN BRIEF

The No Asshole Rule provides a compelling inquiry into the difficult challenge of having to work with other human beings, and what you can do about it. Author Robert I. Sutton, Ph.D., provides readers with practical ideas for what they can do about a poisonous work environment and how they can survive the people who inhabit it.

Sutton first addressed the taboo topic: the no asshole rule, in a landmark article published in the *Harvard Business Review*. When presented with Sutton's book proposal, Business Plus immediately pre-empted his book project for publication. The book struck an immediate chord with business audiences everywhere and landed on all the major bestseller lists despite the provocative title.

Sutton's target includes employees who are insensitive to their colleagues, corporate bullies and bosses who just don't get it. And unfortunately, most people have to contend with co-workers who are flat-out rude, selfish, uncivil, mean-spirited and really don't seem to care about who they step on.

The No Asshole Rule sheds real analytical light on how this ongoing problem ruins morale, lowers productivity and can truly devastate a company's culture. It also provides insight into how your company can pinpoint this problem and strategies for eliminating it.

IN THIS SUMMARY, YOU WILL LEARN:

- How to tell if you are part of the problem or part of the solution.
- How to drive out and reform nasty people or, when that isn't possible, limit the damage that these creeps do to you and your workplace.
- How to work with — and survive — bullies, creeps, jerks, tyrants, tormentors, despots, backstabbers, egomaniacs and all the other people who do their best to destroy you at work.

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THE COMPLETE SUMMARY: **THE NO ASSHOLE RULE**

by Robert I. Sutton, Ph.D.

The No Asshole Rule: Building a Civilized Workplace and Surviving One That Isn't by Robert I. Sutton, Ph.D. Copyright © 2007 by Robert Sutton. Summarized by permission of the publisher, Business Plus, a division of Grand Central Publishing, New York, NY. 210 pages, $22.99, ISBN 978-0-446-52656-2. *The No Asshole Rule* was honored with a Quill Award as the Best Business Book of the Year in 2007.

The author: Robert I. Sutton, Ph.D., is a professor of management science and engineering at Stanford University, coauthor of *Hard Facts, Dangerous Half-Truths & Total Nonsense*, and author of *Weird Ideas That Work*. He lives in Menlo Park, Calif.

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For additional information on the author, go to http://www.summary.com.

What Workplace Assholes Do and Why You Know So Many

Many of us use the term indiscriminately, applying it to anyone who annoys us, gets in our way or happens to be enjoying greater success than we are at the moment. But a precise definition is useful if you want to implement the no asshole rule. It can help you distinguish people who are having a bad day or a bad moment from persistently nasty and destructive jerks. And a good definition can help you explain to others why your coworker, boss or customer deserves the label — or come to grips with why others say you are one (at least behind your back) and why you might have earned it.

Researchers such as Bennett Tepper who write about psychological abuse in the workplace define it as "the sustained display of hostile verbal and nonverbal behavior, excluding physical contact." That definition is useful as far as it goes. But it isn't detailed enough for understanding what assholes do and their effects on others.

Although some assholes do their damage through open rage and arrogance, it isn't always that way. People who loudly insult and belittle their underlings and rivals are easier to catch and discipline. Two-faced backstabbers, those who have enough skill and emotional control to save their dirty work for moments when they can't get caught, are tougher to stop — even though they may do as much damage as a raging maniac.

There are many other actions — sociologists call them "interaction moves" or simply "moves" — that bullies use to demean and deflate their victims. Whether we are talking about personal insults, status slaps (quick moves that bat down social standing and pride), shaming or "status degradation" rituals, jokes that are insult delivery systems or treating people as if they are invisible, these and hundreds of other moves are similar in that they can leave targets feeling attacked and diminished, even if only momentarily. These are the means that assholes use to do their dirty work.

Many Workplaces Are Plagued With Them

There is a big pile of scholarly research that reaches much the same conclusions without using the term "asshole." It is conducted under the banner that includes bullying, interpersonal aggression, emotional abuse, abusive supervision, petty tyranny and incivility in the workplace. These studies show that many workplaces are plagued by "interpersonal moves" that leave people feeling threatened and demeaned, and often are directed by more-powerful people at less-powerful people.

For example, a 2000 study by Loraleigh Keashly and Karen Jagatic found that 27 percent of workers in a representative sample of 700 Michigan residents experienced mistreatment by someone in the workplace, with approximately one out of six reporting persistent psychological abuse.

The Best Measure of Human Character

Diego Rodriguez works at IDEO, a small innovation company and a civilized place to work. Rodriguez urges organizations to develop "a shock-proof, bullet-resistant asshole detector."

Here are two steps for detection:

1. Identify people who persistently leave others feeling demeaned and de-energized.

2. Look to see if their victims usually have less power and social standing than their tormentors.

These tests imply an even more fundamental lesson:

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The difference between how a person treats the powerless versus the powerful is a good measure of human character.

The Damage Done: Why Every Workplace Needs the Rule

Every organization needs the rule because mean-spirited people do massive damage to victims, bystanders who suffer the ripple effects, organizational performance and themselves.

Damage to Victims

The vile effects of this behavior are confirmed by numerous studies in the United States, Europe (especially in the United Kingdom) and, recently, Australia and Asia.

Tepper's research on abusive supervision, for example, examined a representative group of 712 employees in a Midwestern city. He found that many of these employees had bosses who used ridicule, put-downs, the silent treatment and insults. These demeaning acts drove people out of their organizations and sapped the effectiveness of those who remained.

A six-month follow-up found that employees with abusive supervisors quit their jobs at accelerated rates, and those still trapped in their jobs suffered from less work and life satisfaction; reduced commitment to employers; and heightened depression, anxiety and burnout.

Similar findings are uncovered in other studies, with victims reporting reduced job satisfaction and productivity; trouble concentrating at work; and mental and physical health problems, including difficulty sleeping, anxiety, feelings of worthlessness, chronic fatigue, irritability, anger and depression.

Battered Bystanders

Assholes don't damage just the immediate targets of their abuse. Co-workers, family members or friends who watch — or just hear about — these ugly incidents suffer ripple effects. Tepper found that employees with abusive supervisors faced greater conflict between work and family, agreeing with statements like "The demands of my work interfere with my home and family life."

Demeaning jerks are victims of their own actions. They suffer career setbacks and, at times, humiliation. A hallmark of their behavior is that they sap the energy from victims and bystanders.

People who persistently leave others feeling de-energized undermine their own performance by turning co-workers and bosses against them and stifling motivation throughout their social networks. They also suffer because, even when they do their jobs well by other standards, they get fired.

The Dirty Dozen

Here are some common, everyday actions used by assholes:

1. Personal insults
2. Invasion of others' "personal territory"
3. Uninvited physical contact
4. Threats and intimidation, both verbal and nonverbal
5. Sarcastic jokes and teasing used as insult delivery systems
6. Withering e-mail flames
7. Status slaps intended to humiliate their victims
8. Public shaming or "status degradation" rituals
9. Rude interruptions
10. Two-faced attacks
11. Dirty looks
12. Treatment of people as if they are invisible

Impaired Organizational Performance

The damage that jerks do to their organizations is seen in the costs of increased turnover; absenteeism; decreased commitment to work; and the distraction and impaired individual performance documented in studies of psychological abuse, bullying and mobbing.

It must have cost producer Scott Rudin, one of the nastiest Hollywood bosses, a fortune — and a lot of time — to manage the entrances and exits of the 119 assistants who worked for him between 2000 and 2005 (or 250 assistants, if you accept *The Wall Street Journal*'s estimate rather than Rudin's).

The Upshot

A *Harvard Business Review* reader suggested that more companies would be convinced to enforce the rule if they estimated the "total cost of assholes," or their "TCA." As he put it, "The organizational impact, in terms of both retention and recruitment, lost clients [and] excess organizational calories being expended on the wrong things could provide some very interesting results."

Researchers Charlotte Rayner and Loraleigh Keashly demonstrate how to produce an estimate of such costs. They start by estimating (based on past studies in the United Kingdom) that 25 percent of bullying "targets"

and 20 percent of "witnesses" leave their jobs, and that the "average" bullying rate in the U.K. is 15 percent. Rayner and Keashly calculate that in an organization of 1,000 people, if 25 percent of the bullied leave, and the replacement cost is $20,000, then the annual cost is $750,000. They add that if there is an average of two witnesses for each victim, and 20 percent leave, that adds $1.2 million, for a replacement cost just shy of $2 million per year. ●

How to Implement the Rule, Enforce It and Keep It Alive

Several readers of the *Harvard Business Review* essay about the rule wrote to explain that the rule was a centerpiece of their leadership style. Roderick C. Hare, CEO of Mission Ridge Capital, wrote: "For most of my professional career, I have been telling anyone who would listen that I can work with just about every type of person, with one glaring exception — assholes. In fact, I have always used that very word. As much as I believe in tolerance and fairness, I have never lost a wink of sleep about being unapologetically intolerant of anyone who refuses to show respect for those around them."

Weave the Rule Into Hiring and Firing Policies

IDEO, one of the most successful innovation firms in the world, aggressively screens out demeaning and arrogant people. Many candidates are given job offers only after working as interns — people who have demonstrated under real working conditions that they aren't jerks. And when candidates haven't worked with IDEO before, people in the company take the time to filter out the bad seeds. Insider Rodriguez explains:

1. We really value references from people we trust. We also encourage staff to teach university classes and learn how job candidates perform in the classroom — especially in teams that are under pressure to do good work and do it fast.

2. We try to select for professional competence before people walk in the door so that the interviewing process can focus more on a person's human qualities (or lack thereof).

3. Once in the door, you'll probably speak to a good number of people — more than would seem reasonable by most corporate standards. It's all about creating a mutual feeling of "fit."

4. Every candidate is interviewed by people who will be above, below and alongside them, status-wise. And people from unrelated professional disciplines participate. That way, if you do get hired, you feel that the entire company wants you, not just one specific high-status manager — who, by the way, might or might not be a total asshole. This method also keeps assholes in a hiring position from replicating.

Rodriguez's last point is crucial. Research on job interviews and hiring decisions shows that a recruiter tends to hire candidates who look and act like his or her favorite person on the planet — himself or herself. Harvard Business School professor Rosabeth Moss Kanter calls this "homosocial reproduction," which means that the hiring process (unwittingly) causes most organizations to "bring in the clones." The implication is that assholes will breed like rabbits.

Managers will reproduce themselves in the hiring process, and soon, as Rodriguez says, your organization will have groups dominated by tools — which then start battling other groups or, worse yet, gain power and spread their poison everywhere. IDEO battles this tendency by having hiring decisions made by a broader group.

Teach People How to Fight

Enforcing the rule doesn't mean turning your organization into a paradise for conflict-averse wimps. The best groups and organizations — especially the most creative ones — are places where people know how to fight. At Intel, the largest semiconductor maker in the world, all full-time employees are given training in "constructive confrontation," a hallmark of the company culture.

Leaders and corporate trainers emphasize that bad things happen when "the bullies win," when fighting means personal attacks, disrespect and rude intimidation. These ill effects include "only the loudest and strongest voices get heard," "no diversity of views," poor communication, high tension, low productivity, and the belief that people are first "resigned" to living with the nastiness and then "resign" from the company. Intel preaches that the only thing worse than too much confrontation is no confrontation at all. So the company teaches employees how to approach people and problems positively, to use evidence and logic, and to attack problems and not people.

'Disagree and Then Commit'

The University of Michigan's Karl Weick advises, "Fight as if you are right; listen as if you are wrong." That is what Intel tries to teach through initial lectures, role playing and, most essential, the ways in which man-

agers and leaders fight. It teaches people how to fight and when to fight. Its motto is "Disagree and then commit," because second-guessing, complaining and arguing after a decision is made saps effort and attention — which obscures whether a decision is failing because it is a bad idea or whether it is a good idea that is implemented with insufficient energy and commitment.

People are also taught to delay their arguments until all the key facts are in, because it wastes time and because taking a public stance based on incomplete information leads people to defend and publicly commit to paths that ultimately clash with the best evidence.

Having all the right business philosophies and management practices to support the rule is meaningless unless you treat the person *right in front of you, right now, in the right way.*

The Top 10 Steps to Enforcing the Rule

Here's how you can enforce the rule:

1. Say the rule, write it down and act on it.

2. Keep your resident assholes out of the hiring process. Or, if you can't, involve as many "civilized" people in interviews and decisions as possible.

3. Get rid of assholes fast.

4. Treat assholes as incompetent employees.

5. Power breeds nastiness. Beware that giving people — even seemingly nice and sensitive people — even a little power can turn them into big jerks.

6. Embrace the power-performance paradox. Accept that your organization does have and should have a pecking order, but do everything you can to downplay and reduce unnecessary status differences among members.

7. Manage moments — not just practices, policies and systems. Effective asshole management means focusing on and changing the little things that you and your people do.

8. Model and teach constructive confrontations.

9. Adopt the one asshole rule. The rule might be most closely followed in organizations that permit one or two token jerks to hang around. These "reverse role models" remind everyone else of the wrong behavior.

10. The bottom line: Link policies to small decencies. Effective management happens when there is a virtuous, self-reinforcing cycle between the "big" things that organizations do and the little things that happen when people talk to one another and work together. ●

Bully Victims Quit

Researchers Charlotte Rayner and Loraleigh Keashly estimate that 25 percent of victims and 20 percent of witnesses of bullying leave their jobs, compared to a typical rate of about 5 percent.

How to Stop Your 'Inner Jerk' From Getting Out

Most of us, even the most "naturally" kind and mentally healthy, can turn caustic and cruel under the wrong conditions. Human emotions, including anger, contempt and fear, are remarkably contagious.

Yet there are ways to quell your contempt. The first step is to view acting like a jerk as a communicable disease. Once you unleash disdain, anger and contempt, or someone unleashes it on you, it spreads like wildfire. "Emotional contagion" is what researcher Elaine Hatfield and her colleagues call it. "In conversation, people tend automatically and continuously to mimic and synchronize their movements with the facial expressions, voices, postures, movements and instrumental behaviors of others." If you display contempt, others (even spectators, not just your targets) will respond in much the same way, igniting a vicious circle that can turn everyone around you into a mean-spirited monster just like you.

Experiments by Leigh Thompson and Cameron Anderson show that even when compassionate people join a group with a leader who is "high-energy, aggressive, mean, the classic bully type," they are "temporarily transformed into carbon copies of the alpha dogs."

How to Avoid 'Poisoning'

Do your homework before taking a job. Find out if you are about to enter a den of assholes and, if you are, don't give in to the temptation to join them in the first place. Leonardo da Vinci said, "It is easier to resist at the beginning than at the end," which is sound social psychology. The more time and effort that people put into anything — no matter how useless, dysfunctional or downright stupid it might be — the harder it is for them to walk away, be it a bad investment, a destructive relationship, an exploitive job or a workplace filled with browbeaters, bullies and bastards.

Research on "framing" by social psychologists suggests a few tricks you can use to avoid being an overly competitive jerk and to help immunize yourself from catching the poison. The assumptions and language we

use — the lenses that we see the world through — can have big effects on how we treat others. Even seemingly small differences in language that we hear and use can determine whether we cooperate or compete.

Three 'Cooperative Frames' That Can Help

If you want to quell your inner jerk and avoid spreading (and catching) poisoning, use ideas and language that frame life in ways that will make you focus on cooperation.

First, although many situations do require a mix of competition and cooperation, try focusing on the win-win aspects.

Renowned management guru Peter F. Drucker looked back at his 65-year consulting career shortly before he died. He concluded that the most inspiring and effective managers he knew all had a few things in common, including, "They thought and said *we* rather than *I*." So start listening to the words that you and your colleagues say. Tape-record and listen to a couple of meetings; if they are nearly all about "me, myself and I," and "us versus them," it might be time to start changing the way you talk — it can help keep your inner jerk in check.

Second, adopt a frame that turns your attention to ways in which you are no better or worse than other people. Don't focus on all the big and little ways that you are superior or inferior. Think of all the ways that fellow human beings are just like you, such as the needs that we all have for love, comfort, happiness and respect.

Finally, tell yourself, "I have enough." Too many of us are never satisfied and feel constantly slighted, even though — by objective standards — we have all we need to live a good life. This frame can help you be at peace with yourself and treat those around you with affection and respect.

Face Your Past

Research shows that if you were a bully in school, you will be more prone to taunting, teasing, threatening and even doing physical harm to your co-workers.

Facing the facts about your past behavior can help you assess your "risk" of acting like a creep in the future. But there is also intriguing research by anthropologists, historians and psychologists suggesting that the culture you were raised in can amplify your risk, especially if you grew up in an aggressive and violence-prone country, region or neighborhood.

Experiments by Dov Cohen and his colleagues that were published in the *Journal of Personality and Social Psychology* show that for men raised in the southern United States, the culture of honor continues to have measurable and strong effects, even after those men have moved to the northern United States. Studies show that if you were raised a Southerner — or perhaps a cowboy — you will likely be more polite than your colleagues most of the time, but if you run into an even mildly insulting person, you are prone to lash out and risk fueling a cycle of poisoning. ●

When Assholes Reign: Tips for Surviving Nasty People and Workplaces

Psychologists have found that if you can't escape a source of stress, changing your mindset about what is happening to you, or reframing, can help reduce the damage done to you. Some useful reframing tricks include avoiding self-blame, hoping for the best but expecting the worst, and developing indifference and emotional detachment. Learning when and how to simply not give a damn isn't the kind of advice you hear in most business books, but it can help you make the best of a lousy situation.

Martin Seligman's research on "learned optimism" shows that when people view difficulties as temporary and not their fault, and as something that will not pervade and ruin the rest of their lives, this frame protects their mental and physical health and enhances their resilience.

Hope for the Best; Expect the Worst

Framing demeaning encounters in an optimistic light can help sustain your physical and mental health. Yet, especially if you are subjected to mean-spirited people for long stretches, unbridled optimism can be dangerous to your spirit and self-esteem.

Unwavering hope that all those hard-core jerks are going to be transformed into nice people is a recipe for one reliable disappointment after another. If you expect that one beautiful day all those jerks will suddenly apologize to you, begin begging for forgiveness or at least start treating you with respect, you are setting yourself up for disappointment and frustration.

Develop Indifference and Emotional Detachment

When organizational life takes an ugly turn, linking your self-worth to how people treat you and putting all your effort and emotional energy into your workplace is a path to exploitation and self-destruction. Self-preservation sometimes requires the opposite response: Learn to feel and practice indifference and emotional detachment.

When your job feels like a prolonged personal insult, focus on just going through the motions, on caring as little as possible about the jerks around you and think about something more pleasant as often as you can — just get through each day until something changes at your job or something better comes along.

Look for Small Wins

The ability to gain control over little, seemingly trivial things is a hallmark of people who survive horrible and uncontrollable events — including natural disasters or being a castaway, hostage or prisoner of war.

Rigorous research confirms that the feeling of control — perceiving that you have the power to shape even small aspects of your fate — can have a huge impact on human well-being. The implication for surviving a workplace where assholes abound is that if you can't escape completely, start looking for ways to seize bits of control. Try to find little steps you can take to reduce your exposure to their venom.

Find and build some pockets where you can hide from assholes and hang out with decent people. Doing so can reduce your exposure to jerks, give you a breather and provide a bit of control over when and how these creeps do their dirty work to you. These pockets can be buildings or rooms. They can be found in even tiny moments, such as during brief interactions with supportive customers, colleagues or clients. ●

The Virtues of Assholes

Do you want to be the best asshole that you can possibly be for yourself and your organization? Some tips are offered below, but they come with the following red-hot warning: These ideas are inherently dangerous. People who are destructive jerks can use these alleged virtues to justify and glorify their wicked ways. The weight of the evidence shows that they do far more harm than good.

Do You Want to Be an Effective Asshole?

Here are five key lessons:

1. Expressing anger, even nastiness, can be an effective method for grabbing and keeping power.

2. Nastiness and intimidation are especially effective for vanquishing competitors.

3. If you demean your people to motivate them, alternate it with (at least occasional) encouragement and praise. Alternate the carrot and the stick; the contrast between the two makes your wrath seem harsher and your occasional kindness seem even sweeter.

4. Create a "toxic tandem." If you are nasty, team up with someone who can calm people down, clean up your mess, and extract favors and extra work from people because they are so grateful to the "good cop."If you are "too nice," you might "rent a jerk," perhaps a consultant, a manager from a temporary staffing firm or a lawyer.

5. Being an asshole all the time won't work. Effective jerks have the ability to release their venom at just the right moment and turn it off when just enough destruction or humiliation has been inflicted on their victims.

Assholes often don't realize that every time they demean someone — say, with a nasty glare, a mean-spirited joke or tease, by treating a person as if he or she were invisible, or by exaggerating their self-importance yet one more time — their list of enemies grows longer day after day.

Fear compels most of the asshole's enemies to stay silent, at least for a while. But as their enemies' number and power grow, they can lie in wait until something happens to weaken the bully's position, such as organizational performance problems or a small scandal. Then they pounce. It is impossible to be in a position of power without annoying and alienating some people, but seemingly cold, unpleasant and unkind people often create more enemies than they realize.

Why They Fool Themselves

Are you suffering from delusions of effectiveness?

1. You and your organization are effective despite, rather than because, you are a demeaning jerk. You make the mistake of attributing success to the virtues of your nasty ways, even though your demeaning actions actually undermine performance.

2. You mistake your successful power grab for organizational success. The skills that get you a powerful job are different — often the opposite — from the skills needed to do the job well.

3. The news is bad, but people only tell you good news. The "shoot the messenger" problem means that people are afraid to give you bad news, because you will blame and humiliate them. So you think things are going great, even though problems abound.

4. People put on an act when you are around. Fear causes people to do the "right" things when you are watching them. As soon as you leave, they revert to less-effective or downright destructive behavior — which you don't see.

5. People work to avoid your wrath rather than to do what is best for the organization. The only employees who can survive your management style devote all their energy to avoiding blame rather than fixing problems.

6. You are being charged "asshole taxes" but don't know it. You are such a jerk that people are willing to work for you and your company only if you pay them premium rates.

7. Your enemies are silent (for now), but the list keeps growing. Your demeaning actions mean that day after day, you turn more people against you, and you don't realize it. Your enemies don't have the power to trash you right now, but are lying in wait to drive you out. ●

The Rule as a Way of Life

Here are seven key lessons about the rule:

1. A few demeaning creeps can overwhelm the warm feelings generated by hordes of civilized people. Remember that if you want to enforce the no asshole rule in your organization, you'll get more bang for your buck by eliminating those folks who bring people down. Bear in mind that *negative interactions have five times the effect on mood than do positive interactions* — it takes a lot of good people to make up for the damage done by just a few demeaning jerks. The first things you need to do are screen out, reform and expel all of them in your workplace. It will then become easier to focus on helping people become warmer and more supportive.

2. Talking about the rule is nice, but following up on it is what really matters. Talking about or posting the rule isn't necessary if people understand it and act on it. But if you can't enforce the rule, it is better to say nothing. Otherwise, your organization risks being seen as both nasty and hypocritical.

3. The rule lives — or dies — in the little moments. Having all the right business philosophies and management practices to support the rule is useless unless you treat the person right in front of you, right now, in the right way.

4. Should you keep a few assholes around? Once people believe that they can get away with treating others with contempt or, worse yet, believe they will be praised and rewarded for it, a reign of psychological terror can spread throughout your organization that is hard to stop.

5. Enforcing the rule isn't just management's job. The no asshole rule works best when everyone involved in the organization steps in to enforce it when necessary. Treating people right means conveying respect, warmth and kindness to them — and assuming the best about their intentions.

6. Embarrassment and pride are powerful motivators. In organizations where the no asshole rule reigns, people who follow it and don't let others break that rule are rewarded with respect and appreciation. When people violate the rule, they are confronted with painful, and often public, embarrassment and the feelings of shame that go with it.

7. Assholes are us. If you want to build an asshole-free environment, you've got to start by looking in the mirror. When have you been an asshole? When have you caught and spread the contagious disease? What can you do, or what have you done, to keep your inner asshole from firing away at others?

Just stay away from nasty people and places. This means you must defy the temptation to work with a swarm of assholes, regardless of a job's other perks and charms. And if you make this mistake, get out as fast as you can. Admitting you're an asshole is the first step. ●

Ripple Effects

European researchers have assembled the best evidence on ripple effects. A British study of more than 5,000 employees found that while 25 percent had been victims of bullying in the past five years, nearly 50 percent had witnessed bullying incidents. Another British study of more than 700 public-sector employees found that 73 percent of the witnesses to bullying incidents experienced increased stress and 44 percent worried about becoming targets themselves.

RECOMMENDED READING LIST

If you liked *The No Asshole Rule*, you'll also like:

1. ***Reality Check* by Guy Kawasaki.** Venture capitalist and entrepreneur Kawasaki gives a "no bull-shittake" crash course on every aspect of running a business. Features his best tips on innovation, raising capital, marketing, hiring and firing and more.
2. ***The Hands-Off Manager* by Steve Chandler and Duane Black.** Chandler and Black offer a new vision for all managers — how to coach and mentor employees rather than hover over their shoulders and goad them into action.
3. ***The Set-Up-to-Fail Syndrome* by Jean-Francois Manzoni and Jean-Louis Barsoux.** If you suspect your managers are not getting the most from their employees, this summary can help. It offers concrete solutions for the downward spiral of negative expectations.

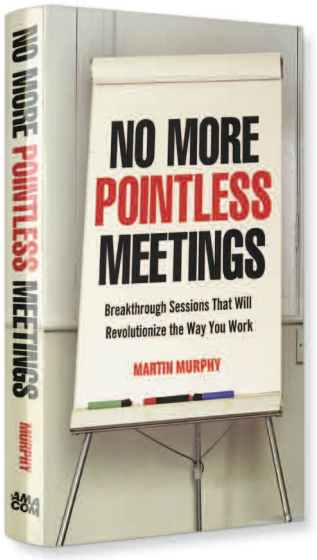
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No More Pointless Meetings

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Management



No More Pointless Meetings

Breakthrough Sessions That Will Revolutionize the Way You Work

by Martin Murphy

THE SUMMARY IN BRIEF

Meetings are the bane of work life: time-consuming and inadequate for addressing today's innovation and speed-to-market imperatives. Everyone grumbles about them, but nothing ever changes — until now.

Martin Murphy has helped dozens of corporate clients transform conventional meetings into workflow sessions that are truly productive, by reframing workflow management issues into four critical activities: Issues Management, Innovation, Problem-Solving, and Ongoing Planning. By doing so, he has upended the entire concept of the one-size-fits-all traditional meeting model and has set a new standard for collaborative results.

No More Pointless Meetings gives you workflow management tools to dramatically improve both in-the-flesh and digital collaboration by leveraging the cognitive and creative potential of the individuals who report to you.

IN THIS SUMMARY, YOU WILL LEARN:

- How to use action plans to improve cognitive and creative productivity in a way that ensures early ownership of issues, accountability and transparency.
- How to deploy three fast-track collaboration sessions: issues management, innovation and problem-solving.
- How to stay current with exponential change by installing an ongoing planning system and a planning database.
- How to use information gaps to upgrade your organization's IQ.

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THE COMPLETE SUMMARY: **NO MORE POINTLESS MEETINGS**

by Martin Murphy

The author: Martin Murphy is founder and president of QuantumMeetings, a management education consultancy whose clients include organizations of many types and sizes, from startups to multibillion-dollar enterprises. His client experience includes The Coca-Cola Co., PepsiCo, IBM, Pillsbury, Lever Brothers, Bristol-Myers Squibb, the city of Atlanta and nonprofits such as the National Association for Home Care in Washington, D.C.

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For additional information on the author, go to www.summary.com.

Why Meetings Fail: Reframing Workflow Management

Meetings have survived as the primary collaborative process because it is assumed that an individual, once promoted to a leadership position, already knows how to effectively leverage human capital. The facts don't support this — all of us still get trapped in meetings that squander time we'll never recover. While the number and complexity of issues that require resolution accelerate, unsatisfactory meeting outcomes are still an everyday event.

For most executives, managers and supervisors, the meeting is the only work management tool they've ever used for collaboration. The drill is ingrained: Everyone gathers in a conference room, and the most senior executive both conducts and participates in the meeting at the same time. This wasteful collaborative ritual takes place millions of times daily in organizations around the globe. And while its shortcomings are acknowledged, it has been the principal means for collaboration over the course of many generations.

If managers are doing a poor job of collaborating in person-to-person gatherings — and be assured that they are — digital collaborative performance will be even less effective.

Guiding Principles

Reframing workflow management activities into four broad categories of need transforms the effectiveness of workflow management in general and collaboration in particular. Those categories — the need to manage issues, to solve problems, to innovate and to plan — yielded the following collaborative elements of a workflow management system:

1. The Issues Management Session
2. The Innovation Session
3. The Problem-Solving Session
4. Ongoing Planning.

The fourth element, Ongoing Planning, provides the means to capitalize on exponential change by building speed-to-market capabilities.

There are, however, two principles on which all of these sessions are based:

1. Content and process must be kept separate.
2. The boss (or highest-ranking person in the room) should not run workflow management sessions.

Separate Content and Process

The core elements of all interpersonal communications are content and process. Content refers to what's being discussed, the subject or purpose for having a meeting in the first place. Process refers to virtually everything else, for example, Who's talking the most? How's the energy level in the room? Is there a spirit of openness and teamwork? Are things getting accomplished?

Collaboration is transformed by the simple act of keeping content and process separate. Facilitators don't participate in content discussions. Their job is to handle process only and to do so in a manner that motivates all participants to contribute to the maximum of their ability. At the beginning of every workflow management session the facilitator needs to get three agreements from the group:

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Jeannette Scott**, Contributing Editor

1. The facilitator accepts responsibility for meeting process.
2. The group accepts responsibility for meeting content.
3. Both the facilitator and the group commit to an outstanding workflow session outcome. ●

The Issues Management Session

Issues constitute the dynamics one is responsible for managing. This includes anything related to the welfare of the organization that requires attention, something that needs to be resolved, a trend to explore, an opportunity that could be exploited or a problem that needs to be solved. An issue might be relevant only to one's job or it might be something bigger that affects the entire organization, the competition or the industry in general.

Issues have differing degrees of importance: The most important are classified as Critical Issues and require immediate attention or resolution. The timely assessment of all issues minimizes the numbers that become critical.

The Issues Management Session enables you to comfortably handle expanding workloads and streamline day-to-day workflow management. All group workflow sessions require three easels with large paper pads, colored markers for the facilitator, and writing pads and pens for participants. Here are the steps for conducting an Issues Management Session:

Step One: Laying the Groundwork. The most important step in any workflow management session is how well one explains the difference between conventional meetings and workflow management sessions and the concepts of content and process.

Once you have clearly established an agreement on the different roles, write the heading "Information Gaps" on one of the easels. In any collaborative work session there are many questions that emerge during the process. In some cases, the questions are answered during the session; in other cases, these Information Gaps have to be filled after the session. Explain to the participants that you will record all the unanswered questions that pop up during the session.

Step Two: Identify the Purpose of the Session. Once you have the groundwork laid and the logistics in place, the next step is to define the purpose of the session. Don't launch into a session unless all participants have a clear understanding of the purpose of the session.

Step Three: Surface All the Issues. Once you have an agreement on the purpose, the next step is to surface all of the possible issues related to the purpose of the session. Instruct the participants to write "Issues" on their personal writing pads and, without discussion, to write down all of the issues they think must be addressed.

Step Four: Narrow the List to Critical Issues. Ask participants to identify the five issues they think are the most critical, and give them five minutes to do so. Then go around the room taking no more than two critical issues from any one person at a time, and display them (in a small group, I'd take only one at a time). Usually, there is some overlap, which you can handle by adding a check mark to an issue that has already been submitted. Remember that all of this is done without discussion.

Step Five: List the Top 10 Critical Issues. Once you have compiled your list of Critical Issues, break the group into teams and ask them to come up with their top 10 Critical Issues, within five minutes.

Now is the time to get a consensus on the Critical Issues. Address the group as follows:

I'm going to point to each issue, and I'd like you to rank it in terms of its importance. Give it a score of 3 if you think it needs to be resolved immediately, a score of 2 if it needs to be resolved soon, and a score of 1 if it can wait to be resolved until the 3s and 2s are handled.

Accord each issue a number of check marks corresponding to each person's score for that particular issue (a score of 3 gets three checks, etc.).

Count the number of check marks for each issue and record each total with a colored marker. You now have a ranking, which establishes the sequence we'll use in addressing these issues.

Step Six: Resolve the Issues or Move Them to Another Session. Some of the Critical Issues on the list can be resolved in-session. Others are more complicated and require that actions be taken out of session. Some defy any kind of resolution in the Issues Management Session and require a Problem-Solving or Innovation Session. Your goal is to help the group identify which of the issues can be resolved in-session and provide the Next Steps for those issues that can't.

On one of your easels, write "Action Plan," point to the first issue and ask the group:

Can Critical Issue No. 1 be resolved right now? Take three minutes to decide, as a group.

The objective is to facilitate group discussion about the resolution of Critical Issue No.1. If the group seems to be making headway, let them run with it and stay out

of the way. If after about three minutes they seem to be stymied, however, intervene with a process suggestion: to schedule the issue for resolution via a Problem-Solving or Innovation Session, and then direct the group to the resolution of Critical Issue No.2.

By resolution, I mean that the group agrees on what the Next Steps should be, they have identified who's responsible for making this happen and they have established a deadline.

Step Seven: Write the Action Plan. All workflow sessions conclude with an Action Plan. Action Plans serve as the means to record the conclusions that were drawn, the solutions that were identified and the agreements that were made in any work session. An important function of Action Plans is that they ensure outcomes are implemented in a manner that optimizes accountability, transparency and speed-to-market performance. An Action Plan consists of four vertical columns:

1. Tasks/Next Steps. This column covers the nature of any issue's disposition, so it should be wide enough to accommodate descriptions of related tasks and spin-off activities.

2. Responsibility. The names of the individuals who have been assigned particular responsibilities are recorded. It's important to be clear about who is responsible for each step.

3. Due Date. Delay entering any dates until all other aspects of the Action Plan have been completed. This gives individuals who have volunteered to complete more than one assignment the opportunity to review the full list of their commitments and agree to realistic delivery dates.

4. Report. This column identifies the individual(s) to whom task results will be submitted. As a general rule, it's good practice to inform all participants of all task outcomes. However, there may be circumstances when this includes an individual who did not attend the meeting — perhaps a particular executive whose authorization is required to move things forward. ●

The Innovation Session

The Innovation Session is the work management session to use when you want to tap into the creative potential of a group. It has many applications, and use of it is indicated when any of the following needs are identified:

- Development of new products or services.
- Upgrade of systems and procedures.
- Streamlining of intradepartmental communications.
- Identification of alternative marketing strategies.
- Development of a name for a new product, service or initiative.
- Identification of a unique promotional idea or initiative.
- Jump-start of a stalled Problem-Solving Session.

An Innovation Session comprises four phases: Ideation, Building, Evaluation and Action Plan.

As with any workflow management session, begin an Innovation Session by clearly explaining to participants the difference between a conventional meeting and a workflow management session; then clarify the difference between content and process.

Purposefully state the goal as broadly as possible, and then ask the group if they agree with your interpretation. Without making it a drawn-out affair, allow them to guide you in rewording the statement if necessary.

Phase One: Ideation. In a roomful of people about to tackle the task of creating new product ideas, be assured that most of them already have some new product ideas in their heads. As in the Issues Management Session, you need to get those ideas out of their heads and onto paper as quickly as possible. Write "Ideas" on an easel and instruct the group as follows:

Our goal is to generate new product ideas. Most of you have some ideas already, and we want to capture all of those before we continue. With that in mind, and without discussion, would you please write as many new product ideas as you can. Absurdity is encouraged. Forget viability for the moment and strive for quantity of ideas. You have three minutes to do this.

At the end of the first three-minute period, instruct the group to stop writing. Go around the room and ask each participant to read aloud one or two of their ideas.

Don't take more than two issues at a time — especially with a large group. The reason for taking only two ideas from each person is that many people have similar ideas and by the time you get to them they complain that all of their ideas have already been boarded.

Once participants have identified concepts that appear to have strong appeal, guide them in ranking these concepts in terms of their viability.

By now the group is a bit more relaxed with the process, and their imaginations have been stirred by the ideas of their colleagues. To capitalize on this, ask participants to take another three minutes to use the ideas displayed on the walls to trigger additional new product ideas.

Now you have a decision to make: Do you go for a third round of Ideation or switch gears? This is a judgment call based on your feel for what's left in the group's creative tank.

Phase Two: Building. The strategy of the Building phase is threefold:

1. Focus on ways to make ideas work.
2. Avoid any discussion about why the ideas might not work.
3. Convert raw ideas into concepts.

The difference between a new product idea and a new product concept is in the degree of completeness. A new product idea is often just a bare-bones hunch or an inkling of what might be possible; a new product concept, however, is an idea that has been fleshed out. Often a new product concept reveals itself when several ideas are combined or when a value-added feature is integrated with an existing product or service. A new product idea usually needs more attention (building) before it is considered viable. Sometimes raw ideas are exposed in focus groups to find that missing piece of the puzzle that promotes a new idea to concept status.

For this step, again break the group into teams. The assignment for each team is to use the ideas displayed on the walls to build discrete new product concepts — concepts that the teams believe their organization could market successfully. The teams get 15 minutes to agree upon 10 new product ideas.

Phase Three: Evaluation. The Evaluation phase moves the participants from a focus on creativity to a focus on possibility and potential. The goal of this phase is to evaluate each concept and identify those that are most likely to be successful.

Once participants have identified concepts that appear to have strong appeal, guide them in ranking these concepts in terms of their viability. Specifically, ask them to take a sheet of paper and, without discussion, to list their top 10 new product concept choices. Give them 10 minutes to do this.

Phase Four: The Action Plan. The final step in the process is to develop an Action Plan to document the Innovation Session output in an actionable format with Tasks, Responsibilities and Due Dates.

Once the top new product concepts and Information Gaps have been accounted for in the Action Plan, you have completed the Innovation Session. ●

The Problem-Solving Session

The Problem-Solving Session produces transformative outcomes because it's an innovation-driven process; we don't try to cognitively hammer out solutions. Instead, we create an environment that entices the solution to reveal itself. This process upgrades the ability of a group to solve problems utilizing a unique blend of cognitive and creative skills.

The following is a partial list of specific needs that would benefit from the use of a Problem-Solving Session:

- Obtaining input from key individuals with regard to a specific problem, such as a systems and procedures upgrade.
- Enabling managers and supervisors to operate from a unified strategic perspective.
- Fostering earlier ownership for issues across departments and disciplines.

Step One: Laying the Groundwork. As in all work sessions, the first step is to establish an agreement with the group regarding your role and theirs. Emphasize that you are responsible for the process — structuring and guiding them through the session — but they are responsible for content.

Step Two: Identify the Problem. The next step is to identify the core problem that will be at the center of the session. Begin by writing your understanding of the problem on an easel. Then, guided by the group, edit your description of the problem to the satisfaction of the group. Don't strive for perfection — it isn't necessary at this point. Your goal is to get general agreement that the problem statement is in the ballpark of reality. In a normal situation, try not to spend more than five minutes on this step. Sometimes it helps if the group attempts to simplify what appears to be a complex problem by breaking it down into a set of smaller problems that might be easier to solve.

Step Three: Reframe the Problem. As mentioned previously, the Problem-Solving Session depends as much on creative thinking as on cognitive skills, such as the ability to analyze data and form rational and logical conclusions from that data. The process for resolving problems, therefore, includes a number of creativity exercises.

The first is the What-If Exercise. This exercise allows the group to uncover different facets of the problem and, in the process, some possible solutions, by turning the core problem into a "What if … ?" statement.

Once the group has agreed on the core problem, ask the participants to take five minutes to write as many interpretations of this problem (or its solution) as possi-

ble, without any discussion among themselves. They have only five minutes for the exercise. At the conclusion, ask each participant to share his or her list.

Step Four: Ask for Solutions. Once you've conducted several rounds of the What-If Exercise and have identified some of the roots of the problem you are addressing, you can make your first request for solutions. Instruct the group to write three possible solutions to the problem, without discussion. Give them five minutes for this exercise.

When their time is up, go around the room and display one solution from each person. When all of the solutions have been displayed, ask the group, "Do we have a solution to the problem?"

If any group indicates that they've found a solution, display it, with the group's editorial input, and determine whether there is consensus. If there is agreement that a solution has been found, you can proceed directly to Step Six: the Action Plan.

Step Five: Expand the Search. A solution rarely presents itself from the first request. More likely, a series of creativity exercises — including the vitally important Question Exercise — will be necessary before the group can identify a solution or solutions. Ask each participant to write the word Questions at the top of a sheet of paper and respond to the following: What question do we need to ask ourselves at this time? Give the group three minutes then take one question from each person. Without addressing the questions instruct the group to write a better question. Give them one minute. You now have a list of many questions that are related, in varying degrees, to the problem. Asking for a better question is a key element of this exercise. Board these questions. Resisting the urge to address any of them, push the group into a third round. You'll notice that the questions become more solution-oriented and that Information Gaps begin to sprout. With each series of questions, the group moves closer to the solution.

Step Six: The Action Plan. As with the Issues Management and Innovation sessions, it is vital to capture all of the Information Gaps, Conclusions and Next Steps from the session into an Action Plan. This provides transparency and responsibility and ensures ownership of issues. ●

The Ongoing Planning Process

To stay current, innovation and speed-to-market capabilities must be valued as core competencies and the ability to leverage human capital more effectively must be a strategic imperative.

Bottom line, to be effective in the digital age, the time span between planning and implementation must be minimized. Accomplishing this has to be an ongoing process that (1) capitalizes on the interconnectivities created by technologies and (2) maximizes speed-to-market capabilities.

This has created the need to reframe the planning function from a scheduled event executed by a few to an ongoing process that involves many in order to leverage the cognitive and creative capabilities of in-house talent, to stay current in the face of exponential change, and to shorten the timeline between intentions, strategies and implementation.

Effective Ongoing Planning is driven by three interrelated dynamics:

1. Innovative Collaboration Practices
2. A Robust Planning Database
3. Personal Workflow Planners

Innovative Collaboration Practices. Outcomes from the three collaboration sessions (Issues Management, Innovation and Problem-Solving) in the form of Action Plans are fed to a Planning Database at the conclusion of every workflow management session. This process creates critical-path transitioning from collaboration to Ongoing Planning.

A Robust Planning Database. The Planning Database is fed, primarily, by Action Plans and functions as the intelligence nerve center of the organization. Action Plans, in turn, function as the cohesive factor for Ongoing Planning, since they reflect and document outcomes from all workflow management sessions that occur within the organization.

The architecture of the Planning Database is customized to enable senior management to identify and assess interconnectivities, patterns and trends in a variety of contexts and to monitor both the workflow of the organization and the heartbeat of the marketplace in real time. The Planning Database also functions as sonar for pre-emptive opportunities.

A planning coordinator monitors the database. This individual's job is to extrapolate strategically pertinent information from the Action Plans and other sources of competitive and market data. All managers utilize the database to identify collaborative opportunities and interconnectivities that create value and to ensure they're operating from a unified strategic perspective. Input by individual managers is encouraged in the form of Information Gap queries, initiative updates, intradepartmental task and project coordination, and so forth.

As a learning and training resource, the database is invaluable.

The Ongoing Planning Database is a vital component of best workflow management practices for two reasons: It is comprehensive and it is ongoing.

Personal Workflow Planners. Workflow planners are used by managers to handle expanding personal workloads and to streamline workflow management practices. The planners enable managers to maintain a strategic perspective as they manage issues. Workflow planners are not submitted to the planning database. They are personal workflow tools that managers may customize to fit their individual leadership styles. ●

One-on-One Sessions

While the cornerstone workflow management sessions are utilized primarily for team collaboration, they can also be used to upgrade the effectiveness of one-on-one collaboration.

One-on-one collaboration is the established approach for activities such as performance feedback and compensation discussions. However, it can also be quite effective as an alternative to meetings for many workflow management tasks.

A one-on-one session can be used to resolve a large number of issues expeditiously with another individual. It can be conducted on the spur of the moment and the human capital investment is minimal. The process can be as effective digitally as in person and it can serve as a means to introduce another person to the Issues Management Session.

Usually, you get the most out of an Innovation Session when it's done with a group. However, there are times when you want to simply explore some possibilities with a colleague informally.

The one-on-one Problem-Solving Session is a work management session that two people can utilize to solve problems effectively. While it's not expected to produce the large-caliber results of a formalized group Problem-Solving session, it can be relied upon to deliver solutions on a sustained basis with an economy of human capital, and it will produce better results than conventional problem-solving efforts.

Your instructions in a one-on-one session should be as precise and crisp as if you were leading a 15-person group Problem-Solving Session. Stay on-purpose and move things along at a challenging pace. Remember, the dynamics of the facilitator role are consistent, regardless of the type of work session you're conducting. ●

Solo Sessions

To run a productive solo workflow management session, you must be able to separate process from content without the benefit of a facilitator and be capable of switching back and forth in the alternate roles of facilitator and participant without getting lost in content. This means you adopt the role of a bridger, one who can do both. (This is one of the reasons that I strongly recommend you acquire experience in facilitating group workflow sessions before you make use of their corresponding solo versions.)

The solo issues management process enables you to quickly identify all Critical Issues, resolve those that you can, and be certain about which issues would best benefit from delegation or collaborative attention.

Once you're familiar with the group Innovation Session, the solo version enables you to tap into your own creative potential between collaborative sessions.

Solo problem-solving can be an economically sound alternative to group sessions. Just because you have the ability to leverage the cognitive and creative capital of others to solve problems doesn't mean you should always opt to do so. Once you acquire the skill to facilitate workflow sessions, you can choose to resolve many problems independently. ●

Making It Happen

Ideation is a tool for accessing and leveraging the creative potential of individuals and groups. It's an integral part of all the workflow management sessions. Most managers justify their lack of attention to this issue by citing demanding workloads of a more "pragmatic" nature. However, the pace of innovation set by the technological evolution puts enormous demands on leadership in other industries to stay relevant.

Here are some reminders about how to get the most out of the innovation processes you've already learned:

Lead by example. It's up to you to set the tone for upbeat, enjoyable and productive workflow sessions. You need to show up looking well-rested and filled with positive energy. This attitude is contagious, so let the group see that you are enjoying yourself.

Validate. Expect to do a lot of encouraging and validating. Your role is to orchestrate a roomful of mainly pragmatic minds to switch mental gears and tap into their creative capabilities. For many people, this is a new and potentially exciting experience.

Expect success. As a facilitator, you need to remember a very important fact: There is enough intellectual and creative talent in the room to solve any work-related problem and identify a billion-dollar idea. Your job is to convince the participants of their unused creative potential and to provide them with the environment and the collaborative tools to access it.

Always be asking. In sales, it's a well-known fact that the most successful salespeople don't hesitate to ask for the order; they're "always closing." Similarly, you should always be asking for new ideas. Don't get so wrapped up in the excitement of the session that you forget your purpose: to elicit innovative ideas and breakthrough solutions.

Handle the chaos. A hardworking group often becomes so loud and excited that the session appears to be chaotic. Properly guided, the moment that seems most chaotic can also be the most productive point in the session. As you gain facilitator experience, you'll be able to create the right balance between chaos and structure.

Stay tuned in. Always be tuned in to the energy level of your group and allow yourself to be influenced by them in terms of when to take breaks, which Ideation exercises to select and how long sessions should last. You are there to enable the participants to exceed their normal collaborative performance. How you collaborate with them dictates how well they collaborate with each other.

Clarify instructions. Continually ask the group whether there is anyone who does not understand an instruction before you direct them to begin a new process or cycle. If you don't, you're likely to experience interruptions midcycle by participants who are uncertain or confused. This slows down the pace of the session and deflates the energy in the room.

Maintain speed. Speed plays an important role in all workflow management sessions because it creates the tendency to bypass rational thought; it doesn't give participants the time to settle into their cognitive comfort zones. So make your instructions to the group precise and to the point. Doing so short-circuits rational thought processes and, in their place, encourages uncensored creativity.

Refrain from judging. Be extra firm about refraining from evaluation during an Ideation phase. By instructing a group to strive for quantity of ideas, you deny them the time to indulge in self-censorship and evaluation.

Free their minds. Most participants in an Ideation exercise already have some ideas in mind before the start of the process. You need to get all of these ideas and opinions out of their heads and onto paper as quickly as possible. Otherwise, those ideas will prejudice and contaminate their contributions throughout the session.

Restrict discussion. By restricting discussion during most sessions and exercises, you intensify individual focus, build the desire to collaborate and minimize distractions. Make sure the group understands that there will be time allotted for discussion in every session.

Encourage laughter. Laughter helps release pent-up stress and enables enjoyable creativity. In general, the more laughter there is in an Innovation Session, the better the results.

Maintain control. Stay in control of the group. It's a big part of your job. You've probably noticed an apparent paradox here: You're imposing structure to enable the group to be creative. It works.

Stand up. Always conduct workflow management sessions on your feet. Motion generates energy. One of the hallmarks of the conventional meeting model is that everyone is sitting down. Some are asleep.

One of the many ways to keep a group involved is to conduct some exercises while participants are standing instead of sitting.

Don't comment. If you comment on the quality of any idea offered by a member of the group, it has an undermining effect on productivity. By all means, feel free to ask for clarification to make sure you're boarding a person's idea accurately.

Be assured that the window of innovative opportunity is normally quite short before individuals relapse into habitual thinking patterns. One of your primary responsibilities as a facilitator is to create an environment that makes it easy for people to break out of their habitual thinking patterns at will. ●

RECOMMENDED READING LIST

If you liked *No More Pointless Meetings*, you'll also like:

1. ***The Synergist*** **by Les McKeown.** The Synergist puts aside his or her own agenda and captures the best input from each team member. Learn how.
2. ***Extreme Productivity*** **by Robert C. Pozen.** Offering antidotes to a calendar of boring meetings and a backlog of emails, Pozen explains how to determine your highest priorities and match them with how you spend your time.
3. ***Leadership and the Sexes*** **by Michael Gurian and Barbara Annis.** Gurian and Annis reveal male/female brain differences and explain how these impact how men and women negotiate, communicate and run meetings.

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The Dark Secrets of Johnson & Johnson

By Gardiner Harris

Gardiner Harris is the public health reporter for The New York Times. Before working at the Times, he worked at The Wall Street Journal and lived for four years in Hazard, Kentucky, as the Eastern Kentucky bureau chief for The Louisville, Kentucky Courier-Journal. His reporting in Kentucky led to broad changes in laws governing coal-mine safety and black-lung compensation, and it earned him national journalism awards, including a George Polk Award and the Worth Bingham Prize for investigative journalism.

A Book Review by Soundview

Uncovering Shocking but Necessary Revelations

Family is one of the most important things to people. They will do almost anything to protect and care for them. Parents of newborns carefully select what medicine to give to the sick baby. Men and women will discuss the different uses of baby powder, swapping stories from their childhood, and associating certain people with certain smells. Nostalgia is real and plays a significant role in decision-making, particularly regarding medicines and medical procedures. However, what happens when hidden truths come out? Destroyed papers, doctored files, and experiments with falsified results. When these come to light, and consumers are told the depth of deceit, that trust is broken and is almost impossible to regain.

In ***No More Tears: The Dark Secrets of Johnson and Johnson***, Gardiner Harris explores the downfall of a company many Americans grew up fond of and use daily. He delves into the various products that Johnson & Johnson said were safe. Still, instead, they led to the death and permanent injury of consumers. No More Tears is broken down into four parts. Part One discusses two of the most well-known Johnson & Johnson products and the lengths they went to keep them on the shelves. Part Two is about their prescription drugs and their plans to keep their less-than-ideal findings hidden from everyone, including the FDA. Part Three sees the journey into medical devices and the problems and pain their consumers would endure. Finally, Gardiner explores Johnson & Johnson's attempt to save their face by taking part in the making of COVID-19 vaccines.

Part One

Gardiner shares that Johnson & Johnson (J & J) has been associated with families and their ability to care for them since its inception. They have been surrounded by the protective halo of various consumers, officials, and others have provided for them. This brand is closely associated with baby products, which affords them high emotional trust, particularly regarding Tylenol and Johnson's Baby Powder. Several experiments were performed to create Johnson's Baby Powder's distinctive scent, which has become one of the most recognized fragrances in the world. While these two products have not contributed signifi-

cantly in several years, their histories have become the company's defining history.

Johnson's Baby Powder

Talc blocks (soapstone) are found on almost every continent. They are used to make sinks, lab countertops, and electric switchboards. They are incredibly soft and, when finely ground, can be used in various ways. Still, most controversially, they were used in cosmetics and baby powder.

The first reports of danger came in 1922 when researchers saw babies grabbing bottles and showering the powder on their faces. Because it is not water-soluble, the particles would block the tiny air sacs where oxygen is passed into the bloodstream and asphyxiate them. The official journal of the American Academy of Pediatrics warned against using talcum powder in 1969 and 1981, and while J & J placed warning labels on the bottles and redesigned the spout, the risk of death never truly disappeared.

While there had been questions about the dangers of inhaling powders, researchers and industry officials wrote in 1956, 1963, and 1968 that asbestos was a common ingredient in talc-based powders. Talc and asbestos are similar in several ways, so much so that veins of one or the other are found sandwiched with the other. Though some concerns had been raised about the impact of talcum powder on consumers, reassurances and denials were always quickly released until the mounting evidence couldn't be ignored anymore. J & J finally stopped selling talc-based baby powder in 2020, blaming the spread of misinformation concerning the product's safety. The truth, however, couldn't be denied, and Harris says that J & J is likely one of the more litigious companies in the world. In their attempt to save face, they refused to release life-saving research and make the necessary change to save the people who trusted their word about the safety of their product.

Tylenol

In the 80s, there was a series of seemingly unrelated and unexplainable deaths, which seemed unrelated until samples were sent out and tests revealed cyanide was the cause. Since that was the case, how was that possible? Both J & J and the FDA knew that how they responded to this would define how they were seen for a generation, at the very least.

J & J had been considering tamper-proof containers for several years. Still, in light of these murders, they decided to recall the Tylenol products on the shelves and produce the new containers (every other manufacturer of over-the-counter medicines quickly followed these measures). While J & J emerged from this tragedy being lauded for their quick response and willingness to put safety first, there are a few footnotes on how they handled it that show J & J in a less commendable way. The FDA's funds were limited due to a government shutdown, the majority of the investigation was left up to J & J. The FDA also didn't have the authority to demand or inspect records until 1997, which allowed J & J to hide not only the extent of the problem but also keep the FDA almost entirely in the dark.

After this, questions about the safety of the main ingredient of Tylenol came to light. Even when it was used as directed, Acetaminophen is one of the leading causes of acute liver failure. J & J's advertisement of being safe, fast pain relief, and that it was the pain reliever used by hospitals, has proved deadly time and again. The FDA asked them to examine the issue of alcohol and acetaminophen, and while they initially said it wasn't necessary, they finally put a warning on the packaging in 1994.

Part 2: Prescription Drugs

J & J began exploring the pharmaceutical industry in the 1890s when aspirin was discovered. It accelerated in the 1940s with the production of penicillin. It peaked in the 1980s when there was a massive breakthrough in the discovery of medicines that would see the average older adult take six or more prescriptions at a time. A rise quickly followed this in insurance companies, both private and public, which would begin to affect the prices of medication and make it profitable. Why? Because insurance companies were beginning to shift from paying only for in-hospital prescriptions to all prescriptions.

To chase the gold mine that this was proving to be, J & J decided to sift from the stiff-button-down company they had been to one with young, ambitious, attractive sales representatives who marketed the products to the doctors. To reach their sales target, these representatives would offer gifts, compliments, favors, and more, and encourage them to use these medicines more than necessary in a wide variety of patients who may or may not have needed them.

Procrit

Interest in a synthetic bone marrow protein that increases red blood cells rose in the 1980s with the creation of erythropoietin [ih-rith-roh-POY-uh-tin] (or, EPO). Scientists at Amgen discovered and cloned this gene, but in deep debt, they needed a wealthy partner for FDA approval. J & J agreed to partner, leading to FDA approval of EPO for commercial sales in 1988. Initial sales were slow, prompting a strategy shift to market EPO to cancer patients instead of just dialysis patients. However, as EPO became available, researchers found that some cancer cells had EPO receptors, stimulating their growth. Harris notes that when a researcher presented these findings to J & J, two members agreed they must "kill this work."

As time passed, troubling findings emerged. While EPO's successful effects generated excitement, concerning effects surfaced in the hearts of elite athletes. J & J planned to enroll 400 women with cervical cancer to compare EPO users with non-users. In contrast, Amgen enrolled 1,233 dialysis patients to study EPO's effects at various levels. Both companies claimed no evidence of harm. These reassurances later proved false.

In 2003, a study suggested that EPO might be harming rather than helping patients. This dissenting research challenged Big Pharma's narrative. Despite known cardiac risks and suspected tumor growth promotion from EPO, most oncologists believed benefits outweighed risks, unaware of the mounting data revealing dangers. Both companies repeatedly faced issues in

> *Harris says the most remarkable thing that may have come from the opioid epidemic was the blind spot the FDA had toward J & J.*

safely administering EPO in clinical trials. In 2004, the FDA announced a study to assess EPO's risks, meaning neither J & J nor Amgen could continue to conceal their results.

Risperdal

A surprising number of people experience psychotic breaks at least once or twice in their lives, and nothing has proven better to treat them than anti-psychotic medicine. For some, the medication has an immediate effect and allows them to lead everyday lives. For others, they experience side effects, such as weight gain, strokes, or dialysis. Still, in extreme cases, there are "extrapyramidal side effects." Those who suffer from those are often ostracized because of their uncontrolled facial movements. J & J sought the FDA's approval for a drug called Risperdal. This anti-psychotic was supposedly safer than its predecessors because it caused few tics and tremors. While approved, the FDA didn't allow J & J to compare it to a similar drug called Haldol. Hence, the executives decided to find a workaround and thus was born the selling to the symptoms.

Sales representatives would ask doctors if their patients suffered from specific symptoms, and a sales aid would list the same symptoms. If the doctors answered yes, the sales rep would tell them that Risperdal would effectively treat them. J & J would later say they knew this symptoms-based message was illegal. Still, this model had already been adopted across the industry. Despite serious red flags, J & J kept trying to meet its aggressive sales goals by marketing Risperdal to children and older people. Harris states that while there was no documentation stating J & J knew the decision to continue to market Risperdal would contribute to the deaths of millions of Americans and the disfigurement of thousands of young boys, they undoubtedly knew the number would be significant.

Duragesic

The opioid epidemic is said to have started in 1995 when the FDA approved the use of OxyContin. The delayed release effect wasn't new to J & J because they had created Duragesic. This patch was supposed to supply a supply of fentanyl over 72 hours. The problem with both of these drugs was that the slow-release mechanism could be easily bypassed, allowing for immediate and possibly fatal doses. Despite worries, Duragesic was approved, but even when it was used appropriately, it could prove fatal and addictive. J & J believed there was a market to be tapped. Since they had sales reps in this area, they started advertising Duragesic to relieve chronic pain.

Harris says the most remarkable thing that may have come from the opioid epidemic was the blind spot the FDA had toward J & J. They, along with other Big Pharma executives, had misled the regulators, doctors, and patients about its effects and potential abuse. The FDA had warned J & J to cease claiming that fentanyl was only minimally addictive, but did nothing when they didn't. No matter how hard J & J tried to find a workaround for medicines, it was clear they were the same as OxyContin; they were just given a different name.

Ortho Evra Birth Control Patch

The production of birth control revolutionized relationships and changed them forever. What isn't as well known is how it changed the FDA. Since J & J was already reaping rewards from the Duragesic fentanyl patch, they decided to apply the same technology to contraceptives. Still, they were quickly faced with problems, such as elevated estrogen levels and inconsistent doses being released. Based on these findings, J & J were facing several unpleasant options, and rather than go with any of them, they decided to willfully lie to the FDA about the patch's estrogen issues.

After the approval and subsequent release of Ortho Evra, reports started coming in of young women having surprise pregnancies, strokes, heart attacks, and, in some cases, dying. J & J had done extensive research and knew the dangers of the patch but chose to hide the evidence from the FDA and their consumers. A warning label was placed on Ortho Evra, but because of the need for as many contraceptives as possible, it has never been pulled off the shelf. Even though executives resigned, citing the lack of urgency for the deaths taking place and the dishonest research that was released, J & J chose to harm instead of protect their consumers.

Part 3: Medical Devices

J & J has been producing medical devices for several years, but deaths and injuries became more prevalent as these devices became more complex. Congress passed legislation stating that high-risk devices needed more extensive testing. Still, the FDA was so thoroughly captive to the companies instead of consumers that testing never fully occurred.

Pinnacle Metal-On-Metal Hip Implant

The day before J & J would apply for a Metal-On-Metal hip replacement called Pinnacle, they found one of the five pairs was falling apart in the simulator. They were again faced with less-than-ideal options: present their findings to the FDA and be forced to miss out on profits, perform trials on humans instead of simulators, or make an undisclosed change that could compromise the FDA's approval later. There was also

the dilemma of causing untold pain to those who received the device. So what could they do?

They decided to move from plastic to metal devices, thinking they would last a lifetime. Instead, the friction from the ball and cup joint causes metal shavings to kill the tissue and cause injury, strokes, or even death. J & J performed studies to see if they could solve the issue, but held back essential documents from the FDA, so they would assume that Pinnacle was working and not harming the recipients. But that was entirely untrue, and J & J was busy telling doctors who reported issues they were alone in having them, and they would see thousands of lawsuits related to Pinnacle pouring in.

Prolife Vaginal Mesh

Humans sag as they age, and J & J saw an opportunity to assist women with pelvic floor issues. Rather than doctors continuing to use women's tissue to strap down sagging organs, J & J created a plastic sling that would cinch around the bladder. However, the recipients would soon complain of painful, lengthy recoveries. To find an easier way to insert the anti-sag mesh, they decided to insert it through the vagina, which created a new set of problems. One of the mesh's inventors stated that because of the pain some women were experiencing, going back to the concept stages should be considered. He was not alone in his concerns, and while other surgeons expressed concerns, J & J ignored them and began selling Prolift without FDA approval.

Problems with Prolift continued to come forward, and rather than reveal the procedure risks to doctors, J & J decided to eliminate the problematic data they had found. An easy cure would have been not to promote or use Prolift, but instead, they continued moving forward until the FDA said that it was enough. First, they released a significant revision to its vaginal mesh alert. Still, they would finally ban the use of all vaginal meshes to repair prolapse due to recipients experiencing devastating results instead of the relief they sought.

Part 4: Vaccinations

As J & J's decades-long deceits came to the surface, they faced the wrath and lawsuits of the consumers they had knowingly harmed. From Johnson's Baby Powder to Risperdal, J & J knew that the results would be devastating if the emotional trust they had built with their customers were broken. Six out of their seven best-selling drugs would eventually be revealed to have been marketed using illegal tactics. However, the COVID-19 pandemic gave them a unique chance to save the world by creating a vaccine.

As the world began to shut down, J & J got to work, focusing on a single-dose vaccine that would set them apart from Pfizer and Moderna, whose vaccines would need a booster. They were confident it would work, but didn't have a manufacturing presence in the international market, so they partnered with Emergent BioSolutions to make it happen. However, they soon ran into serious issues, and the FDA demanded they do more extensive testing. They placed a mandatory pause on the administration of the J & J vaccine because of cases of rare blood clots, but before that, distribution sites that were only using J & J's vaccine were faced with supply issues. Slowly, nations worldwide started restricting access to the vaccine, and when the FDA finally revoked authorization for it, the company's effort to save the world officially failed.

Why was J & J allowed to continue this way for so long? Harris seems to propose that.

The FDA is being held captive by the companies it's supposed to regulate. J & J and others in the pharmaceutical industry perpetuate the myth of the FDA being a strict, powerful agency because it provides an essential defense against the legion of liability cases.

No More Tears: The Dark Secrets of Johnson and Johnson by Gardiner Harris is an in-depth look at how Johnson and Johnson went from one of America's most beloved, trusted companies to one riddled with lawsuits and scandals. It is an informative read that will help consumers understand and take more seriously the decisions they make regarding the health and well-being of themselves and their loved ones. Harris ends No More Tears by calling for several changes, including how the FDA is funded and an assessment of the system that allowed Johnson and Johnson to thrive.

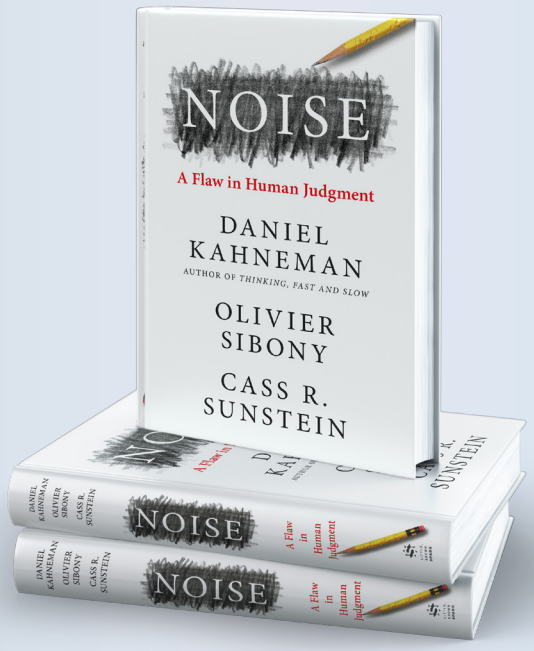
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Noise

Daniel Kahneman

BOOK SNAPS™
Zooming In On Your Next Read



Noise
By Daniel Kahneman

Daniel Kahneman is the Eugene Higgins Professor of Psychology, Princeton University, Professor of Public Affairs, Woodrow Wilson School of Public and International Affairs, and the winner of the 2002 Nobel Prize in Economic Sciences. Kahneman is a member of the American Academy of Arts and Sciences and the National Academy of Sciences. He is a fellow of the American Psychological Association, the American Psychological Society, the Society of Experimental Psychologists, and the Econometric Society. He is the author of New York Times bestseller ***Thinking, Fast and Slow.***

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Improving Decision Making through Noise Reduction

Everyone knows that humans are flawed by our very nature. Our inability to be absolutely perfect is a feature that is inextricable to our humanness. For the most part, this imperfection is neither positive or negative–it just is. However, one of the stickier ways it shows up is in how we make decisions and judgments. When it comes to leveling judgment, humans are susceptible to what the authors call "noise" and this noise can be extremely detrimental.

Two different medical doctors can review the exact same case, described in the exact same chart, with identical language and history. Those two doctors can, and often do, reach a different diagnosis. A judge overseeing identical evidence and prior convictions of an accused person can level a completely different judgment than a different judge in a different court. Similar examples are common in corporate customer service, human resources and personnel, forensic science, and more. To make matters worse, individuals' judgments or behavior can be vastly different from day to day and even from morning till night.

Authors Daniel Kahneman, Olivier Sibony, and Cass R. Sunstein define noise as "variability in judgments that should be identical." ***Noise: A Flaw in Human Judgment*** offers readers a fascinating look at this phenomenon, backed by research and illuminated with real scenarios, and "simple remedies" that can improve decision making through the reduction of noise. Both bias and noise contribute to flawed judgment, however most of the study in the subject has been focused on bias. In *Noise,* the authors attempt to "redress the balance" of both components of error so that organizational decisions can be made with limited influence by the noise factor.

Finding Noise

When looking for noise, we may be surprised to find how common it is. In fact, the authors propose that "wherever there is judgment, there is noise–and more of it than you think." One of the most prime opportunities for noise to reveal itself is in the realm of criminal sentencing. Judicial discretion is the idea that judges should and must be given latitude to take all factors

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of a particular case and a particular defendant into account when determining an appropriate sentence for the crime. Defendants should be entitled to "draw attention to the details of their situation" rather than be treated the same as every other similar crime and similar defendant. The details matter, so we have always believed. That core value of judicial discretion was called into question in the 1970's when "startling evidence of noise" was made apparent.

Famous judge and human rights advocate Marvin Frankel made the public aware of noise in the criminal justice system with the release of his groundbreaking book and in his appeals to the United States Congress. He shined light on what he called "almost wholly unchecked and sweeping powers" of federal judges resulting in "arbitrary cruelties perpetrated daily." His book became "one of the most influential in the entire history of criminal law" and after its success, Frankel went on to chair large-scale studies that provided the empirical evidence necessary to affect change. The study recruited fifty judges from mixed districts to sentence hypothetical cases from identical documents and information. The results were astounding.

Sentences ranged widely for the same crimes by a factor of ten years and more. In sixteen of the twenty cases, there was not a single instance of unanimity among judges as to whether a defendant should receive incarceration at all and if so, what the length of the incarceration should be. The results were so eye opening that many similar studies followed. When the evidence was presented to Senator Edward M. Kennedy, brother to John F. Kennedy, the influential member of the senate was "shocked and appalled." After years of pressing the senate to act on legislation addressing the problem, Senator Kennedy was instrumental in the en-action of the Sentencing Reform Act of 1984. That act was both a recognition of noise within the criminal justice system and an attempt to reduce its impact and make sentencing more fair.

Judge Frankel and those who followed his pursuit for rebalancing the impact of noise on judgment effectively conducted a noise audit. A noise audit can be implemented in any organization, public or private, to determine the extent to which noise is clouding the judgment of decision makers. In the corporate world, this can expose opportunities to reduce costs and increase fairness.

A noise audit requires the gathering of decision-related data that can be compared to reveal "unwanted variability." This is accomplished by having "multiple individuals judge the same problems" and comparing the results. Whereas most of the decisions in a particular set should fall within a relatively small range, noise leads to a much larger than expected range. Once the existence of noise is clearly demonstrated, steps can be undertaken to reduce its impact.

A Practical Process for Improving Judgments

Now that the authors have laid down the research and evidence behind noise and how they impact judgment, they get into the more practical side of things. Through a technique they call "decision hygiene" readers will learn how to "improve judgments and prevent error" caused by these flaws. Efforts to eradicate the influence of noise are discussed in a variety of sectors including "medicine, business, education, government, and elsewhere." For lasting noise reduction and more reliable decision making, readers are offered a system the authors call "mediating assessments protocol," which is "a general purpose approach to the evaluation of options that incorporates several key practices of decision hygiene."

Once a noise audit has been conducted to ascertain the level of noise impacting judgments and whether or not the problem needs to be addressed, solutions can be attempted to solve the problem. "Replacing judgment with rules and algorithms" is an option that should be considered and can go a long way at reducing noise all together. However, rules are not perfect and algorithms are not "a universal substitute for human judgment."

Instead, leaders should work to improve the judgment capabilities of those engaged in decision making. The approach the authors have developed and that they recommend is "decision hygiene," which includes four strategies: judgment guidelines, shared scale grounded in an outside view, structuring complex judgments, and mediating assessments protocol, or MAP.

Judgment guidelines: In order to improve results from judgment, an organization must first ensure that they have the most able individuals in positions to make those judgments. Selecting the right people and providing the right training are major contributing factors to reducing noise. Beyond that though, criteria for making judgments should be established that can be followed by all decision makers. One prolific example from medicine is in the Apgar score, which was developed in 1952 by the obstetric anesthesiologist Virginia Apgar.

Prior to the introduction of this scorecard, a newborn baby's level of distress was a matter of personal opinion by the attending doctor or midwife. This led to countless errors in judgment and the loss of infant lives. The Apgar scorecard asks the evaluator to measure the baby's skin-color appearance, pulse, reflexes, muscle tone, and respiration. Taken together and assigned a numeric value, the evaluator and team of medical professionals can far more accurately determine if a newborn is in distress or stable. Tools like the Apgar "exemplify how guidelines work and how they reduce noise."

Guidelines do not eliminate the need for human judgment but they do assign a clear set of criteria on which a human judgment should be formed. They "decompose a complex decision into a number of easier sub judgments on predefined dimensions." Shared scale grounded in an outside view: Nearly every organization evaluates the performance of their people at regular intervals. The problem is that these reviews are frequently tied to a rating scale and those scales are inherently noisy. The rater's personal values, circumstances on the particular day the rating is conducted, and the relationship between the rater and the person being evaluated all impact the end result. On top of that, the modern knowledge-based workplace is tough to objectify. Different people in similar roles face variable challenges that must be viewed subjectively. These problems are

> Reduction of noise should not be reached at the expense of flexibility."

well recognized and result in most employees having a strong disdain for the entire performance-evaluation process.

There are a few common tactics to even the score when it comes to scale rating. Aggregation serves to get an average from a large amount of data rather than allowing a single rater to score the scale. This helps to reduce, but not eliminate, noise. Forced ranking is also employed, which asks raters to place those being evaluated on a scale that compares each individual to the others. This can reduce noise to some extent but the loss of morale makes the practice unpopular. A better strategy is to "ensure a common frame of reference."

Scales should be "anchored on descriptors that are sufficiently specific to be interpreted consistently." On top of that, "frame-of-reference training" should be provided to promote consistent scoring from rater to rater. Raters can be taught to compare their own ratings to an "anchor rating" that is viewed as the true rating, which becomes an anchor point on the scale. This serves as the "outside view" from which raters can more fairly assign their own rating.

Structuring complex judgments: The typical candidate interview for a position within an organization is a ripe opportunity for noise. Most interviews are unstructured in that the person conducting the interview asks the candidate a series of questions and allows the candidate to do the same. The main goal of the interview is to determine whether or not the candidate will be successful in the position but unfortunately, unstructured interviews fail miserably in that index. Assessing a candidate's viability in a position is a complex judgment call and therefore, it requires a more structured approach.

Aggregation comes into play but in order to be valid, the evaluation of each candidate must be performed independently without any knowledge or exposure to the evaluations of others. After evaluations are made independently the data can be aggregated to form a clearer and more accurate picture of the candidate's viability. Taking it further though, the process should include three principles of structure: decomposition, independence, and delayed holistic judgment. Decomposition "breaks down the decision into components" that aim the judgment to the most important cues, much like subjudgments do in guidelines. Independence "requires that each assessment be collected independently" to eliminate influence from one element to the other. Delayed holistic judgment allows the decision makers to rely on their intuition, as intuition is recognized as valid in decision making, but reliance on it should be delayed.

Mediating assessments protocol (MAP): An all-encompassing method that was designed to mitigate noise in organizational decision making is the mediating assessments protocol, or MAP. It includes the decision hygiene strategies already introduced and can be "applied broadly" and be adapted for use in various ways at organizations from a multitude of sectors.

MAP is a procedure that is "inspired by the similarity between the evaluation of a strategic option and the evaluation of a job candidate." MAP requires all decision makers to develop a complete list of assessments that must be made on all the different aspects of the strategic option in advance of any decision makers coming together to actually make the decision. Each assessment should be made separately and distinctly from one another to avoid influencing the other, just as is the case with a candidate interview. Only after these vital components are completed should the decision makers come together to discuss the proposal at hand.

This process has many key advantages. MAP "maximizes the value of information by keeping the dimensions of the evaluation independent of each other." When processing information with the end goal of closure in mind, decision makers are naturally inclined to formulate their debate based solely on first impressions. Independent evaluation makes sure that the conclusion reached is not impacted unduly by one aspect over another. Further, this method allows for divergent viewpoints to come forth, leading to greater discussion and debate before reaching a final conclusion.

At the heart of this pursuit to reduce the impact of noise is the idea that all people and all decisions that have significance to people should be made with dignity and respect. We all want to be treated fairly with the full picture of our human experience taken into account. Mercy is not bound by rules and therefore, it is noisy but it provides something invaluable. It "ensures that people feel that they have been treated with respect and that someone has listened to them." Noise-reduction strategies should not be crude in the attempt to make judgments more accurate or fair. Reduction of noise should not be reached at the expense of flexibility, which reflects the changing times, attitudes, or experiences.

In *Noise,* the authors set out to explain why so much noise exists and what can be done to minimize it. Noise will never be eliminated and that is not the desired effect. Noise is part of the human condition and rather than be stamped out, it should be mitigated for the highest good. Being human, most decision makers feel very confident in their judgments, whether they turn out to be accurate or not. Formalizing noise-reduction helps decision makers and the organizations they serve better able to come to sound, reasonable, fair decisions, to the betterment of all.

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Nudge

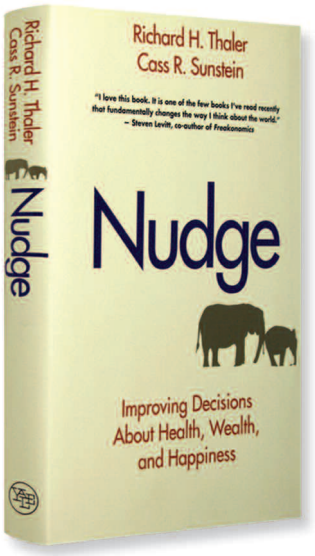
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Management: Strategies

Nudge

Improving Decisions About Health, Wealth, and Happiness



by Richard H. Thaler and Cass R. Sunstein

THE SUMMARY IN BRIEF

Every day, we make decisions on topics ranging from personal investments to schools for our children to the meals we eat. Unfortunately, we often choose poorly. *Nudge* invites us to explore how we make those decisions and how we can be led to make better ones. By knowing how people think, we can design choice environments that make it easier for people to choose what is best for themselves, their families and their society.

Drawing on decades of cutting-edge behavioral science research, Richard H. Thaler and Cass R. Sunstein offer an insightful new perspective on how to improve the decisions we make in everything we do — from public policy issues, such as health care, to personal decisions, such as saving for retirement. They demonstrate how thoughtful, choice architecture can be established to *nudge* us in beneficial directions, a process they label "libertarian paternalism."

The libertarian aspect of their strategies lies in the straightforward insistence that, in general, people should be free to do what they like — and to opt out of undesirable arrangements if they so desire. Their approach maintains or increases freedom of choice by making it easy for people to go their own way.

Nudge is about choices. By learning about choice architecture, you will be able to successfully nudge people toward the best decisions without restricting their freedom of choice.

IN THIS SUMMARY, YOU WILL LEARN:

- How people make the choices they do.
- Why people make bad decisions.
- How government and companies can nudge people in the right direction.
- What you need to know how to design the best possible choice environment.
- When people need a nudge.

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THE COMPLETE SUMMARY: **NUDGE**

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Introduction

Carolyn is the director of food services for a large city school system. She is in charge of hundreds of schools, and hundreds of thousands of kids eat in her cafeterias every day. One evening, she hatched an interesting idea. Without changing any menus, she would run experiments in her schools to determine whether the way the food is displayed and arranged might influence the choices kids make. In some schools the desserts were placed first, in others last, in still others in a separate line. The location of various food items was varied from one school to another.

Simply by rearranging the cafeteria, Carolyn was able to increase or decrease the consumption of many food items by as much as 25 percent. School children, like adults, can be greatly influenced by small changes in context. The influence can be exercised for better or for worse. For example, Carolyn knows that she can increase consumption of healthy foods and decrease consumption of unhealthy ones.

Carolyn is a *choice architect*. A choice architect has the responsibility for organizing the context in which people make decisions. Although Carolyn is an imaginary person, many real people turn out to be choice architects. If you design the ballot voters use to choose candidates, you are a choice architect. If you are a doctor and must describe the alternative treatments available to a patient, you are a choice architect. If you are a parent, describing possible educational options to your son or daughter, you are a choice architect.

Just as a building architect must eventually build some particular building, a choice architect like Carolyn must choose a particular arrangement of the food option at lunch, and by so doing she can influence what people eat. She can *nudge*.

'Libertarian Paternalism'

If you think that Carolyn should take the opportunity to nudge the kids toward food that is better for them, you would be welcomed into the *libertarian paternalism* movement.

When the term libertarian is used to modify the word paternalism, it simply means liberty-preserving. Libertarian paternalists want to make it easy for people to go their own way; they do not want to burden those who want to exercise their freedom.

Libertarian paternalism is a relatively weak, soft and nonintrusive type of paternalism because choices are not blocked, fenced off or significantly burdened. If people want to smoke cigarettes, eat a lot of candy, choose an unsuitable health care plan or fail to save for retirement, libertarian paternalists will not force them to do otherwise — or even make things hard for them.

Still, the recommended approach counts as paternalistic because private and public choice architects are not merely trying to track or implement people's anticipated choices. Rather, they are self-consciously attempting to move people in directions that will make their lives better. They nudge.

A nudge is any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any options or significantly changing their

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economic incentives. Putting fruit at eye level counts as a nudge. Banning junk food does not. ●

Biases and Blunders

Most of us are busy. Our lives are complicated and we can't spend all our time thinking and analyzing everything. When we have to make judgments, we use simple rules of thumb to help us.

Rules of Thumb

Although rules of thumb can be very helpful, their use can also lead to systematic biases. This insight, was first developed decades ago by two Israeli psychologists, Amost Tversky and Daniel Kahneman (1974). Their original work identified three heuristics, or rules of thumb: anchoring, availability and representativeness — and the biases that are associated with each.

Anchoring. Suppose we are asked to guess the population of Milwaukee. We may not know much about Milwaukee, but let's guess that it is the biggest city in Wisconsin. To guess at its population, you typically start with something you know, which is the population of Chicago, roughly three million. So we might think, Milwaukee is a major city, but clearly not as big as Chicago, so maybe it is one-third the size.

Now consider someone from Green Bay, Wisconsin, who is asked the same question. She also doesn't know the answer, but she does know that Green Bay has about 100,000 people and knows that Milwaukee is larger, so guesses three times larger — 300,000.

The process is called "anchoring and adjustment." You start with some anchor, the number you know, and adjust in the direction you think is appropriate. The bias occurs because the adjustments are typically insufficient.

Anchors serve as nudges. We can influence the figure you will choose in a particular situation by ever-so-subtly suggesting a starting point for your thought process. When charities ask you for a donation, they typically offer you a range of options. These values are not picked at random, because the options influence the amount of money people decide to donate.

Availability. How much should you worry about hurricanes, nuclear power, terrorism, mad cow disease, alligator attacks or avian flu? And how much care should you take in avoiding risks associated with each? In answering questions of this kind, most people use what is called the "availability" heuristic.

They assess the likelihood of risks by asking how readily examples come to mind. If people can easily think of relevant examples, they are far more likely to be frightened and concerned than if they cannot. A risk that is familiar, like that associated with terrorism in the aftermath of 9/11, will be seen as more serious than a risk that is less familiar.

When "availability bias" is at work, both private and public decisions may be improved if judgments can be nudged back in the direction of true probabilities.

Representativeness. Another heuristic bears an unwieldy name: "representativeness." Think of it as the similarity heuristic. The idea is that when asked to judge how likely it is that A belongs to category B, people answer by asking themselves how similar A is to their image or stereotype of B (that is, how "representative" A is of B).

Use of the representativeness heuristic can cause serious misperceptions of patterns in everyday life. When events are determined by chance, such as a sequence of coin tosses, people expect the resulting string of heads and tails to be representative of what they think of as random. Unfortunately, people do not have accurate perceptions of what random sequences look like. When they see the outcomes of random processes, they often detect patterns that they think have great meaning but, in fact, are just due to chance.

Optimism and Overconfidence

People are unrealistically optimistic even when the stakes are high. Smokers are aware of the statistical risks, and often even exaggerate them, but most believe that they are less likely (than the average smoker) to be diagnosed with lung cancer and heart disease.

Unrealistic optimism is a pervasive feature of human life; it characterizes most people in most social categories. When they overestimate their personal immunity from harm, people may fail to take sensible preventive steps. If people are running risks because of unrealistic optimism, they might be able to benefit from a nudge.

People hate losses. Roughly speaking, losing something makes you twice as miserable as gaining the same thing makes you happy.

Loss aversion helps produce inertia, meaning a strong desire to stick with your current holdings. If you are reluctant to give up what you have because you do not want to incur losses, then you will turn down trades you might have otherwise made. Loss aversion operates as a kind of cognitive nudge, pressing us not to make changes, even when changes are very much in our interest.

Loss aversion is not the only reason for inertia. For

lots of reasons, people have a more general tendency to stick with their current situation. Most teachers know that students tend to sit in the same seats in class, even without a seating chart. But status quo bias can occur even when the stakes are much larger, and it can get us into a lot of trouble.

For example, in retirement savings plans, most participants pick an asset allocation and then forget about it. In one study, the median number of changes in the asset allocation of the lifetime of a professor was, believe it or not, zero. Perhaps even more telling, many married participants who were single when they joined the plan still have their mothers listed as their beneficiaries. ●

Resisting Temptation

Self-control problems can be illuminated by thinking about an individual as containing two semi-autonomous selves, a far-sighted "Planner" and a myopic "Doer." The Planner is trying to promote your long-term welfare but must cope with the feelings, mischief and strong will of the Doer, who is exposed to temptations.

In many situations, people put themselves into an "automatic pilot" mode in which they are not actively paying attention to the task at hand. When self-control problems and mindless choosing are combined, the result is a series of bad outcomes for real people.

Millions of Americans still smoke in spite of the evidence that smoking has terrible health consequences, and significantly, the overwhelming majority of smokers say that they would like to quit. Nearly two-thirds of Americans are overweight or obese. Many people never get around to joining their company's retirement savings plan, even when it is heavily subsidized. Together, these facts suggest that significant numbers of people could benefit from a nudge.

Self-Control Strategies

Since people are at least partly aware of their weaknesses, they take steps to engage outside help. We make lists to help us remember what to buy at the grocery store. We buy an alarm clock to help us get up in the morning. We ask friends to stop us from having dessert or to fortify our efforts to quit smoking. In these cases, our Planners are taking steps to control the actions of our Doers, often by trying to change the incentives that Doers face. Unfortunately, Doers are often difficult to rein in and they can foil even the best efforts of Planners.

Alarm clocks and Christmas clubs are external devices people use to solve their self-control problems. Another way to approach these problems is to adopt internal control systems, otherwise known as "mental accounting." Mental accounting is the system that households use to evaluate, regulate and process their home budget. Almost all of us use mental accounts, even if we're not aware that we're doing so.

The concept is illustrated well by an exchange between the actors Gene Hackman and Dustin Hoffman. Hackman and Hoffman were friends back in their starving-artist days, and Hackman tells the story of visiting Hoffman's apartment and having his host ask him for a loan. Hackman agreed to the loan, but then they went into Hoffman's kitchen where several mason jars were lined up on the counter, each containing money. One jar was labeled "rent," another "utilities" and so forth. Hackman asked why, if Hoffman had so much money in jars, he could possibly need a loan, whereupon Hoffman pointed to the food jar, which was empty.

Most organizations have budgets for various activities and it is always a source of frustration when an important purchase cannot be made because the relevant account is already depleted. The fact that there is unspent money in another account is considered no more relevant than the money sitting in the rent jar on Hoffman's kitchen counter. ●

Following the Herd

Humans are frequently nudged by other humans. Sometimes massive social changes, in markets and politics alike, start with a small social nudge. Humans are not exactly lemmings, but they are easily influenced by the statements and deeds of others.

Understanding how and why social influences work is important in this context for two reasons. First, most people learn from others. This is usually good, of course. Learning from others is how individuals and societies develop. But many of our biggest misconceptions also come from others. When social influences have caused people to have false or biased beliefs, some nudging may help.

The second reason why this topic is important is that one of the most effective ways to nudge (for good or evil) is via social influence. Choice architects need to know how to encourage socially beneficial behavior, and also how to discourage the opposite.

Social influences come in two basic categories. The first involves information. If many people do something or think something, their actions and thoughts convey information about what might be best for you to do or

think. The second involves peer pressure. If you care about what other people think about you then you might go along with the crowd to avoid their wrath or curry their favor.

The bottom line is that humans are easily nudged by other humans. Why? One reason is that we like to conform. ●

When Do We Need a Nudge?

For all their virtues, markets often give companies a strong incentive to cater to (and profit from) human frailties, rather than to try to eradicate them or minimize their effects.

Suppose you are told that a group of people will have to make some choices in the near future. You are the choice architect. You are trying to decide how to design the choice environment, what kinds of nudges to offer and how subtle the nudges should be. What do you need to know to design the best possible choice environment? Here are some kinds of situations in which people are least likely to make good choices:

Benefits Now — Costs Later. Predictable problems arise when people must make decisions that test their capacity for self-control. Self-control issues are most likely to arise when choices and their consequences are separated in time. At one extreme are what might be called "investment goods," such as exercise, flossing and dieting. For these goods, the costs are borne immediately, but the benefits are delayed. At the other extreme are what might be called "sinful goods": smoking, alcohol and jumbo chocolate doughnuts are in this category. We get the pleasure now and suffer the consequences later. Both investment goods and sinful goods are prime candidates for nudges.

Degree of Difficulty. We use spellcheckers and spreadsheets to help with hard problems, but many problems are quite difficult, and often there is no easy technology available to help.

Frequency. Even hard problems become easier with practice. Unfortunately, some of life's most important decisions do not come with many opportunities to practice. Most students choose a college only once. Most of us choose a spouse. Few of us get to try many different careers. We get one chance to save for retirement. Generally, the higher the stakes, the less often we are able to practice. Rare, difficult choices are good candidates for nudges.

Feedback. Even practice does not make perfect if people lack good opportunities for learning. Learning is most likely if people get immediate, clear feedback after each try. We usually get feedback only on the options we select, not the ones we reject. Unless people go out of their way to experiment, they may never learn about alternatives to the familiar ones. When feedback does not work, we may benefit from a nudge.

Knowing What You Like. It is particularly hard for people to make good decisions when they have trouble translating the choices they face into the experiences they will have. Take the problem of choosing a mutual fund for your retirement portfolio. When people have a hard time predicting how their choices will end up affecting their lives, they have less to gain by numerous options and perhaps even by choosing for themselves. A nudge might be welcomed.

People may need a good nudge most for choices that have delayed effects; those that are difficult, infrequent and offer poor feedback; and those for which the relation between choice and experience is ambiguous.

Markets: A Mixed Verdict

A natural question is whether free markets can solve people's problems, even under such circumstances. Often, market competition will do a lot of good. But in some cases, companies have a strong incentive to cater to people's frailties and to exploit them.

Most of the time, competition ensures that price serves as a good signal of quality. Usually (but not always) the $50 bottles of wine are better than the $20 bottles and irrational consumers will not alter the market as long as they do not predominate.

For irrational consumers to be protected there has to be competition. Consider the case of extended warranties on small appliances, typically a bad deal for consumers. Do market forces drive these unduly expensive extended warranties from the market? Or does competition drive the price of the extended warranties down to the expected value of the claims? The answers to these questions are no and no.

You might think that firms could educate people not to buy the warranty, and indeed they might. But why should firms do that? If you are buying something that you shouldn't, how do I make any money persuading you not to buy it? ●

Choice Architecture

Many people will take whatever option requires the least effort, or the path of least resistance. If, for a given choice, there is a default option, then we can expect a large number of people to end up with that option, whether or not it is good for them. These behavioral

tendencies toward doing nothing will be reinforced if the default option comes with some implicit or explicit suggestion that it represents the normal or even the recommended course of action.

Many organizations in both the public and the private sector have discovered the immense power of default options. Remember the idea of automatic renewal for magazine subscriptions? If renewal is automatic, many people will subscribe, for a long time, to magazines they don't read. Note that not all defaults are selected to make the chooser's life easier or better.

Expect Error

Humans make mistakes. A well-designed system expects its users to err and is as forgiving as possible. Consider that over the years, automobiles have become much friendlier to their operators. If you do not buckle your seat belt, you are buzzed. If you are about to run out of gas, a warning sign appears and you might be beeped. If you need an oil change, your car might tell you. Many cars come with an automatic switch for the headlights that turns them on when you are operating the car and off when you are not, eliminating the possibility of leaving your lights on overnight and draining the battery.

The best way to help people improve their performance is to provide feedback. Well-designed systems tell people when they are doing well and when they are making mistakes. Our laptops warn us to plug in or shut down when the battery is dangerously low. But warning systems have to avoid the problem of offering so many warnings that they are ignored. If our computer constantly nags us about whether we are sure we want to open that attachment, we begin to click "yes" without thinking about it. These warnings are thus rendered useless.

Understanding 'Mappings'

Some tasks are easy, like choosing a flavor of ice cream; other tasks are hard, like choosing a medical treatment. A good system of choice architecture helps people improve their ability to map and hence to select options that will make them better off.

One way to do this is to make the information about various options more comprehensible, by transforming numerical information into units that translate more readily into actual use.

Take the example of choosing a digital camera. Cameras advertise their megapixels, and the impression created is certainly "the more megapixels the better." What is really problematic for consumers is translating megapixels into what they care about. Is it worth paying an additional $100 to go from four to five megapixels? Suppose instead that manufacturers listed the largest print size recommended for a given camera.

Often people have a problem in mapping products into money. Think about credit cards, mortgages, cell phone calling plans and auto insurance policies, just to name a few. For these and related domains, a very mild form of government regulation, a species of libertarian paternalism, is suggested called RECAP: Record, Evaluate and Compare Alternative Prices. The government would not regulate how much issuers could charge for services, but it would regulate their disclosure practices.

Structure Complex Choices

People adopt different strategies for making choices depending on the size and complexity of available options. When we face a small number of well-understood alternatives, we tend to examine all the attributes of all the alternatives and then make trade-offs when necessary.

Social research reveals that as the choices become more numerous and/or vary on more dimensions, people are more likely to adopt simplifying strategies. Good choice architecture will provide structure, and structure will affect outcomes.

Many companies, such as Netflix, the mail-order DVD rental company, succeed in part because of immensely helpful choice architecture. Customers looking for a movie to rent can easily search by actor, director, genre and more, and if they rate the movies they

Save More Tomorrow

Although automatic enrollment is effective at getting new and young workers to enroll sooner than they would have otherwise, participants tend to stick with the default contribution rate, which is typically quite low. To mitigate this problem, consider a program of automatic escalation of contributions: Save More Tomorrow.

This program invites participants to commit themselves, in advance, to a series of contribution increases timed to coincide with pay raises. By synchronizing pay raises and savings increases, participants never see their take-home amounts go down, and they don't view their increased retirement contributions as losses. Once someone joins the program, the saving increases are automatic, using inertia to increase rather than prevent savings.

have watched, they can also get recommendations based on the preferences of other movie lovers with similar tastes, a method called "collaborative filtering."

Choice architects must think about incentives when they design a system. Sensible architects will put the right incentives on the right people.

Free markets often solve all of the key problems by giving people an incentive to make good products and to sell them at the right price. ●

Money

In 2005, the personal savings rate for Americans was negative for the first time since 1932 and 1933 — the Great Depression years. On average, American households spent more than they earned and borrowed more than they saved. Increased borrowing rates were fueled by substantial growth in home equity loans and in credit card debt. For many Americans, savings rates, especially retirement savings, are woefully low, if not zero.

Enrollment: Nudging People to Join

What can be done to help? An obvious answer is to change the default rule. As things now stand, the default is nonenrollment; you have to do a little work to get into a retirement program. Forms can be a headache and many employees just put them aside. An alternative is to adopt automatic enrollment. Here's how it works. When an employee first becomes eligible, he or she receives a form indicating that he or she will be enrolled in the plan (at a specified savings rate and asset allocation), unless he or she actively fills out a form asking to opt out.

An alternative to automatic enrollment is simply to require every employee to make an active decision about whether to join the plan. A related strategy is to simplify the enrollment process. One study tested this idea by analyzing a simplified enrollment form. New employees were handed enrollment cards during orientation with a "yes" box for joining the plan at a 2 percent saving rate and a preselected asset allocation. Employees did not have to spend time choosing a savings rate and asset allocation. As a result, participation rates during the first four months of employment jumped from 9 percent to 34 percent.

Credit Markets

Mortgage shopping has now become more complicated. Borrowers can choose from a variety of fixed-rate loans and also numerous "variable rate" loans. Borrowers might also consider such exotic products as interest-only loans. When markets get more complicated, unsophisticated and uneducated shoppers will be especially disadvantaged by the complexity.

Shopping for a student loan is nearly as complicated as looking for a mortgage. One helpful nudge would be to simplify the financial aid application. The complicated format of these forms can discourage students from applying for financial aid and cause them to seek price direct-to-consumer loans instead.

The credit card is a ubiquitous feature of modern life. The Census Bureau reported that there were more than 1.4 billion credit cards in 2004 — an average of 8.5 cards per cardholder. Currently, 115 million Americans carry a month-to-month credit card debt.

For mortgages, school loans and credit cards, life is far more complicated than it needs to be, and people can be exploited. Often it's best to ask people to take care of themselves, but when people borrow, standard human frailties can lead to serious hardship. Here, as elsewhere, government should respect freedom of choice; but with a few improvements in choice architecture, people would be far less likely to choose badly. ●

Health

Libertarian paternalists see countless opportunities for improving people's health. People who know obese people are more likely to be obese themselves; weight loss can be contagious, too. Framing matters: people are more likely to engage in self-examinations for skin and breast cancer if they are told not about the reduced risk if they do so, but about the increased risk if they fail to do so.

Doctors are crucial choice architects, and with an understanding of how people think, they could do far more to improve people's health.

Prescription Drugs: Part D for Daunting

The largest overhaul in Medicare's history, Part D created a half-trillion-dollar federal subsidy for prescription drug coverage. This was no laissez-faire system. The national government imposed a lot of structure. Before consumers could even begin to choose, the government set minimum coverage requirements and approved all private plans.

The system of constrained free choice might seem like a nice example of libertarian paternalism in action. As a health care delivery system, Part D met its planners'

expectations reasonably well. As a piece of choice architecture, however, it suffered from a cumbersome design that impeded good decision-making. It offered a menu with lots of choices, which is fine, but it had four major defects:

1. It gave participants little guidance to help them make the best selections from that menu.
2. The default for most seniors was nonenrollment.
3. It chose a default at random for 6 million people who were automatically enrolled, and it actively resisted efforts to match people and plans based on their prescription drug histories.
4. It failed to serve the most vulnerable population, specifically the poor and the poorly educated.

Do not misunderstand. Part D has done a lot of good. But there is plenty of room for better choice architecture. Maximizing choices is not enough to create good policy. The more choices there are, and the more complex the situation, the more important it is to have enlightened choice architecture.

Saving the Planet

In recent decades, governments all over the world have been taking aggressive steps to protect the environment. Most of the time, governments seeking to protect the environment and to control the harmful health effects of pollution have gone well beyond a nudge, and their steps have not been libertarian. Typically regulators have chosen some kind of command-and-control regulation. Catalytic converters for cars are one example.

More often, government officials do not specify technologies, but require across-the-board reductions in emissions. They might say, for example, on average, all new cars must emit 90 percent less carbon monoxide, on average, than they do now. Philosophically, however, such limitations look uncomfortably similar to Soviet-style five-year plans, in which bureaucrats in Washington announce that millions of people have to change their conduct in the next five years.

When incentives are badly aligned, it is appropriate for government to try to fix the problem by realigning them. In the environmental area, two broad approaches have been proposed.

The first is to impose taxes or penalties on those who pollute. In the domain of climate change, a tax on greenhouse gas emissions is a simple example.

The second approach is called a cap-and-trade system. In such systems, those who pollute are given (or sold) "rights" to pollute in certain amounts and these rights are then traded in a market. Incentive-based approaches are more efficient and more effective, and they also increase freedom of choice.

Especially when compared with command-and-control systems, economic incentives have a strong libertarian element. Liberty is much greater when people are told, "You can continue your behavior, so long as you pay for the social harm that it does" than when they are told, "You must act exactly as the government says."

Objections — Evil Nudgers and Bad Nudges

In offering supposedly helpful nudges, choice architects may have their own agendas. Those who favor one default rule over another may do so because their own economic interests are at stake, as in when companies offer you a special rate for the first month, then automatically reenroll you in the program at a higher rate after the introductory period.

Real architects can have conflicts of interest with their clients as well, but they should not necessarily stop designing buildings. Instead, we need to try to line up incentives when we can and employ monitoring and transparency when we can't.

The Real Third Way

You have been presented with two major claims. The first is that seemingly small features of social situations can have massive effects on people's behavior; nudges are everywhere, even if we do not see them. Choice architecture, both good and bad, is pervasive and unavoidable, and it greatly affects our decisions.

The second claim is that libertarian paternalism is not an oxymoron. Choice architects can preserve freedom of choice while also nudging people in directions that will improve their lives.

Understanding choice architecture and the power of nudges hopefully will lead others to think of creative ways to improve human lives in other domains. ●

RECOMMENDED READING LIST

If you liked *Nudge*, you'll also like:

1. ***The Heart of Change* by John Kotter and Dan Cohen.** Built around eight steps of change first introduced in Kotter's earlier works, this book gives straight advice on successful change.
2. ***The Speed of Trust* by Stephen M.R. Covey.** Trust is central to the success of every relationship. Covey demonstrates the best ways to establish trust or repair it in the event it has been broken.
3. ***The Hands-Off Manager* by Steve Chandler and Duane Black.** Offering an opposing view to *Nudge*, this book postulates that employees need gentle coaching rather than management by force.

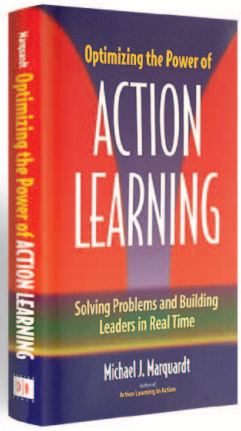
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Optimizing the Power of Action Learning

Michael J. Marquardt

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Michael J. Marquardt

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Solving Problems and Building Leaders in Real Time

OPTIMIZING THE POWER OF ACTION LEARNING

THE SUMMARY IN BRIEF

Novartis, a Swiss-based pharmaceutical conglomerate with more than 72,000 employees in 140 countries, recently formed a consortium of six noncompetitive companies from different sectors. At the heart of the consortium are six to eight action learning groups formed of members from each of the six companies. The action learning groups work as teams on specific business projects of importance to their respective companies. The overall goal of the action groups is threefold: to solve the business problems of the companies, to develop leaders, and to build organizational capacity.

Around the world, writes George Washington University professor Michael J. Marquardt, companies and organizations of all sizes are using the action learning methodology to solve major problems and build productive and effective teams.

In Optimizing the Power of Action Learning, *Marquardt, an expert on the action learning process, details exactly how the methodology works and how it can be used for important problems impacting businesses large and small.*

What You'll Learn In This Summary

- ✓ The criteria for an action learning problem.
- ✓ The characteristics and roles of the group in action learning.
- ✓ The reflective inquiry process, a key component of action learning.
- ✓ The individual, team and organizational learning that can be achieved through action learning.
- ✓ The roles and responsibilities of the action learning coach.
- ✓ Twelve steps for introducing action learning.

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OPTIMIZING THE POWER OF ACTION LEARNING

by Michael J. Marquardt

— THE *COMPLETE* SUMMARY

PART ONE: THE EMERGING POWER OF ACTION LEARNING

What Is Action Learning?

Action learning is a problem-solving tool that at the same time builds successful leaders, teams and organizations.

The action learning process has six components, which will be briefly explained below and then explored in greater detail in the rest of the summary.

The six components of action learning are:

1. A problem. Action learning centers on a problem or, more specifically, a project, challenge, opportunity, issue or task. The resolution of this problem has to be of great importance to the organization — action learning is not for minor issues. The problem must be significant and urgent.

2. A group. The second component of action learning is an action learning group or team. The ideal group has four to eight diverse members, who bring various perspectives and fresh viewpoints to the task of resolving a significant organizational problem.

3. Questions. A process of insightful questioning and reflective listening is key to the success of the action learning initiative. Action learning succeeds because the process focuses on the right questions, not the right answers. Questions build group cohesiveness, generate innovative and systems thinking, and enhance learning results.

4. Action. Action learning requires that the action learning group be able to take action on the problem to which it has been assigned. The group must either have the power to take action, or be assured that its recommendations will be implemented. If neither of these conditions is in place, raising the specter of recommendations sitting in the bottom of a drawer, the team will lose its focus and energy.

5. Learning. An equal commitment to learning is also essential for the success of action learning. While the short-term action steps needed to address the problem will be valuable to the company, it is the long-term learning gained through the exercise that most benefits the organization and its members.

6. A coach. To keep the group focused on the important as well as the urgent, an action learning coach is required. Through helping group members reflect on how they listen or how they may have reframed the problem, for example, the coach keeps the group focused on what they are achieving, what they are finding difficult, what processes they are employing, and the implications of those processes.

Action learning is at its peak if all six of these components are in operation, interweaving and reinforcing each other.

Solving Problems at National Semiconductor

Here's an example of what action learning can offer a company:

Executives at National Semiconductor's Portland, Maine, plant recognized that they were having difficulties providing quality service at AT&T (National Semiconductor is one of AT&T's major suppliers).

Their response was to create an action learning team called the Customer Request Improvement Team.

(continued on page 3)

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For Additional Information on single problem and multiproblem action learning groups, go to: http://my.summary.com

For Additional Information on the author, go to: http://my.summary.com

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What Is Action Learning?

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Members of the Customer Request Improvement Team were pulled from the sales, marketing, engineering, manufacturing and planning functions of National Semiconductor. The team also included members from AT&T.

Over a period of three months, the team considered more than 40 ideas for improvement, which resulted in four specific action initiatives:

1. **Analyzing in new ways the delivery misses.**
2. **Increasing frequencies of lead-time updates.**
3. **Creating critical device lists.**
4. **Developing pre-alert reports.**

Following the implementation of these initiatives, AT&T recognized National Semiconductor as one of its "world class" suppliers. ■

For Additional Information on how action learning balances chaos and order, go to: http://my.summary.com

Ground Rules That Empower Action Learning

The power of action learning is built on two key behaviors: reflective inquiry and continuous learning. In order to ensure that the process doesn't stray from questioning and learning, all action learning initiatives must follow two ground rules.

The first is that *statements should be made only in response to questions.* In other words, participants in action learning groups must think questions first, not answers first. They should not enter the meetings prepared to make statements and judgments. They should enter the meetings prepared to ask questions.

This doesn't mean that action learning is against statements. In fact, since questions will elicit more than one response, there will be more statements than questions in the course of the action meeting. The goal is to prevent action learning participants from jumping immediately into statements to solve the problem.

The second ground rule of effective action learning is that *the action learning coach has the power to intervene.* This ground rule addresses the need for continuous learning.

The first important point to remember about action learning coaches is that they are not there to work on the problem. That is the responsibility of group members. The goal of the coach is to see the opportunities for learning that arise, and to pounce on those opportunities to increase the group's ability to solve the problem and develop innovative action strategies.

One can use the dichotomy of the urgent vs. the important. The group, trying to meet deadlines and reach solutions, will focus on the urgent. It's up to the coach to discern what's important and focus the group on those issues.

In order to make this happen, the coach must have the power to intervene, and, essentially, bring the process to a halt. The group stops working on the problem and instead listens to the coach's questions (questioning is the process by which the coach will advance learning). ■

For Additional Information on why action learning works so well, go to: http://my.summary.com

Action Learning At LG Electronics

With more than 55,000 employees and 72 subsidiaries around the world, Seoul, Korea-based LG Electronics (LGE) is a major global company specializing in electronics and telecommunications. Its "Global Marketer" program is one of LGE's numerous programs to develop executive and employee competencies.

The Global Marketer program uses the action learning approach to develop global leaders in marketing — leaders who will have the competencies to solve any possible problems that they may face in a constantly changing environment.

Each action learning team in the program is composed of three LGE managers, an MBA student from a foreign university, a Korean expert, a foreign expert, and an executive who has specific knowledge and experience.

The teams are given major marketing projects, such as "how to improve brand equity" or "how to launch a new product." The project will include seminars by Korean and foreign experts as well as on-site interviews and surveys with competitors, customers, suppliers and best practice companies.

Each project has an allotted time of two-and-a-half months — one-and-a-half months in Korea and one month overseas. At the end of the program, each team presents its recommendations to corporate sponsors and executives for implementation.

Through this action learning-based Global Marketer program, LGE improves its business performance while developing the problem-solving and global leadership skills of the participants, and reinforcing in those participants a global perspective.

PART TWO: APPLYING THE SIX COMPONENTS OF ACTION LEARNING

The Problem: Starting Point For Action Learning

The starting point for action learning is the problem — which can also be referred to as the project, challenge, opportunity, issue or task. Not all problems, however, qualify for an action learning initiative. Small, specific issues, such as how to deal with an unmotivated manager, hardly require the creation of an action learning team.

To optimize the power of action learning, choose your problems carefully. The best problems for action learning will have the following attributes:

1. Importance. First and foremost, the problem has to be important; it should make a significant difference to the individual or organization. A problem that is insignificant or too easy to solve will not motivate a problem-solving team, nor fully tap its potential.

2. Urgency. An action-learning problem must have a real time frame in which the problem must be defined and actions taken. The results of an action learning initiative are not meant to languish in a bottom drawer.

3. No existing solution. Action learning is not an exercise. In other words, the problem should be real and unsolved — it should not be hypothetical, and the solution for the problem should not exist somewhere in the organization or outside the organization. For example, top management should not look for an action learning group to reinforce a solution that it has already determined.

4. Feasibility. The group should be challenged but not overwhelmed. The problem must therefore be one that the organization has (or can acquire) the resources and time to resolve.

5. Familiarity. Some members of the group must be familiar with the context of the problem. On the other hand, it is often productive to have group members who do not have previous experience with the problem to bring a fresh perspective.

6. Significance. The problem must be significant and important to one or more members of the group. There must be stakes attached to the success of the group's strategies.

7. Learning opportunity. The best action learning problems provide excellent and important learning opportunities for the group. A fundamental premise of action learning is that we learn best when undertaking an action, which we then reflect on and learn from. If the problem does not offer an opportunity to learn, a great benefit of the action learning process will be lost.

8. Group authority. The group must have the authority to solve and implement action. The group will not be motivated to seek innovative strategies if it believes that suggestions may or may not be implemented. ■

Action Learning At New York City Transit

New York City Transit identified three major problems of the subway system to be resolved using action learning: 1) Increased ridership; 2) unintelligible announcements; and 3) lack of teamwork. Action learning groups were created to address these problems. Group members were chosen from a wide range of job functions in the New York City Transit organization; diversity based on gender, age and ethnicity was also emphasized. Each action learning group identified five to 10 solutions, and all but two were implemented.

For Additional Information on examples of action learning problems, go to: http://my.summary.com

The Group: The Power Of Diversity

The second component of action learning is the action learning group. The effective action learning group shares many of the same characteristics as effective teams: a commitment to solving the problem; a clear, common purpose; the willingness to work with others to develop strategies; and clear and accepted norms.

Selecting who will participate in the action learning group is key to the success of the initiative. As with the first component of action learning — the problem — action learning team members should meet certain criteria in order to create a group that will fully optimize the power of action learning.

The criteria for action learning group membership are the following:

1. Commitment. One or more group members must have a stake in the problem.

2. Knowledge. One or more members must have specific knowledge about the problem. Outside knowledge can be sought, but there should still be reasonable knowledge within the group.

3. The power to implement. Ideally, it is the members of the group who will have the power to implement

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The Group: The Power of Diversity

(continued from page 4)

the suggestions developed by the group. If this is impossible, the group must be assured that their suggestions will be implemented by the organization.

4. Familiarity. At least one group member should be familiar with the context of the problem, although, as noted above, new perspectives are also valuable.

5. Diversity. Action learning is questions-based, which opens the door for the inclusion of members from all levels of the organization. You do not have to be an expert on the problem; you just have to be in a position to ask specific questions that relate to the problem.

6. Member selection. If the organization selects team members, it should not take the task lightly. The selection should not be random; selecting people from different departments, for example, is an opportunity not only to bring fresh perspectives to the problem, but also to create new networks and connections that did not exist before.

7. Attendance. Attendance should be mandatory. It's better to schedule fewer meetings that people can attend than a large number of meetings that will always have absentees.

Group Size

The ideal size of the action learning group is four to eight members. With too many members, the participation of some members may be crowded out by their colleagues, communication is more complex, and reaching a consensus is more difficult. An action learning group that is too small, on the other hand, limits the number of perspectives and may also cause the group to either misunderstand the complexity of the problem, or be overwhelmed.

Roles in the Action Learning Group

Participants in action learning programs cover a number of different roles — both inside and outside the action learning teams. Within the team there will be a problem presenter (more than one if there is more than one problem being addressed by that team). There is also the action learning coach, of which we will learn more about later.

Generally, there will be a problem sponsor, who may or may not be part of the team. The sponsor makes sure the problem is given high visibility and ensures that the solutions developed by the team will be implemented.

Finally, an action learning champion, who does not participate in specific action learning groups, ensures that the organization is committed to action learning. ■

For Additional Information on the problem with experts, go to: http://my.summary.com

Questions and Reflection

Questions, or more specifically, a reflective inquiry process, is the third component of successful action learning. Questions help understand and clarify problems, and open up paths to innovative solutions. Questions are also key for individual, team and organizational learning.

Effective problem solving begins by getting a big picture perspective of the problem. The old Hindu tale of the seven blind men who encounter an elephant — the blind man who touches the trunk thinks the elephant's a snake; the blind man who grabs a leg thinks the elephant is a tree trunk; and so forth — is a good allegory for what happens when focus and convergence occur before divergence.

Before you start to zero in on solutions, you want a helicopter's view of the problem; questions (and reflecting on the answers) help you get perspective. In other words, if the blind men had been asking questions of the others, instead of making statements ("It's a snake!"), they would have a better understanding of the animal they were dealing with. Questions, especially challenging ones, help group members to think and to learn.

Listening Without Prejudgment

Reflection involves recalling, thinking about, pulling apart, making sense, and trying to understand. In order for real reflection to occur, group members must have the space to stand back and let go of their assumptions and presuppositions.

Listening without prejudgment to what others have to say is key, which is why it is critical that questions rather than statements are the primary means of communication. Forcing statements to be made only in response to questions dramatically changes the dynamic of the group's interaction: Listening takes precedence over talking.

Communication that emphasizes questioning and listening is the essence of dialogue, which is very different from debate or discussion. In dialogue, the goal is to learn through inquiry and disclosure. In debate, the emphasis is on persuading, selling and telling. ■

Action Strategies: Learning From Action

One of the axioms of action learning is that "there is no real learning without action, just as there should be no action without learning." Learning is significant only if we take some type of action as a result of that learning.

Action involves what occurs within the action learning sessions — problem reframing, establishing goals,

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Action Strategies: Learning From Action

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and developing strategies — as well as (and even more importantly) what occurs outside of the sessions — testing, gaining support and resources, and taking action.

Specifically, an action learning group will go through four stages from when it first examines the problem to when it implements strategies.

Stage 1: Understanding and Reframing The Problem

The first stage is understanding and reframing the problem. This is perhaps the most important stage — after all, the right solutions to the wrong problem don't really help. Yet, it's more common for teams to try to rush into solutions before they've fully clarified the problem.

As groups begin the questioning process, one vital and surprising development is often the discovery that the originally identified problem is not actually the real or most important problem. In other words, the group is able to dig past the surface or visible problem to uncover the hidden problem beneath it.

Another benefit of the questioning process is that it reveals and separates out the assumptions, expectations, biases, symptoms and limited perspectives that both the presenter and the other group members bring to the problem.

As the group better understands the problem, it also begins reframing the problem in one of two ways — either members see the *content* of the problem in a new way, or they see the *context* of the problem in a different way.

In the end, the group members must reach a consensus on the problem before moving on to the next stage. As one anonymous wit put it, "It's better to first put your finger on the problem before sticking your nose in it."

Stage 2: Framing and Formulating the Goal

The next action stage is to determine what the group, organization or individual is striving to achieve. Often, the formulated goal is different from the originally intended goal of the initiative. The reason is simply that the problem, as discussed above, was misidentified.

It is thus as important not to accept the given objective as it is not to accept the given problem. The group must select a goal that is the most strategic, has the most staying power, and will solve the real problem with easy-to-leverage results.

The ultimate goal may not be clearly and fully defined at this stage — it will become more refined as the group works on strategies. However, it's important that the group now shifts from a problem frame to an outcome frame, from an "it is impossible" frame to an as-if frame, and from a failure frame to a feedback frame.

Stage 3: Developing and Testing Strategies

Once the group has its goal, the next step is to develop and test strategies. In stage 2, you identified what you wanted or what you needed to do. In stage 3, you become more specific: What will work best and why? What resources do we need? What will be the impact of the action?

In forming the action plan, the group must keep two things in mind: first, whether this action is appropriate to the problem; second, whether this action is doable. Determining whether the action is doable also involves who will be responsible for the action — who has the insight, the power and the commitment to take the action identified by the group.

More than one strategy should be developed and, if possible, tested. Pilot actions are key to ensuring the success of the strategy once it is fully implemented.

Stage 4: Taking Action and Reflecting on the Action

Action is obviously an important element of any action learning group's work. Some concrete, specific action should be agreed upon and taken at the end of each session. It's up to the action learning coach to ensure that the team does not run out of time before agreeing on action items. If a session ends without any actions decided on, the time between sessions becomes lost time. ■

Developing Training at Fairfax County Public Schools

Eight staff members of the Fairfax County Public Schools, including principals, assistant principals and HR staff, had one two-hour action learning session to develop a long-term training program for principals and assistant principals.

Because of the tight time frame, some members were anxious to move to the third and fourth stages of action learning: developing strategies and an action plan. But the team kept the focus on determining the real problem and the real goals first; this process used up more than 60 minutes of the allotted time.

Once the real problem and real goals were identified, however, the team took just 30 minutes to identify strategies and develop the outlines of a training project — a project that ultimately led to a $5 million grant from the Reader's Digest Foundation for leadership development.

Individual, Team and Organizational Learning

Solving a particular reengineering problem may be worth $1 million to the company. Applying that knowledge throughout the organization may be worth $10 million. And if the team members apply the new leadership and team skills developed in the action learning program, that learning may be worth $100 million over the course of the team members' careers.

Thus, the learning that occurs in action learning is more valuable than solving the problem itself.

Group members are advised from the very first session that they have a responsibility for their own, their group's and their organization's learning. They understand that time will be set aside for learning, and that the action coach will carve out and manage this time. (In the next article, we will explore in greater depth the responsibilities of the action coach.)

How Action Learning Generates Learning

In action learning, the group creates knowledge through 1) concrete experience; 2) observing and reflecting on this experience; 3) forming generalizations from experiences; and 4) testing the implications of those generalizations.

Through these four stages of knowledge creation, the learning takes place at two levels: the first level is the level of the actual problem-solving task; the second level is the level of reflection on how the group worked together.

For example, the concrete experience mentioned above involves solving the problem. Clearly, the group learns as it finds the strategies to resolve the problem. But, at a second level, the group is also learning through the group experience required to resolve this problem. For example, the group learns how to interact effectively, overcome disagreements, and tackle other group issues.

At the observation and reflection stage, the group observes and reflects at the first level on the strategies chosen to resolve the problem. Will those strategies work?

But at this stage as well, the group reflects at the second level on the skills that they learned in the process: group skills, such as decision making and group interaction, as well as individual learnings.

Forming generalizations involves, at one level, generalizing the specific solutions developed in the group to address other problems. At the second level, it involves generalizing the group skills learned in the process.

Finally, the test and experiment stage involves testing the strategies to resolve the problem at one level, while at the second level, the group reflects on whether its new behaviors and values acquired in the action learning process will help them work on additional problems.

Team and Organizational Learning at GE

Through action learning, GE employees and managers learn and apply new skills — such as team building, conflict resolution, and understanding change management methodologies and tools — while working on real problems. Some of the achievements supported by action learning include: boundaryless behavior in which employees work easily across business units; greater speed in decision making and implementation; accountability at appropriate levels with less controlling leadership; and reduced impact of the burdens of hierarchy.

Competencies Developed in Action Learning

As mentioned before, the competencies developed in action learning involve individual, group and organizational skills and knowledge.

Individually, group members learn such skills as critical reflection, inquiry and questioning, systems thinking, active listening, self-awareness, empathy, problem solving, decision making, presenting and facilitating. The learning process leads to becoming aware of, and changing as necessary, one's beliefs, values and basic assumptions.

Leadership skills are another important set of skills learned through action learning. For instance, action learning initiatives help group members build what is now known as emotional intelligence, which consists of five primary abilities: self-awareness, managing emotions, motivating oneself, empathy and handling relationships. Every leadership skill just listed can be demonstrated and used in the action learning setting.

Action learning also develops group skills. Action learning groups quickly mold into high-performance work teams. For example, all high-performance work teams have certain characteristics, such as clear and common goals, a willingness to work with others, and the courage to question others. Action learning develops these attributes. Since the first stage of the action learning project is defining the goal, for example, the outcome is a clear and common goal for the team. And since one of the ground rules of action learning is that all statements are in response to questions, the courage to question others is quickly developed in even the shyest participant.

Finally, action learning builds learning organizations. Learning organizations have four components: increased learning skills and capacities, a transformed organizational culture and structure, an involvement of the entire

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Individual, Team and Organizational Learning

(continued from page 7)

business chain in the learning process, and enhanced capability to manage knowledge.

Action learning helps organizations construct these four components. For example, group members learn the principles and theories of effective learning, the different types of learning, and the key skills of learning. Action learning develops a culture and values that see learning as essential for corporate success. Action learning involves not only staff, but also vendors, suppliers, customers and even the community in learning. And action learning helps the organization learn to acquire, create, store and transfer knowledge. ■

The Coach: The Catalyst For Learning

The primary role of the coach is to help the group grow and learn. The focus of the coach must always be on enhancing learning, not solving the problem.

The principal tool of the coach is the inquiry process. Through questions, the coach helps group members examine and learn from their actions and interactions.

It's important that a person be specifically assigned to be the action learning coach. Otherwise, the learning process will be crowded out by the urgency of the problem to be solved. This does not mean that the role cannot rotate among members of the group — just as long as the assigned person gives up problem solving while serving as coach.

Building the Learning Climate

The action learning coach is not the teacher or expert or chairperson of the group. The coach does not tell others what to do; instead, he or she should assist them in discovering what needs to be done. This is accomplished through questions, not statements. Questions keep the coach from being seen as judgmental, controlling or even manipulative.

However, the coach must have the power to intervene when he or she sees fit — which means that the coach has the power to stop the group from continuing to work on the problem and instead focus on the question or questions that the coach is raising.

This authority, however, requires the coach to know when to ask and how to ask questions. In other words, knowing when to intervene is one of the most important skills of an effective action learning coach.

In general the coach should intervene at the beginning and end of each session, and one or more times during the session. Samples of questions that the coach might ask at the beginning and end of sessions include the following:

- At the beginning of the very first session: questions on the familiarity of group members with the action learning process and questions about the problem to be solved by the group.
- At the end of the first session: questions on what actions are going to be taken as a result of the session, questions about the performance of the team, and questions about the learning that occurred as a result of the session.
- At the beginning of subsequent sessions: questions on the actions and learning that occurred since the last session.
- At the end of the final session: questions on whether the goal was achieved, and on the individual, team and organizational learning acquired in the process.

The questions that are asked during the sessions will vary, of course, but could include the following:

- How are we doing as a team?
- Do we have agreement on the problem?
- Are we building on each other's questions and ideas?
- What is the quality of our ideas and strategies? ■

For Additional Information on why the coach should not be involved in problem solving, go to: http://my.summary.com

Introducing and Implementing Action Learning

Here's a checklist for introducing and implementing action learning initiatives:

Step 1. Gain support of top management.
Step 2. Conduct a preparatory workshop.
Step 3. Choose projects, problems or challenges.
Step 4. Select and prepare action learning coaches.
Step 5. Determine membership and establish the action learning groups.
Step 6. Orient and prepare the action learning group or groups.
Step 7. Carry out and implement the action learning sessions.
Step 8. Reframe problems and develop action strategies.
Step 9. Pilot test and recommend actions.
Step 10. Implement action strategies.
Step 11. Finalize activities and capture final learnings of the action learning group.
Step 12. Assess value and power of the action learning program and seek ways to expand it throughout the organization.

For Additional Information on the skills and attributes of a successful coach, go to: http://my.summary.com

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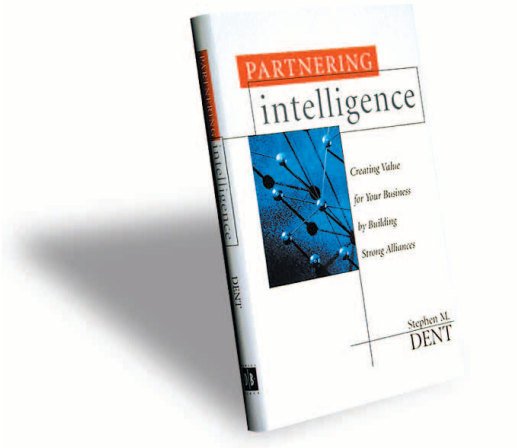
Partnering Intelligence

Stephen M. Dent

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FILE: STRATEGIC MANAGEMENT



By Stephen M. Dent

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Creating Value for Your Business by Building Strong Alliances

PARTNERING INTELLIGENCE

THE SUMMARY IN BRIEF

Since the dawn of civilization, human beings have struggled to survive. Throughout most of history, mankind has prospered by banding together, acting in the group's self-interest and moving forward in partnership. But when the industrial revolution took hold, individual competition replaced widespread partnership. Forgotten was the importance of relationships that valued the "we" over the "me."

This thinking is all beginning to change. As society moves towards a global economy based on information and communication, today's business leaders are awakening to the fact that they need to partner in order to survive and prosper. To do so, leaders will have to rediscover and develop lost partnering skills. They will have to learn to be a smart partner and build smart alliances.

This summary will help you regain the lost skill of partnering by showing you how to recapture and develop what author Stephen M. Dent calls your "partnering intelligence."

To help you achieve this goal, Dent presents a tool he labels the Partnership Continuum. As shown in this summary, the Partnership Continuum offers a step-by-step process that offers specific methods for

- developing better relationships,
- developing more effective partnerships,
- trading in a past-oriented mindset for one that is turned toward the future.

A key focus of the summary is on the four stages of partnership development: assessing whether you need a partner; exploring potential partners; initiating the partnership on a limited basis; and committing to a full partnership.

In today's interdependent, hypercompetitive business environment, partnering intelligence offers a vital competitive advantage to companies in all industries. This summary will ensure that you can acquire that advantage.

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PARTNERING INTELLIGENCE

by Stephen M. Dent

— THE *COMPLETE* SUMMARY

Rediscovering Partnering

It might be easy, in today's information age, to make the mistake of thinking technology alone will drive business success. Although technology may allow you to become more productive, it won't be long before your competitors replicate your technological advances. In the near future, what will drive business success is the ability to initiate, sustain and profit from interdependent relationships. The outcome will be innovative products, creative services and maybe even new technology. To get there, you will have to develop your partnership intelligence.

Why partner? Because creating business partnerships is essential to innovation, growth and customer satisfaction. Partnering allows you to expand resources without investing in new infrastructures, create greater customer satisfaction through increased availability of services, reduce expenses by using shared facilities and increase productivity and job security.

Examples of successful business partnerships abound. Take the case of a regional telephone company and PCS Wireless, a company that provides wireless telephone service. When the two decided to combine the best of both wireless and land line phone services, they offered customers features that neither could provide alone. The baby bell knew customers wanted only one number to keep track of, and PCS realized customers wanted the flexibility of taking the phone wherever they went. Together, the two companies partnered to provide combined wireless and land line service using only one number.

Another illustration of the power of partnership is the cooperation between KLM Royal Dutch Airlines and Northwest Airlines. As a result of their cooperation, travelers on both sides of the Atlantic enjoy greater flexibility in choice of destinations, reliability, coordinated scheduling and use of frequent flyer miles. Both airlines benefit from the use of shared facilities, ticketing and check-in counters. The partnership has saved both airlines many millions over the last few years.

Partnership Continuum™

The first step to developing your partnership intelligence is self-awareness. You must know and understand your own needs before you can expect to meet someone else's needs. Once both partners' needs are recognized, you become dedicated to success for the enterprise while at the same time you maintain separate identities.

The process that allows you to develop your partnership intelligence is the Partnership Continuum. The Partnership Continuum is a deliberate, well-thought-out, scientific approach to creating partnerships. This approach allows you to move from no partnership to full partnership using a step-by-step approach. The Partnership Continuum presents a framework for partners to review and plan for successful partnerships.

To create a working partnership, you must understand that partnerships don't just happen; they are designed. The Partnership Continuum model is the blueprint for creating healthy, trusting and mutually beneficial partnerships.

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Partnering Intelligence

"Partnering intelligence" is an idea whose time has come. Just as mental intelligence and emotional intelligence are measures of ability and problem solving skills, partnership intelligence is a measure of your ability to succeed in partnership situations. It is a measure, specifically, of how well you are able to create and sustain healthy and mutually beneficial partnerships — both at work and in your private life.

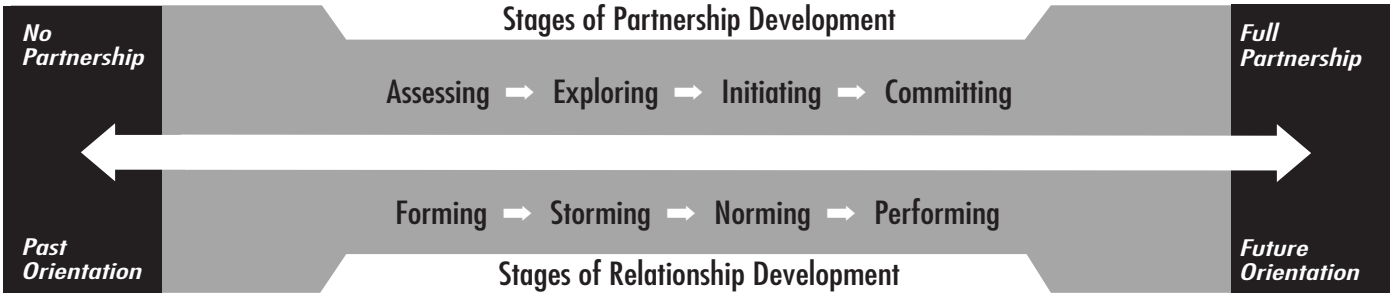
You may be used to thinking that partnerships are something that naturally evolve. Nothing could be farther from the truth. Partnerships take work.

The author: Stephen M. Dent, a founding partner of the Minneapolis-based consulting firm The Partnership Continuum, Inc., is an award-winning organizational consultant specializing in developing internal and strategic partnerships. His clients have included AT&T, North West Airlines, GE Capital Services, the U.S. Postal Service and USWest Communications. Through his workshops, speeches and nearly 20 years of consulting assignments, Dent has trained thousands of managers, executives and consultants in the benefits of partnering intelligence.

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The Partnership Continuum Model



Rediscovering Partnering

(continued from page 2)

As shown in the illustration above, the Partnership Continuum model has three components.

One component focuses on relationship development, another on partnership development and a third on past versus future orientation.

Each end of the model represents the extremes. That is, the far left side represents no partnership and an orientation to the past while the far right side represents full partnership and an orientation to the future. As your partnership intelligence grows, you move along the continuum to the right. The farther you move, the higher your partnership quotient.

The bulk of this summary will be focused on the partnership development component, that is on the step-by-step stages of developing partnerships. But first, let us look briefly at the other two components of the Partnership Continuum: relationship development and past versus future orientation. ■

Past versus Future Orientation

As shown in the Partnership Continuum illustration, companies with high partnership intelligence establish a future-oriented environment.

For example, imagine a friend who consistently shows up late for dinner at your home. If you continue to tell him to show up at a particular time, and act as if he will be late when planning dinner, you have a past orientation. If, instead, you discuss the consequences of his late arrival (i.e. when he's late, dinner is cold) and get him to promise to arrive on time, and then trust him to follow through, you have a future orientation.

In a future-oriented environment, the past is not used as a guide for decision making, conflicts are resolved with a win-win attitude and people display the ability and desire to trust others. Thus, establishing a future orientation requires certain traits and skills that are, as shown in the box at right, key in developing a high partnership quotient. ■

Partnership Attributes

As you move through the Partnership Continuum, you will acquire six fundamental attributes that contribute to you and your company's partnership intelligence. Developing and reinforcing these attributes is the key to increasing your partnership quotient (or PQ).

The first attribute is to be future-oriented in your decision making. This is essential in creating a future-oriented environment — a basic component of high partnership-intelligent companies (see article at right). Future-oriented decision makers don't base decisions on the past. They recognize that not everyone will repeat past behavior, so that past failure is not necessarily an indication of what will happen in the future. Conversely, they know that what worked in the past will not necessarily work in the future.

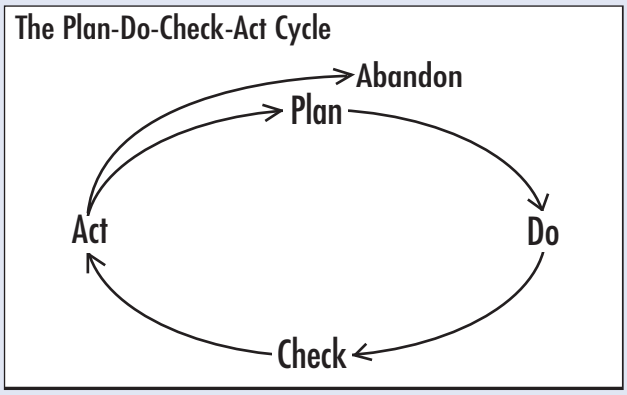
Increasing your comfort level with change is also important. Learn to embrace the possibility that change may be good, even if it is uncomfortable at first. The most effective way to deal with change is to break it down into small steps — just as a child learns to ride a bike a little at a time until the nervousness of the first day is eventually replaced by confidence.

A win-win orientation is another fundamental partnership attribute. Before potential partners can successfully cooperate, they must shed the desire to win at the other's expense and embrace solutions that are a win for both sides.

Another important attribute: You must be comfortable with the concept of interdependence rather than independence, with relying on another individual or company for support, assistance and success. One way to develop this comfort with interdependence is to move to a consensus decision-making style.

You must also develop your ability to trust. Focus on your behavior. If you are trustworthy, you will be more likely to trust. Over time, you will learn that, for the most part, your trust will be rewarded.

Finally, you must be willing to be open about yourself and your feelings to others. Learning to accept feedback (and learning how to give constructive feedback in turn) is a key component of self-disclosure.



The Plan-Do-Check-Act Cycle

To assure that a partnership is actually accomplishing what it intends to accomplish, you can use the Plan-Do-Check-Act cycle as a check. Originally developed by Walter Shewhart, a statistician at Bell Telephone Laboratories, its purpose was to reduce variation in the processes performed by workers.

Step 1 is to "plan" what it will take to accomplish a task. For a manufacturing process, you break down the task into specific steps. The components of a partnership — for example, how decisions are made, how conflicts are resolved, how communication will take place — should also be broken down. Partners should then agree on how to deal with each component.

Step 2, "do," means to carry out the plan — in other words, to solve problems, make decisions and communicate just as planned.

Step 3 is to "check" on how well the partners are accomplishing the plan. For example, is there a breakdown in the decision-making? Are the partners achieving the expected results?

In step 4, "act," the partners study the results of step 3, then decide what actions to take to make improvements and achieve the partnership goals.

One possibility: You might have to abandon the plan — if it is clearly failing — and make a new one.

As shown in the chart below, most successful partnerships spend one-third of their time in the planning stage (mostly on developing relationships); one-third in the doing stage (mostly on accomplishing the task); and one-third in the checking and acting stages (which is evenly divided between task and relationship activities).

Timeline for a Successful Partnership

Planning Stage	Doing Stage	Checking & Acting Stages
Task 33%	Task 67%	Task 50%
Relationship 67%	Relationship 33%	Relationship 50%

The Four Stages of Relationship Development

Before you can attain long-lasting relationships based on mutual trust, benefit and respect, you will move through four distinct stages of relationship development. This can happen quickly, or it can take many months, depending on the group.

The four stages of relationship development are *forming, storming, norming*, and *performing*.

When the relationship is in the *forming* stage, people are generally polite to each other, and a bit reserved. Typically a group leader dominates activities. Others may sit back and take a wait-and-see attitude. This stage is the best time to clarify the issues that will need to be resolved. It is the time to establish trust within the group. Don't be too anxious to rush through this stage. It takes time to learn to trust each other.

Next comes the *storming* stage. Here a clash of ideas and behavior creates conditions ripe for conflict. Politeness gives way to aggressive behavior. The group leader finds himself or herself challenged. Group members test the limits of the relationship and see what they can get away with. In short order, the participants learn where the boundaries are and learn that they can trust each other as they express their needs.

Once group members have identified their needs and aligned them to the needs of the group, they are ready to collaborate to solve conflicts. The level of trust they have developed allows them to take risks and try new experiments. This is the *norming* stage.

Finally, the group reaches the *performing* stage. Now creative energies surface, increase and flow abundantly as partners generate synergy. The partnership can expect to achieve goals that far exceed their expectations at the outset.

Checking Progress

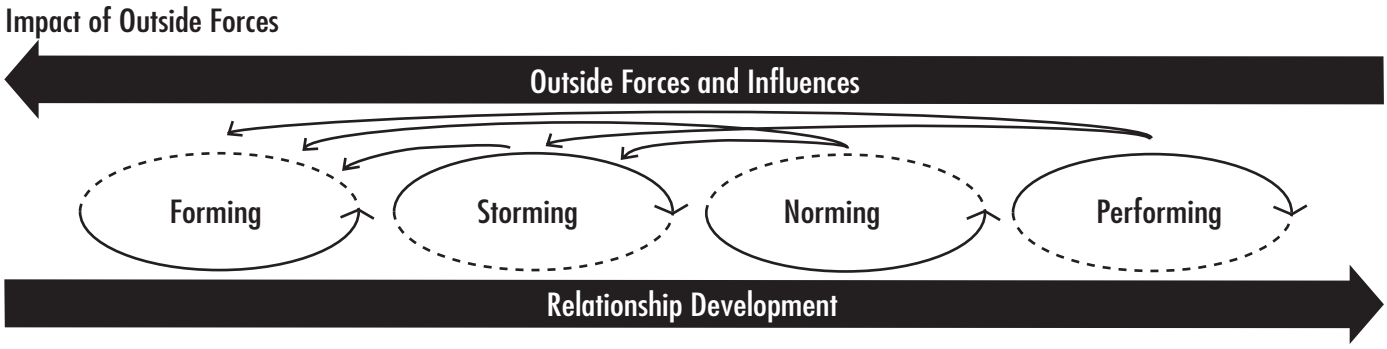
One way to check on the group's progress in relationship development is to give each member a relationship feedback survey. Have each member rate on a 1 to 5 scale whether they never (1) or always (5):

- Trust the other partners in this partnership,
- Think the other partners trust them,
- Feel comfortable expressing their ideas,
- Feel that their needs are being met, or
- Help others in the partnership meet their needs.

Outside Forces and Influences

Unfortunately, not every partnership moves smoothly through the

(continued on page 5)



The Four Stages of Relationship Development

(continued from page 4)

Partnership Continuum. Relationships move between stages in response to outside forces and influences. This is especially true if suddenly the goals of the group change. The group may then move back to the storming stage. Fortunately, if the group has already established a basic level of trust, it should be able to get back on track fairly easily. ■

Partnership Development: The Assessing Stage

For the remainder of the summary, we will focus on the partnership development component of the Partnership Continuum. Partnership development also takes place in four stages: assessing, exploring, initiating *and* committing.

Two Kinds Of Partnerships

Partnerships come in two varieties: external and internal. External partnerships can best be described as alliances between businesses. When Gary Wilson, chairman of Northwest Airlines recently spoke to the Press Club in Washington, D.C., he declared: "Mergers are out and alliances are in." The alliances he referred to are external partnerships between airlines, all designed to boost productivity, profitability and customer satisfaction. Gone are the days of mega companies. Instead, strategic alliances will continue to dominate business as companies learn to seek out opportunities for partnerships that capitalize on strengths and overcome weaknesses without the need for fundamental changes in company structure. It is the ultimate win-win situation for both business partners.

Internal partnerships are found within companies, and include the relationship between management and labor or the cooperative relationships necessary between departments and divisions.

Where Does Your Company Stand?

The first partnership development step is the *assessing* stage. The goal here is to determine where your company stands today and where it wants to go tomorrow. This internal assessment of your company will then allow you to decide whether you need a partner to achieve your goals.

The assessing stage should cover the ephemeral and material realms of your company. Both areas interact. They are referred to as realms because each sphere is separate yet interacts with the other just as the oceans of the earth interact with the atmosphere to produce our planet's weather.

The Ethereal Realm

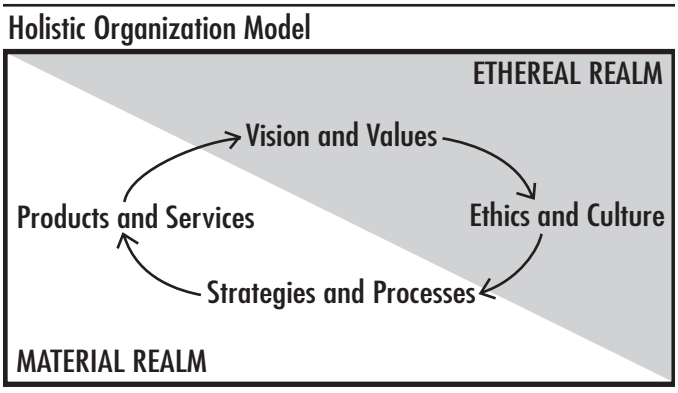
The ethereal realm consists of the company's vision, values, ethics and culture. It is the heart and soul of the organization.

Let's start with visions and values.

Creating and articulating visions and values is a basic leadership role. But you must be careful to avoid the appearance that your vision is phony, especially in organizations still stuck at the far left of the Partnership Continuum. Remember that others judge future actions by past performance, so that you must act in accordance with your vision every day. The company vision and values must become part of the corporate culture.

Ethics are based on individual behavior. Organizations don't have ethics; the people in the organization do. The

(continued on page 6)



Ethereal Energies At Work

Consider this example of the impact of a company's vision, ethics, values and culture on the customer. An automaker was recently required to recall a pickup truck. The recall was necessary because management had left out a small and inexpensive part out of the manufacturing process. The omission saved the company only pennies per truck. However, had the part been included originally, it would have prevented gasoline from slipping back onto a hot manifold and possibly causing a fire.

The end result, of course, was a series of fires. Lawsuits followed, along with the expense of attorneys' fees and court costs. Finally, the company was forced to retrofit each truck with the part it had originally left out. Did the corporate culture place profits at the expense of people's lives? We may never know for sure, but countless customers may come to that conclusion and will refuse to buy the automaker's products in the future. The company's ethereal energies were reflected in the decision to leave the part out, with disastrous consequences.

The Assessing Stage

(continued from page 5)

ethical standards of an organization's people are often defined by the standards of the leader. In other words, if leaders demonstrate low ethical standards, other people will follow suit and sink to those standards. The opposite is also true. People will rise to the high standards of highly ethical leader.

Every internal assessment should also include a look at the company's culture. A questionnaire to employees and managers covering issues such as the ability to trust the leadership, level of feedback, past or future orientation and comfort with change will help assess the culture of your company.

In sum, vision, values, ethics and culture make up the ethereal realm of the company. The ethereal realm manifests itself through the morale of the organization. When morale is high, people show high productivity and creativity and solve problems easily. When morale is low, people struggle. The vision, values, ethics and culture of an organization determine the quality of its strategies and processes, and ultimately of its products and services.

The Material Realm

At the same time that you are assessing your company's ethereal realm — its vision, values, ethics and culture — you must also assess your company's strategies, processes, products and services. This is your company's material realm.

Start with your mission statement. It describes how your company intends to make its vision into reality. It outlines the strategic direction in which the company will focus its energies. Once the strategic direction has been identified, work processes are developed to implement these strategies. These work processes in turn deliver the products and services the company offers.

Is a Partner Needed?

Assessing your company's vision, ethics, values and culture — the ethereal realm — and your company's strategies, processes, products and services — its material realm — gives your company an updated view of what it is and where it is going. It will force the company to look at its vision for the future — and what it can and should accomplish in the years to come.

The next step is to determine whether a partner is needed to achieve that future.

Perhaps there are available internal resources to achieve the vision identified in the self-assessment. If the resources are available, the company may simply need to work on internal partnerships to better utilize those strengths. If appropriate resources aren't available within, the next logical step is to seek out a partner with the resources needed. The choice to seek partnership is not an easy one nor should it be undertaken lightly. Many companies will chose to go it alone rather than look for a partner. ■

The Exploring Stage

If your assessment revealed that you were ready for a partner, it's time to find one. You are now ready to enter the next stage of partnership development: the *exploring* stage.

The original assessment team should brainstorm as comprehensive a list of potential partners as possible. Build a matrix to help you visualize how each potential partner could satisfy your needs. In other words, list all your needs and check off whether and how each potential partner can meet the need.

Next, contact the companies you're interested in and be open with them about your needs. But just as important, find out what their needs are and how you can fill them. To sell a partnership, you have to identify what you can offer the potential partner.

A partner compatibility analysis is also important. Ask questions about the visions, values, ethics and cultures of potential partners. Also, what type of relationships and partnerships do they now have and how well have those partnerships been working? What strategies

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The Exploring Stage

(continued from page 6)

are they following to achieve their vision? These are some of the questions that will help identify a compatible partner.

Once you've identified the right partner, the next step is to secure commitments to work together. This commitment should be in writing. Include the reasons for the partnership, the scope of the commitment, its duration and the expected benefits for both parties. ■

The Initiating Stage

Once a partner has agreed to proceed with a project, you are ready to move onto the next stage of partnership development: the *initiating* stage. In this stage, you need to create the right atmosphere of trust, or it will never work.

Assuring Success With Accountability

For a partnership to work, both parties must be accountable to each other. Assure this by creating an appropriate partnership agreement. The agreement must cover the following areas:

- **Definition of the areas of interest for the initial activity, whether that will be marketing, sales, or product development.** Brainstorm a list of joint activities, and agree on one to start the relationship.
- **Document the start and stop of the activity, and set the boundaries.** There may be things the partnership should not try to accomplish yet.
- **Decide who will do what among the partners.**
- **Agree on what style decision-making will take**
- **Gain consensus on the strategy for resolving conflicts that arise.**
- **Allocate resources contributions and commitments in writing.**
- **Create evaluation criteria for both the initial project and relationship development.**
- **Define the expected outcome of the initial activity.**

Consider what happened when American astronaut Andy Thomas spent time living aboard the Russian MIR space station. He did not speak Russian very well, having only mastered the technical terms he absolutely needed. As a result, he was unable to establish any kind of meaningful personal relationships on board. The trip was a failure despite the clear goals and expectations that had been set for the partnership. When American astronaut Shannon Lucid, who spoke Russian, came onboard, she had no trouble establishing good rapport with the Russian crew. That partnership worked far better.

To make a new partnership work, take the time to get to know the partners. Building a partnership always takes longer than people anticipate. Therefore, you need to plan time for relationship development. Focus on team building exercises to cement the relationship. Make sure key leadership is there to kick off initial activities. If it isn't, you send the unconscious message that the partnership is not important.

Also, agree to partner in a small way first. That way, you can assess early on whether the relationship can work long term or should be abandoned.

Once you and your business partner have completed the initial joint project, it is time to assess the project and the continuation of the partnership. Remember that the first project was a trial run to see if the partnership can develop and evolve. There are three options available.

First, you can decide to abandon the partnership altogether. If the initial project proved too painful, unproductive, stressful or disappointing, abandon the effort and look elsewhere for more promising partnership material.

The second option is to take the information gleaned from the first project, and redesign the next activity together. Partners who still want to work together can revise goals, adjust responsibilities and redouble their efforts to accomplish worthwhile goals together.

The last option is to move on to a greater investment in the partnership. If all went well, and the partner is willing, commit greater resources to the joint efforts.

Launch an initial project that is almost guaranteed to succeed. It must be a win-win proposition. An example of this principle at work is what happened in Washington, D.C. when Lockheed Martin agreed to take over the maintenance and repair of city's parking meters before the partnership between the city and Lockheed, the city was losing revenue every time a meter sat broken. Lockheed agreed to repair and maintain the meters in exchange for a share of the increased revenues. As a

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The Initiating Stage

(continued from page 7)

result, both parties won. The city got meters in good repair and more revenue, and Lockheed got a cut of the collections and chances to bid on future work. ■

The Committing Stage

Once you've made the decision to move to the last stage of partnership development, the *committing* stage, the only task left to achieve full partnership is a joint strategic planning session. In this session, you solidify your future vision, spelling out the plans and how the two of you will achieve that vision together.

For example, KLM and Northwest Airlines do joint strategic planning for their marketing of the flight schedules. Coca-Cola and McDonald's joint strategic planning enables them to launch promotional activities.

The commitment to the partnership is further reinforced in the committing stage through the sharing of information and resources. As full partners, you should be ready to invest in the success of the other. For example, a french-fry producer liked the potatoes of a certain farmer in Idaho. However, the farmer did not have enough land to grow the number of potatoes required by the producer. The producer bought a nearby parcel of land and gave it to the farmer to use. After ten years, the land would become the farmer's property. Both sides of the partnership benefited. The producer increased his supply of potatoes, the farmer increased his production. ■

Case Study in Partnership: A True Story

Marty and Jean were employees at a large convention hotel in Minneapolis. Marty was maintenance supervisor and Jean was head of housekeeping. Marty had a staff of forty house engineers responsible for building maintenances and Jean managed about 100 housekeepers.

Neither Marty nor Jean could get along with each other. Separately they complained to the general manager. A major (and long-standing) source of conflict was Jean's contention that when the maintenance staff worked in a room, they didn't clean up after themselves. Thus, Jean's housecleaning staff had to completely redo the room. In addition, Marty and Jean disliked each other personally. Jean felt Marty was a bully; Marty felt Jean was oversensitive. Attempts by the hotel manager to resolve the disagreements between the two staffs and their leaders were unsuccessful. The manager asked author Dent for help.

The Assessing Stage

Dent began by meeting separately with Jean and Marty to understand their responsibilities and tasks. He then called them in together and asked each of them to explain their vision of what they wanted to accomplish for the hotel's guests. Their respective visions being similar, a joint vision was quickly reached: to assure that the guests had an orderly room and that everything worked.

Next came a detailed discussion on how each scheduled and accomplished their tasks. A scheduling problem was quickly revealed: There was no coordination between cleaning the rooms and maintenance work.

The Initiating Stage

Jean and Marty developed an Agreement between Partners Checklist. Among the items on the checklist were agreements to coordinate the activities between maintenance and housekeeping (specifically by reviewing the schedule of rooms to be maintained and coordinating the maintenance and housekeeping rounds); to work on conflicts with a win-win attitude; to use a weekly report of the number of rooms cleaned before maintenance as a measure of their partnership development success; and to use the number of times they met per week and the number of times an unresolved conflict forced them to go to the manager as two measures of their relationship development success.

Over the next month, 237 out of 240 maintenance calls were taken care of before housekeeping had cleaned the room. And they were meeting at least once a day.

The Exploring Stage

There was no need for a search for partners; the two knew that they were the ones who had to work together. However, Dent asked them to complete a compatibility analysis as a team-building exercise. The result: an agreement that they both needed to work on the relationship.

The Committing Stage

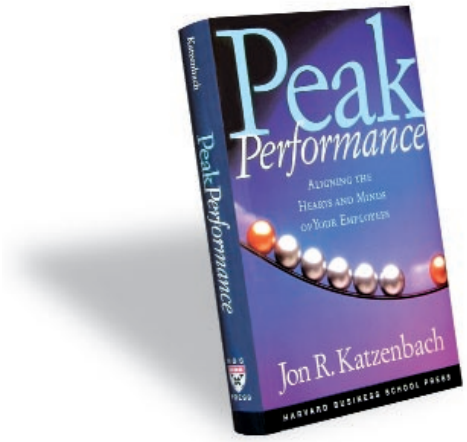
The initial activity between housekeeping and maintenance was so successful that Marty and Jean decided to expand their partnership. Some of the ideas discussed included ways maintenance could help housekeeping move heavy objects, discussions about the installation of low-maintenance bathroom accessories and helping in the laundry service. One example: maintenance found a way to attach various housekeeping implements to the housekeeper's service cart that required less lifting and the reduced the number of back strains. ■

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Peak Performance

Jon R. Katzenbach

SOUNDVIEW Executive Book Summaries®



By Jon R. Katzenbach

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PEAK PERFORMANCE

THE SUMMARY IN BRIEF

In today's increasingly competitive marketplace, companies are sometimes finding it difficult to satisfy customer demands while struggling with record low levels of applicants for open positions. Unemployment is lower than at any other time in recent memory.

How can companies balance the need to satisfy customers in an environment where workers are hard to find?

The answer lies in developing the workforce you do have into a peak-performance workforce — and recruiting new workers who are eager to join an organization that has achieved a balance between *employee fulfillment needs* and *enterprise performance requirements*.

In this summary you will learn how some of the very best build exceptional levels of employee performance and commitment by consistently pursuing one or more of five distinct paths to peak performance:

The Mission, Values and Pride Path. This path is characterized by a noble purpose, a rich history, team spirit and value-driven leadership.

The Process and Metrics Path. This path is characterized by clear measures and focused processes designed to reflect worker perspectives and performance priorities.

The Entrepreneurial Spirit Path. This path is characterized by high-risk, high-reward opportunities for employees. Workers gain significant "ownership" of the business and thrive in an environment where management is largely "hands-off."

The Individual Achievement Path. This path focuses on creating personal growth and individual advancement opportunities.

The Recognition and Celebration Path. This path features integrated approaches that recognize workers for their performance and celebrate their success — thus spurring workers on to new heights.

Let this summary help you decide where and how to generate and maximize the emotional energy needed to propel your company along the path best suited for it — thus allowing you to develop a higher-performing workforce that can deliver superior customer benefits every time.

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Balance the Needs of the Enterprise and the Worker

To qualify as a higher-performing workforce, a significant group of employees must demonstrate *emotional commitment* to the enterprise in ways that create a sustainable competitive advantage for the company. Your company likely benefits from a higher-performing workforce when:

- More than a third of individual workers consistently exceed the expectations of their leaders and customers.
- The average worker performs better than the average worker in the industry, usually because the company has a cohesive set of management systems, programs and motivating mechanisms.
- A strong emotional commitment to higher standards and aspirations is reflected across the workforce in ways that create a multiplier effect.
- The collective performance of major segments of the workforce, particularly the front line, forms the core of the company's competitive advantage and is extremely hard to copy.
- Leaders at all levels share the belief that front-line people are the key to success and engage their employees emotionally as well as rationally. Leaders also balance performance and personal fulfillment so that neither takes center stage — which is a lot easier said than done.

Achieving Emotional Commitment

The key to emotional commitment at the front line lies in maintaining a balance between *enterprise performance requirements* — such as shareholder return; market share; customer satisfaction; and work output and improvement — and *employee fulfillment needs* — including source of livelihood; social interaction; direction, structure and control; and identity, purpose and self-worth. While you can sometimes force performance through intimidation, insecurity and punishment, you can't expect the extra energy that comes only from employees who have a positive emotional commitment to perform.

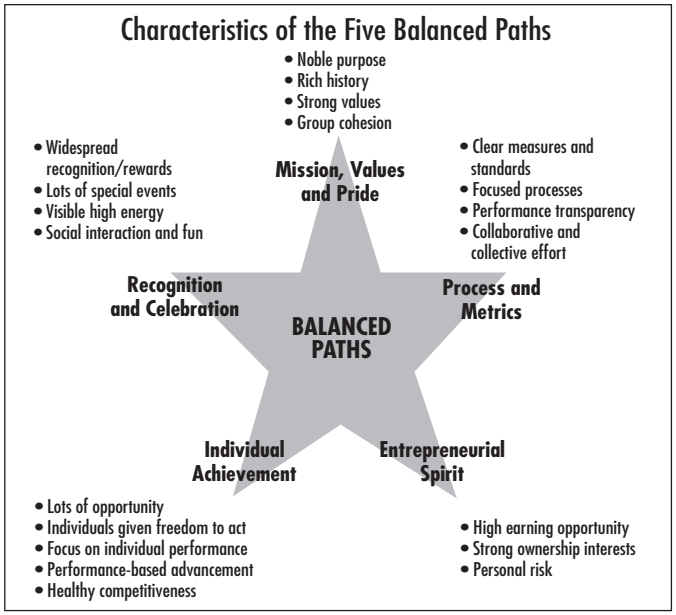
In sum, the best companies cultivate higher performance workforces because they strongly believe in the value of the individual worker. The result? Attractive growth and great value for their shareholders. Examples include Home Depot, where employees of the rapidly growing home improvement warehouse enthusiastically embrace customer satisfaction, and Kentucky Fried Chicken, which has returned to its roots by focusing on such things as the "Colonel's Dozen" rules of restaurant service. ■

Five Paths That Work

There are five paths to an energized "peak-performance" workforce. Each allows worker fulfillment and performance to remain or come into balance. The paths are:

1. **Mission, Values and Pride (MVP).**
2. **Process and Metrics (P&M).**
3. **Entrepreneurial Spirit (ES).**

(continued on page 3)



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Five Paths That Work

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4. Individual Achievement (IA).

5. Recognition and Celebration (R&C).

Choosing the right path to a balanced workforce requires a careful analysis of your organization's style, leadership and history as well as your marketplace. The five paths, which will be explored individually in the following five sections of this summary, constitute a composite framework of options that allow top management to make choices about how and where to generate emotional energy and which "alignment" approaches to use in channeling that energy into higher performance.

For the most part, companies do not create this energy from scratch. Instead, they draw on *energy sources*, such as past heroes or fierce competitors. Your company probably already has one or more sources of energy on which you can draw. The key is to identify and tap into these sources effectively. The sources of the energy will guide you to choose the most appropriate of the five paths. ■

The Mission, Values and Pride Path

Those who succeed in energizing workers along a Mission, Values and Pride (MVP) path typically benefit from an existing legacy of accomplishment, reputation and history in which front-line employees can take pride. Another characteristic is the strong identification of employees with the corporate values of the company. These values are so deeply ingrained in the enterprise that those who cannot accept them invariably leave.

Also, employees believe in the importance of the company's mission, which allows them to place the team's or company's interests on a par with their own individual interests when performance requires it.

The U.S. Marine Corps: Mission, Values and Pride

The best example of the MVP path is the U.S. Marine Corp, which draws on a 200-year history of defending American values. Perhaps no other organization — military or civilian — better demonstrates the power of a noble purpose and core values.

The primary source of energy that motivates the Marine Corps is its history and legacy of winning against all odds.

Marines are prepared to handle a variety of missions around the globe, and to win decisively. They succeed by drawing on a history that goes back to its birth in Philadelphia in 1775. Over the years, Marines have become legendary for their bravery and enthusiasm. During World War I the Germans called them "devil dogs." They fought a fierce battle and raised the flag over Iwo Jima. One Marine division defended itself against eight Chinese divisions during the Korean War. Bangladeshi flood victims rescued in 1989 called their Marine saviors "sea angels." With every victory and heroic rescue, Marines draw on, as well as add to, their unique history.

Another source of energy was Commandant Al Gray, an "up from the ranks" general who was able to revive the discipline, values and commitment of the Marines after the debacle of Vietnam.

The Marines use three approaches or tools to tap into and channel this energy in order to inspire and sustain a peak performance workforce comprised of people many corporate recruiters would reject:

Distributing Leadership Broadly. The Corps has an unsurpassed commitment to developing superior leaders. It selects high-caliber individuals with different patterns of leadership potential, instills in them the basics of Marine philosophy, and develops each with a combination of practical experience and mentoring.

Articulating What Matters Most. The minute new recruits step off the bus at the processing center and step onto yellow footprints on the ground for their first

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Perpetual Innovators at 3M

Another successful company choosing the MVP path is 3M. The company is the $15-billion-dollar producer of everything from office supplies to medical devices and cleaning products. Innovation plays a large role in 3M's success. Take the invention of Post-it Notes. The sticky memo pages are one of the top five office products sold in the United States. They were invented by 3M researcher Art Fry in 1980 because he was frustrated that the pieces of paper he used to mark hymns in his song book fell out between practices. He remembered that another researcher had invented a glue that the company had rejected because it wasn't permanent and thought it would be great to have temporary glue on a bookmark. The idea was, of course, brilliant.

The corporate vision that allows inventions like Post-it Notes was first introduced in 1948 by the company. It states:

> *"As our business grows, it becomes necessary to delegate responsibility and to encourage men and women to exercise their initiative. This requires considerable tolerance. Those men and women to whom we delegate authority and responsibility, if they are good people, are going to want to do their jobs their own way."*

The Mission, Values, and Pride Path

(continued from page 3)

encounter with their drill instructor, they begin learning the values of the Marine Corps. The first day, each recruit is given a card to carry with the Marine mission statement, "Honor, Courage and Commitment." The bulk of effort during boot camp will then be focused on value shaping, not skill building. Most recruits enter the Marines with poorly formed personal values; the goal is to change those values. Those who don't take to heart the core values don't make it through basic training.

Spreading and Regenerating Collective Energy. For example, new recruits are energized by their role models, the drill instructors. These instructors, in turn, are energized by the positive changes in the new recruits. In addition, the Corps makes the most of both individual and team achievements. No accomplishment goes unnoticed. ■

The Process and Metrics Path

To some degree every good company pursues the Process and Metrics path. The path is based on sound principles of accountability and consequence management. Performance goals are set, and revenue, cost and profitability measures are established, tracked and compared. The company reports on its competitive position and market share regularly. If this all sounds very familiar, it should. This is how most companies have chosen to measure themselves. But higher-performing companies who rely on the Process and Metrics path don't lean on it exclusively. Instead, they pursue one or more additional paths at the same time. In addition, they involve employees more actively in shaping the processes.

One successful enterprise pursuing the Process and Metrics Path in its manufacturing facilities is beauty products giant Avon.

Process and Metrics at Avon

Avon is probably best known for its 2.6 million-member direct marketing sales force, but should perhaps be better known for some of its excellent manufacturing operations. The company's mission is to "deliver quality products and services, defect free, on time every time, and at the lowest total delivered cost to our sales representatives and customers."

At Avon, the Process and Metrics (P&M) path works well because the cosmetic industry demands close attention to quality as well as cost. Quality problems would erode customer confidence and hurt future sales. To produce quality products, Avon must engage its workforce so it is willing to be measured against precise standards. The cosmetic industry is also subject to rapid changes in preference and products, so Avon must be capable of meeting changing demands against tight time constraints.

The dynamic global marketplace for beauty products and the accomplishments of Avon in this field are key sources of energy for employees. To channel this energy, Avon takes a number of different approaches.

One secret to Avon's success in using the P&M path is that **leadership is distributed broadly**. Workers are called associates, and supervisors are advisors. There is only one additional level in the hierarchy: leaders. Input and innovation is expected from everyone, whether associate, advisor or leader.

Avon clearly **articulates what matters most** through carefully thought-out metrics and measures. Workers know what is expected of them. Just as important, they play an important role in determining which metrics should be used.

Performance transparency is also key. Workers are frequently and publicly rewarded for meeting goals — and performance metrics are charted as often as weekly. Every processing station, assembly line and packaging operation has huge placards that display the relevant metrics on daily and weekly production, quality and safety activities — an open display of performance information that not only provides direct feedback but also a sense of accomplishment and pride.

At Avon, workers value the feeling that they belong to a family, and they want the manufacturing facility they work at to be the best. Many Avon workers, in fact, fully expect to work at the facility until they are ready for retirement — at one facility, the average seniority is fifteen years. ■

The Entrepreneurial Spirit Path

Entrepreneurs are a special breed. Few of us have the determination, courage and creative attributes required both to envision a unique business opportunity and to incur the personal and financial risks required to bring it to fruition. It is a high stakes game full of pressure. People who pursue this path do so for more than wealth; many simply want to create their "own thing."

Today, there's much talk about developing entrepreneurial spirit in established business operations. Unfortunately, this is a tough task. One example of the successful transfer of entrepreneurial spirit to a corporate structure is venture capital firm Hambrecht & Quist (H&Q), a Silicon Valley leader in financing rapidly growing entrepreneurial companies.

H&Q has cultivated — and sustains — a higher-per-

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The Entrepreneurial Spirit Path

(continued from page 4)

forming workforce by creating a high-risk/high-reward environment — thus following the Entrepreneurial Spirit path to peak performance.

The Entrepreneurial Spirit at Hambrecht & Quist

H&Q concentrates on growth companies in four sectors: high technology, health care, branded consumer companies and professional services companies. Its approach to serving emerging companies is to purposely mirror the way the companies it serves operate. It builds its business by finding high-growth-potential companies at an early stage and offering them financial services throughout their growth cycle, from private placements to mergers and beyond. Its best-known initial public offerings include Apple, Amazon and Starbucks.

H&Q draws much of its energy from its customers: passionate companies in exciting cutting-edge business areas led by energized and committed entrepreneurs. These emerging companies are still small enough to be influenced by advisors, thus enhancing the direct contribution of H&Q to their success. H&Q employees are excited about working with companies that are changing the way business is done and are thrilled to have the opportunity to work directly with upper-level management.

The fast-paced Silicon Valley marketplace and the firm's dynamic leadership are other sources of energy.

H&Q channels this energy into a high-performance workforce first by **creating widespread opportunity**. The firm offers big opportunities early and allows people to take risks and make mistakes.

The firm strives to **generate collective energy**, encouraging collaboration and teamwork, preferring a collegial atmosphere over the macho competitive atmosphere of Wall Street investment banks.

Leaders at H&Q **value their people** and treat them with respect. There is a non-hierarchical, open-door atmosphere where even junior employees can walk into upper-management offices to discuss professional or personal issues.

Finally, H&Q **carefully selects its employees**, looking for a cultural fit with the firm's core values. Intelligence, attitude and an admiration of entrepreneurs are more important than investment banking credentials.

The company offers a unique opportunity for entrepreneurial people to take risks in a relatively low-risk environment. Workers are given opportunities to invest in some of the companies they advise as a way of building personal wealth without the high level of risk actually starting a new company entails. ■

The Individual Achievement Path

America was built on the principle of individual initiative. Horatio Alger's stories capture the essence of rags-to-riches dreams, in which those who work hard will become successful, wealthy and happy. These visions are part of our shared understanding of how things work. Individual initiative is what many believe holds the key to success for individuals and companies. The Individual Achievement (IA) path incorporates our culture's belief that everything is possible with enough hard work.

It isn't surprising, then, that many companies want to incorporate the cultural norm of achievement into their corporate culture. The IA path lets workers say, "This company offers opportunities that allow me to take initiatives and lets me be judged and rewarded based on my achievements."

In order to make the IA path work, you will have to make sure your company is deeply committed to developing people. Training, coaching and evaluation all take center stage on the Individual Achievement path. Along with that commitment comes a belief on the part of the leadership that every worker has the ability to contribute to the company's overall mission. IA path companies also are known for going to extraordinary efforts to help employees in need.

Home Depot is a good example of a company pursuing the IA path.

The Individual Achievement Path at Home Depot

Home Depot started as a local hardware store and within twenty years has grown into one of America's most successful ventures. Sales for the nearly 700-store chain topped $24 billion in 1998 — rather remarkable for a company started by two mavericks, Bernard Marcus and Arthur Blank, who had just been fired from their jobs at Handy Dan's, a Los Angeles-based hardware chain.

The affection generated by Bernie and Arthur, as most employees refer to the two friendly founders, is one important energy source for Home Depot workers. Also important: an obsession with the customer. The Home Depot approach to hardware is to offer superior customer service and low price on a vast array of merchandise.

One key to the success of Home Depot is instilling every associate with a sense of ownership. Every manager, for example, controls what is sold in the store, who is hired, what they are paid, and how much inventory to carry.

Home Depot emphasizes individual achievement, job

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The Individual Achievement Path

(continued from page 5)

enhancement, and broadened personal achievement. For example, it gives its employees more freedom than is usual in retail to innovate in their responses to customers. Almost every promotion is from within. And employees can acquire real ownership of the company through the stock purchase plan.

In sum, Home Depot **shows people their true value**, **creates widespread opportunity**, **distributes leadership broadly** and **enhances the work itself** — four approaches key to pursuing the IA path.

Ask top Home Depot executives what their chief competitive advantage is and they will tell you it's their associates (the company's name for employees.) This sincere attitude explains why Home Depot has been successful on the IA path. ■

The Recognition and Celebration Path

Most good companies make a conscious effort to celebrate the accomplishments of their people with rewards that don't involve money. These efforts range from Christmas parties and picnics to employee-of-the-month awards, million-dollar sales clubs and handwritten thank-you notes from top management.

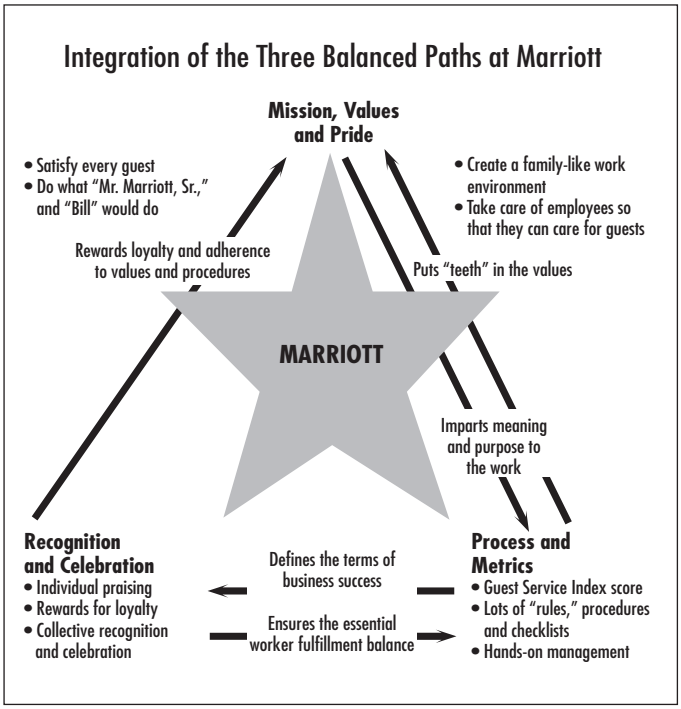
Those choosing the Recognition and Celebration (R&C) path to peak performance, however, go far beyond the annual picnic; they will use any excuse to celebrate employee accomplishments. Typically in businesses that offer few opportunities for monetary rewards and incentives — and for stimulating work — R&C companies nevertheless find ways to effectively motivate their employees.

It should be noted that R&C companies usually combine this path with other paths. Recognition and Celebration is almost never the primary path. Marriott International, for example, combines the Recognition and Celebration path with a strong Process and Metrics path as well as the Mission, Values and Pride path.

Recognition and Celebration at Marriott

Marriott started in 1927 as a root beer stand in Washington, D.C. From there it grew into a chain of restaurants, and finally into an international leader in hotel operations. The company places employees at the top of its value chain, creating a peak-performance workforce. The company's stated goal is to become the employer of choice in any market in which it develops a property or establishes a presence.

In an industry that can't rely on high financial rewards to attract workers, the company has chosen to praise a



job well done. This taps into people's insatiable desire for recognition. One example is the Marriott Pathways to Independence program, which trains welfare recipients into productive workers. At the end of training, participants get a framed certificate, a permanent nameplate and a job.

Like many other companies, the demographics of the Marriott workforce consists of untrained workers who need a job to provide for basic family needs. Because the company draws from a demographic group whose members may at times lead chaotic lives, there is a premium set on providing a clear sense of order, discipline and direction. People need structure for stability and consistency, which then enables them to gain fulfillment in other parts of their lives.

In addition, the workforce consists largely of first-level entrants who come from dozens of ethnic backgrounds. Marriott emphasizes the idea that workers are part of the family and assimilates them.

Marriott manages to integrate three paths successfully. The pursuit of customer satisfaction is the primary source of energy at Marriott. The Marriott culture is thus driven by customer reaction, which is measured and reported on relentlessly — reflecting the Process & Metrics path. For example, every associate gets regular reports on customer feedback through a performance measure nicknamed the "Guest Service Index" or GSI. Then there is the rich history of the company, which serves as the Mission, Values and Pride energizer. Finally, there is the recognition and celebration of associates who make it possible for customers to walk away satisfied. ■

Applying The Lessons Learned

Not every company needs or wants the kinds of higher-performing workforces described so far. Many enterprises can achieve success focusing on traditional consequence management and remain satisfied with average workforce performance. But if you see a lasting value in the pursuit of a strong emotional commitment within key segments of your company's workforce, you are ready to embark on one or more of the five paths.

Whichever path(s) you choose to adopt for your company, the most critical factor is the relentless determination to balance enterprise performance with worker fulfillment. Achieving that balance requires more than one source of emotional energy plus the desire to channel that energy into performance results consistently over time.

Generating the Energy

The most compelling sources of emotional energy for companies can be grouped into three categories:

Magnetic Leaders. Magnetic leaders often start with an impossible dream. Examples include Michael Dell's decision to sell computers without wholesalers or retailers in the distribution chain and Sea-Land Services founder Malcolm McLean's decision to transform global shipping by combining railroads, trucking and ocean shipping to create containerized shipping. Seemingly impossible dreams inspire.

One of the most notable characteristics of a magnetic leader who can tap into workforce energy is the ability to tell a compelling story. But a magnetic leader can't do it all for long. Such leaders often provide the jump start a company needs to get energized. However, over the long haul, other factors, including dynamic marketplaces, come into play — although the leader's "legend" will continue to galvanize employees.

Dynamic, Chaotic Marketplaces. Unpredictable and explosive marketplace dynamics can also provide compelling sources of energy. Responding to such a marketplace requires carefully listening to the customer. Indeed, an obsession with a satisfied customer is a characteristic of many high-performing workforces. A truly delighted customer can be a powerful source of energy for a workforce. In the same vein, explosive growth is also energizing. This is natural since growth means increasing opportunities for those who are delivering that growth for the company. But explosive growth eventually trails off, so don't depend on it for sustained energy. Fierce competition can also fuel high energy levels. Competition taps into the human desire to be a winner, and is essential for sustaining a competitive advantage.

Compelling Legacies. Legacies on which your workforce can draw are another source of immense energy. Take the Johnson Space Center. Long after the last moon landing, the workforce is energized by the legacy of those historic space events that captured the minds and hearts of millions around the world. Legends create pride in individual as well as group efforts.

Management Practices

Unfortunately, not all companies can tap into all three kinds of sources. Nor will every company with all three kinds automatically be able to transform the workforce into a high-performing one. Finding the source for generating emotional energy is only half the battle. To achieve higher levels of performance for your company, you must work at aligning the extra energy using the three techniques that follow:

Build Personal Self-Image. The first alignment tool is to build your workers' personal self-image. Workers must be constantly reminded that what they do matters to the company and its customers. They must be made to feel special, no matter how menial or routine their job. You must show people their true value to the company, the customer, their families and themselves. Mistakes are understood and accepted, and well-intentioned personal initiative is rewarded.

Employees need a complete picture of the context in which they work. When workers see the big picture, they understand the internal and external environment in which they work. Regular "town meetings," reports on customer satisfaction, and competitor tracking are essential.

Keep the Focus on Performance. Next, you must sustain the focus on enterprise performance. Focus on performance requires you to use a myriad of appropriate selec-

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Creating Strong Self-Images

Creating employees with great self-images requires you to invest heavily in training, development and the creation of opportunity and to always:

- show respect for all individuals at all times,
- place importance on **every** job in the company,
- encourage mutual trust and confidence.

Three Compelling Springs of Energy

- Magnetic leaders with impossible, larger-than-life dreams who capture the imagination;
- Dynamic marketplaces created by aggressive competitors and demanding customers; and
- Remarkable legacies of accomplishment, complete with legends, heroes and martyrs.

Applying the Lessons Learned

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tion, evaluation and recognition tools to inspire, develop and excite workers into world-class performance.

It all starts with *purposeful selection* of workers who fit the needs of the organization in skills and personality, and proper placement of those hired. Applicants must be screened carefully to ensure that the environment in which they will work is compatible with their skills, attitudes and beliefs.

Articulate what matters most so that workers know what to deliver. At NASA, it's crew safety; at Marriott, guest reaction; and at Avon, complete and on-time orders. Every organization must determine what it is that matters most and find a way to communicate that to the workforce. Don't let them guess at priorities. Instead, provide performance transparency so that employees know what is expected of them and how it will be measured. Workers are more likely to please if they know how they will be measured.

Make recognition and rewards meaningful. Don't reward average performance at the same level as superior performance and make sure rewards are meaningful to the recipient.

Open up options and opportunities. Let workers have a sense of personal challenge. You will succeed if you *create widespread opportunity.* If your company is in a high-growth stage, this will be relatively easy. If it is not, you will have to go out of your way to find ways to make jobs more interesting, challenging and exciting. Take the case of a typical manufacturing plant, Hill's Pet Nutrition. Workers are given the opportunity to do more than work in the line. Some even serve as part-time tour guides.

Distribute leadership broadly. A distributed leadership system will be essential to the organization of the future. Distributing leadership means that many people at many levels play leadership roles as needed. Leadership becomes everyone's responsibility and created opportunity.

Enhance the work itself so that specific jobs or work activities are enjoyable, meaningful and satisfying. People work hard at what they do when they get great personal satisfaction out of the work they do. ■

Enforcing Disciplined Behavior

While the sources of energy and alignment approaches may vary, one constant element runs through high-performing workforces. That principle is discipline where it counts. Enforcing disciplined behavior is the only way that an enterprise can hope to ensure a balance between enterprise performance and worker fulfillment. Self-discipline rarely occurs in large organizations without wise enforcement by top management.

Perhaps the best example of the use of enforcement to instill self-discipline can be found in the Marine Corps. With a combination of institutional and peer pressure discipline, Marines learn how to discipline themselves. Another example is the disciplined punctuality that characterizes Southwest Airlines. Meetings begin on time, not a minute late or a minute early. Planes are turned around in 18 minutes. Luggage reaches the carousel within 10 minutes. As a result of disciplined punctuality, the airline serves 2,400 customers per employee daily in an industry where the nearest competitor only serves half as many.

Higher-Performing Management

If you are going to create a higher-performing workforce, you must also create a higher-performing management group. Managers of higher-performing workforces face special challenges. Crucial to success as a manager is the notion that you must look for those "moments of truth" when something can be done for employees that will earn their best efforts and loyalty for years, even if it means making a decision contrary to company policy.

Finding and following your path to a higher-performing workforce is demanding and can be fearful. The challenge is not for every company, nor is the job ever done. Maintaining the momentum is like hitting a moving target. The dynamics of a competitive marketplace push market leaders to better their previous best efforts. But for those who choose to face the challenges, difficulties and inevitable setbacks along the way, the benefits are well worth it. ■

Disciplines

High-performing workforces are self-disciplined in a number of areas. These include:

- **Punctuality:** Employees arrive on time, meet deadlines and maintain schedules.
- **Cost:** Employees learn to provide the most with the least.
- **Customer Service:** Workers know it's the customer who matters most.
- **Recruiting and Training:** The right people are hired and trained even if that means operating without some key positions filled from time to time.
- **Common Language:** Companies develop ways of communicating that bond workers.

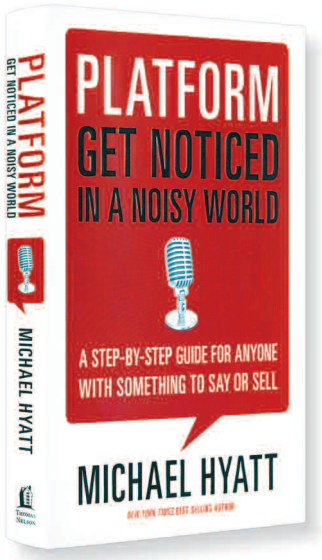
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Platform

Get Noticed in a Noisy World



by Michael Hyatt

THE SUMMARY IN BRIEF

When there were three TV channels and two kinds of toothpaste, quality alone could sell itself. But, in a global economy crowded with millions of competitors, quality is just the beginning.

The real challenge is getting the attention of those who might buy your product or service. Two little words have combined to make this easier, less expensive and more possible than ever: social media. Websites, blogs, apps and social networks — used in concert and with savvy — can connect you with your global audience. No gatekeepers. No massive fees.

Michael Hyatt knows this from experience. An author, agent and publisher for more than 30 years, he has spent the past eight years creating an online following that numbers in the hundreds of thousands — all while leading the largest inspirational publisher in the world.

But a flashy website is not a platform. A Facebook page joins millions just like it. Creating an effective platform is the key to success, but it is not simple. In *Platform*, Hyatt condenses his expert knowledge into step-by-step plans for building your now virtual stage.

IN THIS SUMMARY, YOU WILL LEARN:

- How to create a compelling product and package it with the wow effect and a great name.
- How to create an elevator pitch for your product, service or cause.
- The elements of providing a wow experience.
- What common blogging mistakes you need to avoid.
- How to deal with the issues of not enough comments or too many.
- How to protect your intellectual property without shutting out your readers.

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THE COMPLETE SUMMARY: **PLATFORM**

by Michael Hyatt

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Part One: Start with Wow

More than four centuries ago, William Shakespeare wrote, "All the world's a stage." If you have something to sell — whether one-on-one, before a huge crowd or on the Internet — you are also on stage.

But the stage has never been more crowded — and simply being on it doesn't matter much if the lights are not shining on you, or if there is no one in the audience. There is something you need. It's called a platform.

Very simply, a platform is the thing you have to stand on to get heard. It's your stage. But, unlike a stage in the theater, today's platform is not built of wood or concrete or perched on a grassy hill. Today's platform is built of people. Contacts. Connections. Followers.

There are two critical parts of the success equation: a compelling product and a significant platform. There is no sense in wasting your time and resources trying to build buzz about a ho-hum product. As marketing guru David Ogilvy once wrote, "Great marketing only makes a bad product fail faster."

The purpose of marketing is to prime the pump. But if people don't want to use your product and — more importantly — if they won't recommend it to their friends, you're hosed.

To be compelling in this crowded marketplace, you need to do three key things:

1. Create products you would personally use. Your enthusiasm for your product must be real and believable. You're not just trying to sell something; you're sharing an experience.

2. Create products that solve problems in unexpected ways. Don't just create something with additional features. Rethink the solution.

3. Create products that exceed your customers' expectations. Never rush something to market with a sigh and a collective, "Well, I guess that will have to do. It's not great, but it's good enough." Instead, aim high and execute even higher.

If you create outstanding products, everything else becomes much easier.

Give Your Product a Memorable Name

You have to give your wow product or service a name that will help it connect with the prospect. What you call it is more than just a title; it's your No. 1 marketing tool.

This is arduous, time-consuming work. Yet nothing in the marketing mix is more important than a strong title. It's like a headline: If prospective readers are intrigued, they keep reading. If they aren't, they move on to the next thing that catches their attention.

Great titles are PINC (pronounced "pink"). They do at least one of the following:

- **P: Make a promise.** Example: *POWER 90: Tony Horton's Total Body Transformation 90 Day Boot Camp Workout* (DVDs).
- **I: Create intrigue.** Example: *Steve Jobs: One Last Thing* (movie).
- **N: Identify a need.** Example: Mommy I'm Here Child Locator (wireless GPS bracelet for kids).
- **C: Simply state the content.** Example: College Hunks Hauling Junk (service).

The bottom line: The right title for your product, service, website or blog can make or break you. It's worth spending the time to get it right. ●

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Melissa Ward**, Contributing Editor

Part Two: Prepare to Launch

Are you prepared to take full personal responsibility for building your own platform or are you thinking of hiring a "babysitter" — someone else to do it for you? If the answer is a wobbly "I guess I'll do it," then ask yourself why.

Are you afraid because you don't know what you're doing? You're not alone. It can seem a daunting and complex task. But there are four reasons you must take responsibility yourself:

1. No one knows your product better.
2. No one is more passionate about your product.
3. No one has more skin in the game.
4. No one is likely to do it if you don't.

Take a long look in the mirror. The person you are looking at is your new chief marketing officer. Take responsibility for your own success and invite others to join you in the endeavor.

Create an Elevator Pitch

Part of launching successfully is being prepared to present your idea — your product, service or cause — succinctly. To do that, you need an elevator pitch: a short summary (30 seconds to two minutes — the length of a short elevator ride) of your product offering, including your target market and your value proposition.

People with successful platforms have often spent hours honing and practicing their elevator pitches. The stakes are huge. If they're successful and connect with a potential customer, they win the opportunity to take the next step — a potential product sale or time to present their message.

An elevator pitch for an information product should consist of four components:

1. Product name and category.
2. Problem you're attempting to solve.
3. Proposed solution.
4. Key benefit of your solution.

Here's an example of the pitch for this book:

I'm writing a new [Component 1] business book called Platform. *[Component 2] It's designed for anyone trying to get attention for his or her product, service or cause. [Component 3] I teach readers how to build a tribe of loyal followers using social media and other new technologies. [Component 4] I explain that it's never been easier, less expensive or more possible than now.*

Pitches can vary widely, depending on your offering. Regardless, you want to create an elevator pitch that is clear and compelling. This is a prerequisite to attracting the partners and prospects you need to succeed.

Once you get your elevator pitch fine-tuned, don't deliver it like a mechanical parrot. Instead, do what Michael Port suggests in chapter 4 of his excellent book, *Book Yourself Solid*: use it as the foundation of a meaningful conversation.

Secure Raving Endorsements

Easy access to social media, review sites and product comments means we depend more on what other people say about a product or service before we make a purchase. Relying on endorsements has become commonplace in almost every area of life. Why? Because with so many options, few of us have time to do the evaluation ourselves. Instead, we rely on the opinions of people we trust.

This is why — if you're going to build a successful platform — you can't afford to ignore endorsements. Endorsements fall into one of two types:

1. Celebrity endorsements. These don't have to be movie or TV personalities; they may simply be the well-known experts in a narrow field.

2. User reviews. While a celebrity endorser may have all kinds of motives for endorsing a product or service, individuals are more likely to be candid.

Ten Elements of the Wow Experience

1. **Surprise.** It exceeds expectations and creates delight, amazement, wonder or awe.
2. **Anticipation.** As you begin to think about it, you begin to live the experience in advance.
3. **Resonance.** It touches the heart.
4. **Transcendence.** It connects you to something transcendent: a purpose, meaning or more.
5. **Clarity.** It creates a moment in which you see things with more clarity than before. You suddenly "get it" in a new way.
6. **Presence.** It creates timelessness — it puts you fully in the present.
7. **Universality.** Almost everyone will experience it in a similar way.
8. **Evangelism.** It has to be shared; you can't contain it.
9. **Longevity.** The shine never wears off this experience.
10. **Privilege.** It makes you proud to be associated with the experience.

Once you create a great product, follow these steps to get endorsements for it:

1. Create a great product. This advice is worth repeating. People who matter are not going to endorse a mediocre product. They can't afford to.

2. Make a prospect list. Don't be too quick to rule someone out because you don't think you have access. You may not know the prospective endorser, but you may know someone else who does.

3. Leverage one endorsement for more. Sometimes prospective endorsers need to see an endorsement from someone else in order to get comfortable with your product. Obtain an endorsement from someone who'd be willing to, based on your relationship, and include it with your other requests.

4. Ask for the endorsement. Get to the point and try to ask them when they'd be the most receptive.

5. Provide guidance, samples and a deadline. Include a brief description and perhaps a sample. Then offer to send them the entire product. Tell them the kind of endorsement you're looking for; the more specific, the better.

Part Three: Build Your Home Base

The planks to your platform include everything from Twitter, Facebook, your blog, your website, even traditional media. And learning how to weave all of these things seamlessly is an art unto itself. A good social media strategy has three components:

1. A Home Base. This is a digital property you own and control, where loyal fans gather. It can be as simple as a blog or website, or as complex as a self-hosted community. It's where you direct all Internet traffic.

2. Embassies. Places you don't own, but where you have a registered profile. You engage in conversations with those who congregate there. Examples include Twitter, Facebook, LinkedIn or other blogs you follow.

3. Outposts. These are places you don't own nor do you have a regular presence. Instead, you listen to conversations about you, your brand, your company or topics that interest you. Examples include Google Alerts and HootSuite.

Start a Blog (or Restart One)

For many of us, the heart of our home base is our blog, and starting one is easier than you may think. First, determine a theme: What will your content be focused on? Before you begin, ask yourself two questions:

1. Can you generate high-quality content on a regular — at least three times a week — basis?
2. Will your content attract a loyal and growing audience?

Don't invest a bunch of time and money until you can answer these questions with a resounding yes. The truth is, most people who start a blog quit within a few months.

If you can answer yes to both of the above questions, then move on to selecting a service, like WordPress.org, TypePad.com or Blogger.com, to host your blog. There are numerous free options, as well as highly customizable self-hosted ones. Next, set up your blog and select your design theme. Then it's time to write your first post! If you don't know where to start, a simple welcome post can break the ice and get you started.

As you continue to work on your blog and post content, you may want to look into an offline blogging client, which enables you to write when you're not online, then upload your post when you connect to the Internet. This isn't a necessity, but it will make blogging much easier.

Finally, be sure that you're writing regularly to ensure you build readership. If people like what you write, they'll come back.

Protect Your Intellectual Property

It's inevitable. If you're a successful blogger, people are going to steal your content — your intellectual property. So what do you do? There are eight ways to protect your intellectual property online:

1. Understand copyright law. Your post is protected from the moment you create it. You don't have to register it. It's your intellectual property and no one can legally reproduce it. However, the law only protects the expression of your idea, not the idea itself.

2. Publish an official copyright notice. This is not required to protect your work, nor does it grant you any additional rights. However, it reminds the world that this is your intellectual property. Consider using a copyright notice in your blog's footer so that it appears at the bottom of every page.

3. Create an explicit permissions policy. Create a separate page spelling out exactly what people may do with your content with permission and without permission. Be explicit. This will keep people from contacting you about every use of content, but it also will give you a published standard to refer to when someone violates it.

4. Give the benefit of the doubt. Not everyone who reposts your content does so maliciously.

5. Request that your post be removed. You can

do this via email or in a comment. Still, be gracious and assume the unauthorized user's motives are good. Point the user toward your permissions policy and suggest he or she post an excerpt instead.

6. Demand that the unauthorized user take down your content. If the offender does not respond to your previous request, escalate things by sending a "demand letter" or email insisting that the content be taken down.

7. Notify the infringer's hosting service. If there is still no cooperation, you need to do some research. Find his or her "WhoIs Record," using a tool like DomainTools. This will show his domain registration information, including who hosts the site. Send an email to the hosting service, requesting a "take-down" of the website and explain why. Legitimate services will investigate and, if they agree, send their own demand to the offender. If he or she doesn't comply, they will take down the site.

8. Hire an attorney to take action. If the service provider is shady, incompetent or offshore, you may need to hire an attorney. Remember, you have to weigh the cost of litigation against the damage you believe is being done.

Don't deprive your legitimate audience of your content because you have an occasional person who violates your copyright. It's just not worth it. In the end, the more people who reproduce your content — hopefully giving you credit and link-backs — the more people will be exposed to it. Ultimately this will benefit you.

Avoid Common Blogging Mistakes

Assuming you want to increase your blog traffic, there are certain mistakes you must avoid to be successful. If you commit these errors, your traffic will never gain momentum. These are the top 10 traffic killers:

1. You don't post often enough. You cannot build solid traffic without frequent posts.

2. You post too often. Yes, this is possible, too. You'd do better to focus on writing one really great post a day rather than several mediocre ones. The trick is to find your frequency sweet spot.

3. Your post is too long. Seth Godin is the master of the short, pithy post. His are usually in the 200-400 word range. You can even get away with longer posts — upward of 600-700 words — if they are scannable, using subheads, lists and other devices to keep people moving through your content. If a post is getting too long, consider breaking it up into multiple posts.

4. You don't invite engagement. Engagement is a combination of page views, reader comments and social media mentions.

5. You don't participate in the conversation. People want to have a conversation — with you.

6. You don't make your content accessible. Readers have shorter attention spans. They are scanning content, looking for items that interest them. You must remember this.

7. You don't create catchy headlines. Your headlines are the most important things you write. According to Brian Clark, who runs the popular site CopyBlogger, "on average, eight out of 10 people will read headline copy, but only two out of 10 will read the rest."

8. Your first paragraph is weak. This is critical. You must use this paragraph to pull readers into the rest of your blog post. The idea is to grab their attention and hang on to it. Many bloggers spend too much time trying to set up the post or provide content. Just get to the point.

9. Your post is off-brand. If you're trying to build a platform, you need to find an editorial focus and stick to it. A tighter focus leads to higher traffic.

10. Your post is all about you. Unless you are a megacelebrity, readers don't care about you. They care about themselves. They want to know what's in it for them. Your personal stories can be a doorway to that but, in the end, the best posts are about your readers' needs.

Develop Your Landing Pages

A website landing page highlights one specific product offering. The goal is to convert interest into action. In a sense, it's a salesperson who works for you nonstop. For example, the Speaking page on an author's blog would be designed to convince meeting planners to book the author to speak at events.

The problem is landing pages can be confusing. Visitors don't know what action to take once they get there. To combat this, here are seven characteristics of landing pages that get results:

1. Headline. You need a strong, compelling headline. Nothing else on your page is more important than this.

2. Sales copy. You need to write compelling sales copy that starts with your customer's problems and concerns, explains why your product is the solution, and makes a compelling offer.

3. Product photos. Software like BoxShot 3D gives you the tools to make your product the hero.

4. Testimonials. Nothing convinces people to buy like testimonials.

5. Guarantee. Make it easy for customers to trust you and take the risk out of the transaction. Promise to refund money promptly if they are not satisfied. If your product is good, it is not a risk.

6. An offer. You have to establish a price and make an offer. Remember that people often impute value based on price. If you charge more (within reason), they assume the product is worth more.

7. Call to action. You must ask for the sale. It must be clear, unequivocal and positioned in a prominent place.

If you're launching a new product, service or cause, you need a landing page that delivers results. This is essential if you're going to convert readers to customers, and, from there, to tribe members.

Part Four: Expand Your Reach

It takes marketing to build a powerful platform, right? Well, traditional marketing, while not dead, has morphed dramatically in the world of social media. Tribe-building is the new marketing. Marketing is no longer about shouting into a crowded marketplace; it's about participating in a dialogue with fellow travelers. It's no longer about generating transactions; it's about building relationships.

Building Up Your Blog

You're posting frequently, writing focused content and being engaged with commenters. What else can you do to improve your blog traffic?

• **Get your own domain name.** Make it easy for readers to pass along your blog. What do you think is easier: yourname.wordpress.com or yourname.com? This is the foundation of branding and it makes your blog memorable.

• **Include your blog address everywhere.** In your email signature, on business cards and on stationery. It should appear virtually everywhere your name appears, particularly in your social media profiles.

• **Make it easy to subscribe to your blog.** You don't want to depend on your readers to remember to come back to your blog. Instead, you want them to subscribe, so they get every post you write, either by RSS or email. Provide both options and position the buttons prominently.

• **Optimize your posts for Search Engine Optimization (SEO).** You want people to find you when they search one of your keywords or your name. There are tools such as All-in-One SEO Pack and Scribe that can help you do this.

• **Comment on other blogs.** As you read other blogs, leave comments — not spam invites to read your blog, but instead engage in the conversations that interest you and build credibility. Register with their commenting system so there's a link back to your blog.

• **Write posts for other bloggers.** Guest posting is great for search engines, introduces you to new communities (and them to you) and allows your ideas to spread more freely. Consider who you'd like to guest post for, read their guidelines and make sure what you have to write will be of interest to that audience. Contact that blogger and, if he or she agrees, write a post for his or her blog. Once it's published, promote it via email, social networks and such. Post an excerpt on your own blog and link to the whole article. And, of course, interact in the comments.

Watch These Metrics

When people try to get a feel for how meaningful your platform is, most look at specific social media stats as a proxy, including those specifically related to blogging, Twitter and Facebook.

To get accurate blog stats, you should sign up for a free Google Analytics account. This is the gold standard when it comes to reporting Web stats. Here are six stats that most people fluent in social media deem relevant:

1. Unique visitors per month. The key word here is "unique." One individual may visit your blog three times in one week, but this would only count as one unique visitor. Note: RSS and email subscribers do not count toward your total.

2. Page views per month. If you divide this number by your total unique visitors, you'll get the average number of pages viewed by each visitor. This number is important to prospective advertisers on your blog. Why? Because they're basically buying the specific number of impressions their ad will get on your site.

3. Percent change in the last 12 months. This is the rate of growth in the last 12 months. Here's the formula: unique visitors in the last 30 days, minus your unique visitors for the same period 12 months ago, divided by your unique visitors for the same period 12 months ago, multiplied by 100.

4. Average number of comments per post. This demonstrates how engaged your audience is with your content. Not all commenting systems keep track of this stat, but there are systems available, such as Disqus.

5. Total number of blog subscribers. The people who subscribe via email and RSS represent your most loyal readers or superfans. They've made the effort to sign up to receive your content. More importantly, they've given you permission to push content to them.

6. Total number of Twitter followers or Facebook fans. These are the two primary vehicles you'll use to get the word out about your new blog posts. While the total number of followers can be important, it's more important to show how engaged they are.

Embrace Twitter

One of the most important tools to expand the reach of your platform is Twitter, a real-time network that connects you to the latest information about what you find interesting, in 140 characters or less. Tweeting requires very little time, and can be done from a Web browser or mobile device.

Twitter offers an unparalleled opportunity for brand building, social networking and customer engagement. The service is free, but you must be able to devote the time. If you aim to tweet regularly throughout the day — sharing insights, informing followers of new blog posts, responding to replies and direct messages, etc. — you might spend 20-30 minutes once you add it all up. That's not a big investment of time, especially for the benefits you'll receive. The key is to be intentional and not allow it to become a huge time suck.

Get More Twitter Followers

Some argue that the number isn't important and that having quality followers — those who aren't spam bots and are real, engaged people — is better. So let's look at how you can build your follower base and make it a quality list:

• **Show your face.** The absence of a photo often tells others that the Twitter account is a spammer or newbie. You can use a headshot, company logo or some other image.

• **Create an interesting bio.** Don't leave this blank; it's one of the first things potential followers review.

• **Make your Twitter presence visible.** Make it easy for people to follow you — and for others to promote you. Display links to your Twitter account in your email signature, blog or website, business cards, etc.

• **Share valuable content.** Point people to helpful resources. Create content that others look forward to getting and want to pass on via retweets.

• **Post frequently, but don't flood your followers.** No one wants you hijacking their Twitter feed. You can use a service like Buffer to spread your tweets out throughout the day.

• **Reply to others publicly.** This shows you're listening and sociable (of course, send a direct message — DM — when appropriate).

• **Be generous in linking and retweeting others.** Twitter fosters a culture of sharing. The more you link and retweet others, the more people will reciprocate.

• **Avoid too much promotion.** You can promote blog posts, products, events and more on Twitter, but do not cross the line into looking like a spammer.

• **Don't use an auto-responder.** This is just more clutter and isn't personal.

Employ Consistent Branding

Whether you design your own pages for your blog, Twitter, Facebook and more, or have them designed for you, here are four elements you want to include on a consistent basis across all platforms:

1. **Your name.** Use it in exactly the same form in every instance.
2. **Your logo.** It also could be a type of font that is associated with your name.
3. **An avatar.** Have your headshot done by a professional photographer and use the same one in every application.
4. **A branding statement.** This could be a slogan, a sell-line or even the name of the product or service for which you are known — or would like to be known.

A consistent brand is vital for a strong platform and it should be one of your top priorities.

Part Five: Engage Your Tribe

One important word about building your brand via your platform: This isn't an opportunity to blast your message out to thousands of followers for free and sell them stuff. Social networks — Twitter, Facebook, Google+, etc. — are relational tools, not transactional ones. No one wants to be spammed. If you want to build a social media platform — one where people listen to you — then you have to be a giver, not a taker.

Comments: How to Deal With Not Enough or Too Many

There's hardly anything more discouraging than blogging about something you think is important and then waiting for comments ... just to hear crickets.

Conversely, there are few things more rewarding than having people comment on your post and engaging directly with your readers. Here are seven strategies to get your readers more engaged:

1. End your posts with a question. The more open-ended you make your posts, the better.

2. Use a threaded comment system. This allows readers to comment in-line and reply to others.

3. Display your comment count prominently.

4. Make it easy. Yes, comment spam is a problem, but most modern blog systems catch this. Don't require registration and don't use annoying technology like CAPTCHA to prevent robot spam.

5. Participate in the conversation. Your readers want to engage with you.

6. Reward your best commenters. You can list your top commenters in your sidebar and recognize them publicly. Be creative.

7. Don't overact to criticism. If people see you as sensitive, defensive or rude, they won't feel free to participate in the conversation.

Comments are also one major way in which blogging is different from all other forms of writing: You get near-instant feedback. This is gratifying, but it also can be a challenge to keep up with your readers.

Monitor Your Brand

It takes years to build a brand. Unfortunately, there aren't many shortcuts. You build a brand — like a reputation — one impression at a time.

Twenty years ago, if a customer had a bad experience with your company, it didn't quite matter as much. Sure he or she could tell friends and family and, eventually, it could catch up with you, but it wouldn't happen overnight.

But, today, digital communication has changed everything. Brands can be damaged in a few days. Whether you like it or not, people are talking about you, your brand or your organization online. Do you know what they're saying? Do you like what they're saying?

Here are four actions you can take to monitor your brand online:

1. Sign up for Google Alerts. It's fast, easy and free. Once you sign up, you can enter the names of those you want to monitor, such as your personal name, company name, brands, products, etc.

2. Use Twitter search. This is similar to Google Alerts and can be saved as a bookmark on your browser.

3. Engage in conversation. Thank people for positive comments. Respond to negative comments so your brand is represented.

4. Solve the problem. You'll get credit for listening and even more credit for responding. But your job isn't finished until you follow through and solve the person's problem. Granted, you can't satisfy everyone, but you should try.

If you are responsible for building or maintaining a brand, you need to know how to monitor your brand online, as well as defend it. Here are seven suggestions for defending your brand in the digital age:

1. Build an online presence. The time to build an audience of followers and fans is before you need it.

2. Monitor the conversation. You know precisely what is being said, by whom and how you can respond if you choose to do so.

3. Respond quickly to criticism. If you don't respond quickly, you lose control of the conversation.

4. Admit your mistakes. When you mess up the only acceptable response is to take full ownership.

5. Understand the lifetime value of the customer. Customers are worth more than a single transaction, especially if they come back to you for more. Do you know what the lifetime value of your customers are?

6. Empower your employees — or yourself — to solve problems. It's amazing how fast you can turn a bad customer experience into a good one when you empower a frontline employee to solve problems without delay. Nothing communicates to your customers that your company values them more than this.

7. Exceed your customers expectations. Every customer problem is an opportunity to create a wow experience.

Setting out to develop a platform can be overwhelming and scary. You worry about making a mistake, looking foolish or, worse, failing. But here's a secret: Forget all that. The key is to start. Once you take the first step everything else will take care of itself. ●

RECOMMENDED READING LIST

If you liked *Platform*, you'll also like:

1. ***Real-Time Marketing and PR* by David Meerman Scott.** Find out how to act and react flexibly as events occur, and position your brand in the always-on world of the web.
2. ***Trust Agents* by Chris Brogan and Julien Smith.** Trust agents are digitally savvy people who use the web to humanize businesses using transparency and genuine relationships. Learn the steps to become a trust agent.
3. ***Enchantment* by Guy Kawasaki.** Enchantment transforms situations and relationships. This book explains all the tactics you need to prepare an enchantment campaign.

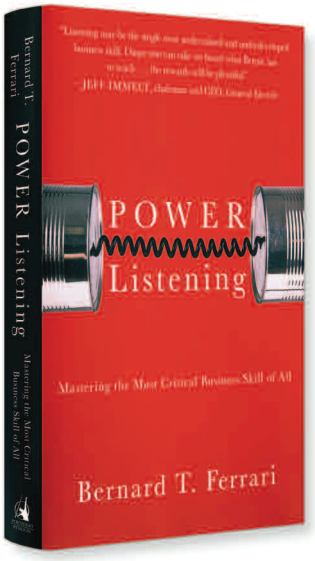
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Power Listening

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Power Listening

Mastering the Most Critical Business Skill of All



by Bernard T. Ferrari

THE SUMMARY IN BRIEF

Nothing causes bad decisions in organizations as often as poor listening. It often makes the difference between profit or loss; between a cohesive team or a fractured one; between a long career or a short one. Countless managers are told on their performance reviews to "become a better listener." But that's more easily said than done.

Bernard T. Ferrari, adviser to some of the nation's most influential executives, has seen firsthand why listening isn't a soft skill — it's the most powerful tool at any businessperson's disposal. He makes a compelling case that anyone can improve from a mediocre listener to a power listener. It just takes a commitment to practice some new skills and habits.

Anyone can learn how to shape and focus a conversation, make others feel respected, stay focused on what's really important and uncover the hidden pieces of information that can change everything.

Don't assume that power listening will take more time than your old listening style. On the contrary, you'll waste far less time in unproductive exchanges. You'll more easily sort through the informational chaos coming at you. You'll stop rehashing the same conversations over and over. Your decisions will be wiser and more effective. Perhaps best of all, you'll develop the reputation as someone "easy to talk to" — one of the greatest compliments for any leader.

IN THIS SUMMARY, YOU WILL LEARN:

- The six common archetypes of bad listeners and their communication habits.
- How to keep quiet and allow others to lead a conversation.
- The five questions that form the framework of effective, powerful listening.
- The best methods for turning listening into four problem-solving techniques.

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THE COMPLETE SUMMARY: **POWER LISTENING**

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PART I: LISTEN UP!

Listening Is Worth the Effort

When someone talks about a meeting they've attended, or recounts a conversation they've had, they'll often say something like, "At that point, I stopped talking for a moment. It was good to catch my breath and rest for a bit." It's an interesting comment, because it creates the impression that *talking* involves more effort than *listening*. In fact, just the opposite should be true. This misinterpretation — that listening is somehow equivalent to resting — leads people to believe that listening is a passive, rather than an active endeavor. From that false premise naturally flows the assumption that listening can be a time waster, rather than an effective means of advancing the ball.

There are four major reasons to view good listening in the business setting as a critical activity, and a strenuous one at that:

1. Listening is purposeful. A disciplined businessperson enters a conversation with a clear understanding of what the conversation needs to accomplish.

2. Listening requires control. Even when you're on the receiving end of a communication, you need to steer and filter the incoming information in order to accomplish your purpose.

3. Listening requires total focus and engagement. When you listen with intent, you must bring a heightened awareness to the conversation so that you can formulate the right questions, and generate the necessary interjections and interruptions to advance the conversation productively.

4. Listening is the front end of decision making. It's the surest, most efficient route to informing the judgments you will need to make.

Highly developed listening skills increase your focus and sense of control. You will see the change in your own performance and productivity. More important, good listening skills will enable you to bring forth more fully developed ideas from the people around you. In the best of all worlds, it can facilitate streamlined analysis, more focused planning and more sure-handed decision making. ●

What Kind of Listener Are You?

To improve your listening skills, you must first figure out exactly what is keeping you from seeking and hearing the information you need. Here are six of the more common archetypes of bad listeners:

The Opinionator. At the heart of an Opinionator's problem is the tendency to listen to others really only to determine whether or not their ideas conform to what the Opinionator already knows to be true.

The Grouch. Whereas the Opinionator's listening is limited by his belief that his ideas are right, the Grouch is blocked by the certainty that your ideas are wrong.

The Preambler. Television pundits have become the very embodiment of the poor-listening archetype, the Preambler. The Preambler's windy lead-ins and questions are really stealth speeches, often designed to box his conversation partner in. The Preambler uses this questioning technique to steer the conversation, send out a warning, or to produce a desired answer, as if the dialogue had been scripted.

The Perseverator. The Perseverator talks too much, in the way the Preambler does, but presets difficulties

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Contributing Editor**; Andrew Clancy

that are more subtle but no less confounding. The Perseverator may appear to be engaged in productive dialogue, but if you pay attention, you might notice that he's not really advancing the conversation. As often as not, he's actually editing on the fly, fine-tuning what he is saying through constant reiteration.

The Answer Man. Everyone likes to be the problem solver. An extreme version of this is the Answer Man. This is the person who starts spouting solutions before there is even a consensus about what the challenge might be, signaling that he is finished listening to your input in the conversation.

The Pretender. The Pretender isn't really interested in what you have to say. Maybe he's already made up his mind on the subject; maybe he's distracted by other matters; maybe he has to put on a show of listening for political reasons. Whatever the reason, we'd all be better off if he would drop the pretense.

You are likely a good listener at times. However, if you are honest with yourself, you will recognize that many of these archetypes of bad listening apply to you at different times and in different situations. You might be a Grouch on certain subjects or at different moments in the business cycle, but act more like a benign Pretender in other circumstances. You need to be able to recognize the behavior of each of these types, in yourself as well as in others, as the first step toward improving your listening skills and raising the overall level of communication and decision making in your organization. ●

Respect Your Conversation Partner

Indra Nooyi, the CEO of PepsiCo, recalls in an interview with *Fortune* that the best advice her father gave her about working with others was, "Assume positive intent." If you do, she said, "You will be amazed at how your whole approach to a person or problem becomes very different. You are trying to understand and listen because at your basic core you are saying, 'Maybe they are saying something to me that I'm not hearing.'" Indeed, most people you work with want to do their job well — and to help you do yours better, too. Generally speaking, it's safe to assume that you chose your conversation partner (CP), or they have chosen you, because of that implicit covenant.

Of course, sometimes it is *you*, not your CP, who needs to provide the solution to a problem, and you engage your CP because you think he or she might be able to help. Here, again, the conversation depends on respect. Revelations and insights can come from unexpected places, so the best listeners solicit information from sources far and wide, knowing that any of their colleagues might have a surprising nugget of wisdom to offer. Managers often bucket their colleagues into certain roles and assume they can provide useful insight only into areas that are close to their expertise. Respect means taking seriously everything people say to you and giving them the benefit of the doubt. Even that quiet intern in the sales department might be able to offer a morsel of information that could help you arrive at a better solution.

The manager I encountered who demonstrated the most wonderful way of getting information and showing respect for those who gave it to him was the COO of a hospital. He remarked once that he simply couldn't run a place as complex as a hospital without soliciting information and ideas from everyone. He respected each and every employee and patient, and they all returned that respect.

This COO succeeded because he opened his mind to the possibility that everyone around him was smart in his or her own way and had a good idea or two. A great motivator, to be sure, but what made this COO a great manager was his ability to create concrete actions based on input he received during his walkabouts. Whether it concerned signage in the hallways or how staff greeted incoming patients, he made sure to mine every conversation for those pearls of insight. ●

How to Keep Quiet — Most of the Time

Chances are that you've heard someone invoking the 80/20 rule somewhere recently. It applies to listening as well. My guideline is that my CP should be speaking 80 percent of the time, while I speak only 20 percent of the time. Further, I seek to maximize my 20 percent. I can make my speaking time count by spending as much of it as possible posing questions, rather than holding forth with my opinions and observations.

People in leadership positions often feel a certain pressure to steer, direct or control conversations within their organizations. But don't be misled. Your choosing to listen more than speak does not mean you've ceded control of a conversation. Well-directed questioning and minimal but well-timed commentary can help people bring forward new facts, open their minds, think in new ways, and come up with better ideas. Ultimately, a good listener gains more control over the problem at hand and comes to better decisions.

Often, in business or organizational settings, our tendency to interrupt people in conversation arises from our impatience to seek closure, or our need to stroke our egos in conversation.

The first thing to do when you feel the urge to interrupt is to — keep quiet! You need to control your instincts and reflexes when you're listening. Don't say anything — no responses, no comments — before taking a moment to think about how it will affect the speaker and the course of the conversation. As a practical matter, when I consciously pause in a conversation, I like to count five beats in my head. Now, if you succeed in keeping still and quiet, you might create a moment or two of uncomfortable silence. Don't be afraid of that. Most people abhor silence and they have a natural tendency to fill empty silences with commentary. However, you could be very surprised by what insightful comments your CPs blurt out during these lulls. Sometimes I find it helps to simply nod a little, just so they know I'm not zoning out. ●

Challenge All Assumptions

Much of the time, we remain blissfully ignorant of the assumptions that govern our decision making. In many cases, we don't become fully conscious of them until they are challenged. And then, our natural stubbornness kicks in, and we often dig our heels in, certain of the correctness of those operating assumptions. The problem is that, unfortunately, this feeling of certainty does not guarantee that something is actually true. It's not necessarily the end product of infallible reasoning. Rather, certainty is a feeling, a good feeling — like calm or even joy. The neurologist Robert Burton tackles this phenomenon of feeling like you know something in his eye-opening book *On Being Certain: Believing You Are Right Even When You're Not.*

Burton assembles a wealth of experimental evidence to argue that the feeling of certainty is just that — a feeling, or mental state resulting from chemical reactions in the brain — and doesn't necessarily connect to actual facts. If these "certainties" prove to be false assumptions, they can be truly toxic to your business. Conversations provide occasions to examine and challenge our assumptions. Certainty and the assumptions it guards wreak havoc because they shut down our hearing. The refrain, "I know the answer already" is a sure symptom of all the pathologies exhibited by the Opinionator, the Preambler, the Answer Man, and the other archetypal bad listeners. ●

PART II: SORTING THE CHAOS

Any great listener must become the master of the question. Building an information framework will assist you in developing the right questions. It will allow you to sift, sort and classify the chaotic rush of incoming information, so that you can apply it to your decision making and get to actions that make a difference.

When I think about this framework I picture a set of file drawers representing the broad categories of business problem solving and action. The categories that work for me are mandate, plan, team, execution and personal. These are broad and general categories that, together, are comprehensive enough to cover most of the issues that managers face. ●

What Is the Mandate?

Most of the conversations you have in the work environment won't overtly confront such cosmic questions as whether a company should exist or how to improve education in the United States, but you would probably be surprised how often problem solving in business can be derailed by a simple misperception or misalignment about the mandate of an organization. What is the company's basic purpose? It's essential mission? Why are we all here?

You might think that this kind of question only concerns CEOs and others at the highest levels of management. Not so. In fact, I would go so far as to say that the most common factor I've witnessed in business failures is a lack of agreement about the company's mandate throughout the workforce.

Mandate discussions can be brief and much more specific than the grand, open-ended conversations triggered by a question like, "Why does the company exist?" Without doubt, however, agreement about the answers to those big questions should inform each nitty-gritty discussion. Whatever level you are working at in the organization, it's important to make sure you and the CP see success exactly alike.

Here are the questions that appear on the file folders in my "Mandate" drawer:

Question 1: Why are we here? This is a fundamental question, but a practical, not metaphysical, one. What are the enduring, overarching aspirations? What is the fundamental reason for being? On what does the organization base its identity? This is where you have to start. Use this question or your version of it to ensure that

you and any CP have a shared understanding of the group's mandate. Get clarity here, at this level of abstraction, and then proceed to the other questions.

Question 2: Are there any misalignments? Any lack of alignment or acceptance of a mandate can have disastrous consequences for a company or organization.

The best leaders listen to, monitor and then manage the complicated interplay of conflicting mandates, a fluid phenomenon that requires ongoing attention and regular reassessment. The dynamic tension generated by the multiple mandates of different stakeholders provides grist for the mandate discussion again and again, and can produce richer, more beneficial shared mandates when managed thoughtfully.

Question 3: Can we work with this mandate? It's one thing for a mandate to be inspiring on an emotional or intellectual level, but it also has to be practical. It must fertilize planning and execution. There are three component questions you need to answer to fill up this particular file folder:

- Does the mandate capture the imagination and energy of the leadership team?
- Can the mandate be communicated more broadly to all the stakeholders?
- Can the mandate be translated into a plan? ●

What Is the Plan?

Every business that seeks to improve its performance needs a plan to realize its mandate. Mandate is the destination, but without a well-drawn plan for getting there, even the most finely chiseled mandate becomes just an amalgam of moonbeams and vapors. A thoughtful and workable plan is formed and amended through many conversations about how to move forward. The headline question for a plan is simple: "What are you going to do now?"

The first folder in the "Plan" drawer that I generally seek to fill, and then to update as appropriate, concerns the concrete objectives that form the backbone of any plan.

Question 1: What are the specific objectives that begin to move a company toward its mandate? There are two components to the objectives question: First, we listen for how the objectives contemplated by the CP are aligned with the mandate. Then we listen for the clarity of the objectives, and carefully consider the process that generated them. I try to ascertain whether, when the decision was made, those responsible had covered all their bases, asked all the right questions, and been able to glean the most thoughtful, complete, honest, and accurate information from everyone involved.

Question 2: What are the specific initiatives that will help achieve the objectives? Steps must be described and understood in more practical detail the nearer you approach the time of actual execution.

I am ruthlessly exacting when it comes to listening and questioning about initiatives. What I'm really sensitive to is wasted motion. You would be wise to enter into conversations about planned initiatives with the presumption that they are likely to be too complicated or too numerous to be manageable. While listening for individual initiatives that are clear, simple and easy to communicate, a good litmus test is that the aggregate of initiatives undertaken by an organization add up to a plan that is both credible and achievable.

Question 3: What is the timeline? The thing that managers have the most trouble anticipating and predicting is pace. Planners and strategists in business need to challenge the timeline rigorously. Challenge the underpinnings by pointed questioning until you understand the complete sequence of events related to an objective or initiative, including relevant contingencies.

Fill this file folder until it's bursting, if necessary; it's the only way to schedule and sequence any plan with confidence. It will help you pay particular attention to milestones along the way. Are you and your CP in agreement about how often, and by what standards, you will mark your progress, in order to maintain confidence in your schedule?

Question 4: What assets are required, and are they available? Different types of initiatives require different types of assets to ensure that you keep momentum and get to the finish line successfully.

You and your CP should imagine there are subfolders to fill for all the items in the required inventory for carrying out the plan. Bear in mind that even after you've identified all the necessary assets, you still have only half the information you need. You must also determine whether those assets will be available when you need them. You don't want to be waiting for the cavalry when the time for battle is now.

Question 5: What are the risks we will be facing? When it comes to discussions about risk, I can turn to the writings of McKinsey colleague Lowell Bryan. Bryan suggested laying out multiple initiatives that would allow an organization to proceed with its strategy while regularly re-evaluating its commitment to any one initiative as it came closer to maturity. He illustrated this idea using a grid, with one axis representing risk, and

the other representing the proposed time frame, on which he laid out the initiatives under way. This allowed for spot assessments of which initiatives were in the pipeline and the level of uncertainty or risk associated with each. Later, Bryan added the dimension of the return anticipated from each initiative. ●

What Is the Team?

A "team" is any group of people working together with a common purpose, whether it is assembled by design or comes together organically. The team doesn't have to denote a formal work team designed and assembled by management. Even the hiring of a single individual for a job is an exercise in team building.

It's frighteningly easy to make a bad call about people, and the results of a misstep here can be disastrous. I was consulting to the CEO of a large health-insurance company who needed to replace the COO he himself had brought in only a year and a half before.

He chose a candidate from outside the company, a man I'll call Chandler, who was very much in the CEO's image. His hiring of Chandler — an executive so much like him — might have reflected the CEO's conviction that he could have done the COO's job himself, had he enough hands. As it turned out, Chandler was simply the wrong man for the job. The company's performance continued to deteriorate, and the new COO was removed after only 18 months.

The CEO needed to bring in a new COO quickly. One candidate, Larry, had virtually grown up there, starting out in the mailroom and working his way up through all levels of the operation over a 30-year career. The other man, Russell, had been with the company only a few years less than Larry, most of which he spent in the executive ranks. On the outside, Russell cut a somewhat more polished figure, as if he were more naturally suited to stand at the right hand of the CEO, but Larry was as competent and determined as Russell. Neither candidate was the obvious first choice.

Instinct and intuition, while undeniably relevant when it comes to assembling good teams or fixing dysfunctional ones, can only take you so far.

I encouraged the CEO to use the following questions to focus his listening as he interviewed the two candidates and sought feedback about them from other members of his management team:

Question 1: What capabilities do we need?

Question 2: What are the mind-sets of the team members?

Question 3: What are the roles of the team members?

Question 4: Will this assignment be good for the individuals on the team?

Question 5: What are the inescapable realities?

Question 6: How is the chemistry?

Question 7: What are the consequences of performance?

The CEO embraced this approach as he made the personnel decision. He sourced information and ideas about the two candidates from across his management team and his board of directors, ensuring that he had a deep reserve of data that could inform his decision. At the end of this process, I think he was surprised by the decision he came to: the position of COO went to Larry. Larry's commitment and his singular style proved to be the winning edge; 18 months into his tenure, the company had re-established its forward momentum and was looking toward the future with optimism. ●

How Will We Get It Done?

There are a few critical elements that are essential to successful execution. The labels on the file folders in my Execution drawer — decision-making, information, complexity, and rhythm — may be rather broad, but this is by design. Problems related to unanticipated complexity or a poorly defined chain of responsibility, for example, will arise at any level of an organization.

Question 1: How are we making decisions? Listening for how decisions are made and ensuring that everyone involved understands the chain of command and who has what kind of authority will, of course, increase any organization's odds of smooth and successful execution of its plan. This leads us to the second challenging decision-making question: What happens when unexpected stuff threatens to take us off course? Perhaps it sounds a little counterintuitive, but there must be clearly articulated procedures at the outset, so that people on the team can know what to do when seismic events shake the best-laid plans.

Question 2: Are we getting the right information at the right time? In an environment where a couple of keystrokes can produce a flood of data at any time, managers can be stymied by too much information as easily as by too little. If good execution depends on good information, it is incumbent on managers to ensure the integrity of the information on which they base their decisions. They need to qualify the sources. Just as important, they need to determine what data are

relevant and important to their ongoing assessments, and what merely constitutes noise.

Question 3: How do we manage complexity? A good leader assumes the job of defining the complexity of an operation. He makes sure the team understands what it is they need to be concerned about and what they can ignore. By carefully listening to his or her team, a manager can identify the developments and conditions that are outside the field of play, and then define the boundaries, thus reducing complexity.

Question 4: Do we have a rhythm? Managerial rhythm, to me, means a time-regular set of interactions; be they one-on-one discussions or larger meetings, managers must commit to maintaining a communications calendar. With regular and ongoing interactions you establish a discipline in a company that ensures the gathering of focused and timely information, and allows for precise measurements and calm decision making. ●

Is It Getting Personal?

The reality of business life is that in all our communications, we share some aspects of ourselves. Everything we communicate reveals something about who we are, how we think, what we feel, and what we think is important.

Much more intriguing to me, and relevant to good listening, is an individual's intrinsic personality, analogous to the more subtle secondary colors that decorate his or her life. These characteristics do not wax and wane with passing moods; they define a person's very nature.

It's not possible to open a file folder for every character trait that a person might display. Instead, I've developed a series of questions that enable me to tease out practical and useful information about the ways in which a person's character might govern his or her behavior and color his or her communication.

Question 1: What does this person value? The core values and beliefs of a person can come into play in the context of business discussions. For instance, some people commit themselves to peak personal performance, while others make the group ethos their primary concern. The point is that understanding the values at the core of your CP's nature will help you listen more accurately to the essence of his or her conversation.

Question 2: What are the individual's personal aspirations? The more you are attuned to an individual's personal aspirations — and the more sensitive you can be to the many ways in which those aspirations might run counter to the organization's plans for that person, or to the short-term needs of the organization, or possibly even to the overall mandate — the more effectively you'll be able to filter your listening.

Question 3: How does this person interact with colleagues and others? As tough as it is to work side by side with an abrasive personality, it's an even greater challenge to manage one. Conversations with problematic personalities demand that you filter your listening in an unusual manner. You have to be on guard. Every conversation has value, and you need to make the decision to listen past the unpleasantness so you can stay tuned in for the nuggets of gold that earned your CP a place at the table to begin with.

Question 4: What is the person's level of self-awareness? By determining your CP's level of self-awareness, you can understand how he may or may not be consciously filtering what he says to you. It can be a listening challenge — a little like having to listen through multiple layers of studio enhancement so that you can hear someone's true voice on a recording. ●

PART III: REAPING THE BENEFITS

I've observed that the best listeners in the business environment are able to access and utilize a handful of powerful problem-solving techniques more readily and more often than their peers. First, they are acutely aware of everything that their idiosyncratic filing system already contains or needs to contain. They move quickly to fill in the missing pieces of information, either from other areas of their stored memory or from an external source.

Second, they rapidly shuffle and recombine any or all of the stored information, constantly adding to the options and alternatives available for consideration. This compare-and-contrast technique, allowing them to dismiss a progression of inferior options, makes good decisions more likely. The process of comparing and contrasting allows leaders to distill the choices down until only the best options remain.

Leaders can then assess these options using a third technique. During the Renaissance, in Italy in particular, when patrons, magistrates or church officials had to select an architect or artist for an important project, they occasionally employed the principle of *paragone*, which translates literally as "comparison." Works of art would be placed next to each other so that their relative

merits could be weighed. What makes *paragone* particularly effective in the business world is that even though it involves comparing two efforts or two proposals side by side, it is not necessarily intended to force a simple either-or decision between the two. The assumption is that each of the options has value, so the observer — that is, the decision-maker — can take the best elements of each, and combine them into an entirely new option. In the best circumstances, the amalgam that results could have advantages over either of the two original options on its own.

You can think of the fourth approach to problem solving as the natural product of combining the first three techniques. The best business listeners I've observed — not coincidentally, some of the most effective business leaders as well — have honed their ability to call up an array of option sets at any decision point in their operation. Furthermore, they embrace the opportunity to test however many option sets are necessary before making any decisions. And they do some of this testing out loud through discussion with their colleagues. These executives understand the dangers of jumping too quickly to a point solution before test driving all the viable alternatives.

On occasion, this process of developing and comparing options falls short of surfacing a clear favorite. In such instances, the absence of an obvious choice may indicate that, for some reason, the timing isn't right for making a decision. Even in the fast-moving and fluid business environment, your first decision may be about whether or not a decision needs to be made and acted on at all or, alternatively, whether it needs to be made now or later. Delaying a decision can test the mettle of even the best of executives. ●

Changing Your Organization Through Listening

Not only can the quality of your listening determine your own individual performance, but it can also shape that of your organization.

Because it influences the performance of each individual, a business's culture is critical in determining how well a business performs in the collective. Yet what is culture actually built on? How does it evolve within an organization? At its essence, a corporation's culture is really the sum of all the many hundreds and thousands of personal interactions between its members. Face-to-face conversations, discussions, presentations, debates and meetings — these are the building blocks of culture.

Though cultures evolve organically more often than by design, there is no doubt that they are shaped, in large part, by company leaders. Managers set the standards within their organizations through their interactions with others. They use their conversations and discussions as tools, not only to better their own performance, but also to lead by example, to demonstrate what they believe to be or what they would wish to be, the acceptable norms and boundaries for behavior and performance.

Good listening means having productive and respectful interactions. You will find that as you listen better and your interactions with colleagues improve, you will actually begin to affect the behaviors of those around you and the culture of the organization or unit that you manage. Here's how, through good listening, you will make positive cultural change happen in your business:

- Foster a more discipline and productive organization.
- Ensure the free and open flow of information and ideas.
- Establish a reverence for fact-based discussions.
- Generate new insights and more creative solutions.
- Build an organization that excites and energizes its people. ●

Conclusion

My final message is this: There's no time like the present. Start your new listening journey right now, by trying to substitute one good listening practice that seems most natural to you for one bad one that you have identified.

As with so many efforts at self-improvement, half the battle is already won the moment you make the decision to try and the commitment to apply yourself. I hope you're excited by the prospect of the fuller and richer world that good listening can open up for you. I know I am. ●

RECOMMENDED READING LIST

If you liked *Power Listening*, you'll also like:

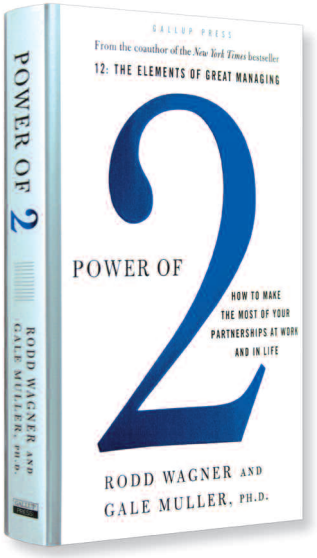
1. ***Just Listen* by Mark Goulston.** Veteran psychiatrist and business coach Mark Goulston reveals the secret to how to get through to anyone, even when productive communication seems impossible.
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Power of 2

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Power of 2

How to Make the Most of Your Partnerships at Work and in Life



by Rodd Wagner and Gale Muller, Ph.D.

THE SUMMARY IN BRIEF

Many of the greatest accomplishments can be reached only by two people working together. Tenzing Norgay and Sir Edmund Hillary were the first to scale Mt. Everest; Karl Malone and John Stockton were the key to each other's success on the basketball court; Michael Eisner was never as effective at Disney without Frank Wells.

But while some partnerships reach great heights, others fall short. If you are like most people, you've had some good ones. You may even have a few of them now. Yet chances are you don't make the most of the collaborative opportunities all around you. Powerful partnerships — the kind in which you and a collaborator regularly work together, reach goals together you never could have accomplished apart, and gain the deep satisfaction only such an alliance can bring — are evasive.

Somehow our televisions, e-mail, headphones, cell phones, car radios, and personal computers trick our brains into thinking we are with other people, interacting, when we are, in fact, working in isolation. We are crowded in offices, airports, subways — frequently within arm's reach of dozens of people — but often on a very lonely pursuit. Wired? Yes. Networked? Yes. Collaborating? Not much.

Seeing these patterns at numerous client companies, authors Rodd Wagner and Gale Muller teamed up to lead a five-year endeavor to crack the code on collaboration and to discover what elements are crucial for two people becoming a successful team. *Power of 2* details the eight elements that prepare partners to succeed in their most important endeavors.

IN THIS SUMMARY, YOU WILL LEARN:

- Why some people click while others clash.
- What great pairs have in common.
- Why the adults you work with still need the playground rules of childhood.
- How to find the upside in a breach of trust.
- Why the quality of your partnership cannot exceed the quality of your communication.

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THE COMPLETE SUMMARY: **POWER OF 2**

by Rodd Wagner and Gale Muller, Ph.D.

The authors: Rodd Wagner is a *New York Times* best-selling author and principal of Gallup. His books, speeches and consulting focus on how human nature affects business strategy. He advises senior executives in numerous industries on the best ways to strengthen their partnerships, increase employee engagement and improve profitability. Wagner is the co-author of *12: The Elements of Great Managing*, an American and Canadian bestseller published in 10 languages.

Gale Muller is vice chairman and general manager of the Gallup World Poll. He oversees a global team of researchers in more than 150 countries. He has worked with many of Gallup's key clients in the automotive, entertainment, telecommunications, health care and broadcast industries.

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Complementary Strengths

Several decades ago, a junior high shop teacher wanted to impress upon his new students the dangers of the oxyacetylene torch. "Pay attention, class," he said, pulling a balloon from his pocket and holding it to the nozzle of the torch. "I am going to fill this balloon with oxygen." When the balloon was full, he lit a match under it, producing a strong pop.

He pulled another balloon from his pocket. "Now this time, I am going to fill the balloon with acetylene," he said. Following the same procedure, he made a short flare as the fuel caught fire.

The teacher pulled yet another balloon from his pocket. "You've seen what happens to each of these elements separately. Now let me show you what happens when I put them together." He repeated the procedure a third time, opening the valves for the oxygen and the acetylene as the balloon grew larger. "You might want to plug your ears," said the teacher, putting the flame to the latex.

BAM!

Was it the oxygen or the acetylene that caused the explosion? Neither. Or rather, both. Separately, they are impressive. Together, they create a mixture so hot it can melt steel. The power is in the combination.

Understanding Your Strengths

Your partnerships work on the same principle. The best partnerships happen when you and someone who has strengths that complement yours join forces and focus on a single goal. Your strengths cancel out your partner's weaknesses and vice versa. You accomplish together what could not be done separately.

Before you can forge a successful alliance, you must understand what you bring to the combination and, equally important, what you don't. Collaboration is more than doubling up — more than just twice the oxygen or twice the acetylene. The key to achieving success is not trying to be someone else or striving to be as good as your collaborator at whatever he or she does best or seeking to be universally proficient. It's in discovering your own exceptional abilities, recognizing your weaknesses and understanding how someone else's abilities complement your own.

A successful collaborator must resist the ego-gratifying temptation to take too much credit. If a person honestly recognizes that his or her counterpart does some things much better and that the other person is needed to get the job done, he or she is less susceptible to fall into to the trap of conceit. In a strong partnership, both participants are always promoting the abilities of the other. They constantly speak in terms of "we" or "us," rather than "I" or "me." ●

A Common Mission

Collaboration is more than friendship or collegiality, more than being in the same office or working for the same firm, more than proximity or mutual appreciation. It occurs only when you and an ally strive for a definitive accomplishment — passing work between your-

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Tom Moore**, Contributing Editor

selves, "putting your heads together" or doubling up on a task neither of you could accomplish alone. For this reason, the relationship is unique. It exists to serve the goal. It lasts only until the mission is accomplished. Once the objective is reached, the partnership must adopt a new goal or it dissolves.

Although you and your collaborator must agree on your mission, you don't need to have the same reasons for pursuing it. Successful partners often have different motivations for making the climb. This usually does not hinder the alliance, particularly if both of you understand the driving force motivating the other and work to see those hopes fulfilled.

Sharing the Goal

Although a shared mission is essential, maybe even obvious, the lack of basic concurrence is where many pairs fail. Only one in four people in poor partnerships agree that they have a common goal or purpose with the other person. In many cases, both think they are on the same page, but when limits of time, money or attention force difficult choices, it becomes clear the two have conflicting priorities. Only 9 percent of those in poor partnerships say they were "very successful" at reaching their goal. It's difficult to do if you're not aiming at the same target.

Fairness

Particularly at the beginning of a working relationship, colleagues cannot avoid making comparisons between their own rewards and those of their counterpart as they decide how earnestly to maintain the collaboration. Even if you have no formal authority over the pay, promotion or recognition of your collaborator, you should make sure he or she gets a fair deal.

As logical as the need for fairness may be, feelings of being used are often at the heart of what destroys a working relationship. This is especially true when one of the two people has the ability to impose terms on the other.

Research indicates that we also disengage and retreat if we feel as if someone is taking advantage of us. People do irrational things when others violate their sense of justice. In a partnership, it's not what's smart or what's logical that matters, but what's equitable. The emotional reactions of collaborators drive them toward interacting fairly or not interacting at all.

Fairness and Equality

There are different, opposing forms of fairness that apply, depending on the situation. The most basic form is equality, a 50-50 division of the work and the rewards. Such a perfect split rarely occurs in practice. Any objective measurement of the work two people put into a project or the rewards they get from it would find at least a slight imbalance. Yet the symbolic value of an even division is often the assumed starting point and the ideal to which both partners aspire. It is the magnetic North Pole of most collaborations — intuitively appealing and difficult to argue, which is why it emerges in so many successful pairs.

However, a powerful partnership does not need to be equal to be fair. There are many times when one member of a dyad does more of the work, brings a rare talent, has far more experience or otherwise "deserves" — the term is unavoidably subjective — a larger share of the reward. Giving identical benefits to those whose workloads differ substantially is as unfair as giving vastly different rewards for the same work.

In successful partnerships in which there is an uneven division of responsibilities, a corresponding division of rewards also occurs. You and your counterpart do not need to divide the work evenly, but you must make the rewards proportionate to the workload. Productive working relationships can be built on a 70-30 division of the work if there is a corresponding 70-30 division of the rewards. In the strongest relationships, there is even a certain degree of latitude or wiggle room. For example, some partners are happy doing 60 percent of the work and receiving just half the rewards.

Fairness: What the Research Shows

Several statements about fairness proved crucial for successful collaboration. Respondents were asked how strongly they agreed or disagreed with each of these statements:

- We share the workload fairly between us.
- We do not have to keep track of who does what and who gets credit for what.
- We see each other as equals — one is not better than the other.

Your partnership has little chance of succeeding unless both of you believe it is fair. On a scale from 1 (strongly disagree) to 5 (strongly agree), it takes an average above 3.6 on these statements to reach the range considered "good." Only respondents who strongly agree to all three statements have excellent alliances.

Relative Contributions

To make your partnership fair, you will need to keep in mind that although you are aware of everything you do for the joint effort, much of what your partner does escapes your notice. If you are like most people, you also have an inflated opinion of the value of your contributions. Selfishness and the natural bias toward believing one has done more than a comrade creates a pothole in the road of many joint projects.

To be a great partner, you must continuously consider how much of the work your counterpart is shouldering and what he or she is getting for the effort. What rewards are most meaningful to your counterpart and is he or she receiving them? Would you be willing to trade your work and rewards? Are you truly working as equals? Addressing these issues requires candid conversations and a willingness, if needed, to take on more of the work for less of the rewards. Your collaborator needs to be similarly accommodating to you. Only when both partners are assured the other is more invested in the common mission than in a selfish pursuit do they not have to keep track of who does what and who gets credit for what. ●

Trust

Every partner needs to be able to depend on his or her counterpart. Every partner takes a risk that the other person might fail, intentionally or innocently. Every partner needs the dependable backup that is the difference between success and failure.

Trust is the linchpin of a partnership. With trust, both people can concentrate on their separate responsibilities, confident that the other person will come through. One brain-imaging study discovered that once trust is created, a person's brain will process his or her counterpart's cooperative move before it even happens.

The Partner's Dilemma

Without trust, it's better to work alone. Both people doubt whether the other will fulfill his or her end of the bargain. Both must verify the other's actions. Both must make contingency plans in case their counterparts fail. The frustration and inefficiency of not being able to count on someone is more hassle than the burden of handling the full load alone.

You face a dilemma every time you interact with someone new. If the person can be trusted, and if he or she learns to trust you, the two of you can be more successful working together than going it alone. But if one of you is not trustworthy, it's better that you never even try to collaborate.

In a working relationship, being trustworthy is not a matter of putting $100 in an envelope or hitting the right button. It is showing up for an important meeting on time, doing more than your share of the work, quickly returning e-mails and phone calls, giving all your creativity to a project, jumping in rather than having to be asked, not being a burden to your partner, fighting for the success of the project, working hard on physical jobs and smart on mental ones, and hundreds of other acts large and small.

In the early stages of a collaboration, both partners take a wait-and-see attitude, still in the clutches of the dilemma, not sure the other person is going to do his or

The Partner's Dilemma

Imagine you are paired with a stranger to play the following game. You receive an empty red envelope. The other person receives an empty blue envelope. The instructor tells both of you to secretly place either $100 of your own money or nothing inside your envelope. Then he will take both envelopes, double whatever money he finds in each, and return them, but only after switching them so that you get the blue envelope and your counterpart gets the red one.

Would you put $100 in the red envelope? The question starkly illustrates the issue of trust. Your answer cuts to the essence of who you are as a collaborator.

There are four outcomes to this experiment:

Mutual trust: If you both risk your money, you both double your investment. You make $100, and so does your ally. This is the only way you both come out ahead.

Your counterpart betrays you: If you risk your money, but the other person puts in nothing, you'll lose $100, and he or she will gain $200. Your trust is abused and you end up on the losing end.

You betray your counterpart: Should you fail to put in the money and the other person does, you gain $200 while risking nothing. This is the most profitable short-term strategy and, therefore, a real temptation, but you can employ it only by abusing the trust of your counterpart.

Mutual betrayal: If both of you risk no money, neither of you will lose any. But from your reticence or competitiveness, you both lose the chance to multiply your funds.

her part. But if one cooperative move is matched by another, solid reputations form. The fear of being taken advantage of fades. Trust removes doubt. Trust eliminates the dilemma.

Reaping What You Sow

The most important element in forming and maintaining a variety of strong partnerships is not your craftiness, but your willingness to take the risk of trusting numerous potential partners and your diligence in repaying the trust they place in you.

Your first moves, friendly or hostile, tip the balance for future interactions. When you exhibit trust, you will most often find trustworthiness. When you are selfish, you will most often find selfishness. When you compete, others must resort to competition. If you choose to play the game strictly for your own advantage, your attempts at collaboration will indeed be solitary, poor, nasty, brutish and short.

In the end, the degree to which you succeed in forming trusting partnerships is less a reflection of how much people trust you than how much you trust them — less a reflection of their trustworthiness than of your own. ●

Acceptance

One fact about partnerships is so uncomfortable that your first reaction is to deny it: You form partnerships fastest and easiest with people most like yourself. Deep-seated biases make you more trusting of those who look most like you, who think like you or with whom you have the most in common, whether you're from the same town, attended the same school, are fans of the same team or mirror each other on more controversial factors such as race, age, religion or sex.

Sociologists call the degree of similarity between people "social distance." Its consequences for collaboration are often more important than the physical distance separating two counterparts. Humans are tribal creatures, constantly drawing boundaries — sometimes prejudicial boundaries — between friends and foes.

This creates a problem, not only because it restricts your collaborative field, but because it makes you less likely to create strong ties with those who would bring something you lack to the partnership. Many of the potential collaborators you need most are those who will be, because of their differences from you, most difficult to learn to accept.

You don't need an identical twin as much as you need an opposite, a relative stranger who shares the common mission and the same sense of fair play, but whose approach to the challenge may seem quite foreign.

Egocentrism

Differences between partners can easily spark antagonism. Even if the social distance between you and your partner is small, incorporating his or her personality into your preferred way of working can be difficult. Mutual irritation is common in partnerships, particularly in the early stages. There is a natural propensity to believe you are normal and that the other person, to the degree he or she differs from you, is a bit off.

We tend to forget or disregard information that disagrees with us, but we remember what reinforces our own views. We are inclined to believe positive news about those we like and negative information about those we don't. We suffer the hubris of "egocentric infallibility," thinking what we believe must be true because we would not believe something unless it were true. And we are hypocrites, believing or professing one thing and doing another, sometimes not even noticing the contradiction in ourselves while having a finely honed sense for spotting it in others.

Egocentrism kills partnerships. It's impossible to work effectively with someone if you — blind to your own failings — spend too much energy finding fault with your comrade. Partnerships require both people to accommodate each other's foibles.

Coping With a Frustrating Situation

Collaborators look for ways to handle aspects of their opposites they would prefer to change.

One is denial, pretending the problem does not exist. Ignoring the issue, according to psychological research, is a poor strategy that has shown itself to be "clearly related to higher levels of stress and impaired psychological well-being." If your partner does something that bothers you, you need to recognize it before you can resolve it.

Another tactic is called "resigning acceptance." This attitude, although it recognizes the problem, also includes a feeling of cynicism or powerlessness in dealing with the issue. "Typical," say people who use this method. "These things always happened to me." This kind of approach is much like denial, leading to bitterness, decreased mental health and less control over your actions.

The best way to deal with a frustrating situation is called "active acceptance," neither denying the situation nor surrendering to it. "Active acceptance means acknowledging a negative, difficult situation and dealing with it in a constructive way," according to Gallup

researchers. "The individual dispenses with fruitless attempts to control what is neither controllable nor changeable."

In a partnership, it is epitomized by focusing on your partner's strengths rather than his or her weaknesses, accepting your partner as he or she is and being understanding when he or she errs. In the best collaborations, partners come to appreciate what they once found aggravating.

Forgiveness

When a partnership is going well, all kinds of wonderfully unselfish things happen. Partners change their goals to better match each other's objectives. They strive to be fair to each other. They focus on their counterpart's strengths. They overlook each other's foibles. At the zenith of collaboration, both partners make great personal sacrifices for the other's happiness.

But when things turn negative, a parallel set of emotions and reactions kicks in. The partners see themselves as pursuing opposing ends. Fairness becomes less about a considerate division of rewards and work and more about what one partner feels the other owes him or her. The counterpart's strengths don't seem so impressive any more. His or her personal ticks become full-fledged character flaws. At the nadir of collaboration, not only will the partners refuse to sacrifice for each other's benefit, they eagerly go out of their way to cause their one-time colleague pain.

The same emotional wiring that makes great partnerships so effective and rewarding creates corresponding and equally powerful negative forces if things go wrong. In a good collaboration, partners make statements such as "two heads are better than one." In a bad one, the two make comments such as "I would have been better off working by myself" or "I wish I'd never even met him or her."

Trust between two collaborators is like the rope between mountaineers on a snowy ledge. If the line is cut, the gravity of powerful negative emotions kicks in. The cord may have been separated one fiber at a time, as when a snide remark, showing up late for an important meeting or letting a shared project slide a little leads to a matching dereliction from the other partner.

How to Patch Things Up

One of the most difficult collaborative decisions you will face is whether to patch up a partnership if your counterpart violates your trust. There is no perfect answer. Anyone who tells you to just let it go is failing to consider the intensity of his or her own emotions under these circumstances.

Yet failing to continue working together can forfeit the benefits of what was otherwise a solid combination. Common sense indicates what needs to be done by the offender: Apologize. Make your good intentions clear. Make a peace offering. Be demonstrably more reliable to build trust.

The more intriguing question is what to do if you were the one betrayed. You need a tremendous amount of discernment, self-control, ability to give your counterpart the benefit of the doubt, and desire for a better outcome to turn a vicious circle into a virtuous one.

How you manage your own thinking is as important as the offense itself. In many cases, whether a person forgives the misdeed says less about the seriousness of the wrong than about the personality of the partner whose trust was abused.

Partnerships: What the Research Shows

As far as keeping a collaboration from going negative, two statements in Gallup's research differentiate good and bad partnerships:

- There have been times when either my collaborator or I have violated the other's trust.
- When either of us has violated the other's trust, we have been able to forgive each other.

Although minor disruptions occur in good and bad partnerships, serious violations of trust are rare in the best pairs. Only 18 percent of good partnerships suffer a real rift. Among poor partnerships, the number jumps to 40 percent. When something serious enough to require forgiveness transpires, 85 percent of those in good partnerships do forgive. Those in poor partnerships patch things up only 14 percent of the time.

Communicating

Most collaborators, even many of the best, do not realize the role communication plays in creating a powerful partnership. Of course, two people working together must synchronize their efforts to avoid getting their wires crossed. It's obvious that silence can breed misunderstandings. Two heads cannot be better than one if the two people do not talk enough to each other.

Rarely appreciated, however, is how communicating itself is collaborative, an issue of trust within the larger

partnership that surrounds it. Communication is more than a purely functional aspect of working together. Every time two counterparts talk, their relationship changes. What goes on beneath the surface is more important than the information exchanged.

Constant Contact

From a practical perspective, staying in contact with your partner allows the two of you to be aware of the other's next move, to make your intentions clear, to brainstorm or perhaps stumble onto an idea you would not have had separately, and to share your candid assessments with each other.

Silence creates the opposite effects. Suspicious counterparts administer to themselves a sort of mental Miranda warning, worried that anything they say can and will be used against them. But whether or not you intended to do so, failing to communicate creates a threat in your partner's mind that you are not committed to the collaboration, that you do not trust him or her, or that you just might make a run for the goal by yourself and claim all the credit.

It's much easier to vilify someone who has not explained his or her motivations, much easier to read into the silence the threat of an unpleasant surprise.

Recursive Thinking

Communication in a partnership is complicated by the unique and incredible human capacity for reading into a situation what the other person must be thinking. Scientists call it *recursive thinking*, the two- or three-layered awareness of what your collaborator is experiencing.

Recursive thinking is a double-edged sword. There is no sympathy without recursion. A great partner who understands that his or her colleague is struggling will shoulder more of the burden and offer support. It's impossible to understand how a collaborator's desire for the goal differs from your own unless you can mentally put yourself in his or her shoes.

Yet too much recursion and too little discussion inevitably lead to wrong assumptions. Rather than explain their rationale, collaborators routinely assume the other person knows the reasons. Rather than compliment the other person on a good job, partners assume their praise would be redundant. Rather than ask for more information and listen closely, people assume they already know what the other person would say.

Assuming without verifying is dangerous. We are not mind readers; we are mind guessers. Sometimes we guess wrong. This is the reason why in partnerships that involve a risk of death such as piloting an airplane, rock climbing and scuba diving, the most important messages are mandated and standardized to remove ambiguity.

Communication: What the Research Shows

Three statements about communication within a partnership from Gallup's research demonstrate the importance of both people keeping the other informed about what they are doing:

- We rarely misunderstand each other.
- We are good listeners for each other.
- We show appreciation for what the other does.

On a 1-5 scale, people in good partnerships average at least 3.6 on these statements, while excellent collaborators score a perfect 5. The most successful collaborators spend enough time communicating to know what the other is thinking and they encourage each other along the way. The implied motivations behind the messages are crucial.

Unselfishness

The sacrifices some partners make for each other don't make sense. A partnership is based on the assumption that by working together, both people will achieve heights neither could have accomplished alone. You and your collaborator are supposed to be better off than you would be without the working relationship. While looking out for the other person creates trust, endangering your life for him or her seems to miss the point. What good is a partnership to a person who gets him- or herself killed for someone else?

Scientists are not impressed by most partnerships. They usually find some way to explain that what appears to be unselfishness on the surface pays off for the one who did the good deed. "Instrumental reciprocity," they call it — a means to a self-serving end: If I can keep my partner happy, he or she will do what I need him or her to do for me.

Instrumental reciprocity is common and can be quite constructive. All partnerships begin as instrumental agreements. In the early stages, they could even be called mutually selfish. For many collaborations, the coming together so that both partners go away richer is enough to carry the partnership all the way to the goal.

Mutuality

Unselfishness changes everything about collaboration. When you value your partner's rewards as much as you

do your own, concerns over fairness either melt away or go in the opposite direction. "What's in it for me?" becomes "What is my counterpart getting out of this?" If a person values his or her comrade getting a reward as much as he or she does getting one, the optimal solution is always collaborative. ●

Looking Within

If you want to have great partnerships, be a great partner. Get beyond yourself. Give up the notion that you are well-rounded and stop expecting your colleagues to be universally proficient. Incorporate someone else's motivations into your view of the accomplishment. Put aside your competitive nature, your prepackaged view of how the thing should be done, and your desire not to be inconvenienced with imperfections of a fellow human being. Focus more on what you do for the partnership than what you get from it. Demonstrate trust in more people, and see if they don't surprise you with their trustworthiness. Be slower to anger and quicker to forgive. And along the way, communicate continuously.

As you do, incredible things will happen. You will discover more comrades among your colleagues. You will find greater strengths in yourself and in your collaborators. You will achieve greater heights than you thought attainable. Most important, you will not stand alone on these summits. That is the Power of 2. ●

Additional Insights for Businesspeople

For Managers

An employee's collaborative relationship with his or her supervisor is more than twice as likely to show up in the negative column than in the positive one, according to Gallup's research.

The most fundamental misunderstanding about partnerships between managers and the managed is that they should not exist at all.

The same attributes that make a good partnership between equals make a good alliance between managers and employees: complementary strengths, a common mission, fairness, trust, acceptance, forgiveness, communicating and unselfishness.

Although most employees understand that running the business requires some people to give direction and others to take it, they still value being treated as an equal by their manager. Executives, managers and other higher ranking partners do better when they build a partnership than when they exercise command.

With their managers as much as with their peers, people mirror what they perceive coming from the other person. To what's given begrudgingly, they return begrudgingly. To what's given generously, they reciprocate generously.

Workgroups headed by a "partner" have nearly twice the proportion of engaged employees compared to those led by a "boss."

For Leaders

In their eagerness for results, executives frequently allow or even encourage internal competition. They say they want salespeople to work together, but what they want most is the sale, and if elbows fly in the process, so be it. Companies give lip service to partnerships and then create financial incentives for beating the other guy. The result is often a defeat for the organization caused by two generals spending as much time outmaneuvering each other as they do pursuing the objective.

An enterprise that sets out to collaborate without building partnerships throughout will be worse off than one that never pretended to enter that dimension. The partnerships begin at the top. ●

Unselfishness: What the Research Shows

Three statements about unselfishness from Gallup's research proved to be the ultimate measures of the strength of a partnership:

- We take as much satisfaction at seeing the other succeed as we do from our own success.
- My partner will risk a lot for me, and I will do the same for him or her.
- My partner is like a brother or sister to me.

Good working relationships average at least 3.3 on these statements on a 1-5 scale. Those in excellent partnerships strongly agree with all three statements.

RECOMMENDED READING LIST

If you liked *The Power of 2*, you'll also like:

1. ***Never Eat Alone* by Keith Ferrazzi with Tahl Raz.** This title deals with true relationship building rather than simple networking. Ferrazzi helps readers build skill-sets and mind-sets to establish a community of colleagues.
2. ***Team Players and Teamwork* by Glenn M. Parker.** Departmental and cross-functional teams are the fast track to industry leadership. Learn how team players can achieve the greatest productivity.
3. ***Silos, Politics and Turf Wars* by Patrick Lencioni.** Management expert Lencioni tackles the vertical structures that can turn colleagues into competitors and kill productivity.

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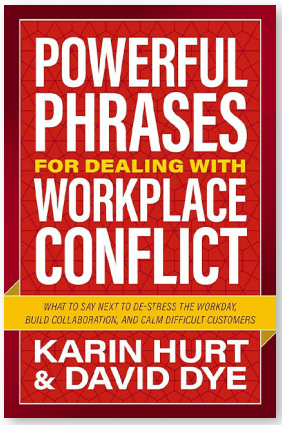
Powerful Phrases for Dealing with Workplace Conflict

Karin Hurt, David Dye

Executive Book Summaries®

Powerful Phrases for Dealing with Workplace Conflict

What to Say Next to De-stress the Workday, Build Collaboration, and Calm Difficult Customers



by **Karin Hurt and David Dye**

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THE SUMMARY IN BRIEF

You can't avoid conflict. When there are problems to solve and people who care, you'll face conflict. And if you want to have more success, influence, and joy in your work, you've got to navigate it well. But conflict is hard. You weren't born knowing the perfect words to say when you're angry, dealing with a jerk, or when someone calls your game-changing idea "stupid." That's the reason for this book. ***Powerful Phrases for Dealing with Workplace Conflict*** will give you practical communication techniques to successfully navigate conflict at work. And when you do, you'll get better results, build trust, have more influence, and collaborate better with your coworkers.

You probably didn't learn practical, productive approaches to conflict in school. And, if you're like most of us, you grew up watching role models sometimes really screw it up. You've had some conflicts not go so well yourself, and you don't like how that feels. The Powerful Phrases you'll find in this book are words you can use exactly as written or find your own Powerful Phrase that carries the same meaning, creates the changes, and builds the relationship.

IN THIS EXECUTIVE BOOK SUMMARY:

- Determine how challenges of workplace conflict are influenced by new factors
- Tips to address conflict constructively through four key dimensions
- Practical "Powerful Phrases" and strategies to use to navigate and resolve conflicts
- Strategies for dealing with different types of difficult coworkers, bosses, and customers

What Makes Workplace Conflict So Challenging?

What's Making Conflict Harder Right Now?

People have had conflict with one another since, well, there have been people. But to give you the most useful tools, we wanted to find out what's happening now. So, we created the World Workplace Conflict and Collaboration Survey (WWCCS) to ask people around the world whether they're experiencing more (or less) conflict at work, what's causing those changes, and the effects of workplace conflict. We've heard from over five thousand people in more than forty-five countries and all fifty of the United States.

If it feels like you're experiencing more conflict at work over the past few years, you're not alone. Seventy percent of the people in our research say that they're experiencing the same or more conflict at work.

The pandemic sped up changes in the workforce. More than ever before, people want meaning in their work. And work itself is changing. The survey results citing continued overwhelm, economic instability, lower levels of motivation, and poor management are symptoms of this upheaval.

Take the increase in anxiety, stress, and depression, mix in the loss of human relationships, and you get more workplace conflict. And it's more intense.

We were sad to read WWCCS comments about alarming discrimination and lack of tolerance or inclusion. For many, these trends are getting worse.

When things change fast or change in big ways, people freak out. Rapid change, major change, and unexpected changes can all increase the likelihood and intensity of conflict.

Social media thrives on conflict. One of the easiest ways to get people to interact is to push their anger and outrage buttons.

We don't share these causes of conflict to discourage you. The point is to understand where the conflict comes from and why it's happening.

What Abouts: Frequent Concerns, Questions, and Why Old Approaches Don't Work

You may be thinking, "Powerful Phrases, really? I'm skeptical. You can't script this stuff."

So, you're right, in that there are almost no "perfect words" for every situation except maybe "thank you," "I apologize." Apart from those, it's what the words do that matter most—not the words themselves.

"I" statements, sandwich methods, and that nonsense is tired. It doesn't work.

There's a lot of traditional workplace communication wisdom that gets passed on but makes little sense—or just plain won't work in different scenarios.

"My [boss/coworker/customer] is a psychopath. There's nothing I can do that's going to help."

We've heard so many stories of conflict with managers in the WWCCS. We want to encourage you to know that there is hope.

Getting Started: Practical Approaches for Every Workplace Conflict

The Four Dimensions of Constructive Conflict

Every Powerful Phrase in this book addresses one of these dimensions.

1. Connection—Do We Know One Another as Human Beings?
2. Clarity—Do We Have a Shared Understanding of Success?
3. Curiosity—Are We Genuinely Interested in Other Perspectives and What's Possible?
4. Commitment—Do We Have a Clear Agreement?

The Twelve Greatest of All Time Powerful Phrases for Dealing with Workplace Conflict

CONNECTION

1. "I care about (you, this team, this project) and I'm confident we can find a solution that we can all work with."
2. "Tell me more."
3. "It sounds like you're feeling . Is that right? [pause for affirmation]. Thank you for letting me know how you feel."

CLARITY

4. "What would a successful outcome do for you?"
5. "Let's start with what we agree on."

6. "What I'm hearing you say is . Do I have that right?"

CURIOSITY

7. "I'm curious how this looks from your perspective."

8. "What do you suggest we do next?"

9. "What can I do to support you right now?"

COMMITMENT

10. "What's one action we can both agree to as a next step?"

11. "So, to recap our conversation, we've agreed to. Is that your understanding?"

12. "Let's schedule some time to talk about this again and see how our solution is working."

Courage Matters: Get More Confidence to Start the Conversation Everyone Wants to Avoid

It's so tempting to ignore conflict at work, but look at the top consequences of conflict from the WWCCS: stress, turnover, lower-quality work, lost productivity. No one needs more of that in their life.

Powerful Phrases to Ask Yourself and Build Your Confidence

"What do I want to happen because of what I say?"

"Why does what I have to say matter?"

"What's preventing me from saying it?"

"What's at stake if I stay silent?"

"What's the worst that can happen here?"

Powerful Phrases to Invite Others into the Conversation

"I'm concerned that we might not be talking about (X). And my hunch is that's because of (Y). Here's why I think we need to have the conversation anyway. What do you think?"

"What are your biggest hopes and fears for this project?"

Beyond Words Harnessing the Power of Body Language and Tone for More Productive Conflict

You can derail any Powerful Phrase with an eye roll, exasperated sigh, or sarcastic tone. When your face doesn't match your words, people believe your face before your words.

Beyond the Drama: How to De-escalate an Emotional Conversation

"I noticed that . . . What's happening for you?"

"You're right . . ."

"Please correct me where I'm wrong. Here's what I'm hearing so far."

"I appreciate you sharing that with me."

"I apologize."

Say Goodbye: How to Know When It's Time to Quit a Conflict

One heartbreaking finding in the World Workplace Conflict and Collaboration Survey was how often people said, "If faced with this conflict again," they would quit, or quit sooner.

"Have I tried?"

"What do I gain or lose by quitting?"

"Is this conflict affecting other areas of my life?"

"Do I feel good about how I'm showing up?"

"Is conflict a pervasive organizational problem, or is it limited to one or two people?"

"Is there another way to accomplish my goal?"

Rising Above: Tackling Tricky Workplace Situations

What to Say When . . .You Need to Say No (Even to Your Boss)

"I've studied this problem extensively. Here's what I know. . .

Does your data suggest something different?"

"I'm confident that we should take a different approach. Here's why . . . I'm curious about your perspective."

"Thank you so much for thinking of me! I'm honored. I'm so sorry I can't say yes to this right now."

How to Say No to Values Clashes and Ethics Violations

"Thank you for thinking about this. However, this clearly is (illegal, out of compliance, against this foundational policy). Let's think a level deeper about the outcome you want, and how we might get there."

Powerful Phrases to Say No to Your Boss

"I'm deeply committed to the success of the team and to this project. What you're asking me to do here would mean {x}. Which concerns me because of {y}. An alternative approach might be {a}."

"This project sounds so exciting. And I can't take on another thing—unless we reprioritize my current work."

"I always want to grow and contribute all I can to this company. I don't think I'm the best fit for the role you're suggesting because . . ."

What to Say When . . .You Feel Overwhelmed

"What's most important?"

"If I had to drop a ball here, which ball should that be?"

Powerful Phrases to Ask for What You Need

"I could use some help with this."

"I have an idea."

"Here's what I need."

Powerful Phrases for Supporting Your Overwhelmed Team

"This is not okay. That can wait."

"Let's figure out a different way to do this."

"I really appreciate you and all you are doing."

What to Say When You Feel Invisible or Ignored

Here are a few questions to spark your thinking.

"What do people not see that I wish they would? For what do I want to be known?"

"In what circumstances am I feeling invisible or underappreciated?"

"Is this a place where employee voice matters?"

Powerful Phrases to Share How You Feel or Ask for What You Need

"I'd love to set up some time to talk to you about {x}."

"Sometimes, I feel isolated in my role. I'd love to explore ways to be included in discussions about {x}."

"Would you like to grab a (real or virtual) coffee?"

Powerful Phrases to Get Your Voice in the Conversation

"I have an idea that will (insert strategic benefit statement here)."

"Before we leave this conversation, I have something important to add."

What to Say When Expectations Aren't Clear

"It seems that we see this differently . . ."

"Here's the challenge we face . . ."

"Let's decide how to decide."

What to Say When You Have Competing Priorities and Conflicting Goals

"I know we've had some challenges . . . and I'm committed to finding answers that will work for both of us. Can we talk?"

"What are your goals? What matters most to you and your team here?"

"My understanding is . . . Do you understand it the same way?"

"Will you come with me to talk with our manager so we can clarify what we're supposed to be doing?"

"How can we . . . ?"

What to Say When You Work in a Matrix Organization

"What does success look like (for this project, for our customers, and for each of us?)"

"Who are our key stakeholders and how will we involve and include them?"

"What is my role in this project? What's yours?"

Who are our key stakeholders and how will we involve and include them?

"Who owns this decision?"

"Who really needs to be in this meeting?"

What to Say When Your Team Lacks Accountability

Use the INSPIRE method.

Connection and Clarity

I—Initiate the conversation with your intent

N—Notice observable behaviors

S—Support with specific examples

Curiosity

P—Probe with open-ended questions

I—Invite their solution

Commitment

R—Review your agreement

E—Enforce with a scheduled time to revisit your agreement

What to Say When Your Remote or Hybrid Team Is in Conflict

"What does success look like?"

"How and when will we communicate?"

"How can we make the most of our time together?"

What to Say When Others See the World Differently

"My intent for this conversation is . . . so that . . ."

"I've noticed that we have different perspectives . . . and would love to learn more."

"So, what you're saying is . . . Do I have that right? That's interesting. And I see it differently."

"Have you asked . . ."

What to Say When a Team You Lead Can't Get Along

"What do you want me to know?"

"How might I help here?"

"Should the three (or more) of us talk together?"

"What I'm hearing is . . . What have I missed? What would you add?"

"We are approaching this with different values and styles. Let's see what we can learn from one another and build a way forward."

Managing Up When You're Feeling Down: How to Deal with Conflict with Your Boss

What Do You Say If Your Boss is a Micromanager?

ASK YOURSELF

"How am I doing, really?"

"Can I show or document my success?"

"Is it just me or everyone?"

"Has something significant changed?"

START A CONVERSATION WITH YOUR MICRO-MANAGING BOSS

"I care about our success and want to make sure I'm doing my part."

"Is there something I've missed?"

"Do you have a concern about how. . . ?"

ASK FOR WHAT YOU WANT

"I'm hearing . . . Can I commit to. . . ?"

"I want to try . . . Can you and I set a quick meeting to

make sure we're on track?"

What Do You Say if Your Boss Takes Credit for Your Ideas?

"I'm curious, do you think {x} understands my role in this project?"

"People seem to appreciate our work. Do you think {x} understands all that went into this and who was involved?"

"I'm sure this was an oversight, and I'd love your help in making it right. Do you think we could talk with. . ."

What Do You Say if Your Boss Won't Make a Decision?

"What's causing your hesitation?"

"Who else needs to be involved in this kind of decision?"

"I see two options for what to do next (explain options A and B). I recommend we go with option A because . Are you good with that?"

What to Say If Your Boss is a Moody Screamer or Dropper of F-Bombs

"I understand how frustrating this is. I'm deeply concerned too."

"I'm so sorry I screwed this up. Here's what I will do . . ."

"I'm observing a pattern where (specific observations) . . . and I'm wondering . . ."

"I've noticed that when you're frustrated . . . It makes me uncomfortable."

"How can I help?"

What Do You Say if Your Boss Gives You Lazy, Vague, and Frustrating Feedback?

"Thank you. What's working? How can I be more effective?"

"I feel proud about {x} . I'd love your perspective on that. Why do you think it worked well?

"What specific skills, talents, or behaviors have you observed that allow me to make the greatest contribution?

"Can we outline what I need to do this year to make 'exceeds' (or whatever your rating equivalent) the obvious rating?"

"I really appreciate your support. And I'm pretty frustrated. This affects my compensation too (if that's true). I'd really like to talk to HR to express my concerns about this."

"I appreciate your desire to help me improve. This is the first time I'm hearing about this. I'm wondering what we could do to set up a more regular cadence of feedback throughout the year, so there are no surprises next time."

"Can you please tell me more? I'd really like to get a better understanding of your concern."

What Do You Say if Your Boss Doesn't Appreciate You or See Your Genius?

"In the next three months, what do you see as one of my biggest strengths to build on, and what's one opportunity to grow?"

"What would an extraordinary year look like for my role?"

"I've been working on {x} and I know how important this is to our strategy. Can we use ten minutes in an upcoming staff meeting so I can update you and the team?"

What Do You Say if Your Boss Thinks You're Too Negative?

"I appreciate you thinking about . . ."

"Here's how we can make sure this succeeds . . ."

"I want to make sure I give your idea the positive attention it warrants. Can we talk tomorrow morning?"

Communicating with Difficult People: The Art of Wooing the Weary and Winning the Whiny

How to Deal With Lazy Coworkers

"Is everything okay?"

"Can we talk about how we can best support one another and the team?"

"I don't want to overs tep my role here, but I want to ensure you are aware of the impact on the rest of the team."

How to Deal With Know-It-Alls

"I'm sure your intentions are good. And sometimes, when you tell me what to do, it makes me feel like you question my expertise."

"How do you think that went? What did you notice about the others in the room?"

"If you were in my shoes, what would be your focus?"

"I could really use your help to draw others into the conversation. Do you think you could help me do that?"

"I want to ensure we hear from everyone, so I'm going to set the timer . . ."

How to Deal With Chronic Complainers

"That does sound frustrating. Do you want to make it better?"

"It sounds like you're concerned about . . ."

"How do you think we can address this?"

How to Deal With Bullies

"I could really use your help . . ."

"Is this the way we're going to work together?"

"That's not okay."

"Nope, I can't let you talk to me that way."

"I would like to discuss this issue with you in a private setting."

"I will not engage in this behavior."

"I would like to involve HR in this discussion."

How to Deal With . . . Workplace Gossips

"I've got to say that rumor is a lot more interesting than how I actually spend my evenings."

"Does this conversation feel fair to you?"

"What if we called (insert person whom the rumor is about) and asked for their perspective on this?"

"There's a lot we don't know about this. I trust we'll learn more soon."

You've Got This

Workplace conflict is an inevitable challenge, particularly in today's rapidly changing environment. This book offers valuable insights into why conflict has intensified and provides practical tools to navigate these complexities. By focusing on the four dimensions of constructive conflict—Connection, Clarity, Curiosity, and Commitment—you can transform challenging interactions into opportunities for growth and collaboration. The Powerful Phrases and strategies outlined in this book are designed to help you address conflicts effectively, build stronger relationships, and create a more harmonious workplace. Remember, mastering conflict is a journey that requires persistence, but with each step, you move closer to a more productive and positive work environment.



Karin Hurt is the CEO and Founder of Let's Grow Leaders, a global, human-centered leadership development company known for practical tools and training that sticks. She was recently named on Inc's list of 100 Great Leadership Speakers. Other books include Courageous Cultures and Winning Well. David Dye is President of Let's Grow Leaders, a global, human-centered leadership development company known for practical tools and training that sticks. Other books include Courageous Cultures and Winning Well.

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Primal Teams

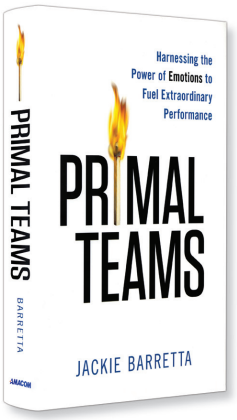
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Management

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Executive Book Summaries®

Primal Teams

Harnessing the Power of Emotions to Fuel Extraordinary Performance



by **Jackie Barretta**

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THE SUMMARY IN BRIEF

Great team results depend on tapping the incredible power of emotion. Negative feelings such as fear, anger and frustration can inhibit a group's performance. The most optimal emotions stimulate team innovation and productivity because they enhance such competencies as quickness, flexibility, resilience and the ability to deal with complexity. Your team's bottom-line performance depends on creating a work environment that respects and taps into the primal force that Mother Nature has hardwired into our brains: emotion.

You can't reason away or "fix" emotional states with rational thinking. You must deal with them directly. ***Primal Teams*** applies the latest principles of team psychology to the workplace, explaining how creating peak emotions naturally ignites team performances that transcend the talent and skills of your individual performers.

Drawing on the cutting-edge work of leading neuroscientists, ***Primal Teams*** provides practical tips and techniques to help you get measurably better results by generating optimal emotions in your team.

IN THIS SUMMARY, YOU WILL LEARN:

- Tap into the energy and clarity that optimal emotions naturally generate.
- Facilitate deep emotional bonds and incredible team spirit within your group.
- Manage your team's emotional dynamic in such a way that leads to expanded creative thinking, deeper inspiration, accuracy of intuition and higher motivation.
- Prevent fear and negativity from thwarting your team's performance.

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Hidden Energy: Unleashing Maximum Potential

The success of an organization depends on those key moments when teams develop creative ways to provide greater value and perform more efficiently in increasingly demanding situations. Too often, a team under pressure falls prey to negative emotions like fear and anxiety. However, when they replace fear and anxiety with optimal emotions such as joy and playfulness, they find it a lot easier to dream up solutions that delight customers, rapidly deliver value and evolve along with the business.

Design for Creativity

You must instill creativity at every level. Whether your team must solve an internal design problem or invent the next disruptive breakthrough in your industry, they won't exceed your expectations unless you make it clear that creativity is Job One and develop an environment that fosters imaginative thinking. Don't leave creativity to chance; shape it by design. It takes time and effort, but you can encourage and develop a team's knack for creative thinking and problem solving.

In 2008, Carsten De Dreu, Matthijs Baas and Bernard Nijstad published an article in the ***Journal of Personality and Social Psychology*** about the impact of emotions on creativity, including an account of the authors' own comprehensive original research in which they measured the impact of mood on subjects' creative fluency and originality while performing brainstorming tasks. The scientists discovered that emotions play a major role in our ability to see new possibilities, or they can close down our minds in a way that keeps the same old thoughts swirling around in our brains. According to the article, optimal team emotions that spark creativity begin with positivity. Positive emotions come in different sizes, ranging from a low level of arousal to extreme passion. Low levels of arousal, such as contentment, promote inactivity, whereas extremely high levels of arousal, such as excitement, reduce our capacity to perceive and evaluate information. At moderate levels of arousal, people feel optimally motived to seek and consider multiple alternatives. Primal team leaders can take specific steps to help people experience the appropriate levels of arousal and the optimal level of positive emotions.

Pull the Strings of Heartfelt Emotion

Heartfelt emotion boosts our creative ability to an even higher level. Our heart has a unique ability to put us in our most creative state. Heartfelt emotions consume our attention and activate a strong sensation in our heart. Strong heartfelt emotions can halt our rational mental processes and connect us to people in a much more profound way than relatively mild feelings, such as relief or satisfaction or thankfulness.

Synchronize the Parts of the Brain

Your brain's complex system works best when all of its parts are synchronized in harmony. The Institute of HeartMath LLC, a research organization in Boulder Creek, California, has been exploring the connection between the heart and the brain for over 19 years. HeartMath uses the term "coherence" to describe the state in which all of the centers of the brain develop a logical, orderly relationship.

Let the Good Feelings Roll

The notion of inviting emotion into the workplace repulses many leaders because they find emotions so messy, sticky and frustrating. Unfortunately, the very way businesspeople think tends to diminish positive emotion in the workplace. When something happens at work that evokes happiness or joy, we often downplay those feelings. Psychologists use the term "ordination" to refer to this tendency to make exceptional events seem ordinary. Primal team leaders understand this human tendency and look for opportunities to encourage a team to revel in the joy of accomplishment. When your team does something wonderful,

- **Rejoice**. Stay emotional rather than minimizing the event with logical explanations.
- **Celebrate**. Commemorate the event.
- **Exclaim**. Show your emotion, telling people how it makes you feel.

Primal Emotion: Shifting Emotions at the Source

Our emotions spring from the primal parts of our brain. Basic and instinctive, they date back to the time when Mother Nature hardwired them into our brain as we learned what worked and what didn't in our ancient environment. Our primal emotional system plays a key role in one of the most crucial aspects of human behavior in business: motivation.

Bestow all those raises, protect your people's home lives, give them a chance to acquire exciting new skills, and you still end up with people suffering burnout or boredom who just can't handle one more straw on the camel's back. That's when a smart leader applies emotional solutions. Such solutions do not require more resources.

Seek Before You Find

You get a thrill out of pursuing or seeking a goal, but once you achieve it, it doesn't seem so attractive. You should bear in mind the extreme pleasure people derive from activating their seeking emotional system. When a stimulus arouses our seeking system, it activates our frontal neocortex, prompting us to work out innovative strategies and solutions. Logic doesn't make us do that; emotions do. A team that embarks on an exciting new journey not only feels strongly motivated to succeed but also works smarter.

Organize Work in Creative Cycles

The opportunity to pursue or experience something new jazzes people. Primal team leaders have learned to maintain a high level of enthusiasm by organizing work in creative cycles. No one suffers from tedium and boredom because the work occurs in patterns that keep it fresh. The clear beginnings and ending provide the excitement of starting something new and the fulfillment of completing the work. Any work involves certain patterns. A leader can use this fact to keep team energy running at a high level.

Playing For the Fun of It

The most effective type of play involves physical, repetitive actions with variations that challenge us enough to hold our interest but that do not overly tax our minds and bodies. Ideal play should enhance rather than sap our energy. Contrary to the old cliché, winning is not everything. The mere act of playing the game for the sheer fun of it, without excessive pressure to win, is everything.

A word of caution: Some team leaders try to turn the work itself into play. "I'll give a day off to the programmer who finds the most bugs in the software this week." That doesn't work because that sort of game involves significant consequences for the winner and losers. It can do the opposite of rejuvenating a team's emotions.

Rather than waiting until a team reaches burnout to pep them back up, primal leaders incorporate play (and laughter) into their daily leadership practices. There's a big difference between the sort of optimal play we're discussing and overly structured activities. Optimal play erupts spontaneously.

Sounding Off

Music can inspire accomplishment when fear or burnout threatens performance, but it can also "soothe the savage beast" during times of great stress. Listening to music affects a team's emotions, but playing music stimulates them even more. In a study led by Barry Bittman and reported in ***Alternative Therapies in Health Medicine***, researchers found that when people participate in a group drumming exercise, their bodies show significant signs of improved health. Merely listening to the drumbeats does not affect them as much.

Tapping on bongo drums and rattling tambourines bring people together physically, emotionally and mentally. If you think drumming in the office sounds nutty, think again. Employees at government, health care and community organizations and several big companies, including Toyota, Unilever, Raytheon and Oracle, regularly participate in drumming activities at work. Toyota has gone so far as to install dedicated "drum rooms" at the company's California locations. Music rejuvenates our basic emotional system, reinvigorates our urge to play and inspires our natural inclination to seek.

Laughing Out Loud

Laughter is not only the best medicine, it's the best measure of fun in the workplace. According to the Mayo Clinic, when you laugh, it doesn't just lighten your mental load; it introduces measurable physical changes in your body. You breathe in more oxygen-rich air, your heart beats a little faster, your muscles tingle and mood-enhancing chemicals called endorphins flood your brain.

The Scary Stuff: Processing Fear and Negativity

Business environments swarm with fear. When everyone competes for limited resources, both with other companies and with the person sitting in the next cubicle, every project turns into a win-lose contest. Our emotional system reacts to perceived threats to our survival by producing responses that maximize our chances to survive the threat. Knowing how to process fear and negativity can turn a damaging problem into an opportunity for positive team development.

Accommodating Negativity

Start capturing the benefits of negativity. The expression of negative emotions can spark a team from lifelessness to alertness. Without emotional arousal, we can fail both to notice important danger signals and to muster enthusiasm to address a threat.

Make room for negativity. Teams cannot capture the benefits of negative emotions unless they feel they can safely express them without getting criticized or punished. A leader must deliberately create this safe space.

Shining a Light on Fear

Our emotional system, the region of our brain called the amygdala in particular, continuously scans our surroundings of potential threats and then warns our conscious mind when it detects one. Not only does the amygdala warn us of possible danger, it also heavily influences our thinking. This can cause us to interpret every ambiguous event as a possible danger. We hear about another company outsourcing jobs and jump to the conclusion that the same thing is going to happen to us.

Acknowledging a threat surfaces it into our conscious mind where we can process it, which is why you can use this Acknowledge the Threat technique with your team. If our conscious mind acknowledges the threat and takes precautionary action or decides to let it slide, our amygdala can take a break and stop sounding the alarm. Although acknowledging a threat does not make it go away, it does allow room for a conscious intention to stop worrying about it now and resolve it later.

Creating a Diversion from Negative Thoughts

We naturally find it hard to replace a negative thought with a positive one because we're predisposed to latch onto the negative. It boils down to our hardwiring. Team leaders who wish to create positive emotions with the power to boot out the negative will find the Accentuate the Positive technique useful.

Arouse Positivity. The more vividly you can describe the positive impact of your work on people's lives, the more you will populate your teammates' working memory with positive thoughts. Identify the most compelling way in which your team makes lives better, and define it in a way that elicits strong positive emotion.

Keep It Visible. Once you've defined the best way to create positive emotions in the team, use symbols to keep them visible in their minds. Make the symbols vivid and tangible, so that people can picture them in their mind's eye.

Desensitizing Your Team to Fear

Reprogram the fear. This technique includes a tried-and-true four step Fear Prescription:

1. Face the full extent of the fear.
2. Avoid exaggeration or catastrophizing.
3. Conjure up the somatic effects (the way it makes the body feel).
4. Shift to the positive.

In our work lives, we fear the pain caused by complex negative emotions such as shame, guilt or embarrassment. We can also fear the pain of loss. We fear those emotions because we don't believe we can handle the pain they cause. However, when we face these fears head on, letting ourselves feel the full brunt of the emotions they ignite, we realize we can handle the pain. That knowledge robs the emotions of their power to scare and immobilize us.

It is recommended that you use the Get Real technique when fear runs rampant on a team. Keep a sharp eye out for exaggerations and outlandish consequences voiced by team members. Challenge their unwarranted fears, put them into perspective and lessen their negativity with a dose of logic.

Emotional Contagion: Spreading Coherence in a Team

You always need to deal with a wide range of emotions, both energizing and toxic, in your team. While you can't eradicate the negative ones from people's minds, you can learn how to keep them from overtaking your team and thwarting its potential.

Spawning Good Cheer

Lifting the mood of your teammates depends less on what you say than on how you feel when you say it. You must assume responsibility for instilling optimal emotions in your team. Make sure that you're truly feeling those optimal emotions before you stroll into the office or convene a team meeting. You set the emotional tone, and false displays adversely affect people just as much as negative ones.

As your teammates watch and listen to you, they automatically mimic other physiological expressions of emotions, such as rapid eye movements, gestures and perspiration on your upper lip. Unfortunately, people catch negative emotions much more easily than they do positive ones. You can ensure that optimal, rather than detrimental, emotions are spread throughout your team by intentionally making your emotions both optimal and highly contagious.

No emotional state is more contagious than coherence. Coherence occurs when you are experiencing intense heartfelt emotions. When you attain a state of coherence, you transmit emotions powerful enough to overtake any others that have cast their spell on your team. When your emotions authentically come from your heart, you will impress people with

the fact that you feel energized and centered and fully aware. Everyone will respond by taking you and your words to heart.

Making Coherence a Competency

Leaders need to value the emotional coherence of their people as highly as they do their technical or emotional skills. Bottom line: It may be easier to train for technical competence than for emotional competence.

First, add coherence to our job descriptions. You can say something like, "Candidate must demonstrate the ability to act as a positive force in a team, promoting high energy and a can-do attitude in challenging situations." Design interview questions that strike to the heart of the matter, such as, "Have you or a teammate ever hurt a team's performance with a poor attitude or low energy?"

Formulize coherence as a skill. Clarify the specific set of skills, knowledge and characteristics it entails, using clear, concise and concrete definitions and descriptions. When you do that, you can much more easily include and measure the skill in routine management and performance appraisals.

The Sixth Sense: Detecting Emotions

Emotion, unlike cognition, affects the body's entire nervous system, not just the brain. According to Vittorio Gallese, a professor of human physiology at the University of Parma, Italy, when we observe someone, our neural circuits automatically activate to match those of the person we're observing. Gallese attributes this neural synchronization to the mirror neurons he helped discover.

Hone Your Sixth Sense

According to one study, the people who most accurately detect others' emotions tend to experience and show their own emotions quite freely. If Rich plays the stoic, unmoved by joy or sadness or fear, he might lack the context to sense Monte's emotions. He may not feel them in his own body or recognize them when they arise.

To hone your ability to detect others' emotions, remain willing to experience whatever feelings arise, and then pay close attention to how they affect your body. If Rich stops resisting his emotions and becomes more familiar with the sensations of anger and anxiety, he will learn to tell the difference. That will help him detect the feelings of everyone on his team.

Letting yourself feel the emotions of others doesn't mean letting these emotions overwhelm you. That can cause another set of problems as you get swept off your feet by a flood of someone else's feelings. Fortunately, you can learn to sense another's emotions and observe how they affect your body without letting them emotionally hijack you.

Gradually, you will become a more skilled emotional diagnostician. Periodically, pretend you are an objective doctor by placing a stethoscope to your chest and taking your emotional temperature. Try to diagnose any symptoms of unusual sensations. What is causing those bodily reactions? Why has your heart begun beating a little faster? Do this in the company of your teammates. Scan their faces and bodies. Listen to their tone of voice. Has Rich caught your enthusiasm? Have you caught his dismay?

Since a person's expressions during conversation seldom last longer than 0.5 to 2.5 seconds, you must pay strict attention to their face, posture and tone of voice to be attentive. Also, bear in mind that people try to dampen their emotional displays in the office. Make sure you listen to your own body as well. Can you feel the physiological symptoms that tell you that you've caught someone else's emotions?

Enhance Your Team's Emotional Signature

When we interact with people, we automatically and unconsciously sense their emotions. People and teams develop unique emotional signatures. Think of a team's emotional signature as its basic "personality," which includes the unique way it feels.

When prospective clients and customers sense your team's emotional signature, perhaps unconsciously, they will include their perceptions in their decision-making process, whether they know it or not. Your team's emotional signature does not just matter to customers; it makes all the difference in the world to people considering whether to join and stay with your team.

Make becoming an expert emotional detector a lifelong project. You will never become clairvoyant, but you will learn to see and feel emotions that slip past less dedicated emotion detectors.

The Engaged Heart: Connecting to a Deeper Purpose

Some missions satisfy your intellect with their logic, but the most powerful ones touch your heart and ignite high energy and enthusiasm. An inspiring purpose drives us to do and accomplish more than we ever thought possible. An inspired team develops an expanded sense of their jobs and

their vital role in their company's success, and that makes them feel as though they can do anything. With optimism and high energy pulsing through their bodies, they can conquer the world, but only if you pull them above the realm of mundane thinking.

It takes more than encouraging words to get a team thinking beyond the ordinary. To get people to take a satellite's-eye view, you must help them redefine the purpose of their work with more expansive thinking. These purpose-driven questions encourage the team to think of providing value beyond the ordinary.

- What motivated the company's founders to create this company?
- What excites our customers?
- What difference has our company made in the world?
- What major contribution can our team make to the contributions and accomplishments?

Remember that the team's purpose needs to tie into the organization's overall purpose.

Make the Mission Top-of-Mind

For a great purpose to perform its magic, it must be in the forefront of people's consciousness. A weak, vague or emotionally neutral mission will not do the trick because it will not embed itself deeply enough in their conscious minds. Most importantly, you can keep your team's purpose top-of-mind by fully integrating it into your daily conversation.

Strike a Chord with Life Schemes

A life scheme is a cognitive representation of one's life, like a story. It organizes an individual's perspective on the world, represents that person's personal ideals and defines the events he or she deems most relevant to those ideals. It embodies a person's basic identity.

Individuals feel most inspired by a corporate or team purpose that fits snugly into their life scheme or that motivates them to shift their life scheme to encompass the purpose. Make sure you see a good fit between any prospective teammate's life scheme and your team and company purposes. Strong matches also instill loyalty.

Resonate with Core Identity

A great team purpose shouldn't just tap into your teammates' life stories; it should burrow deeply into the very core of their identity. When you define a team purpose with your team, dig deep below the surface. Get to core emotions. You want your purpose to stir the people's hearts and reverberate with their identity. Performance and financial goals won't do it. Values and meaningful contributions will.

Organize by Purpose

A team's purpose should profoundly drive the way team members do their work and provide daily inspiration for all team members to do their best. Use the questions in the following table to determine whether the functions performed on your team play an integral role in accomplishing your mission.

Here are three pairs of purpose alignment questions:

1. **A.** Does the purpose provide meaningful direction toward doing the best possible job?
   B. Do people really agree that the purpose helps me decide the best way to do my job?
2. **A.** Does the purpose inspire people to do an extraordinary job?
   B. Do people readily agree that I feel tremendously energized to get results that fulfill our purpose?
3. **A.** Does the purpose provide people with a meaningful reason for doing the job well?
   B. Do people readily agree that when I do my job well, it makes a substantial difference in how well we achieve our purpose?

If you answer yes with respect to a given function, keep it on the team. If your answer is no, look at a way to procure the function as a service from a team whose purpose better matches their work.

We have talked about the importance of mining beneath the surface of what we do to unearth why we do it. "Why does what we do matter to me, my team, my company and the world?" Continually asking this question can lead you to answers that ignite and sustain team energy. As you hammer out and refine a meaningful purpose, continually ask why what you're doing matters until you identify how your work fulfills a basic human need.

Primal IQ: Activating Insight and Intuition

The best breakthrough ideas don't spring from logical thinking, and the most spectacular innovators do not learn their tricks at prestigious business schools. All those intuitive gut feelings that defy logical explanation account for more

great ideas than all the comfortable couches, post-it notes and whiteboards in the world.

Get to Aha! By Letting Go

When we take on a challenging problem, we may spend a lot of time and effort clarifying the issue and trying out different solutions. This activity internalizes the problem into our subconscious mind, where it incubates without further conscious input. As it incubates, all that data may coalesce into a solution, which may dramatically burst our consciousness as an Aha! or Eureka! flash of inspiration. Then our conscious mind can take over again as we proceed to verify and work out the details needed to implement the idea and share it with other people. We let the conscious mind take a nap while the subconscious mind unveils amazing solutions to big problems.

Why does taking a break prompt creative solutions? Even the experts don't agree, although a few suggestions make sense. A time-out

- Helps your subconscious mind sift through all the possibilities.
- Allows your impatience and frustration to subside.
- Invites stimuli from new activities and situations into your consciousness.
- Makes it easier to shift to a different problem-solving strategy.

Breaks work best after a thinker has gathered comprehensive information pertaining to a problem and has thought fairly deeply about it.

Team Spirit: Building Emotional Bonds

What drives team spirit, and how can we intentionally create it?

Generate Mutual Care

A team grows strongest when each person feels a reciprocated emotional bond with each and every teammate. When your team members see each other as people worthy of compassion and concern, not just as co-workers sharing a workplace, they begin to bond. A team leader can do a lot to help the team take their relationships beyond the surface level of their work and connect at a more satisfying, primal level.

Extend the Trust

Paul Zak, a neuroeconomist, says that when our interactions with other people engage our emotions and make us feel compassionate or empathetic, the chemical oxytocin surges in our brain. Oxytocin (not to be confused with the prescription painkiller oxycontin) is a small molecule, or peptide, that serves as both a neurotransmitter, sending signals within the brain, and as a hormone, carrying messages in the bloodstream. When oxytocin surges, people become more cooperative, more generous and more caring.

A bond of trust lays the groundwork for other positive human emotions, including caring, cooperation, respect, admiration and even love. It also engenders creativity. Because creativity depends on taking risks, we tend to do it much more ardently when we totally trust our teammates for support and backup.

But how do you instill trust in a group? You begin by placing your faith in them. Whenever a leader shows a team that he or she trusts them, the team has seen fairly immediate results. People no longer show up late for work or meetings, and they don't need prodding to put in extra hours or to complete a project on time. According to Paul Zak, trust triggers oxytocin, and oxytocin prompts prosocial behavior. It turns out, however, that the care and trust it promotes do not apply to the world at large but only to a person's close associates. Some studies have even shown that oxytocin actually decreases collaboration outside the immediate team.

Avoiding Common Bonding Pitfalls

Bonding may lift up a team, but too much bonding can also bring it down. How do you reach a happy medium between too little and too much?

Candidly discuss major decisions. Researchers found convincing evidence that poor decisions can result from a team placing an overriding emphasis on consensus and mutual support. Teams can mitigate the negative effects by carefully considering various alternatives to achieving a goal or solving a problem.

Challenge each other. Debate and criticism stimulate rather than inhibit ideas. Dissent stimulates new ideas because it encourages us to engage more fully with others. Also, as you work to increase the bonding in your team, make sure that maintaining the bond doesn't overrule other important objectives. If you want to promote creativity in a team, you need to assemble and engage diverse people who offer fresh neural patterns to one another.

Use the Team Bonder to Provoke Deep Connections

You can get your team connected at a deeper level by set-

ting the stage for strong, healthy team bonding.

1. **Get Personal.** For helping people open up, understand and feel compassion for each other.
2. **Establish Team Norms.** For setting the team's basic operating policies and procedures.

The Balanced Culture: Restraining Runaway Egos

Nothing can diminish a team's bond and energy level as quickly as ego-based separation, where a gulf grows between an egotistical co-worker and everyone else on the team.

To promote better balance between ego-driven and group-oriented behavior, try forging a team agreement that guides people's interactions with one another. These steps will help you formalize "the way we do things around here."

1. **Agree on Norms for Team Interactions.** Gather the entire team and ask, "What behaviors do we require? What behaviors do we inhibit?" Make sure everyone contributes to the discussion. Here are examples of behaviors the team might discuss:
   - Conflict resolution, such as when it should be escalated to management.
   - Communication guidelines for speaking and listening. Prohibitive behaviors and language.
   - The best way to express disagreement with a teammate.
   - Acting with openness, honesty, transparency, ethics and integrity.
   - Methods for offering feedback and criticism.
2. **Memorialize the Norms in a Team Agreement.** Document the agreements, and post them where all team members can see them every day.
3. **Keep the Team Agreement Top-of-Mind.** Review the team agreement when new members join. Invite fresh perspectives, and make sure veteran teammates share stories that illustrate the team agreement in action.

A team agreement will help all team members maintain their individuality while cooperating with others.

Epilogue: When the Going Gets Tough

Today's complex and often frenetic business world can turn even the most died-in-the wool optimist into a staunch believer in Murphy's Law. Everything that can go wrong does go wrong, and at the worst possible moment. But that's when you stop in your tracks. That's when you listen to your heart. That's when you pick up your bruised confidence, dust it off and set it back on its feet. That's when you harness the incredible power of primal emotions.

When the going gets tough, the tough get primal.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***Team Genius*** by Richard Karlgaard and Michael S. Malone.
- ***Stronger*** by Dennis K. McCormack, George S. Everly, Jr. and Douglas A. Strouse.



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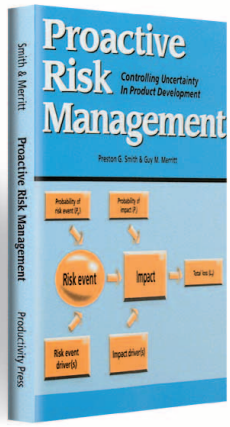
Proactive Risk Management

Preston G. Smith and Guy M. Merritt

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FILE: HANDS-ON MANAGEMENT



By Preston G. Smith and Guy M. Merritt

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PROACTIVE RISK MANAGEMENT

THE SUMMARY IN BRIEF

Though most companies use some variation of stage-gate product development, they still expend little effort on risk management. Project managers identify risks before the initial gate, but ignore them instead of managing them effectively. The project experiences needless surprises in schedule, cost, budget or market acceptance late in the game, when the same problems have happened many times before.

This summary will enable product development teams to enhance their management of project risks by identifying risks early and managing them to diminish disruption throughout the project. Using a practical, easy-to-use, fact-based approach, it will help developers manage all the risks associated with a project. Although this process is tailored to commercial product development, it is applicable to many other types of projects with some adaptation.

What You'll Learn In This Summary

✓ **How to integrate risk management into project management.** This summary provides a five-step plan for managing project risk effectively.

✓ **How to model a specific risk.** This summary illustrates and defines the Standard Risk Model.

✓ **Guidance on identifying drivers of risks.** You'll learn to manage root causes instead of symptoms.

✓ **Appropriate quantification of the key factors of a risk.** This summary illustrates specific quantification methods that allow you to prioritize risks effectively.

✓ **How to implement project risk management at your company.** You will learn which tools and strategies will enhance implementation and which organizational and cultural impediments can undermine implementation.

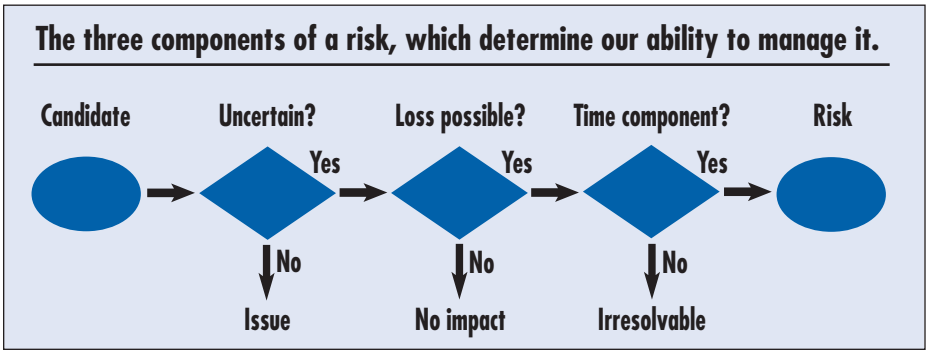
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PROACTIVE RISK MANAGEMENT

by Preston G. Smith and Guy M. Merritt

— THE *COMPLETE* SUMMARY

Risk and Risk Management



Risk is a loaded term, so think of risks as surprises. This book is about managing surprises in a project environment. A surprise could be an engineering design that fails in field trials, an unexpected competitor or an accounting error. In this summary, risk is defined as the possibility that an undesired outcome — or the absence of a desired outcome — disrupts your project. Risk management is the activity of identifying and controlling undesired project outcomes proactively.

Risk management is an integral part of project management, and product development inevitably requires project management. Risk management should occur as naturally as managing a schedule, but generally it gets lost in the crunch to get the new products out the door. The goal of this book is to build innate project risk management methodology into an organization.

Every Project Decision Involves Risk

Risk is inherent in product innovation, and therefore every decision about a project involves risk because there is always information we will not have until further downstream. Businesses assume certain risks because of today's increased focus on time-to-market. But importance of time-to-market also makes the schedule delays caused by unmanaged risks less tolerable.

Risk management always deals with uncertainties, whether or not the risk will happen. You will only know for certain that the risk occurs when it happens — when it ceases to be a risk. Uncertainty cannot be eliminated, but it can be narrowed by:

- Clarifying the probability of occurrence of risk.
- Understanding the consequences or alternatives of the risk event happening.
- Determining what drives the risk — which factors influence its magnitude and likelihood of occurrence.

No matter how well you execute risk management, some risks will still occur. Uncertainty can only be reduced, not eliminated.

Do not confuse risk with issues, which are events that are certain to occur. Issues are just as important as risks, but you are aware of them before they arise and they are handled differently than risks.

What Is a Risk?

Risks always involve the possibility of loss. We manage risk because we do not want to suffer loss, even if it is a remote possibility. If there is no possibility of loss, there is no reason to manage the risk. Also consider the possibility that the outcome of certain risks might be a gain instead of a loss.

Be aware of the time component of risks. Eventually there comes a time when a risk no longer exists because you have suffered the loss, or the risk has been resolved to cause little damage. You must recognize when the risk is gone, so you can remove it from your agenda. Some risks have no time component and are ongoing. If that is so, they are more risks of being in business than risks of this particular project.

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Risk and Risk Management

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Companies fail at risk management because they fail at one of the two fundamentals of managing risk well: **cross-functionality** and **proactiveness**.

Companies make the mistake of believing that innovation is only in R&D, and that is where most of the risk lies. However, most development project risks fall outside of R&D. Leaving all risk management in R&D will leave you wide open for most of your cross-functional risks.

Companies that are not proactive about risk management make two mistakes. They wait until late in the project when risks start occurring, and they let risk management lapse. **Risk management should begin early in the project and proceed as a monitoring and follow-up effort throughout.**

The opposite of risk management is firefighting. Good firefighters are reactive instead of proactive managers. They are regarded as heroes because they pull the problems out of the fire and are usually rewarded for it. Good risk management is rather dull, but reward should come from fire prevention. ■

For a glossary of terms to use when discussing risk, go to: http://my.summary.com

Risk Models and the Standard Risk Model

Modeling risk allows you to quantify its magnitude so it can be compared to other risks to determine which ones need to be managed. It also points you toward root causes so you can effectively resolve the risk. Since people often disagree about what constitutes risk, models allow us to communicate risks to others and come to a common understanding. However, their weakness is that they show only a partial picture of reality.

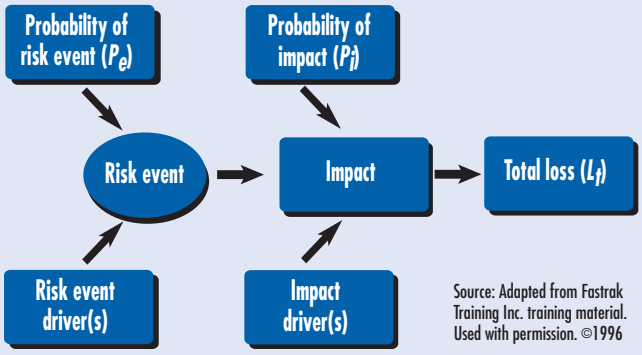
When judging a risk model, be sure that it has a clear purpose, it is user-friendly to the intended audience, its framework is universal to maximize reuse potential, it allows independent users to develop similar results with the same input, and that output can be readily verified.

Components of the Standard Risk Model

The Standard Risk Model is the most helpful of the typical risk models for comprehending project risk and associated cost. The components of this model are:

- **Risk event:** the event that triggers a loss.
- **Risk event driver:** something within the project environment leading one to believe a particular risk event could occur.
- **Probability of risk event:** likelihood a risk event will occur.

The Standard Risk Model is the preferred technique to model project risks.



Source: Adapted from Fastrak Training Inc. training material. Used with permission. ©1996

- **Impact (of a risk):** consequence or potential loss that might result from risk event.
- **Impact driver:** something within project environment leading one to believe a particular impact could occur.
- **Probability of impact:** likelihood impact will occur, given that risk event occurs.
- **Total loss:** magnitude of actual loss value accrued when a risk event occurs.

The Standard Risk Model shows how changing the drivers of a risk event can lower the probability, and changing the impact drivers can mitigate the total loss. It also shows a cause-and-effect relationship: Effectively managing or removing the risk event can change or prevent the impact and thus the total loss.

Make sure you use very specific information when developing the drivers that are critical to risk resolution planning. Broad generalizations in drivers makes risk management difficult. ■

OVERVIEW OF RISK MANAGEMENT PROCESS

Managing risk is a five-step process. Even if you streamline or modify the process for your own needs, you will still need to go through these five steps. ■

Step 1: Identifying Risks and Impacts

The first step is to identify risks. Instead of a separate step, planning risk management should be a natural part of project planning.

The identification process involves a brainstorming session run by a skilled, independent facilitator. Gather in a large room with plenty of wall space, paper, mark-

(continued on page 4)

Step 1: Identifying Risks and Impacts

(continued from page 3)

ers and sticky notes. You should also have the business case for the project, product requirements or specifications, and any project-specific plans such as budgets, markets served and supply-chain partners.

Prepare a spreadsheet to log and track risks as you move through the five steps. It should include the following information, which will be filled in and tracked throughout the process: **risk identifier, risk owner, risk event, risk event driver(s), probability of risk event, impact, impact driver(s), probability of impact, total loss, risk likelihood, expected loss and priority.**

Include a diversity of opinions among team members, not just the engineers who will be designing your product. Representatives from sales, marketing, sourcing, production, quality and finance should also be involved in the brainstorming session. In addition to understanding your product development process, these people must understand the definition of risk and the components of the Standard Risk Model, so that they know to identify risks rather than issues. Each person must also understand the scope, features and novelties of both the project and the product before brainstorming begins.

Walk Through the Schedule

Get your group thinking creatively with some warm-up exercises that do not refer specifically to the project at hand. Then start identifying risks using whichever system works best for your organization over time. One effective way is to **use the project schedule as a catalyst**. Prepare a wall-sized version of the schedule that includes all departments, suppliers and partners involved and their respective steps in the process. Walk through the schedule constantly asking, "What could go wrong at this point in the project that would prevent us from achieving project success?" If everyone writes their risks on sticky notes and sticks them to the schedule you will not only see where the problems are, but where many risks pile up at one spot. Take all the sticky notes with risks and enter them in the database.

There are other ways to assess risks. The **development process-based method** is similar to the schedule-based system, but it uses a graphic depiction of the company's product development process on the wall, instead of the schedule. Because this is not specific to the project, it is important to be very explicit about the risks and their drivers through the process. For the **success-thwarting based method** have the team list five to seven characteristics that would describe success for the project, and then ask them what could go wrong to prevent these success outcomes. Be sure to assess the project from all angles. The **prompt-list based method** requires looking at past projects and determining the areas where you made repeated mistakes. Then develop a prompt-list of possible risks to consider at the beginning of every project.

The facilitator should fully understand the risk management process, and must be able to navigate between people who detect no problems, and those who see them at every turn. It is also important to thwart the firefighters. The facilitator needs to correct these unproductive trends. ■

For a list of questions that will help you identify risks, go to: http://my.summary.com

Step 2: Analyzing Risks

Most people end up with a long list of potential risks and then forget them, moving on to the "real work" of getting the project done. Then they are inevitably faced with risks they have already identified. The next step is to decide which risks are significant enough to manage actively. Ask the team to consider the following issues for each risk:

- Why do you believe the risk event and its impact will occur?
- What is the total loss if the risk event occurs?
- Why do you believe the total loss will be that amount?
- What are the subjective probabilities for the risk event and its impact?

It is important to understand the facts underlying a risk or you will be burdened with baseless risks and waste your time.

Establish the facts behind the risk drivers. A **risk driver** is something existing in the project environment that leads you to believe a particular risk event or impact could occur. The facts are the key to managing project risk successfully. A risk is that a prototype will be delivered late; the **fact** is that the prototype shop is overloaded due to an upcoming trade show. Do not try to manage a risk without understanding the facts that cause it.

Document Each Risk

Start your risk analysis workshop with the same facilitator and have each risk documented on the spreadsheet including **risk identifier, risk owner, risk event** and **impact**. The workshop will allow the team to understand which risks are real and what their consequences could be. The facilitator will ask questions to uncover all possible sources of risk events and impact drivers.

Develop risk event drivers by finding out why the originator of the risk event thought it was important.

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Step 2: Analyzing Risks

(continued from page 4)

Rely only on facts. If people can only provide opinions based on assumptions, consider the same risk event with different drivers. Enter true, factual risk event drivers into the spreadsheet. Next, **develop impact drivers**. They should answer which project facts make the impact more or less likely to occur and which project facts establish the magnitude of the total loss. The impact is the possible consequence if the risk event occurred.

Next, **quantify the total loss** — what would be the total amount lost if a risk event occurs. The total loss is measured in time or money. For instance an impact might be that "the delivery date will slip by 15 workdays." The total loss is 15 workdays. Be consistent with the loss unit through the entire process. If people find themselves disagreeing about the value of the total loss is it likely that you have not developed good impact drivers.

Since total loss will be used to prioritize risk, if you absolutely cannot determine a total loss for a risk on the critical path of your project, you must red flag that risk for special management. But this should be a rare occurrence. It is possible to use qualitative or quantitative measures to determine total loss, but most people can relate to time, so workdays are an effective measure. Qualitative measures will be hard to track and calibrate over the whole process.

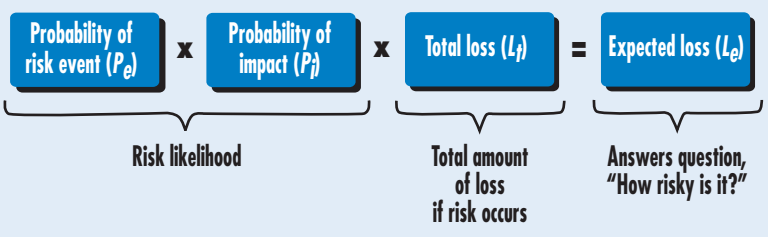
Calculate The Risk

With the total-loss figures, it is time to estimate the risk more precisely than noting that a project seems "risky." Begin by calculating the **risk likelihood** by multiplying the probability of the risk event and the probability of its impact.

It is not necessary to be precise with probabilities. Make educated guesses. Assign a probability, usually subjective, to the risk event and to the impact of each risk. Remember that the probabilities refer to the risk event drivers and impacts, not the risk events. If a risk event driver has a 100 percent probability of happening, it is not a risk; it is an issue that needs immediate attention. Allow 100 percent probability for impacts, because it is completely possible for an impact to be a certainty.

Once you have your risk likelihood, calculate your expected loss for each risk by multiplying the risk likelihood by the total loss. This is the average loss you can expect from the risk (see below). ■

Factors entering into calculating expected loss, which is the prime criterion for prioritizing risks.



For sample questions to discover risk event and impact drivers, go to: http://my.summary.com

Step 3: Prioritizing and Mapping Risks

By prioritizing risks, you will impose order on the long list of risks, and will plan to address only those that pose the greatest threat to the project's goals.

You have already determined the expected loss for each risk, which is a measure of the overall severity. You can rank the expected loss values on the spreadsheet; keeping in mind that the risk data you developed was subjective. If you used different units for the expected loss, you will have to compensate for that in the spreadsheet. Some catastrophic risks might be considered higher priority. The team will then work together to prioritize which risks should be actively managed.

After sorting risks by expected loss, develop a risk map. A risk map is a graph that plots risks using total loss on the x-axis and risk likelihood (probability of risk event times probability of impact) on the y-axis. Then draw the curve threshold line of constant expected loss that divides the risks you will manage actively from those that will not be managed. If you quantified all risks on a single scale, the line can be plotted from the following formula where Le is chosen level of expected loss and Lt is total loss: **P = Pe x Pi =Le/Lt.** If you use qualitative measures, you will have to calculate different thresholds and draw an average.

Tolerance and Threshold

Place the threshold line on the graph with respect to your tolerance for risk. A higher tolerance for loss should move your line higher up, and you will have fewer risks above it to manage. The curve's location should take into account the trade-off between managing too few risks which could open the door for downstream surprises and managing too many, which will consume project resources.

You will manage the risks above the threshold, except in two cases. You may choose not to manage low-loss risks with relatively small impacts and you may choose to manage catastrophic risks that have likelihoods placing them below the threshold line. Designate which risks are **active** and **inactive** on the spreadsheet.

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Step 3: Prioritizing and Mapping Risks

(continued from page 5)

Now sort the spreadsheet by risk status (active or inactive) and then by expected loss. The inactive risks will simply be monitored with the implied acceptance that there will be some unmanaged risk events. However, you are managing actively the risks that could do the most harm to the project.

Using your sorted risk list and your risk map, you and your team should now determine a priority ranking, which will be listed in the spreadsheet. The number you can manage effectively is likely around 10.

The final step in prioritizing is to communicate the prioritized list to alleviate discomfort over the fact that you are leaving recognized risks unmanaged. Ensure that everyone connected with the project understands the team's decisions and why they were made. The best way to do this is with a risk management review including the project managers and design team. ■

For a risk map showing risks under active management, go to: http://my.summary.com

Step 4: Planning Resolution

With a top-10 list of your most critical risks, you are ready to formulate action plans to deal with each active risk, reducing the probability of the risk event and reducing its damage if it does occur. Action plans are designed to change the risk drivers to the point that they no longer drive the likelihood of the risks. Risk management is about dealing with risk drivers, not risks. These action plans become tasks within the overall project and are just as important as other project tasks.

When resolving risks you can develop an action plan, take no action — accepting the risk — or defer action until you have more information. If you defer, you should assign a deadline to make a plan, so it does not become taking no action.

Making an action plan is usually a cyclical process of forming plans and assessing them based on criteria such as effectiveness, implementation time, or political expediency. You will probably develop one plan and a contingency for each risk, but you might not even find a plan whose benefits exceed their cost. Then you have to accept the risk. If you accept a risk, you should establish a reserve of money or schedule slack equal to the residual expected loss.

Assign Task Owners

The facilitator should assign a risk owner for each risk, who will develop the action plan, often with a subteam. This team will likely take one of four steps to manage the risk:

1. Avoid the risk by reversing the decision that caused the risk, without becoming risk averse. Sometimes risks are unnecessary because they provide no benefit, so the decision to take them can be reversed.

2. Transfer the risk to another entity. This often happens when a team realizes it does not have the expertise to reach a deadline, so it transfers the project and the risk to someone with more experience.

3. Provide redundant paths to increase the likelihood of success. These are essentially backup plans in case the first plans don't work.

4. Mitigate the risk by developing prevention and contingency plans to make it less severe.

Mitigation

Mitigation is the mainstay of effective risk management. It directly counters the effects of risk events and impact drivers, and is usually quite obvious if high-quality drivers have been articulated.

Mitigation actions should define trigger points that start preparations and actions.The trigger points are key and can be dates, project milestones or conditions. They signal to everyone that an action is about to commence.

Mitigation actions include **prevention plans**, which decrease the probability of the risk event and the expected loss; **contingency plans**, which act on impact drivers to reduce the probability of the impact; and **reserves**, which guard against risks with unknown magnitude and perhaps even unknown existence. Setting reserve levels is hard, but history should be a good determinant.

Remember as you proceed with action planning that you will be spending resources, financial or human, to prevent or deal with risk. This is the point where you should explicitly analyze the balance between implementing and executing prevention and contingency and the benefits received. ■

For the criteria that mitigation actions should meet, go to: http://my.summary.com

Step 5: Monitoring Project Risks

This last step of the risk management process is ensuring that action plans are progressing properly, that successful plans are retired, and that any significant new or growing risks are taken under management. Here is where many organizations fail and let the whole process fall apart. In this step you will add two more risk status designations to active and inactive: **issue** and **closed**.

(continued on page 7)

Step 5: Monitoring Project Risks

(continued from page 6)

Risk status changes to issue when the risk event happens despite prevention plans. Issue management is implementation of contingency plans to mitigate total loss. Risk status is closed when the risk event has been prevented and the time has passed when it can occur or when it has become an issue and been managed with a contingency plan.

Throughout this project, the spreadsheet you began with will be very helpful to track risks and their changing status. The spreadsheet should include two summary worksheets: one to show the top-10 list of risks, another to show a "risk dashboard" of tactical metrics to track progress through the project. There should be one worksheet for each active risk and its action plan and one worksheet for each inactive risk without an action plan.

You can also use a Web-based tool to make it easier for team members to track. You should be able to look at the inactive risks and determine whether they need to be activated.

All action plans and contingency plans should be monitored by reporting on activity and status, and by keeping an overall map of progress. Do not allow this process to be ignored. Quantify progress by the change in the drivers and how they affect the risk's possibilities.

You should also consider when plans should be closed, because risk management costs resources. There is no point in continuing the plans beyond when they are necessary. If a prevention plan has eliminated the possibility of risk, then you can close the contingency. If you close a prevention plan that has reduced but not eliminated the risk, you must decide whether to keep the contingency plan.

Watch Out for New Risks

Always be on the lookout for new risks, especially if there are changes in the product requirements or specifications. These new risks often extend beyond the apparent change to disrupt completed parts of the project.

When the team discovers a new potential risk, it should be entered in the original spreadsheet, and a small group should use a condensed version of the process to determine whether it should be actively managed. Once you have discovered a new risk or decided that an inactive risk should become active, implement a new action plan by assigning a small team to deal with it, fit the plans into your task structure, and obtain additional resources.

Communication will be key in this step. Emphasize all elements of communication — sender, message, receiver and feedback — to ensure effective risk communications. Do not let all communication be about crisis situations. Communicate about preparing for the future and averted risks. The project manager should use meeting minutes, risk-tracking spreadsheet and the risk map as the primary communication tools.

Risk Management Metrics

Use metrics responsibly. They should not encourage distrust and cynicism. Collect them openly, share the results, discuss the implications, and take action on the findings. Once you start sharing metrics, people will naturally change their behavior to improve their numbers. Think about metrics carefully so they cannot be manipulated for individuals' personal objectives.

There are two types of metrics you should use: **strategic** and **tactical**. Strategy metrics detect long term changes and ensure improvements are not forgotten. They are also useful for measuring schedule and budget performance relative to plan. Use more specific metrics such as risks identified and averted due to risk management and risks that went unidentified but later occurred.

Tactical metrics are used throughout the project to track active and inactive risks and the losses accumulating from them. Only use a few and keep them on a risk management dashboard so they are easy to comprehend. ■

For specific examples of tactical risks to keep on a "risk dashboard," go to: http://my.summary.com

Risk Management Toolkit

As you move through the process of risk management, there are many tools that may help support the process.

Sticky density is useful for pinpointing risky areas in a process, project or organization. It was introduced in the risk identification workshop and can be used to find risks or to determine root causes. Using a large diagram of the process, have people write their issues on a sticky and put them on the model. The areas with the highest sticky density are areas for concern and focus.

Spreadsheets can be used in countless ways to organize, analyze and present your project risk data. In addition to tracking the entire risk management process, having all of the information in a spreadsheet allows you to make charts and graphs easily.

Decision analysis helps clarify situations involving uncertainty. Using a standard decision tree, you can think through a situation and break it down into various decisions and probabilities to determine which choice to make. Decision analysis is useful when:

- It is easier to estimate components than the composite.
- There is uncertainty, confusion or disagreement regarding underlying structure or options.

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Risk Management Toolkit

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- Consequences of an error in assessment could be catastrophic.
- You need another way to approach a situation when you have reached an impasse.
- You suspect you are not considering everything or have a bias.

Risk simulation allows you to see the overall effects of multiple risks. Instead of developing a total loss value with a single probability, risk simulation tools allow you to use probability curves for individual tasks. Commercially available computer programs pick numbers at random within your probability curves and plug them into all of the probabilities of risk you have created. After multiple simulations you will receive a representative picture of the many possible outcomes.

A **design structure matrix** (DSM) helps unravel the iterative processes that occur in product development where you don't have information until after you need it. It analyzes a sequence of project activities to manage the not-yet-available information. DSM helps you reduce iteration to a minimum. ■

Risk Management Approaches And Strategies

In order to implement the process, your company may need to make certain changes in attitude and behavior.

Learn to **avoid risk** when it is unnecessary. For example, have management encourage and reward designers who use standard parts or reuse successful part designs in new products to reduce design risk. **Plan on redundancy** or parallel design efforts if you can narrow a risk down to two possible solutions, but cannot make a decision. Obviously this is an expensive option to be used rarely, but keep both options open so that you do not make a wrong decision.

Maintain contact with customers to find out what they need before designing a product and during development. Either send design engineers into the field or use your customer service staff to gain this knowledge.

Though human nature is to begin with the easiest when faced with an assortment of tasks, **tackle the highest-risk items first**. These are the ones that will most likely derail your project, so if they cannot be solved, cancel the project before wasting resources on the easy issues. Also, try to **concentrate risk** in a few known areas where they can be watched carefully by your best developers. Spreading risk out over different steps or modules of a plan increases the overall chance that you will not achieve your final goal.

Test at the lowest possible level. Test components and subsystems to answer questions that arise from your risk action plans. Do not wait until the end of the project to find out if something works. And finally, **use failure to your advantage** by using product development as a learning process. Do not be afraid of failures along the way, because you will most likely learn something from them to improve this project or the next one. ■

Successful Implementation

Do not expect to implement this process with one project and have it spread to the rest of the company. Proactive risk management will only take root if team members and management change their behavior.

If you are serious about implementing risk management, you must fit it into your entire project management process. A risk management workshop should occur some time during the project initiation phase, and continued management should be integral to all project phases and be treated just as seriously as project scope, budgeting, scheduling and resource allocation.

You will also need to provide data management tools for tracking the substantial amount of data as you move through the process. The tools should be uniform and consistent to make implementation easy. ■

For an implementation case study, go to: http://my.summary.com

Implementation Guidelines

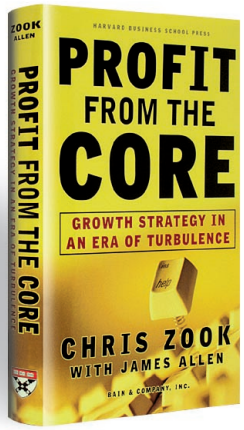
- Train your people to use terms consistently, since everyone's perception of risk is different.
- Make risk a concern of management by training them to understand and interpret the prioritized risk list, the risk map and the risk dashboard.
- Take potential problems seriously, instead of only focusing on active problems.
- Risk management requires honesty.
- Do not let engineers run project risk management. Good risk management is cross-functional.
- Collect and publicize risk metrics.
- Jump right in while all of these techniques are fresh in your mind.
- Project risk management is not a cure-all, though it can make improvements in your projects' predictability.
- Consider risk as an opportunity for gain as well as a potential for loss.

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Profit from the Core

Chris Zook

SOUNDVIEW Executive Book Summaries®



Growth Strategy in an Era of Turbulence

PROFIT FROM THE CORE

By Chris Zook with James Allen

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THE SUMMARY IN BRIEF

Have you managed to grow your business profitably recently, but find yourself running out of obvious paths to more profitable growth? Do you feel pressured to initiate business activity in the Internet economy, but find yourself worried about choosing the right activity to target, while also minimizing distraction from your core business? Do you feel your core business has untapped profit growth potential, but you're not sure where it is? Or is your industry changing in such a way that it might soon be time to redefine your business model to address new environmental areas and strategies?

If you answered "yes" to any or all of the questions above, you are not alone. An extensive 10-year Bain & Company study of more than 2,000 technology, service and product companies in a variety of industries yielded the following findings:

✓ **Many businesses fail to deliver value to customers and shareholders,** not because they're afraid to try new strategies, but often because they wander too far from their core businesses, where the bulk of their strengths lie.

✓ **Diversification from the core can actually destroy the value your company promises** and severely limit the amount and breadth of profitable growth possible.

In *Profit from the Core,* authors Chris Zook, head of Bain & Company's strategic management practice, and James Allen identify three essential factors that differentiate successful growth strategies from those that do not succeed:

1. You must make sure you are reaching your full potential in your core business or businesses.

2. Once your potential in your core is reached, you must then expand into logical adjacent businesses surrounding your core.

3. You must preemptively redefine your core business in response to the first signs of market turbulence.

Are you fully leveraging the strengths of your core business? This summary will show you how.

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Desperately Seeking Growth

The most important issue faced by those in management is how to grow their companies. Even in times of economic strength, the odds against winning the growth game are considerable, and getting worse, for a number of reasons:

● **The value shareholders assign to companies — representing an average of 26 times their earnings — demands that companies grow at a rate three to four times that of the GDP.**

● **Investors are giving company management teams less time than ever to prove themselves.** Many investors shift in and out of stocks at five times the rate they did a few decades ago, demanding not only growth, but growth each and every quarter.

● **Analysis shows that 90 percent or more of management teams fail to grow their companies profitably.** With investor expectations so high, this fact is particularly troublesome.

Additional circumstances have made it difficult for management teams to put players on the field and keep them in the game:

● **Management has been hit with defections of the best and brightest in its talent pool —** a situation that, coupled with the increasing difficulties in attracting and retaining new talent, makes for extreme instability at the highest working levels of a company. The average tenure for someone in the information technology sector is now 13 months.

● **The people who coach those managers —** including CEOs and other executives — are remaining in a given job for only one-third the time they did as recently as a decade ago.

● **The rules of the business game are constantly shifting.** Turbulence in industries has increased by a factor of four, sparking a demand for new ideas for growth.

Many companies simply give up. If their current products or business approach do not result in the extraordinary growth their shareholders expect from them, they cut and run, abandoning their core businesses for the "promised land" of a new approach. While this is a dramatic move, certain to gain them attention, companies often do not find that such movement solves their problems. Indeed, it could even aggravate the underlying causes of inadequate profitable growth.

The Secret of Growth: Your Core Business

The foundation of sustained, profitable growth is a clear definition of a company's core business. A business can be defined from two related perspectives:

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Straying from the Core: The Bausch and Lomb Story

Strong core businesses lose momentum when abandoned prematurely, or when companies overreach in search of new growth. Take Bausch and Lomb. Throughout the mid-1980s, the ophthalmic giant developed and executed a brilliant strategy, leveraging its hold on the technology that created soft contact lenses to grab a 40 percent market share of new lens fittings.

Competitors began attacking its position with newer technologies. Bausch and Lomb responded by diverting its attention from its core business, spending its cash flow from its lens and solutions business in new areas, such as electric toothbrushes, skin ointments and hearing aids. It developed no obvious linkage between those endeavors and its core lens business, and watched that lens business flatten out as a result. When the next wave of lens technology (disposable lenses) arrived, Bausch and Lomb's market share had declined to 16 percent.

Bausch and Lomb has since tried to recover its position, divesting from those new areas, and switching focus and management teams; one can't help but think that it didn't have to come to this.

The authors: Christopher Zook is a director of Bain & Company and head of its Worldwide Strategy Practice. James Allen is CEO of eVolution Global Partners, a venture capital firm that helps launch new, internet-enabled businesses.

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Desperately Seeking Growth

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● *Outside-in,* or from the point of view of the outside world, with natural business boundaries defined by underlying market economics;

● *Inside-out,* or from the point of view of those inside the company, with the company's business boundaries defined by its unique core.

To identify your core business, start by identifying the following assets:

- **Your most potentially profitable franchise customers.**
- **Your most differentiated and strategic capabilities.**
- **Your most critical product offerings.**
- **Your most important channels.**
- **Any other critical strategic assets that contribute to the above (patents, brand name, etc.).**

For some companies, defining the core business is not overly difficult; for others, it is extremely so. In either case, it is important to have the clearest definition possible. For the purposes of the discussions in this summary, core business is defined as that set of products, capabilities, customers, channels and geographies that defines the essence of what the company is or aspires to *in order to grow its revenue in a sustained, profitable fashion.*

To that end, the authors identify three basic issues management must face in seeking profit from core businesses:

1. **Build market power and influence in the core business, or in a segment of that business.**
2. **Having done that, expand into logical and reinforcing adjacencies around the core.**
3. **Shift or redefine the core in response to industry turbulence.** ■

Build Market Power and Influence in the Core Business

Achieving sustained and profitable growth is extremely difficult without having at least one strong and differentiated core business on which to build. The most enduring growth pattern is that of the strong, or dominant, core business that benefits from continual reinvestment, constant adaptation to circumstances or business environment, and persistent leveraging into new markets or geographies, applications or channels.

Three Steps to Leveraging Your Profitable Core

To develop, refine or reexamine your company's growth strategy based on a dominant core business, you must take the following three crucial steps:

(continued on page 4)

The Power of Focus

Companies that have a few, highly focused core businesses are more likely to exhibit sustained growth than companies that are diversified and more unfocused in their building of growth platforms. Ample evidence supports this viewpoint:

● **Most companies that sustain value creation possess only one or two strong cores.** A tightly focused, sustained value-creating company will usually pull ahead of a rival embedded in a diversified company with no clear purpose or core. Anheuser-Busch leads in the beer business over Miller, which is part of a packaging foods conglomerate. Nokia leads the cellular phone business over rivals like Motorola and Ericsson, both companies with many separate parts.

● **Private equity companies often achieve their greatest success by buying orphan businesses from diffuse conglomerates, thereby creating focus.** Many of the most successful leveraged buyouts stem from strategically undermanaged, noncore businesses (with profitable cores at their centers) that are purchased and revived by new owners who allow those companies to become freestanding businesses.

● **Spin-offs usually create both focus and value.** Before PepsiCo spun off its $14 billion restaurant business (which consisted of Taco Bell, Pizza Hut and Kentucky Fried Chicken), that business' deviation from the company's soft drink core was seen as an anchor, keeping Pepsi from mounting a firm challenge to the more focused Coke — and keeping the restaurant business from challenging McDonald's supremacy in the fast food market. Since the spin-off, both Pepsi and the restaurant business (re-christened Tricon Global Restaurants) have done well.

● **Diversified companies have lower average valuations than companies with focused cores.** Studies on diversification bear this out. One study of the top 100 U.S. companies from 1981 through 1987 showed that 65 percent of acquisitions were related to the core business, while 58 percent of divestitures were unrelated to the core. The study also found that a company's market value rises nearly 2 percent the day it announces it is refocusing.

● **The few companies that became smaller and still created value are those that restructured to focus on a strong core.** Guinness, the famed Irish brewery, had entered into more than 250 non-core businesses and watched its core business — its Stout beer — erode in market share. Once it sold 150 of those businesses, moving operations back toward its core, its stock increased in value more than 10,000 times in eight years.

Build Market Power and Influence in the Core Business

(continued from page 3)

1. Define your business boundaries and your core businesses.
2. Differentiate for unique power and influence.
3. Seek the full potential value of a strong core.

Step 1: Define Business Boundaries and Core Businesses

Clearly defining the *boundaries* and the *core* of your business is a critical starting point for growth strategy.

Without a clear point of view about business boundaries, it is difficult to determine competitive position, the relative importance of differently positioned competitors, or the relative strategic importance of different growth opportunities. For example, is Marvel Enterprises, the creator of Spiderman and other characters, in the comic book business, the superhero character business, the animation business, or the children's entertainment business? The answer has major implications for the management of the company's main properties — its characters. (Disney, for example, chose long ago to define entertainment as its core business.)

Mapping out the territory of your business has become more complicated by an increased blurring of business boundaries, due to several key factors:

- **outsourcing and the disintegration of key value chains;**
- **increased customer microsegmentation and new, more narrowly focused competitors;**
- **increased competition among different business models, rather than merely among versions of the same one;**
- **globalization's blurring of geographic boundaries;**
- **increasingly sophisticated supply chain strategies causing competition among supply chains as much as among companies.**

Defining the boundaries of your core business (that set of products, customer segments and technologies with which you can build competitive advantage) is as much a matter of making sound business judgments as of applying formulas or doing calculations. You must have a clear understanding of your core *customers* and *products* that are expected to yield a majority of your profits. You must also have an understanding of the segments of your market that radiate out from your core — each must be understood and prioritized.

Gateway, for example, might define its inner core business as the sale of PCs to consumers. PCs sold to businesses is not part of its core.

Not all noncore business areas should be treated the same. You should monitor gray areas — noncore business areas that are potentially core business areas — considering key issues, such as:

- **whether you need to expand your business definition to include a new segment or technology;**
- **how competitive dynamics in the gray areas are likely to affect the profit pool in your core business;**
- **whether there are gray area competitors that may make incursions into your core customers;**
- **whether there are capabilities or skills you must bring in-house to anticipate the dynamics adjacent to your core;**
- **whether there are alliances you can form to insulate and stabilize your core position.**

Step 2: Differentiate for Unique Market Power and Influence

You must identify and verify the sources of differenti-

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Business Definition: Survival Hinges on Subtleties

The need for a strong core business to support a growth strategy requires defining both what a business is and what it is not. Consider the following growth strategy decisions that hinge on subtle, and not always simple, issues of business definition:

✓ Is Coca-Cola in the cola business, the soft drink business, the beverage business, or some other business? The company appears to have defined its business success as share of liquid consumed, not share of cola. This definition has enlarged Coke's sense of its full potential and emboldened its investment strategy ("I'd like to buy the world a Coke").

✓ Does Amazon.com's business definition logically include just books and information, or does it extend into hard goods, consumer e-retail, or some other arena? Time will tell. Through its expansion into more generic Web retail categories, the company is betting its future on a more broad (and, consequently, more controversial) definition. One hopes Amazon's executives were careful in their business definition prior to their expansion.

✓ What must CBS do to strengthen its once dominant core? Should it focus on content production; extend the core by creating and controlling the largest number of cable channels; reinvigorate CBS News to compete more vigorously with CNN (as NBC has tried to do with CNBC and MSNBC); or try some other, completely different approach?

Build Market Power and Influence in the Core Business

(continued from page 4)

ation that will continue to create market power and influence over your customers, competitors, and industry profit pool. There are four basic ways that companies acquire market power and influence in a competitive arena in a core business:

● **Customer Loyalty.** The most robust form of market power derives from building a unique, high and structurally stable level of loyalty in a well-defined customer segment. Retention is key; by effecting a permanent, one-time increase in retention, a growing company can magnify its rate of growth by 5 to 10 percent.

USAA is the most stellar example of this strategy in action. The insurer of choice for many current and former military service personnel, the company has a higher than 98 percent retention rate, and sells 4.5 separate products to each of its customers. The company tracks its customers through 23 life stages, carefully choreographing its marketing and sales programs around these events.

● **Channel Dominance.** Establishing leadership in a new or existing channel of product or service distribution is the second most common model of building market power and influence, sometimes from a position of "followership." Online sales is a good example of how the Internet is providing many companies with the potential in their industries to enter and gain power and influence through the new, online channel. But there are literally hundreds of examples of new online consumer and industrial models for capturing the online channel for a number of other business activities, from the flow of goods ordered remotely (such as Amazon), to the flow of information over the Internet (such as Yahoo), to the flow of money or securities (such as Intuit).

● **Product Development Differentiation.** The power of differentiation through superior product development is the rarest form of market power and influence; fewer than 5 percent of companies polled rely on this method. However, those companies that do build superior product development engines are often able to enter new markets— dominated by incumbents — and to gain market share profitably.

A great example of success in this effort is Sony, which has built enormous growth (13.9 percent annual revenue increases and a whopping 48.9 percent annual profit increase) by leveraging a stream of innovative products. From the pocket radio to the Trinitron television to its home video game line, Sony routinely prototypes new products more quickly and gets them to market faster than any of its competitors.

● **Capturing Capital.** A final and dramatic way to capture market power and influence is through establishing such a high market value, independent of market share and the profit pool, that massive investment and even acquisition are possible. It is ultimately by deploying this "found" capital that companies establish market power and influence, even if they are initially a challenger or first mover.

For example, Critical Path and Mail.com are both providers of messaging and e-mail services; the former has a value of $3.2 billion, versus the latter's $730 million. If Critical Path takes advantage of this difference in value quickly, it can propel itself to a much larger industry role through acquisition.

Step 3: Seek the Full Potential Value of a Strong Core

Many companies have, or once had, the right ingredients to sustain long-term value creation in their core business. They failed, however, to recognize the potential of their profitable core, causing them to under-invest or to set performance targets too low. Indeed, companies consistently seem to have a built-in bias toward underestimating three dimensions of the core:

● **Returns on Investment.** How much should your business be earning? Where should you set profit and ROI targets for management? These are critical questions that executives must answer every year. Many, however, get the answers wrong by failing to recognize both the full potential of their core business and the potential for

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Dell Establishes Channel Leadership

In order to become the "growth stock of the decade" (in the words of the *Wall Street Journal*), Dell Computer Company used channel leadership to establish its market power and world leadership in PCs and workstations. Although computer parts, even assembled computers, had been available as mail order items for years, no one else saw the potential for selling direct, rather than through layers of value-added resellers, distributors and retail middlemen. Such an approach resulted in lower cost (due to lower overhead), lower pipeline inventory, and a channel tailored directly to the needs of each customer segment.

Today, 35 percent of computers are sold direct. While other computer companies, such as Compaq, have tried to emulate the Dell direct sales model, none have been as successful as Dell in meeting customer needs and increasing profitability.

Build Market Power and Influence in the Core Business

(continued from page 5)

increasing ROI in their core businesses' market position.

● **Reinvestment Rates.** Reinvestment rates can be calculated as the sum of capital expenditures, research and development and advertising relative to sales. How do your reinvestment rates compare to the reinvestment rates of your competitors? Relative reinvestment rates tend to be poorly tracked and analyzed, yet those rates embody a great deal of information about an industry's competitive dynamics and future. Planning a strategy without collecting and interpreting competitor reinvestment rates is like forecasting the weather without looking at wind speed or temperature.

● **Adjacent Profit Pools.** Think of a profitable core business as situated in the center of a complex network that connects direct suppliers, suppliers' suppliers, direct customers, customers' customers, complementary products, substitute products, competitors, and so. At the end of these economic connections will be, in most cases, a pool of economic surplus and profit. The extent to which a company possesses the power of leadership in its core business influences the degree to which it can shape or even share in the profit and surplus pools adjacent to its own core business. One example: Microsoft's controversial influence on Internet browsers — a business adjacent to its core software business.

In sum, you must comb through the core and assess whether it is operating at or near its full economic potential. There is a paradox at work here, however. Typically, the strongest core businesses are — relative to their full potential — under-performing the most. ■

Expand into Logical Adjacencies

Adjacency Expansion refers to a company's move into related segments or businesses that build on and reinforce the strength of the core.

The tension between focusing on the core and setting out for new territory (even related to the core) can be considerable. If you fail to anchor your efforts in your core and rapidly expand in spite of this fact — or to compensate for it — you run the risk of creating a business without lasting value. Indeed, the selection of new business adjacencies around the core business could either trigger a new burst of profitable growth, or create distraction and stagnation.

In order to make the correct decisions where adjacency expansion is concerned, you must take into account three topics critical to improving the odds of profitable, sustainable growth: identifying adjacent business opportunities, choosing the correct adjacencies for your business, and avoiding common pitfalls of adjacency expansion.

Identifying Adjacency Opportunities

The most common adjacencies to a core business include the following:

● **Interlocking customer and product adjacencies.** Perhaps the most common adjacency expansion is moving into new customer and product segments, using each move to reinforce the next. It involves constantly adapting a product to enter a new customer segment and drawing on the knowledge gained about that customer segment to develop new product ideas (which can, in turn, be applied to other segments).

DeBeers is an example of a company that engaged in just such an adjacency, using its marketing prowess to make diamond engagement rings a cultural imperative in Japan. When it began its campaign in 1966, the diamond engagement ring acquisition rate for all Japanese brides was six percent; by 1998, that rate had grown to 65 percent.

● **Share-of-wallet adjacencies.** By capturing most of the purchases your core customers make and then expanding their menu for purchases, you can forge a bond with your customers that increases their loyalty.

The Walt Disney Company first exhibited its skill at finding product adjacencies surrounding its core in 1929, with the introduction of the Mickey Mouse writing tablets. The success of that endeavor led eventually to the wider cross-promotion of Disney movies and characters that included Mickey Mouse Watches, the Mickey Mouse Club television show, and even Disneyland and Walt Disney World.

● **Capability adjacencies.** Capability adjacencies are moves outward from the core that are based on deep organizational know-how, grounded in either technology, business process or value management. A good example of a company with technology-grounded capability adjacencies is Reuters, the news agency that started when its founder first used carrier pigeons to fly stock prices between locations in the mid-1800s. Since then (particularly since going public in 1984), the company has grown in spurts by being quick to adopt new technologies for transmitting timely news and financial information — from cable to telephone to the Internet.

Choosing the Right Adjacencies

Management teams can quickly find themselves awash in interesting and potentially attractive options for adjacency investment. Before you spend resources undertaking a major data collection effort, step back and apply your strategic judgment and working knowledge of your

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Expand into Logical Adjacencies

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business to answer the following questions:

1. **Does this adjacency strengthen or reinforce the core (or a core, if you have multiple cores)?**
2. **Does this adjacency add value for our core customers?**
3. **Does this adjacency serve as insulation against potential competitors intent on attacking our core?**
4. **Is this adjacency positioned in the direction that the industry profit pool is likely to shift over time (growing segments, channels, needed capabilities)?**
5. **Do we have a chance of achieving leadership economics in this adjacency through outright leadership, a protected customer position, or shared economics with the original core?**
6. **Does this adjacency hedge against a major strategic uncertainty?**
7. **Does this adjacency lead to other successive moves that, in total, are essential to build or protect the core?**
8. **Does this adjacency move into the backyard of a new competitor?**
9. **Does failure to move into this adjacency turn out to render the core vulnerable several moves down the road? To what degree?**
10. **Have we fully mapped out all the competing adjacencies, or are we acting without fully calibrating our options?**

Once you've ranked and selected opportunities as a result of the answers you come up with, cluster the initiatives into distinct strategic scenarios. For example, one scenario can be built around a long list of initiatives for rejuvenating growth in a profitable but static business. A second set of scenarios can be centered on building mass and focus around several emerging customer segments. You'll likely have a whole lot of ideas come up as a result of these efforts — don't forget to narrow your focus, according to the particular needs and plans of your core business.

Avoiding Common Pitfalls

While investment in adjacencies is eventually necessary for any company to continue creating value, it is also one of the riskiest activities a company can undertake. Here are several pitfalls to avoid in your expansion efforts:

● **Expanding Toward an Entrenched Position.** Pursuing areas of a market in which you have relatively low odds of achieving leadership or building market power and influence can sap resources from the core and hamper growth in the rest of your business. To put it in military terms, armies that launch full frontal assaults on entrenched positions lose virtually 100 percent of the time.

● **Overestimating the Profit Pool**. The odds of achieving success are much greater when growth goes after an expanding and deep industry profit pool, rather than a shallow one. Since the profit pool is both a function of industry structure, as well as one of potential market size and customer value, it is essential to map out the current and forecasted profit pool prior to investing in an adjacency.

● **False Bundling.** Beware of companies that claim they want to be a "one-stop-shop" for customers' needs. Often, this all-things-to-all-people approach is a warn-

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Don't Undervalue Your Core by Overreaching

Determining which adjacencies to pursue and how much to invest in them relative to the core is one of the most difficult and seminal decisions your company will make in its quest for sustained growth. It is important to remember not to undervalue your core in pursuit of a far-reaching adjacency. Gillette, one of the great global brand names, made that mistake, and struggled to recover from it.

For its first 50 years, Gillette stayed close to its core, building a 70 percent market share and establishing a towering brand dominance in men's shaving products. The additions of new forms of shavers, shaving creams and women's shaving products — relatively minor upgrades of core products — have, in recent years, begotten more sweeping deviations, from the addition of Braun electrical appliances to the acquisition of other non-shaving product lines, such as Oral-B toothbrushes, Parker Pen writing instruments and Duracell batteries.

While some of these adjacency investments have worked out well for Gillette (Braun, in particular, has grown from $70 million in sales to $1.7 billion), most of the company's investments showed negative growth in sales and declining profits. Interestingly, razors and blades — the core focus of the business — were still Gillette's primary source of revenue and profitable growth nearly a century after the company's founding. Gillette has made big moves to divest itself of all but its core businesses and closest adjacencies, reacting to declining stock price by refocusing its resources on the business that helped it establish its dominance in the first place.

Expand into Logical Adjacencies

(continued from page 7)

ing sign of business boundaries that are too broad to be practical and that can lead to a dangerous overextension of resources. In addition, customers often don't *want* an all-in-one shop.

● **Invaders from Unexpected Fronts.** The discovery of new, uninhabited market territory frequently brings invaders from unexpected directions. Don't let your unfamiliarity with a competitive threat lead you to underestimate their strength, nature or angle of attack. ■

Redefine the Core in Response to Industry Turbulence

Industry turbulence is hitting more rapidly and powerfully than most managers have ever seen. Decision times are shortening, uncertainty is increasing, and the range of fundamental strategic choices is widening. Many of the changes faced by executives require partial or complete reconsideration of the fundamentals of their core business.

Companies should consider redefining their core in advance of industry transformations. There are five key threats to which you must pay close attention:

● **Erosion of Low-End Product Segments.** This turbulence starts with the disappearance of a low-end customer segment that was once deemed unprofitable. Often, a new technology with new, low-cost economics enters the market and makes those unprofitable customers suddenly profitable and interesting to a new start-up. Beware that simply ceding these customers to the new, low-end competitor might be akin to backing your business into a corner. Remember what happened when Merrill Lynch refused to take online trading seriously; e-traders like Charles Schwab erased years of market dominance in a short time.

● **Erosion of Customer Segments.** Sudden changes in customer defection rates spell trouble. Consumers in the automobile industry might indicate a 70 or 80 percent satisfaction rate for their current brand of vehicle, but more than half of them will switch brands the next time they buy a car. Defections or loyalty measures reflect actual consumer behavior, and stand as the true indicator of their satisfaction.

● **Erosion of Microsegments.** One of the most corrosive dangers for a company is the emergence of a new competitor that attacks under-served microsegments of a customer base with a superior and targeted model. This danger is difficult to detect and can signal a fundamental shift in the nature of competition. The erosion of audience from CBS News to CNN, for example, constitutes a microcosm of too-long-ignored opportunities unearthed by microsegmentation.

● **Erosion of Traditional Business Boundaries.** The most obvious and most often denied sign of change is the sudden erosion of traditional business boundaries, increasing exponentially the number of competitors vying for a space. Digital imagery, for example, continues to threaten Xerox in the market for reproduction.

● **New Intermediaries and New Control Points.** Some of the most profitable businesses over time have been those that were able to control a position within a larger system that others needed to use in some manner. Microsoft, for instance, exhibited an early, strangling dominance in the personal computer industry by virtue of the ubiquity of its proprietary DOS operating system.

When Is Redefinition Necessary?

Even though you arm yourself and your company with the knowledge of industry transformations, you still need a set of criteria against which to judge your need to redefine your core. Although no single formula can be applied to the complex issues involved, there are several litmus tests you can use for determining when serious consideration of redefinition may be in order. Among those tests are the following:

● Is a new competitor beginning to gain surprisingly rapid market share in a marginal segment of your business that you once controlled?

● Are steps in the value chain you once considered core now being unbundled and controlled by specialists?

● Are there fast-growing adjacent customer segments that you might once have been able to serve, but that you could not now target without adding a new capability?

● Are there potential legal or regulatory changes that could eviscerate your competitive position in the core, or your ability to compete for the next set of logical business adjacencies in your growth plan?

If you answered "yes" to two or more of the above questions, the odds are that you should seriously consider redefining your core. There are, of course, several caveats to consider when doing so:

● Do not redefine the core without a clear vision and set of strategic principles on which your management team agrees.

● Do not redefine the core without first establishing a common point of view on how turbulence might play out and what positioning in the marketplace provides the greatest competitive advantage.

● Explore the full range of structural options to balance the need for integration with the original core and for speed, which can be achieved with a separate entity.

● Over-invest in management capacity and management processes at the start of a redefinition. ■

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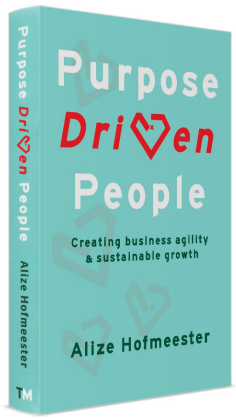
Purpose Driven People

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Purpose Driven People

Creating business agility and sustainable growth



by **Alize Hofmeester**

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THE SUMMARY IN BRIEF

Agility isn't a buzzword anymore. It's a tool that organizations of all sizes and types desperately need, but not all of them know how to achieve it. The key? Starting with purpose.

Many companies fail to treat their purpose like something that can be designed, but carefully designing your company's purpose will come to define everything that matters most about your organization—including financial success. Meanwhile, communication and leadership are essential at every level of your organization. Otherwise, employees become disengaged, leaders fail to lead, and your organization lacks direction and focus. This adds up to an organization that's anything but agile. In ***Purpose Driven People*** we learn that, in order to achieve that true agility, you must first identify the constraints standing in the way of your organization—even if those constraints are your own biases, weaknesses, or hangups.

IN THIS SUMMARY, YOU WILL LEARN:

- How focusing on purpose helps companies create sustainable growth.
- Why addressing barriers in the way of agility is essential to help your business reach its potential.
- How turning managers into role models can transform your company for the better.
- Why tools and systems should always be seen as means to an end, rather than the end itself.

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Meghan P. Kozak, Editor-in-Chief • Kylie Waytuck, Graphic Designer

Introduction

New technologies create new possibilities for all companies, whether they were founded today or a hundred years ago. Customers can order products when they want and get them faster than ever.

Companies that are tuned into what matters to their customers and employees are able to stay agile and hold the key to their own future. We're seeing companies emerge that provide products or services entirely in the digital space, and they focus entirely on the needs of their employees and customers.

The result? More success, more innovation, and happier people on both sides of the transaction. So what does that mean for us, as people and organizations who want to harness that power? It means we have to focus first on purpose, and let our businesses and organizations move forward from that vantage point.

Purpose

Automation is on the rise. Activities, tasks, and responsibilities are shifting. People either adapt to new roles, or they don't. Employees come and go. Customer and employee demands are changing. What do you actually know about the people who work in your organization?

The key is to move past surface-level questions about the people in your organization, and get down to the business of:

- Improving working relationships
- Defining an organizational, departmental, or team purpose
- Determining the influence of purpose on talent, jobs, roles, and agility
- Practical experiments and work methods for creating a purpose
- Design a Purpose in Four Steps

What exactly goes into formulating a purpose in actual practice, and is there a difference between formulating a purpose for your organization as a whole and formulating one for your team?

You can form a purpose in four steps, and they're the same for all levels of an organization. Regardless of whether you're working on a start-up, scale-up, major corporation, small business, department, or team, the steps are the same.

Step 1: Do research and collection as much information as possible.

Step 2: Create a storyline

Step 3: Test the storyline out on the target group

Step 4: Define the purpose

Communication & Awareness

As soon as an organization decides to communicate to its people that a change is needed, they start to think about the recipient of the message. Better yet, they start to think for the recipient. But how well do we know the recipient? Do we actually know the recipient's needs and how they will react? We often think we communicate clearly. But when we check in with employees afterwards, it turns out that everyone has interpreted the message differently or less than the whole message has come across.

Communication is the basis for creating awareness and interaction, which is why communication is the foundation of a self-organizing team.

Keep Communicating

When can we stop communicating? It is a frequently asked question. The question behind it is usually about when it is the right time to stop communicating about a transition. In today's complex world, you have to keep adapting and developing all the time. It is, therefore, not so easy to pinpoint when exactly a transition ends and the 'regular' work begins. In any case, it is true that transitioning organizations go through different phases, whereby each phase requires a different communication message.

The purpose doesn't change, but the path to get there does.

Identifying Constraints

Building agile organizations is like a game of Jenga. For years, we have built structure on top of structure. The larger the organization, the more extensive the job framework, the more complex the processes, the greater the number of separate departments and silos. When we change to more agile models, we basically break down those silos bit by bit. Will the tower stay upright or come tumbling down? It's vital to take constraints and barriers to progress seriously and understand what will happen if you don't. From structural

and visible constraints to invisible contractions, you need awareness of what stands in your way to enhanced agility.

What to Do with a Constraint

Eliminate constraints! While this is easier said than done, it is essentially the only thing you can do when you, as an organization or as a human being, want to achieve your goals and pursue your purpose.

In the previous paragraphs, you read how a constraint blocks progress and has a demotivating effect. It stops you and your organization from developing and making progress. The only remedy is to identify those constraints and do something about them.

Role Modelling

What do role models and leaders have in common? Are managers now all of a sudden leaders, or do we not need managers at all anymore? What exactly do those concepts mean? When are you a manager, and when are you a leader?

Our vision of leadership and what makes a leader has changed. As we head into the future of work, leadership takes on a different meaning. To succeed, we must all transform from managers to leaders, and from leaders into true role models. We must reduce the use of terms like 'manager' or 'superior,' instead focusing on the impact we have on the people around us and how we can inspire them to follow and excel.

How to Improve as a Leader

Everyone in an organization is part of the system and has a role to play in the transition to agility— perhaps even that of a role model. Like most people, you probably struggle to sow vulnerability or to admit to finding something difficult, or having overlooked something. But it's never too late to talk about difficult subjects or to tell your organization or team you made a mistake or misunderstood something.

What is your story? What example do you set or want to set? Do you have something you're passionate about, a purpose? How do you communicate it?

Leadership Journey

Rate yourself from a scale of one to ten on the following statements to assess were you stand as a role model:

- I have a clearly defined purpose that matches the work I do and my department's and organization's purpose.
- I actively share this purpose with colleagues through storytelling.
- I am aware of my biases, prejudices, and blind spots.
- It is important to me that we have role models at the organization and I regularly talk with colleagues about what a role model is.
- In the department and in the team, we have agreed on the kind of behavior role models should display and how we intend to challenge each other on that behavior.
- As a lead, I regularly seek feedback on my role from peers and employees.
- I encourage colleagues to keep engaging with each other.
- Whenever there are innovations that are interesting for our organizations and aligned with the purpose, I discuss them with colleagues and we look at how to integrate them into the organization.

There has to be a solid base from which to operate as a leadership team, and a shared understanding of what agility means for the organization, employees, and the leadership team itself. After that, space will emerge for further development. The basis lies at the heart of the People Journey Circle.

Steering Towards Innovation

The pace at which one employee works influences the overall pace of the team or even the department. The team is only as fast as its slowest member. The challenge lies in getting the slowest member to accelerate to the group's pace. Starlings have that ability. People do, too, provided you extend your feelers and are willing to listen to the people around you.

When teams pull together in delivering a product, each team will have an effect on the pace at which the other team works.

If one team gets stuck, the other team cannot proceed. The organization is one large system that everyone is a part of. Whether you work there or otherwise provide something to the organization, your behavior and way of working and thinking, as well as the speed at which you work, all have a bearing on the value and relevance of the system as a whole. To excel, we shouldn't be boosting our top perform-

ers—we should be elevating our lowest performers.

Learning Organization

Continuous learning has never been as important as it is today. New technologies follow each other in rapid succession. The online world creates new roles, such as 'influencer' or 'YouTuber.' Roles that emerge organically in generations growing up with the latest technology, and for whom these new roles are the most normal thing in the world.

It's vital for us to start thinking and learning differently, addressing the conditions and barriers that affect learning and finding ways to remove them. We must develop a learning mindset and always be willing to experiment in order to learn. This will help us make the leap to becoming a learning organization.

The Ecosystem

As human beings, we are selective. Our brain decides what we see and don't see, based on our worldview and our existing biases. As a result, we often don't see what we do not expect to see. You can either hide behind this comfortable wall or take it as an incentive to look beyond the obvious.

The things that impact how we perceive the world are our ecosystem, and it impacts the way we think, perceive, act, and behave. Our ecosystem isn't necessarily a bad thing, but if it's invisible to us, then we can quickly become blind to its effects. We can become blind to our biases or the comfortable half-truths we tell ourselves, which stands in the way of continuous learning discussed earlier.

Means and Ends

Tools matter. When you decide to paint your house, you would do well to buy quality brushes, rollers, and paints. Without the right materials, chances are your walls will not look impeccable when you're done.

That being said, it doesn't mean you always have to get the latest of the latest in tools and materials. Tools are a means to an end, not an end in their own right. True, working with the latest technology can be a lot of fun and make your organization feel like you're on the cutting edge. But all tools, even this book, should be used with questions such as:

Does it help you fulfill your purpose?

What does it deliver, and for whom?

Ensure that you have satisfying answers to these questions before adopting any new tool, system, or idea. Ideas are powerful, and they can transform your organization faster than you think.



Alize Hofmeester is a successful purpose-driven entrepreneur, author, and inspirational speaker. She is considered a true visionary and thought leader in the field of business agile transformations. Alize advises and coaches boardroom leaders and transformation teams on mindset, leadership, and the people side of change on how to stay relevant to their customers. For more information about Alize, go to www.twinxter.com

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Reimagining Collaboration

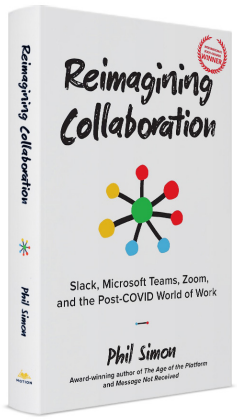
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Reimagining Collaboration

Slack, Microsoft Teams, Zoom, and the Post-COVID World of Work

by **Phil Simon**



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THE SUMMARY IN BRIEF

Reimagining Collaboration introduces a fundamentally different model for workplace collaboration and communication. You'll learn how to think about these subjects, as well as technology and business processes, in a holistic way. You'll then learn how to put this new model into action, and how to handle people that are stuck in their ways. The fulcrum of ***Reimagining Collaboration*** is the hub-spoke model of collaboration, which allows for the stitching together of different applications without any coding. As a result, you'll be able to minimize rework, automate tasks, and quickly get on the same page as your colleagues. You'll also communicate and collaborate much better, too.

At its core, ***Reimagining Collaboration*** is disruptive. It forces readers to think differently about work. It advocates adopting new habits and technologies. Organizations will have to rethink legacy business processes and confront problematic and change-averse employees. But you'll learn how to maximize the chance that a new collaboration hub will take root.

IN THIS SUMMARY, YOU WILL LEARN:

- How collaboration tools have evolved over time, and where things stand now.
- How technology can lead to enhanced collaboration power.
- How to move from the theory of collaborative perfection into actual practice.
- Why effective collaboration requires a spirit of lifelong learning, and how to instill it in your organization.

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Introduction

When COVID-19 arrived, few companies and their employees were prepared to embrace remote work and, by extension, collaboration. The world of work is not returning to its pre-COVID-19 days. Effective remote work and the tools enabling it will become only more prevalent and critical for businesses to thrive. And more remote work increases the importance of collaboration.

So, are the current methods of collaboration meeting the needs of innovative, constantly evolving businesses? Not quite. Let's explore how collaboration really works in a work environment and how some of the things we think are enhancing our collaboration are already holding us back.

Collaboration in Context

We can't begin to effectively collaborate if we conflate different terms. In order to achieve this goal, it's essential that we fully understand collaboration first. Collaboration is not delegation or communication. It involves working, brainstorming, and problem-solving together— either physically in the same space or remotely.

Don't confuse collaboration with adjacent work-related terms, as this will only stunt your progress. Collaboration isn't some superpower encompassing all forms of work. Putting the adjective remote in front of it only makes it more difficult to attain.

Meanwhile, contemporary collaboration is multidimensional. One size doesn't fi tall. As such, doing it well is far easier said than done.

The Benefits of Reimagining Collaboration

Effective collaboration can confer a number of significant benefits, from creating more innovative products and building trust among employees to helping retain customers, retain employees, and communicate better across your entire organization.

That said, if you think collaboration is some sort of magic elixir that will cure all ills, you're bound to be disappointed. But effective collaboration allows organizations to become more transparent, healthier, and less-stressful places to work. Firms and teams that collaborate well will be more productive than their collaboration-challenged counterparts.

Why Email Inhibits Collaboration

People who rely on email to 'collaborate' introduce superfluous friction. They make it harder for themselves and others to effectively work together. The word suboptimal comes to mind. Often, these tools make collaboration downright impossible.

Why? Because email was never designed for collaboration. Despite its limitations, many people simply tolerated it because of inertia and the lack of viable collaboration alternatives for many years.

Employees have traditionally stored essential knowledge, decisions, and information in their inboxes— all which effectively disappear when they leave their jobs. And over the course of the day, email saps your brain to an extent that modern collaboration tools do not. It's time to say goodbye to the traditional way we think about email.

Reimagining Workplace Technology

Over the last 30 years, the applications that allow us to exchange information and work together have become far more powerful than their antecedents. The word supercharged comes to mind. The market for collaboration software was already exploding before the pandemic. Then it went supernova. Now, collaboration hubs are more powerful, affordable, extensible, and user-friendly than ever.

However, even the best collaboration hubs don't replicate the functionality of dedicated productivity, project-management and enterprise systems. So what's the solution? It's the hub-spoke model of collaboration.

The Hub-Spoke Model of Collaboration

On any given day and depending on your role, you probably use at least ten software programs, apps, or websites at work. The odds that you use only one or two are remote. Even small businesses today rely upon a wide array of technologies.

Slack, Zoom, Microsoft Teams, and their ilk are internal collaboration hubs. They allow people to easily connect to a wide variety of different applications, what you might call spokes. Put differently, hubs act as the home base for an organization, department, team, and even an individual employee. A hub can, and should, represent the default mode of internal communication and collaboration for all formal and informal groups. Which service acts as your 'hub' is up to you. Different activities, goals and situations require different tools. There is no magical application or technology that handles every conceivable work-related task or function and there never will be. The best formula-

tion of the hub and spoke model allows us all to automate many routine tasks with zero coding required.

How to Select an Internal Collaboration Hub

The introduction of a proper collaboration hub within an organization can represent a major turning point in a company's evolution. In many instances, it's no understatement to call it a step change, especially given the extent to which so many companies, departments, groups, and individuals have historically relied upon email.

Here are the questions to ask when choosing your collaboration hub:

- What specific business problem(s) does this software application attempt to solve?
- What business problem does this application not solve?
- Do your colleagues already use a similar tool?
- If so, then how does the new tool compare to the incumbent?
- Is now the right time to implement a new hub?

In cases where one hub meets most of your needs but is missing a killer feature present in another, don't panic. Chances are, the other collaboration hub platforms will quickly take notice and implement a similar or identical feature.

Among the most important factors that organizations should consider when selecting an internal collaboration hub are cost, security, compliance, company culture, and the need to collaborate with external partners.

Remember—all else being equal, it's easier to deploy a collaboration hub in a 'green field,'—a space that's already thriving or at least surviving.

Why Collaboration Hubs Can Disappoint

Success with any new enterprise technology is hardly a given. Internal collaboration hubs are no exception. But with rare exception, collaboration hubs disappoint or fail because of people-related issues, not from any deficiencies in the underlying technologies or applications themselves.

Looking to avoid these failings? Holding formal training classes signals to employees that the collaboration hubs is an essential workplace tool. If leadership takes it seriously, then everyone else is more likely to do the same.

Reviewing Implementation Strategies

Organizations that want to deploy internal collaboration hubs can opt for one of three approaches: bottom-up, top-down, and middle-out. You can either start at the top of your organization with adoption, or the opposite. You can also begin with middle management and expand from there as time allows—when the 'field is green.'

Each strategy inherits different costs and benefits. There is no single formula for determining which one is best. Experienced and tech-savvy change management consultants can help organizations choose and implement the best tool and approach. In turn, the firm will minimize the hub's downsides and maximize its benefits.

Reimagining Business Processes

Equipped with new tools, a new mindset, and collaborative colleagues, you can dramatically improve inefficient business processes at your company. Don't minimize the importance of transforming simple business processes like the way you collaborate. Companies have been transformed by far less. Plus, doing so sets an important example one that others will hopefully follow.

Remember—the older the process, the less likely that it has changed, and the more likely that the hub-spoke model can improve it. That means that your most entrenched processes aren't the ones that should be protected, they're the ones that may be the most ripe for a change.

Collaboration Killers and How to Handle Them

If you're going to initiate a transformation in the way you collaborate within your team or organization, you should be aware of the ways that it can go wrong. One of the worst? Pushing too hard, too fast. Trying to transfer your entire workforce over to an entirely new collaboration tool or series of tools all at once may backfire.

Remember that some very smart folks at your organization will probably still resist adapting to more collaborative methods and tools, no matter how nicely you attempt to make the transition. Meanwhile, micromanagers are generally allergic to true collaboration. The hub-spoke method won't change that fact on its own. Prepare to exhibit patience along the way.

The Myths of Collaboration

Collaboration isn't binary. There are degrees. It also may rise or drop over time. By itself, the use of an internal

collaboration hub guarantees nothing. In fact, companies can use Slack, Zoom, and Microsoft Teams in ways that are downright abusive.

Finally, it's important to note that small-scale collaborations tend to go more smoothly than larger ones because fewer people are involved. Sometimes, however, even one-on-one interactions don't go as well as either party hopes. Some people will invariably refuse to reimagine collaboration.

Reimagining Communication and Human Resources

Reimagining collaboration isn't likely to happen by itself. It may require changes to existing jobs and business processes. Fortunately, they need not be the big ones.

While the jury is still out, hiring a Head of Remote Work may help increase collaboration in an organization. If that seems like a superfluous job position, considering that in the fact of even minor scandals or employee dissatisfaction, companies will create the role of Chief Diversity Officer to ensure fair and equal hiring practices.

If employees won't willingly wean themselves off of email for internal communication and 'collaboration,' then companies may need to take drastic measures and enforce the use of specific hubs.

Why Effective Collaboration Requires Lifelong Learning

What, exactly, is the point of collaboration? At its essence, collaboration is about benefiting from the expertise, perspectives, and creativity of people other than yourself. So for collaboration to succeed, everyone involved must be open to the fact that another person's perspective has something to add to their own. If you believe that you've already learned everything you need to know about a given topic, then collaboration won't be of much use to you.

That's why a lifelong learning mindset is so important in collaboration, particularly when adopting the hub-spoke method. You should always be open to new ways of thinking, collaborating, and creating—even if you've been doing things a certain way for a while. If you're a manager or leader, this becomes doubly important. The openness and willingness to innovate that you display will inspire your organization to do the same.

The Future of Collaboration

What will collaboration look like five, ten, or fifteen years down the line?

Collaboration hubs will become smarter, more automated, and more immersive—allowing for even better collaboration and freeing up more human creative power to respond to complicated problems with novel solutions.

Meanwhile, plenty of innovation and useful collaboration features will stem from emerging startups.

Finally, the future of work will be even more remote and collaborative than its past. The sooner you, your colleagues, and your organization realize it, the better off you will be.



Phil Simon is a frequent keynote speaker, recognized collaboration and technology authority, and college professor-for-hire. He is the award-winning author of eleven books, most recently ***Reimagining Collaboration: Slack, Microsoft Teams, Zoom, and the Post-COVID World of Work***. He helps organizations communication, collaborate, and use technology better. Harvard Business Review, the MIT Sloan Management Review, Wired, NBC, CNBC, BusinessWeek, and The New York Times have featured his contributions. He also hosts the podcast Conversations About Collaboration.

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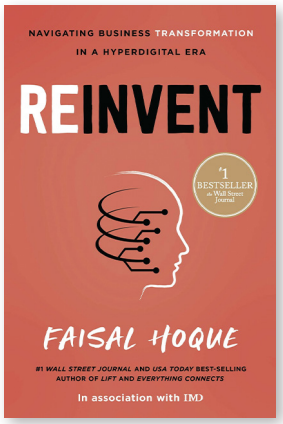
Reinvent

Faisal Hoque

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Reinvent

Navigating Business Transformation in a Hyperdigital Era



by **Faisal Hoque**

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THE SUMMARY IN BRIEF

From top to bottom, organizations will be compelled to change entire mindsets, attitudes, and assumptions about how they operate, how they can grow, and even the very reason for their existence as they address the unprecedented journey of change and *Transformation* driven by technology.

This change is as much an adjustment of mindset as it is a new set of tools that everyone must learn how to use. In ***Reinvent: Navigating Business Transformation in a Hyperdigital Era***, author Faisal Hoque introduces ideas, concepts, and practical step-by-step strategies with which you can better position yourself and your organization to reap the greatest number of benefits that digital transformation can afford.

It's a journey rich with promise that readers can embark on successfully with Hoque's guidance.

IN THIS SUMMARY, YOU WILL LEARN:

- The case for transformation in a hyperdigital era.
- The necessary steps to successful digital transformation.
- How to navigate transformation with LIFTS.
- How to evaluate your transformation as you take steps towards achieving it.

SECTION 1: THE CASE FOR BUSINESS TRANSFORMATION IN A HYPERDIGITAL ERA

Business transformation and digital transformation are essentially two separate ideas, but their close connection and synergy are undeniable. Further, any attempt at *Transformation* that lacks a significant digital presence might be compared with push-button phones that dial a split second faster - the best of intentions, but grossly outdated.

Your Customer Isn't What He or She Used to Be

It's no great epiphany to realize that the COVID-19 pandemic fueled consumers' interest in - and enthusiasm for - online shopping, nor is it shocking that any business whose *Transformation* doesn't incorporate a significant digital element likely risks alienating an enormous segment of the consumer population.

Furthermore, digitally enabled consumers are empowered like never before. The balance of power in any number of industries and markets has also been completely upended.

- Customers have changed drastically in recent years. They're more demanding and expect their feedback to be taken into consideration.
- The COVID-19 pandemic merely provided additional impetus to move to online shopping.
- Customer co-creation - where customers have a direct hand in developing new products - is increasing.
- The internet's ability to offer comprehensive comparison shopping is compromising consumer loyalty.

Your Workforce Is Calling for Transformation

Taking nothing away from the exploding influence exerted by consumers, they are anything but alone in advocating for *Transformation* with a digital component. Your employees, contractors, and anyone else with whom you work are likely every bit as vocal.

- Not only are remote working arrangements increasing, but employees are also taking them into consideration when choosing for whom they will work.
- Rather than distancing employees, research has found that remote work options have improved employee engagement.
- When considering remote work, it's essential to consider the issue of isolation and to develop strategies to counter it.
- Digitalization can promote efficiency, greater creativity, and innovation, not to mention increased organization productivity.

Security Is Also Changing - Transforming the Safety of Your Business

The more digitalization takes hold of nearly every aspect of life, so too does the issue of security become more central. Threats of all sorts are increasing and diversifying at the same time, which mandates digital transformation be characterized by proactive measures and the highest possible security awareness.

- While many are concerned that a digital workplace is more vulnerable, research has established that digitalization can bolster security.
- Tasks as simple as sending material to a remote printer are now vulnerable to security breaches - digital's capacity for encryption can offset this.
- As more companies incorporate remote work into their organization, it's imperative that security measures are strengthened.
- Digitalization isn't limited to security issues. It can also be used to combat misinformation.
- Countries can no longer ignore or dismiss digital security. National security demands a comprehensive and cohesive digital policy.

Transformation: The Added Punch of Artificial Intelligence and Machine Learning

To those shrinking few who have yet to get a handle on what all the excitement is about, it can prove exceedingly helpful to see how AI and machine learning working in conjunction with digitalization can drive meaningful evolution and reinvention in most every business and organization. Going digital is certainly never an unwise option. Couple that with AI and machine learning, and any form of change becomes that much more transformative - and the resulting advantages and benefits warrant serious attention.

- Artificial intelligence (AI) and machine learning can broaden digital's capacity for transformation.
- AI can greatly boost a company's revenue streams through greater productivity and efficiency.
- AI and machine learning can perform comprehensive analytics far faster and more accurately than human beings.

Transforming your business involves a great deal more than unplugging this and plugging in that.

- Automation through AI reduces boring repetitive work, freeing human employees for more challenging and rewarding tasks.
- AI and machine learning can also strengthen security while offering greater customer engagement and insight.

SECTION 2: TRANSFORMATION VIA DIGITALIZATION – NECESSARY STEPS

Transforming your business involves a great deal more than unplugging this and plugging in that. It takes careful thought and a good deal of introspection. That's because *Transformation*, however focused on technical aspects, also involves a sweeping reinvention of a great deal - if not most - of your organization, including aspects that you may not expect.

Recognize the Challenges

According to Forbes, around 84 percent of digital transformations outright flop. If you think that number is a gross outlier, other research also cites a frustratingly high level of struggles and missteps. That's in no way meant to be discouraging. The benefits of digital transformation, however challenging the journey, are decidedly worth it.

- It's essential to gain commitment and buy-in throughout an organization - from management to everyone impacted by *Transformation*.
- Make certain your goals for *Transformation* are clear, specific, and highlight how all members of the company may benefit.
- Expect some within your organization to be uncomfortable with disruptive change. Continue to emphasize the positive outcomes that a successful *Transformation* will foster.
- Don't get caught up in the technology. The impacts of Transformation on your people and culture are just as important.

Leadership Is Everything

Being an effective leader during and after digital transformation mandates more than a few tweaks and updates. Rather, it calls for a completely new way of thinking and acting derived from an appreciation of the magnitude of change taking place, as well as a new way of communicating with others involved in that effort.

- To become an engaged leader amid your business's digital transformation, know the distinctions between digitization, digitalization, and digital transformation. They're significant.
- A pervasive digital mindset is critical to transform any organization digitally, taking in everyone from leadership all the way through the entire group. Such a mindset is comfortable with change and urges experimentation and occasional failure - which are necessary steps to success.
- Collaboration is essential, even connecting groups and people who may not have worked together before. But such synergy is essential, not merely to encourage a diversity of opinion and feedback but also to move away from autonomous silos that can inhibit transformational growth.
- Take steps to ensure that your culture not only has changed but is also built to last over time. Encourage a prevailing mindset of attention to the issue of sustainability: What policies and procedures are sustainable, as opposed to others that may be less resilient to change?
- Ethics are paramount. The public has seen more than enough security lapses, ethical misbehavior, and other instances to make them jumpy about technology in general. An emphasis on ethics makes regulatory sense - taking it further than you're required builds an appealing organizational persona, one that genuinely means what it says, rather than merely looking good.

The Future of Your Organization

Examination of the scope and implications of change with a somewhat longer timeframe not only gives you a heads-up

on what to anticipate but also allows you to make decisions today that will nurture the environment you hope to create for tomorrow - for all the tomorrows that follow.

SECTION 3: WHAT TO DO: NAVIGATING WITH LIFTS

What undermines many attempts at Transformation is insufficient attention to everything else that has to change as well.

That's where the acronym LIFTS comes in. LIFTS stands for the following five steps:

1. L - Learn
2. I - Investigate
3. F - Formulate
4. T - Take off
5. S - Study

Learn

The first step in embarking on a successful *Transformation* is to educate everyone impacted as much as possible about the ramifications, benefits, and other aspects.

- Reemphasize that *Transformation* means more than technology. Talk about reasons for the initiative, any form of necessary culture change, and other outcomes.
- Stress the benefits of *Transformation* regarding individuals as well as the entire organization. Look for collaborative forms of benefit that take in more than just one group or individual.
- Take the time to understand why some teammates may be nervous about such significant change - or, for that matter, why they oppose it.
- Empathize with those holding out as much as you can, and work to help them better understand your support for *Transformation*. But make it clear that a "sorta support" attitude may not be sufficient and, as a result, might warrant an individual's consideration of moving on in a way that won't run counter to your transformative efforts.

Investigate

Before moving forward in any meaningful way, it's essential to gain a sense of where you are, what you and your company can bring to the situation, and any risks and potential pitfalls. This is a time characterized largely by potential and opportunity.

- Develop strong partnerships between technology and users. Increase levels of trust and understanding by providing forums for frequent interactions. Strong partnerships promote user involvement, permit requirements to be defined in a more cooperative climate, ensure that technology investments are aligned with business priorities, and boost overall sense of ownership.
- Educate executives and knowledge workers about the unique challenges of technology. In many firms, users have a limited understanding of the complex technologies and the effort required to implement complex systems. As a result, their expectations are not realistic.
- Craft a comprehensive sourcing strategy that articulates the desired mix of insourcing, domestic outsourcing, and offshoring - and further recognizes the long-term capability necessary to meet strategic objectives. A technology organization that's too lean and is also highly outsourced may inhibit the development of strategic applications, while too large an organization may not deliver desired business value in a cost-effective manner.
- Develop vendor management expertise that includes knowledge about location constraints, vendor performance, and vendor abilities. Such capabilities will facilitate careful vendor selection and help mitigate the multiple risks associated with outsourcing. Using pilot projects related to non-mission-critical applications is a low-risk tactic for learning the strengths and weaknesses of offshore locations.
- Instill a project management culture and imbue the technology organization with project management expertise. Project management is both a science and an art and needs to be formally learned and practiced on the job. Poor project management is one of the most significant risks that technology organizations face and can frequently spell the difference between firms that are able to exploit technology for business value and those that are not.
- Organize and manage based on value-creating processes. Do not set up committees for their own sake. Take stock of value-creating processes that these organizational structures will support. Remember that the level of complexity associated with an organizational unit will vary based on the sophistication of the governance network it supports. Apply a modular-organizing logic

Develop bottom-up change agents - rarely does change result solely from a top-down edict.

in designing critical technology organization structures. Consider explicitly assigning individual executives to each one of these modular organizational units.

- Recognize that organization design and change management are critical organizational capabilities. Organization design changes must be managed with care. Strong relationships need to be built with stakeholders. How can you promote "straight talk" in an environment that values commitment and relationships? How can you lead your team to accept that difficulties along the way are not failures, but rather a normal part of the change process? How will you resolve these rough spots and build on them to fuel the organizational change effort? Develop bottom-up change agents - rarely does change result solely from a top-down edict. Lower-level employees must buy in. Cultivating change agents can guarantee their support in selling their peers.
- Develop your communication strategy and management capability, which has significant implications for evolving organization structures. Therefore, communications strategy and management is the responsibility of the entire senior management team. They should be supported by expert communications professionals to ensure that the strategy is based on user feedback and goals; to define a path to move target audiences from mere awareness to understanding, commitment, and action; and to ensure that suitable research, timelines, and measurements of success are included.

Formulate

It's time to formulate, the step in which, having performed extensive assessment, you can begin selecting those objectives that you've determined to mean the most to your organization - those that are aligned with what you are and what you aspire to be and are adequately supported by technology, governance, and processes.

- Consider using a portfolio approach to make certain that all technology receives adequate financial support to remain aligned with core business objectives.
- Educate senior executives and start small. Begin to educate senior business and technology executives about the benefits of a portfolio approach. Consider developing a project portfolio management (PPM) capability for a small slice of the business to demonstrate the benefits and build consensus for embarking on an enterprise-wide effort.
- Establish management commitment and vision. Most of PPM implementation is not technical but managerial, and the commitment and strategic vision of top executives should be established and sustained. PPM involves many different people needing to do things differently within the organization and must be supported by senior management to achieve success.
- Address new organizational structures early on. Plan the creation of an Enterprise Program Management Office (EPMO), which in most cases owns PPM. The EPMO's responsibilities need to include educating the company on PPM processes and collaborating with key constituents to establish portfolio management approaches. This group will also provide the tools to analyze portfolios and gain access to the inventory of programs, initiatives, and assets. Additionally, create a Business Technology Council, the upper-level strategic decision-making body.
- Design information management processes explicitly. PPM will be an outright failure if the information gathering is not performed adequately from the outset and not kept up to date. Specific processes and responsibilities related to the creation, approval, and updating of information are critical.

Take Off

After what likely amounts to extensive planning, legwork, research, evaluation, and countless other tasks, you're ready to begin the actual implementation of your organization's *Transformation*.

- Understand the appropriate level of business agility for your organization. Refine and exploit competencies required to operate competitively in strategic

positions and strategically reposition your business into new product-market spaces through exploration. Understanding the appropriate level of agility has vast implications for how processes are modeled, configured across business networks, and then enabled by service-oriented architecture (SOA).

- Select modeling approaches for your business processes. New information technologies and architectures (for example, SOA), coupled with strategic enterprise architecture (SEA) and a mandate for agile design, require senior management to reconsider the firm's core processes.
- Create the appropriate level of agility for a business network.
- Processes must first be established to sense and capture customer requirements and translate them into specifications of outcomes.
- Second, processes are required to integrate information from the business network and add to the base of public and market information.
- Third, processes must enable tailoring of interactions, information sharing, and intellectual property protection.
- Fourth, processes are required for the management of activities associated with production and distribution of products and services, as they must be reallocated and coordinated based on changing conditions.
- Fifth, governance of relationships must be implemented to enable negotiation and monitoring across activities in business processes and networks. Given the process enablers that are required for the real-time enterprise, it is critical to establish the information services platform required by these processes.
- Develop your SEA functional area. This is absolutely necessary for an agile organization. Technology capabilities must be synchronized with the process requirements of real-time business networks. This synchronization requires senior executives to think primarily in terms of the services they provide and the key business processes and networks that enable, and are enabled by, these services. Senior executives must define the necessary leadership roles, structures, and processes.

Study: Evaluate Your Transformation

It's now time to evaluate your own *Transformation*, and build confidence that it was, in fact, all worth it and then some, and, just as valuable, sift through your experience to improve the journey forward.

- Establish the business purpose of each investment in technology: Is it to enable growth, maintain the infrastructure, or manage risk?
- Determine whether the metrics you use have changed along with changes in business processes and technology.
- Agree on new metrics that show how your organization creates agility, sense-and-respond capabilities, and digital options. This agreement will ultimately lead to metrics that accurately measure business value.
- Understand the business environment and how the firm adjusts its strategy to changes in the environment. This often requires continued real-time adjustments in operations, placing greater onus on technology executives to have an efficient system to gather information and present business alternatives.
- Leverage approval, prioritization, consolidation, and standardization to manage and define the information requirements to support a highly information-oriented culture.
- Translate business strategy into tactical plans for which information and communication technologies can be deployed. It is increasingly the role of technology executives to make this connection. Executives must take the lead in communicating areas where technology can add value. Employees must be made aware of how these opportunities relate to their jobs.
- Identify complementary investments necessary to get full value out of technology investments. Instill in employees the behavior and values that will lead to information for customers, suppliers, and partner relationships.

SECTION 4: FINAL THOUGHTS

Organizational Transformation is a journey that never stops. It's up to you to keep steering in the correct direction. Accordingly, staying on the right course with your organizational *Transformation* mandates your continued evolution as a leader as well.

Leaders of the future must embrace the following:

- *Follow the money.* They must focus on the business and understand how it creates value.
- *Know that managing technology is as important as the technology itself.* The next generation of leaders will understand

that they must invest in managing technology and the technology itself.

- *Understand what technology does.* Unless they appreciate that technology often plays a critical role in establishing or maintaining a strategic position, leaders may well spend inappropriately.
- *See through walls.* Tomorrow's leaders will be far more comfortable with deriving value through partnerships and other types of engagements.
- *Manage business and technology as one.* Executives will come to see that technology failure is often due to weak or non-existent business strategy or failure to create a business-driven technology strategy.
- *Scrap the org chart.* We are already seeing the blending of corporate roles.
- *Get underneath the hood.* Leaders must be able to discern business processes below the overarching posture of an organization that advances strategy.

As you and your organization move forward, so too must you continue to hone, sharpen, and, if need be, change elements of your leadership.



Faisal Hoque is the multi-award winning author of the #1 Wall Street Journal and USA Today bestsellers LIFT and Everything Connects, and other books. He is the founder of SHADOKA, NextChapter, and other companies. Throughout his career, he has developed over 20 commercial business and technology platforms and worked with public and private sector giants such as the US Department of Defense, GE, MasterCard, and American Express.

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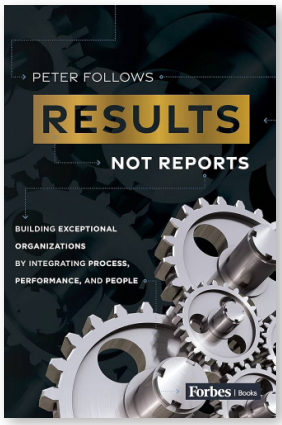
Results Not Reports

Peter Follows

Executive Book Summaries®

Results, Not Reports

Building Exceptional Organizations by Integrating Process, Performance, and People



by **Peter Follows**

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THE SUMMARY IN BRIEF

The ability of businesses to prosper in this uncertain environment demands a resilient mindset at all levels of an organization.

The book, ***Results, Not Reports: Building Exceptional Organizations by Integrating Process, Performance, and People*** unravels the framework for establishing lasting profitability and performance. The pages within lay out the roadmap to achieving solid improvement goals by deploying dynamic management of process, people, and performance.

Author Peter Follows encourages leaders to take their organizations to the zenith by offering an improvement cycle that involves three parts: Where to Look, What to Improve, and How to Get Results. His strategies help leaders and managers assess opportunities, replace nonproductive time with productive time, create a solid results strategy, improve processes, and more.

IN THIS SUMMARY, YOU WILL LEARN:

- How to assess performance opportunities.
- Where to look, what to improve, and how to get results.
- How to align process, people, and performance.
- How to implement valuable change.

Introduction: Why Change Requires Change

This book was written for senior leaders who need to execute their strategies. The intent is to provide a different way to frame and think about getting results and specifically how the integration of process, performance, and people is critical to develop and implement changes that stick. It is divided into three parts: Where to Look, What to Improve, and How to Get Results. We'll explore each of these areas and highlight how traditional management thinking leads to disappointing results and then contrast that with the benefits of thinking holistically about process, performance, and people.

Part 1: Where to Look

Chapter 1: The Results Equation

Results are the sustained elevation in the performance of a targeted indicator. Results can be achieved in any key financial or operating indicator, such as revenue, cost, quality, safety, or service. The key to achieving sustainable results is creating an environment that supports the ongoing, dynamic management of process, performance, and people.

All organizations are made up of processes. A process is simply two or more value-added steps that require a hand-off of material or information to create a finished product or service. The goal of every great process is to maximize productive time and minimize unproductive time.

Performance refers to the performance system that provides management with information. The objective is to align financial and operating indicators and all levels of management.

People refers primarily to management behaviors and employee skills. The objective is to improve the effectiveness of the time that managers spend planning, communicating, following up, and problem-solving, or what we call dynamic management.

Results don't just materialize through good intentions. They require an intentional and deliberate change in how you manage.

Chapter 2: Assess the Opportunity

Opportunity assessment links critical key financial and operating indicators to identify gaps in current performance and to identify recoverable opportunities. It provides a business case and an overall strategy to improve the organization's results. The three areas of opportunity assessment include:

Linking Finance and Operations. To understand the financial numbers and to determine what operating activities drive them, you need to create a profit driver model. At the highest level, focus on three financial areas that determine the profitability of the organization: revenue, cost, and capital efficiency. But the financial numbers on their own aren't overly helpful, so you need to dig deeper into the underlying drivers of those outcomes and connect the financial and operating worlds together.

Evaluating Operating Performance. Start by maximizing productive time and minimizing nonproductive time. Productive time is the time that the customer would be willing to pay for. Nonproductive time is the time people spend reworking, firefighting, expediting, or doing something because there's a breakdown somewhere else in the process. Next, study the alignment of the performance systems. Performance system challenges typically start with a basic disconnect between finance and operations. Key planning tools include budgets, forecasts, work plans, and work schedules. For all of these to be effectively integrated, you need accurate planning standards and reasonable mathematical relationships among revenue dollars, functional volume, and activities. The final step is to observe how managers interact with their staff.

Building a Business Case. For executives to determine whether it makes sense to pursue any improvement opportunity, the assessment needs to identify the expected value to the organization. The following steps can help build a solid business case:

- Assess potential improvement
- Develop an overall strategy
- Create a work plan
- Develop a cash flow plan

Chapter 3: Create a Results Strategy

The Results Strategy articulates how results will be achieved and how the impact will be seen in key indicators and financial statements. It identifies potential issues and complications, early in the initiative, that need to be considered. The strategy also sets expectations regarding what people should expect in terms of activities, focus, timing, and participation.

Creating a results strategy starts with identifying the focus areas. These include revenue-based initiatives, cost-based

initiatives, and capital-based initiatives. For each focus area, you need to articulate where and how measurable results will be achieved.

Next, determine how to measure results. This can be done by:

Ensuring savings are real. One of the heartbreaks of performance improvement is to generate legitimate gains in productivity only to discover they've had no material impact on financial results. This happens when a productivity gain in one area is offset by a productivity loss in another.

Getting the baseline right. A basic method to measure improvement is to compare the current period to a similar period. Companies make changes all the time that impact the comparison. The more volumes fluctuate, the harder it is to create a useful baseline – and the more important it is to find reasonably comparative periods.

Reviewing the link to incentives. Compensation incentives have a powerful influence on people's behaviors. For incentives to be effective, the expectations and measurements must be very clear so that people understand the way decisions are made.

Finally, develop a communication strategy by establishing solid stakeholder communication and employee engagement.

Part 2: What to Improve

Chapter 4: Improve Processes

Improving processes starts with understanding your organization's current challenges. Here are three reasons process challenges exist:

1. Can't fix external problems. Many managers don't believe there is a significant opportunity to improve. It's partly because they don't see it, but it's also because they think it's largely caused by forces beyond their control. However, even with legitimate external factors there is usually more ability to influence external departments than realized.

2. Experience gets in the way. Industry expertise is sometimes needed to solve technical problems, but for general change management, it can be a hindrance.

3. The way organizations are designed. The most common approach to organization design is to set up vertical functions like sales, engineering, operations, and distribution. Processes, however, tend to flow horizontally through different functions.

So, how do you identify process challenges? Here are four ways to go about it:

Look externally. Although not ideal for uncovering process opportunities, benchmarking can be useful to identify comparative pricing for similar items, salary levels for similar functions, or simply to learn from other industries.

Define the process. Finding opportunity starts with defining the process itself.

Analyze the process. People often don't really analyze a process. They create a wall map of activities, but they don't look at the detail hidden in volumes, capacities, and variation. Sometimes the mapped process reflects what people think should happen as opposed to what actually happens.

Follow the constraint areas. Remember, just because you can't see opportunity in a process, it doesn't mean it isn't there.

Finally, how do you improve a process? Start by understanding the real problem before implementing a solution. Attack the nonproductive time first. This involves improving the productive time by taking an existing process and reconfiguring it so that it's more effective. Give employees ownership of the changes going on around them by involving them while redesigning methods, or layouts in their work areas.

Chapter 5: Align Performance Systems

Performance systems are arguably the most important tool for aligning an organization. They translate the CEO's strategy into specific activities and accountabilities. The main challenge is trying to align levels of management that think differently and that have varied planning horizons.

But why do performance systems get unaligned? To start with, scheduling is often sequencing. The point of execution is sometimes not well managed. There's too much data available and measurement is often only used for evaluation, not information. So, how do you identify performance system challenges? Start with understanding the type of performance system. Next, map the system and begin to identify gaps. Finally, how do you align performance systems? Here are four quick steps to go about it:

1. Limit the key performance indicators. A useful technique to identify key indicators is to speak with leaders at various levels and to understand what

information they routinely look for. Eventually and through experience, you begin to learn what to focus on and how to ignore the noise.

2. Improve scheduling. Improving performance always requires better scheduling. Schedules are generated either forward from a starting point or backward from a due date. Improving the way you schedule leads to a better understanding of customer demand, order change management, resource productivity, service requirements, flexibility, and inventory management.

3. Make performance visible. Managers often get performance feedback sometimes after an event has occurred, which naturally limits its usefulness. Information that arrives in the day, for the day, allows managers to address issues while they are relevant and impacting workflow.

4. Make people accountable. Make sure your people are genuinely accountable for at least what they can manage.

Chapter 6: Develop People

The way people do things and the way they interact with one another are the result of years of patterning. To change people's behavior, you need to reshape their environment. Some of the most common people challenges include: Productivity is a management problem, Good intentions have unintended consequences, Problem-solving is often reactive, Work assignments are lacking, and Following up is not micromanagement.

The three best ways to identify people challenges include: Experiencing what the frontline staff experiences, Assessing manager behaviors regularly, and Observing how people interact with each other and the management.

Here are three ways to change behaviors for the better:

1. Improve manager-employee interaction. Your managers must possess skills like resource planning, work scheduling, assigning work and communicating expectations, following up, giving feedback, problem-solving, training, and coaching to improve performance and general administration.

2. Focus on how managers follow up. Most people want their work to have a purpose and enjoy being productive. When managers follow up in a meaningful way, the relationship between manager and employee changes from a reactive orientation to an active mutual collaboration.

3. Build a behavior model. To define what management needs to do to help support employees, it's vital to build a visual model that provides clarity as to what is expected from managers at different levels of the organization.

Part 3: How to Get Results

Chapter 7: Focus the Effort

The Focus Meeting is designed to energize the organization and to ensure that operating managers have ownership of the initiative. The purpose is to communicate what's changing, why it's important, and why this will be of benefit to people. The meeting also clarifies what specifically needs to happen, what people need to know, and what they need to do.

Always row in the same direction. Understand the emotional cycle of change. Transfer ownership to operations and pre-present ideas. It's easy to find yourself in a position where you don't have time to review with everyone before the meeting, but good ideas routinely go down in flames because of this error.

Communicate the vision and articulate what's in it for everyone. This includes presenting the base results (visual depiction of the financial and operational performance during the base period), current state, results strategy, and required results.

Chapter 8: Prepare for Change

The Prepare for Change phase is designed to get the system tools ready and to prepare management prior to a full implementation. There are two main aspects to focus on here: training managers and prototyping method changes.

Start by organizing for change. Always know what to expect and develop countdown schedules. Each key work stream requires a tailored plan identifying the nuts and bolts of the actual change migration. This includes performance planning, resource requirements, technology changes, management and skills training, and other related activities.

Train and coach managers. This includes crafting a solid training overview, implementing innovative social and management styles, planning, communicating, following up, and problem-solving.

Conduct prototypes. The prototypes your organization develops must help managers take theoretical concepts and apply them to real-world conditions. An example of a prototype could be increasing the throughput of a specific machine or group of machines where work is bottlenecking. Prototype creation involves focusing on three main areas: process considerations, performance system considerations, and people considerations.

Chapter 9: Implement Change

Implementing change is part of an evolution in management capability; it's not an event. The objective is not to put a temporary focus on operations, make a few method changes, and claim victory. It's a transition to a new way to manage the organization.

Start by cultivating implementation mindsets. For permanent and lasting change, everyone involved needs to understand what's changing and genuinely care about making those changes successful. Visible leadership can't be just symbolic. Leaders can't show up for the kickoff event and then disappear. They need to remain visible and reinforce the company message for as long as it takes for methods and behaviors to take hold.

Focus on getting results. For your organization to arrive at solid results, leaders need to lead, managers need to manage, and change agents need to support change.

Cement your gains constantly. Improved performance is quantified through a measurable impact on financial results for the area. But a common mistake is to get to this new higher level of performance and declare victory too soon. A great way of cementing your gains is to fix all broken windows or red flags. Broken windows are warning signs that a department is starting to return to former habits. These can seem relatively innocuous at first, but they collectively have a way of eroding performance gains over time. Finally, continue building a high-performing team to ensure your performance gains grow over time.

Conclusion

Organizations can never stop adapting and never stop learning. Every evolution has an impact on processes, the performance systems required to manage them, and the skills and tools needed by the workforce. The results equation provides a framework to help you manage these shifts as they occur. The aim of this book is to simplify a complex methodology and to outline its fundamental principles. It is a compilation of the valuable lessons we have gained from our clients, mentors, and partners.

Our collective experiences will hopefully provide you with practical insights to navigate any challenges you may face and assist you in creating an exceptional organization.



Peter Follows is an accomplished business executive. entrepreneur. and author. He is the cofounder of Carpedia International, a global management consulting firm that specializes in helping high-performing executives achieve lasting improvements in performance and profitability. He has extensive expertise in strategy, supply chain management, and operational effectiveness and has provided consulting services to organizations in diverse industries across North America and Europe

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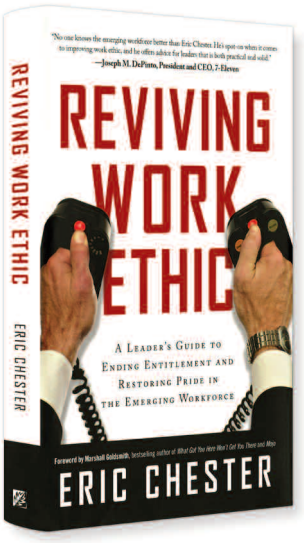
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Management

Reviving Work Ethic

A Leader's Guide to Ending Entitlement and Restoring Pride in the Emerging Workforce



by Eric Chester

THE SUMMARY IN BRIEF

Reviving Work Ethic is a guide for frustrated managers and leaders on how to instill a strong work ethic in the modern workforce.

Work ethic in America is fast declining, plaguing young and old alike. But in *Reviving Work Ethic*, renowned consultant, speaker and author Eric Chester shows that you do best to focus on your young employees — those whose habits and ideals can still be influenced. He presents an incisive look at the root of the entitlement mentality that afflicts many in the emerging workforce and shows you the specific actions you can take to give your employees a deep commitment to performing excellent work.

Chester's advice is crucial to a healthy bottom line: Too often, talented-but-difficult-to-understand younger workers stand between your company and profits. If business owners, managers and executives are not connecting with employees and modeling the key components of work ethic, employees are likely not connecting effectively with customers — leaving all kinds of money on the table.

Reviving Work Ethic is the culmination of years of research as well as presentations to more than 2 million youth. Chester's experience shows in his confident analysis of the seven components of work ethic and in his proven strategies for handing them down to young employees.

IN THIS SUMMARY, YOU WILL LEARN:

- Advice for leaders that is both practical and solid.
- How to get inside the heads — and hearts — of young people.
- How to get young people to take pride in their work.
- How to improve the performance of young people in today's workforce.
- Seven components of work ethic and proven strategies for handing them down to the emerging workforce.

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THE COMPLETE SUMMARY: **REVIVING WORK ETHIC**

by Eric Chester

The author: Eric Chester is an expert in school-to-work transition. He has presented for more than 2 million youth at 1,500 high schools and colleges, and has spoken to hundreds of leading companies and organizations. Chester is the author four books, most recently *Getting Them to Give a Damn,* and has co-authored eight others. He's the founder of the Bring Your "A" Game to Work youth training and certification program, and is the president of Reviving Work Ethic, Inc., a speaking and consulting firm.

Reviving Work Ethic: A Leader's Guide to Ending Entitlement and Restoring Pride in the Emerging Workforce by Eric Chester.
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For additional information on the author, go to www.summary.com or www.revivingworkethic.com.

Introduction

A person's *qualities* lay the foundation for his or her *achievements*. It's hard to achieve anything worthy of merit without demonstrating qualities like reliability, determination, perseverance and integrity. And while *possessions* can make you happy, they won't fill you with pride if they've blown into your life without achievement.

There was a time when achievement meant more than possessions, and when character (a person's qualities) was valued more than achievement. Americans felt good about putting in an honest day's work for an honest day's pay. This was the time when "Made in America" was the best label any product could bear, quality was everyone's priority and companies made decisions to ensure long-term stability — not short-term gains for stockholders.

But young adults today have grown up in a world where most people work hard to find ways of avoiding hard work. They've heard stories telling how lottery winners, day traders, bloggers, dot-commers and Internet marketers have managed to beat the system and derive a huge bounty with little or no effort. They've been inundated with reality television that turns talentless fools into millionaires in the blink of an eye and with the greatest of ease.

Is it any wonder there is a burgeoning entitlement mentality among the new workforce?

Work has degenerated to little more than a four letter word; a necessary evil. It's no longer viewed as something to be proud of, but rather something to disdain, to shortcut or to elude all together.

If we do nothing to reverse this gross misconception, we will not only be doing our kids a great disservice; we will be allowing the further contamination of our labor pool.

Leaders can no longer stand idly by in hopes that parents and teachers will resume the responsibility for instilling work ethic. Parents now focus most of their attention on ensuring that their kids are healthy, happy and have a high self-esteem. Meanwhile, schools are facing widespread criticism and massive cutbacks, and are concentrating every available resource on increasing test scores and keeping students safe.

Therefore, the burden of developing work ethic within the emerging workforce has shifted to employers. Organizations that neglect this responsibility will continue to point the finger at parents and schools for the unsatisfactory product they are getting. They'll have no choice but to export labor overseas, replace human interaction with touchscreen technologies or churn-and-burn their front-line people, whom they see as an expendable commodity.

Leaders who accept this new reality and rise to the challenge will create cultures that promote the qualities and values needed. In doing so, they will develop talent pools that soon run deep with creative, energetic and dedicated individuals whose efforts boldly exclaim, "I'm proud of my work."

It's time to revive work ethic. ●

Rewinding the Game of Life

The Current State of Work Ethic

Somewhere along the way, Western culture has lost sight of the virtues that comprise work ethic — the very

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things that helped build our country. The pursuit of happiness and the American Dream drove progress and innovation, but they came with unintended side effects. In many cases, for instance, healthy ambition has morphed into avarice. Urbanization and an emphasis on large-scale businesses means fewer and fewer kids are learning abut work in the natural course of family life. Technological advances that make life faster, more fun, more entertaining and easier to navigate are also consuming our time and energy while eliminating avenues for learning vital concepts about work. And pop psychologists have pushed parents to focus on building self-esteem in their children, creating at least two generations of me-centric workers.

America's emerging workforce — those in the 16-to-24 age bracket — finds itself uniquely positioned to turn this tide, both because of its size (50 million by some estimations) and because the young are the most moldable. A transformation — or at the very least, an introduction — to traditional work ethic within this age group will last for decades and influence the workforce and communities in positive ways for generations.

In February 2010, the Pew Research Center released an extensive report titled "Millennials: A portrait of Generation Next" that describes this generation (ages 18 to 29) as "confident, self-expressive, liberal, upbeat, and open to change." It is history's first "always connected generation," the report says, and it's on track to become the "most educated generation in American history." But this generation doesn't identify with work ethic.

Many of the negative habits, mindsets and attitudes embedded in the emerging workforce result from messages that have focused on how great young people are and how they are special enough to warrant success.

Fostering positive self-esteem seems pretty good on the surface; it's much better than promoting self-loathing, but the heart of the self-esteem message is to esteem the self, and eventually that creates a self-focused, entitled mentality. So while the emerging workforce has been taught the importance of saving the world, these individuals also feel empowered to do so strictly on their own terms. They can quickly change course and move away from the most high-minded agenda if it isn't meeting their personal, self-established needs.

Naturally, this mentality — esteem for self over others — finds its way into the workforce as a lack of respect for anything that doesn't please and satisfy the young employee's selfish desires.

Instilling a traditional work ethic into the emerging workforce can produce a seismic economic and cultural shift in America. We have an emerging workforce that embraces change, is better educated and more innovation-focused than any previous generation, and wants to change the world for the better.

All of the advantages, however, can become seeds lost among the weeds. To make sure they find fertile soil, take root, grow and bear fruit, members of the emerging workforce must shed their notions about being entitled to a job, and about reward coming before effort. ●

Coming to Terms with This Thing Called Work Ethic

When children are old enough to understand and comprehend basic commands, parents and teachers begin subtly and overtly programming their value systems. This begins shortly after birth and increases daily, all in an attempt to help the little tykes make good choices; their parents and teachers hope these good choices will help them live a happier and more successful life.

Sandbox Values

The common messages behind the values taught to children transcend cultural, ethnic, gender, religious and economic differences. Children all around the world are taught to:

- Smile and play nice.
- Be prompt.
- Look their best.
- Do their best.
- Obey the rules.
- Tell the truth.
- Say *please* and *thank you*.

Now compare those Sandbox Values to a sentence which summarizes hundreds of responses from business leaders who were asked what they are looking for in their employees:

Employers are searching for positive, enthusiastic people who show up for work on time, who are dressed and prepared properly, who go out of their way to add value and do more than what's required of them, who are honest, who will play by the rules and who will give cheerful, friendly service regardless of the situation.

As you can see, the work ethic that employers desire is rooted in the exact same lessons we learned as toddlers.

To bridge the Sandbox Values and the values that make up work ethic, here are seven terms — markers, if you will — that summarize the values that are common to both: positive attitude, reliability, professionalism, initiative, respect, integrity and gratitude.

There are no negotiables in this list. By that I mean that there isn't any one of the work ethic markers to which you, as a leader, don't personally aspire and hold yourself accountable. Likewise, you expect these same core values to be evident in everyone you work for, work with and oversee.

But before we launch into a strategic discussion of how we can develop each of these markers — and perhaps even more elementary than that, why the challenge of developing these core values in the emerging workforce now rests with employers — let's take a look at our new definition of work ethic:

Work ethic is knowing what to do and doing it. It is marked by an individual's positive attitude, reliability, professionalism, initiative, respect, integrity and gratitude.

Instilling those seven attributes into the hearts and minds of the emerging workforce is the key to keeping our companies — and our country — stable and prosperous. For America's young employees, work ethic is the key to success, whether they are flipping burgers, roofing houses, checking a patient's blood pressure or piloting spacecraft for NASA. ●

Up and Over — The Leader's Challenge

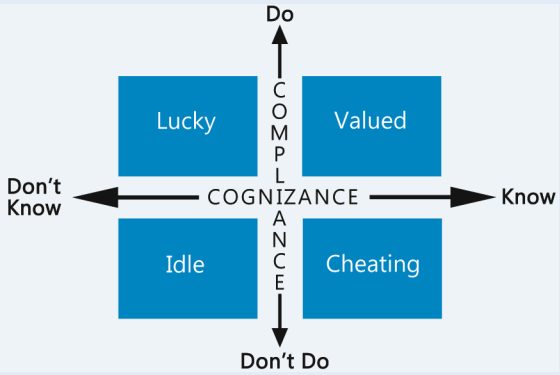
Let's use a horizontal axis to represent a worker's knowledge or "cognizance," of how those seven work ethic markers affect his or her value to an employer. This is the "knowing what to do" part of the definition. So ignorance — not knowing what to do — resides on the left side of the axis. The more a worker learns about what he or she should do, the more he or she moves to the right, toward the "know" side.

We'll then overlay a vertical axis to represent an individual's choices, actions and behaviors as they relate to the seven work ethic markers. This is his or her "compliance" — the "doing it" part of the definition. Inactivity — not doing what he or she should be doing — resides at the bottom. The more the individual "does" — in other words, the more he or she demonstrates behavior proving knowledge of the core values of work ethic — the more he or she moves upward.

By dissecting the cognitive axis (*don't know* and *know*) with the compliance axis (*don't do* and *do*), we can begin to see four distinct quadrants and behavior:

• **The Idle Quadrant.** In the bottom-left quadrant are employees who don't understand work ethic (or any specific marker of it) and don't live it out. Quite simply, they don't know what any of these seven core values really mean or how they play out in the workplace. If they heard these values expressed when they were children, they left them behind in the sandbox or they were stripped of them in their adolescence. As a result, they don't demonstrate the behavior that is expected of them by their employers.

The Work Ethic Matrix



• **The Lucky Quadrant.** If you've ever played a game without understanding all the rules and won anyway, you've experienced blind luck. This is similar to a worker who has no real comprehension of the markers of work ethic, but takes action that coincidentally demonstrates a core work ethic value. Although the outcome is positive, the behavior is not fueled by commitment, so it's unsustainable.

• **The Cheating Quadrant.** The quadrant in the lower right is where we lose people who understand what they should do but choose not to live it out. This cheating behavior is the most dangerous to leaders, because it pits them squarely at odds with their people.

• **The Valued Quadrant.** Workers who possess a clear knowledge of the seven individual markers of core work ethic, and, as a result, make decisions and choices that demonstrate those markers are operating in an optimal state. These are the workers that make up the Valued Quadrant.

Workers, and not just those in the emerging workforce, move in and out of the four quadrants of work ethic all the time. We all move up and down and from side to side. If we aren't intentionally trying to stay in the Valued Quadrant, we inevitably move out of it.

Great leaders find ways to move people to the right and up on the Work Ethic Matrix and inspire them to operate in a valued state.

How do you move others (and yourself) into the Valued Quadrant? You do that by reaching into those other quadrants and pulling whoever is there up and to

the right. You teach them what they need to know, and you motivate and inspire them to do it. It's a role best defined as part teacher, part motivator. It's in this role that a leader distances him- or herself from being a mere manager by adding real value to his or her people and organization. ●

What Happens When You're Not Watching

Developing cognizance without working hard to gain compliance is akin to entering vast amounts of data into a computer and then unplugging it; it is a waste of time and resources. The computer has to operate to create any value from the data. So let's look at three key elements for generating buy-in for work ethic values.

• **Relevance.** Members of the emerging workforce need to know the why before they will take action on the what. "Don't just tell me what to do," they say (or think). "Tell me why I'm doing it." Explaining the relevance of the desired action is a way of connecting the dots between *what* and *why*.

• **Reward.** There are ways to build in incentives and rewards that encourage and reinforce positive behaviors and create habits that become the building blocks for excellence. Business leaders can create a reward structure that promotes a positive work ethic, not just incentives for those who achieve above-and-beyond excellence.

• **Radiate.** The most powerful values of an organization are radiated throughout the culture. *Radiate*, a transitive verb, means to spread something around as it emanates from a center. The key to radiating values is to spread them throughout teams and organizations. ●

Positive Attitude

Maintaining a positive, optimistic, enthusiastic attitude — regardless of the situation — is an essential component of every job description. That's why it's always the first thing mentioned when employers are asked what they are looking for in new hires. Without question, moving the emerging workforce up, over and into the Valued Quadrant begins with this foundational value.

If you want someone to display a positive attitude at work, you first need to make sure they know what you mean by a positive attitude and what it looks like in your organization. They need to see living examples of positive attitude in action when working for you, and they should be put into situations that allow them to shadow people who model the attitude you are trying to replicate in them. Attitude is contagious, so let them catch the right virus and go out of your way to make certain they aren't infected with the wrong ones.

Clarifying what a good attitude is begins with the hiring process. You need to be very direct about the duties involved in the job — the good, the bad and the ugly — so you can get the properly shaped pegs in the properly shaped holes.

An Infectious Culture

A positive attitude at work is infectious, so the more you call it out to others and encourage it in key employees, the easier it will be for you to radiate it throughout your culture. This starts with the small things you do, like calling out the guy who works a double shift or the receptionist who comes in when it's snowing, but it continues with how far you radiate those kinds of things each day.

To create a positive culture, talk to your young people about the good things that are happening throughout your business. If you can't share positive news about the company, shine the light on something good that's taking place in your community, the nation or the world. Make it your mission to be a purveyor of good tidings. ●

Reliability

If businesses depend on reliability, and reliability originates with employees, then business leaders need to infuse reliability into their company cultures. The best place to start is by focusing on the significance of being reliable and taking great strides to make certain all of your people understand how important reliability is to you, how it embodies the values of the organization and how it affects their future within the organization.

Reliability begins with showing up — being where you are supposed to be, when you are supposed to be there. That's a foundational expectation that your customers have of you and that you have of your team members.

Developing reliable employees requires helping them see through the myths of popular culture. To borrow the phrasing from the beginning of the old show *ABC's Wide World of Sports*, you need to figure out how to make them experience the thrill of victory (being able to rely on someone to come through) as well as the agony of defeat (when someone they rely on lets them down). Through role-playing, discussion or actual events that they experience while on the job, helping them see how reliability makes or breaks a business — and a career — is absolutely crucial.

Obviously, this starts with setting clear expectations for each worker and then holding tight to those standards. There always come times when good managers make exceptions to the rules, but boundaries are worthless if they aren't consistently enforced. That means you need to think through your expectations for reliability, including the consequences when people are unreliable and the rewards for those who prove their dependability. ●

Professionalism

A professional, quite simply, is someone who understands and represents the organization's best interests, even when that means sacrificing personal preferences. Sometimes preferences line up squarely with the organization's needs, but often, especially for the emerging workforce, they don't. A professional puts the job ahead of personal desires. That means respecting the employer's culture, but it also means acting in the organization's best interests in ways that typically aren't covered by company policy.

Professionalism isn't just what a worker does, but how he or she goes about doing it. How the individual conducts and presents him- or herself — the way he or she dresses, his or her body language, tone of voice, the words chosen, hygiene — all define the worker's persona and become a display of his or her professionalism or lack thereof.

The biggest frustration many leaders experience with the emerging workforce comes from a seeming unwillingness to dress and act like professionals.

With young employees, it's vitally important to clarify your expectations for professionalism even before hiring them. Don't hand them a book of rules; instead, have a conversation that gives you an opportunity to explain what it takes to succeed in your organization, and allows them the freedom to respond to make sure they are on the same page. ●

Initiative

Initiative is relevant to the company because it prepares the worker for additional assignments and makes him or her invaluable to the employer. It's relevant to the employee because it gives life to goals and ambitions, and is the component of work ethic that makes an employee feel the most proud. The employee with initiative can say, "I did that without being told, and I know it made a difference." Initiative will also put him or her in great demand by future employers.

Even though they might not come to you begging for more work, your employees want to know how they can contribute value to the company. When you let them know that you have a problem you'd like their input on, you'd be amazed at the initiative they'll take in trying to help you solve it. Whether or not they hit on the right solution, getting their minds working toward finding solutions to problems and inviting their contribution takes them out of the automaton state and moves them into an entirely different mindset: "This is my business, too, and when I have an idea for making something better, or if I see a problem that needs fixing, I can add value to the company — and also make myself more valuable in the process." That's right where you want them — fully engaged with head, heart and hands!

Reward Demonstrations of Initiative

When they demonstrate initiative, reward it. You can applaud it on the spot. You can honor it during team meetings. You can acknowledge it in front of employees, clients and customers. You can promote it in the media — both social and traditional. And you can straight-out pay for it by providing a bonus or promotion that says to your entire staff, "We're always on the lookout for people who put their mind — and elbow grease — to work around here." ●

Leave Nothing to Chance

When addressing something as important — and as controversial — as a dress code, don't simply describe it verbally or expect them to read it in the company handbook. Instead, show photographs of employees wearing both appropriate and inappropriate attire. This is inexpensive and very easy to do. Again, leave nothing to chance and don't surprise them with the specifics of your dress code after they've been hired and are making their way through your orientation.

Respect

The emerging workforce wants and needs rules and boundaries, but it doesn't respond well to fear-mongering managers.

Respect blossoms from well-nurtured relationships that are rooted in love, not fear. So the most important thing any leader can do when it comes to cultivating respect is to provide examples of respect. Display a respectful, sacrificial character — be positive, trust others, be polite, listen, be reliable, obey the rules, show mercy. In short, love others and the people around you will respect you for it.

Lead by Example

Fight the urge to demand workers' respect. Unless they're in a life-and-death situation, you're not going to get it. Instead, treat them with the same degree of respect you'd like from them and your actions will be mirrored. At the same time, don't let their definition of respect become yours. You are the boss and are in control. They know that and they'll respect you more for not immediately caving in to their demands. Instead, lead by example. They won't automatically respect you because you are older or because you have an important title attached to your name.

The good news is that your younger workers respect authenticity, accomplishment and competence. If you have a strong personality, let it out. They have strong personalities too, and they are very tolerant of other people's differences. Remember, though, that they can spot a phony in a heartbeat. If you are naturally quiet, then demonstrate to them that you know what you're doing based on experience. When they learn what you did to get where you are — and they see your hard work and character shine through — you will earn their respect.

Integrity

Real integrity becomes a part of a person's operating system. Real integrity requires a buy-in and commitment that's from the heart, not just the head.

You can help inspire that with encouraging words and by rewarding and recognizing integrity in the workplace. But to really get buy-in from the emerging workforce, you have to help these individuals value trust and honesty in a world that appears to promote and even celebrate the opposite. How?

First, ditch the punitive. Scare tactics don't work with the emerging workforce. These workers know that the odds of you filing charges against them are slim, because they know how much time and money that will cost you. If you do prosecute them, they know that even if you can prove your case, they'll probably get off with a slap on the wrist. They aren't easily scared by threats and you don't want people who are only honest because they're afraid of getting caught. That doesn't mean you shouldn't clearly communicate consequences. And, by all means, you should enforce those clearly communicated policies. But don't think punishments or the threat of punishment will significantly affect the behaviors of the emerging workforce.

Second, you have to trust them. It's hard, especially when you go back and read the statistics that indicate that this generation of workers, by and large, sees cheating and lying as acceptable. But this generation hates to be micromanaged. If you clearly describe your expectations and set high standards, but then constantly look over workers' shoulders, they will quickly feel like you don't trust them. This will likely make them live down to your expectations. You need checks and balances that protect your business, but give employees a chance to earn your trust. Start with small things and move forward. The greatest way to build trust in a young person is to show that you trust him or her.

Pull Them Out of Their 'Me First' Bubbles

Third, and this is the biggie, you have to pull employees out of their "me first" bubbles and let them see how dishonesty affects both the people around them and their own personal peace. For example, a young employee might think that hooking his buddy up with a free soft drink isn't really an integrity issue. He's been told that fountain drinks are a high-profit item and that it only costs the company a couple of cents for the syrup and the cup. He thinks, "This company makes millions, so it's not going to miss a few pennies here and there." He's thinking of himself, his friends and his reputation, and he doesn't see the connection between his behavior and the real cost to anyone outside his bubble.

This is where a leader can make a tremendous difference. By understanding the mentality, he or she can make certain his or her people know the real cost of the fountain drink — well beyond the cost of the ingredients — and share with them how heavily the company relies on every cent to keep people employed and maintain growth. He or she can also let them know that prices rise when waste of any kind occurs.

Granted, a three-minute lesson like this isn't going to dramatically alter the behavior of anyone and transform a dishonest kid into a boy scout, but it will go a long way toward removing some of the rationalizations the kid might be using to justify his or her actions. From that point forward, he or she will be forced to, at the very least, consider how his or her actions might adversely affect the company, his or her boss and co-workers, and even his or her peace of mind.

Gratitude

When the Grinch stole Christmas from all the Whos down in Whoville, he lacked a basic understanding of the spirit behind the holiday. The scrawny-limbed hermit with a nasty attitude and a foul grimace hated the world and everything in it, and he wanted everything and everyone to share in his misery. Of course, it was rumored that his heart was two sizes too small.

So what changed him?

Well, the good Dr. Seuss made the moral quite clear: The Grinch had to see for himself that Christmas wasn't about things, but about giving, loving and caring.

You might have a Grinch or two working for you. They don't solve many problems; in fact, they create them. Why? Because they lack gratitude — for their work, for the company, for their co-workers, for their boss and for their customers.

Unfortunately, you can't teach gratitude. You can define it and tell workers that they need to be grateful. You can tell them to smile, say *thank you,* and be nice to customers and co-workers. But, much like respect, they need to embrace gratitude internally to make it last and to make it truly effective.

Start with Increasing Cognizance

To do this, you still start with increasing cognizance. You can't assume that the emerging workforce arrives with an understanding of what gratitude is or what it looks like — especially in ways that are specific to your team and organization. So you have to assess each employee's understanding of the concept. What were their experiences before joining your team? What do they already know, or not know, about being part of a team? Have they been thankful for previous jobs, or do they take jabs at previous employers? Do they thank you for your time, write a thank-you note for the interview and thank you when they leave? Are they smiling as if all of their material possessions had mysteriously vanished — and then magically returned? Never underestimate the significance of hiring smiling, happy people who exude gratitude.

As a leader, you must make certain your people know what gratitude means to you and your organization. You have to describe the policies and procedures, and teach them the expected corporate culture. The more they understand the scope of your business and their role in bringing customers back, the less likely they'll be to feel lost, insignificant and unimportant. They'll worry less about immediate results and more about the ultimate results — the long-term results that really matter. ●

The Valued Proposition

William Mayes, senior vice president of sales and marketing for Senior Home Care, regularly hires from the emerging workforce. His sales team includes around 200 people, and many of the new hires are in their 20s. They have worked part-time jobs, made it through college and had success with one, maybe even two, previous full-time jobs. And they have, or can quickly learn, the skills needed for success as sales reps on Mayes' team. A few have the kind of work ethic required for success with this growing company, but Mayes will readily admit that many don't. As he points out, "Even when we find the people who *can* do the job, we don't know if they *will*."

So Mayes often meets personally with young hires or connects them to one of the veteran sales reps for some work on the values that are important to their organization. "We coach them and mentor them and give them extra time and attention," Mayes explained.

That time and attention requires focus, however. This is where the business of work ethic gets very personal. It's where you start connecting with the emerging workforce to find ways that help them align their personal needs and expectations with the greater good of the organization. It's where you discover the value propositions that an individual and an organization can share.

There were times when the boss simply laid down the law to the employees, and the employees, usually out of fear of losing their jobs, went along. If they went along for long enough, they learned to appreciate the values. As Mayes and so many other leaders have discovered, that strategy seldom works in today's marketplace.

'You Can't Motivate People by Fear'

"You can't motivate people by fear," Mayes says. "They don't have fear in their hearts. You have to figure out where they are, what they feel, what matters to them and then tie things together. Let's make it happen together — meeting them where they are and giving them a reason to move where they want to go, and where we want to go."

This type of connecting builds the work ethic you need in your employees. And in doing so, it shifts their mindsets away from a utilitarian view of work. When that happens, loyalty increases and turnover decreases. ●

RECOMMENDED READING LIST

If you liked *Reviving Work Ethic*, you'll also like:

1. ***The Power of Professionalism* by Bill Wiersma.** Wiersma outlines the seven key mind-sets of trusted professionals, offering a blueprint for both individuals and organizations interested in fostering a culture of professionalism.
2. ***Value Shift* by Lynn Sharp Paine.** Paine's insightful book argues that companies must become moral, as well as financial, members of the community.
3. ***In Good Company* by Laurence Prusak and Don Cohen.** Prusak and Cohen explain how to build up the human connections (based on trust, mutual understanding, and shared values and behaviors) that make up your company's social capital.

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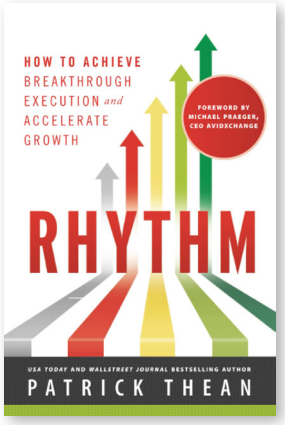
Rhythm

Patrick Thean

soundview
Executive Book Summaries®

Rhythm

How to Achieve Breakthrough Execution and Accelerate Growth



by **Patrick Thean**

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THE SUMMARY IN BRIEF

Companies in all industries experience patterns of success and failure. In fact, recent statistics show that 4% of businesses in the US ever surpass $10 million in revenue and almost 17,000 ever see more than $50 million. Patrick Thean talks about how the rhythm of success and failure need to be approached with a "Think Plan Do" process in his book ***Rhythm: How to Achieve Breakthrough Execution and Accelerate Growth***. With his experience helping numerous businesses over the years, Patrick's influence can be seen in companies like AvidXchange who used the rhythm of quarterly planning and has grown to over 1600 employees from 5 in the beginning.

With the help of his colleagues and customers, Patrick's book is a testament to what it takes to change the rhythm of your business and excel toward success. Patrick's Rhythm of Work™ provides the fundamentals necessary to implement the Think Plan Do approach successfully.

IN THIS SUMMARY, YOU WILL LEARN:

- The problems currently plaguing our communication today.
- Real-life scenarios where digital pollution has hindered communication.
- How to move toward a more human-centric communication.
- How humans are to blame; not the technology.
- How to correct the error and miscommunication we face.

Introduction

All growth companies encounter ceilings of complexity, usually when they hit certain milestones. Most of the tipping points vary based on the type of business, past experiences, and growth rates of firms. Things don't always go according to plan, but when there is a rhythm introduced, it can ensure long-term growth when making the right decisions.

When it comes to using rhythmic thinking to increase results, Think Plan Do, brings about changes that can ensure long-term growth and results.

- Think Rhythm: strategic thinking that creates a rhythm focused on the future of the business
- Plan Rhythm: the execution of planning to let all teams and individuals know what they are supposed to do
- Do Rhythm: the rhythm of doing the work to keep the plan on track

When the right rhythm is implemented, it gives you focus, alignment, and accountability – all factors that need to be considered for success.

Think Rhythm

The Secret To Growth Is Developing A Habit To Think

For some companies, the excuse of not having time comes up quite often. What this translates to is that taking the time to create a strategy for growth was not important enough. By being proactive about scheduling time to work on strategy and future growth within the business, big changes can begin to occur. All it takes is a weekly lunch meeting with your team to focus on strategy to begin seeing progress. It becomes important when your company wants to grow to take out the time necessary to think – but it requires developing the habit to ensure consistency and a rhythm that pushes toward success. When you clarify and communicate the elements of your strategy, it gives you a strong foundation to scale your company, which permeates to all operational priorities.

Winning Moves To 2x Your Business

Having clear winning moves is one of the most important things you can do when getting your team focused and aligned. These winning moves do not come from those one off eureka moments that occur from time to time. Winning moves drive revenue – more specifically doubling your business revenue in three to five years. If your company is growing slower than the industry, it means that you are losing market share to the competitor, despite your ability to grow. In order to grow, you have to think about how to grow, if you do not work on finding the winning moves through strategic thinking, you are missing out to the competition who is already utilizing this type of thinking. Developing the right winning moves requires thinking outside the box, especially if you find yourself stuck in the same old patterns. It requires looking outside the same routines to explore what others are doing if you want to differentiate yourself from them.

5 Steps To Developing Your Winning Moves

To craft the winning move, you have to make assumptions – which don't always pan out. The great thing about these assumptions is that you can adapt them and make them more focused on your winning outcome. Just because your winning move is good and the assumption doesn't work, you don't need to throw out the entire idea, but simply change the assumption and test it again. When developing winning moves within your company, you need to:

1. Name Your Winning Move – give your winning move a name that will help you better communicate the idea. The name helps to motivate your team, as well as clearly communicate the goals.
2. Find the "Who" – figure out who can accelerate your progress. Before you set up and execute a winning move, you need to set yourself up for success. How do you do this? Set yourself up with the right people who have the knowledge necessary to achieve the goals you set out for with this winning move.
3. Develop Revenue Projections – Your winning move should bring you revenue growth. Plan your growth ahead of time by projecting it into the next three to five years. While these projections will likely change, the objective is to view the strategy and adapt the revenue projection to help meet the targeted goals.
4. Identify and Test Assumptions – Your revenue projection will be formulated based on assumptions. You should document these assumptions so that you can test them in the real-world setting. Remaining open to the need to adapt assumptions will help ensure that each of the goals you plan to hit in terms of revenue are accounted for and adjusted to help meet those goals.
5. Adjust – Just because you have gathered information

and tested your assumptions doesn't mean that the winning move is perfect. It requires constant work and adjusting to maintain a rhythm that will set your company up for more growth.

Your "Stop Doing" List

When you find your growth becoming stagnant, you need to use Think Rhythm to regain clarity and focus on a few winning moves. When you find yourself with multiple losing moves, it can trap you. They take your energy, resources, and prevent you from developing winning moves. Nothing changes if nothing changes – meaning that if you don't stop your losing moves and develop a Think Rhythm to create winning once, you won't succeed in what you are setting out to accomplish. Stop trying to give excuses, when you are looking for focus, you have to recognize the excuses you use, change the outlook, and begin executing the strategies that turn into winning plays for your company. The best way to leave the losing moves in the dust is to stop, think, and execute.

Plan Rhythm

Get Your Team Focused And Aligned With A Great Plan

The Plan Rhythm is essential to great execution planning. This helps build alignment throughout the organization. The best ways to implement this is by meeting annually and quarterly to plan execution for the year and the quarter. You should be separating your execution planning from your strategic thinking. Your execution planning is to help figure out how you will get the work done to move the company forward during any given timeframe. This will require you to slow down and think, which results in faster executions with less waste. When there are good planning sessions, the team is inspired, and it prepares them for a great quarter.

Develop An Inspiring Plan

The plans you create with your team need to be inspiring and practical – one that connects with people's hearts and minds. This connection is what helps to push your strategy forward every year. Envisioning your main focus for your plan helps you with developing it, once you have that main focus you can begin executing on it. To keep your plan practical, it should have no more than five priorities in any given year, this allows you to focus on the main objectives and evaluate where you are with them during each quarter. Once you have your focus, make sure you are overcommunicating it. Keeping your plan a secret only limits what your departments can do if you don't include them. Make sure to keep communication open and even overcommunicate the plan so that everyone can be involved in making growth happen.

Every Quarter Is A 13-Week Race

Instead of seeing a quarter as something that happens four times a year, look at it as a 13-week race. You have a set of objectives to meet every 13 weeks if you want to win that race, which helps execute your overall annual plan. Before any race, you have to create the objectives and a strategy that will set you on course for a win – before the start of every quarter, set aside the time for a two-day execution-planning session to define the focus and priorities for that race. During this planning session you need to take the time to share and discuss priorities, including searching for any opportunities where you can provide assistance. Don't expect that one department plan will be enough, it should cascade to all departments because you are in the race together and it takes everyone working together to pull of a successful race that facilitates overall company growth.

The Power Of Leading Indicators And Dashboards

The recipe for a successful quarter, every quarter, requires establishing leading indicators with clear success criteria. You need to make it possible to track them publicly on visual dashboards so that everyone can monitor the success during the quarter. The two types of key performance indicators to focus on are results indicators (telling you what has happened) and leading indicators (predict the future). When you are looking for the right indicators, you should be asking "why" at least five times – this requires you to dig deeper and will drive you to better results in the long run. The red-yellow-green approach to your success criteria alerts members what areas need immediate improvement and where goals are on pace within your strategies. The use of the red indicator also helps drive team members to improve the areas necessary to bring the color level to a more attractive shade of success. Communicating amongst team members and management through dashboards allows for accountability without the drama – addressing areas faster and spread communication quickly throughout the organization to achieve higher rates of success.

Do Rhythm

Nothing Happens Until You Do The Work

Do Rhythm is the path to focused and aligned execution that

strives for achieving short-term plans and long-term strategies. Developing a Do Rhythm helps overcome the feeling of "doing work is hard, but nothing happens until you do the work." Setting up meetings is important with the Do Rhythm – meet with yourself, meet with your team, and meet with those critical to achieving the success you are looking for. You have to use this time to make adjustments and solve the problems that you may find within your quarterly strategies. During your meetings, use the success criteria and the red-yellow-green indicators as action-oriented tools meant to move toward success, not focus on individual faults.

Prepare To Have A Great Week

Preparation is a critical part of a successful Do Rhythm and sets you up for a great week. When scheduling your meetings, look for those bright spots that will help scale solutions across the company while developing the corrective action plans that overcome the obstacles you are facing. Another way to take on the obstacles is to get group input using an idea-generating session that allows for collaboration and the search for making critical adjustments to keep things on track. During your preparation, make sure you are including the victories and what was learned from the week prior, while also touching on the success goals for the next week that brings your company another step closer to keeping the quarterly priorities on track.

Make Adjustments To Keep Your Plan On Track

To have a great plan execution, you have to be willing to make the necessary adjustments – but in a smart way. The Do Rhythm can help you explore when and how to make these adjustments. Having weekly Adjustment Meetings allow you to review where you are and discuss what adjustments need to be made. These meetings can be used to focus on the specific problems and if you find yourself stuck, you can ask questions until you discover what levers need to be pushed to bring forth a solution. When plans begin to veer off track, it is best to pull the trigger early to ensure they regain their course and move forward instead of derailing altogether.

Conclusion

Implementing the Think Plan Do Rhythms is a process, not an event. These things take time to implement and successfully execute within your company. These rhythms help to keep your teams focused, aligned, and accountable. Having actionable plans allows you to stay on track as you grow your company. Even if you are doing good right now as a company, you can go from good to great through a rhythm plan – encouraging you to continue learning and improving no matter what level you are at.



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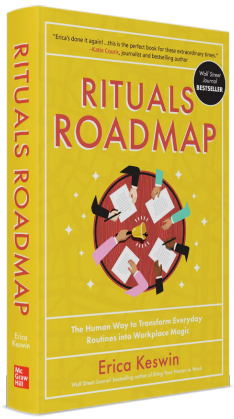
Rituals Roadmap

Erica Keswn

soundview
Executive Book Summaries®

Rituals Roadmap

The Human Way to Transform Everyday Routines into Workplace Magic



by **Erica Keswin**

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THE SUMMARY IN BRIEF

From morning cups of coffee to Wednesday team meetings, our lives are steeped in rituals. ***Rituals Roadmap*** combines cutting-edge scientific research with examples from the most human companies, like Adobe, LinkedIn, and KIND, to show how they establish rituals during meetings, employee onboarding procedures, and daily interactions among co-workers.

Whether you give new employees a "Kickbox" containing a Starbucks card and a $1,000 Mastercard, like Adobe does, or order pizzas on Friday from eight different pizza joints, like financial advice company Motley Fool does, or simply send welcome emails to new hires, rituals create community and change us in a way that conjures lifelong commitments.

If you're serious about employee engagement, ***Rituals Roadmap*** is your blueprint for creating a workplace full of engaged, connected employees who drive revenue and stay at their jobs long term.

IN THIS SUMMARY, YOU WILL LEARN:

- How rituals can drive business success.
- The Three Ps that make rituals meaningful and inspiring.
- To use rituals for everything from onboarding, to meetings, professional development, breaks, and more.
- Strategies to create rituals that work best for your organization.

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Don't Stop Believin': A Business Case for Rituals

We tend to think of rituals as things we do to punctuate important life experiences—like baby showers, bat mitzvahs, weddings, and funerals.

But rituals don't need to be reserved for big milestones, and just doing something again and again does not a ritual make. The transformational power of rituals lies in both our intention and how these activities make us feel. Rituals are rituals because they mean something to the people enacting them.

Technology has changed absolutely everything about the world of work as we know it. We're able to work anywhere, anytime. We're abandoning the traditional office, we're transient, and we're in a constant state of "on duty."

In the midst of all this hyper-connection, as former surgeon general Dr. Vivek Murthy has been telling us, one of the biggest health risks facing our country is—no, not smoking, not secondhand smoke, and not even sitting, but rather—loneliness and isolation. Left to our own devices, we're just not connecting. And it's hurting us. And our businesses.

Gallup found that in 2019, "based on a random sample of 4,700 full- and part-time U.S. employees working for an employer from January to August 2019," 35 percent of employees are engaged.

Rituals: Tools of the Human Workplace

Rituals are elemental to our lives. Scientists say that one of the reasons we humans love rituals is to "maintain group cohesion." In this world of disparate disconnection, rituals come to the rescue.

The cost of most rituals is minimal, but their value is priceless. And the impact is significant: more connection (improved cooperation, social cohesion, and perceived social support), higher productivity (through regulation of top-down and bottom-up psychosocial processing in our brains), better engagement, and a decrease in anxiety and stress. In other words, a positive work culture.

The Three Ps of Rituals: Psychological Safety + Purpose = Performance

Rituals are so impactful because they harness two of the core elements every human needs to succeed: psychological safety (or a sense of belonging) and purpose. When we feel psychologically safe and connected to a purpose, our performance improves. This is the Three Ps of rituals.

Psychological safety. Sharing rituals at work is the perfect way to help us feel included, and thus safe from the threat of social exclusion. Harvard Business School professor Amy Edmondson found that study after study from around the world linked psychological safety to worker engagement.

Rituals are the tools to help accelerate that sense of belonging, gathering all kinds of people together. True psychological safety has never mattered more.

Purpose. A 2019 Gallup study on purpose in the workplace states, "Astute leaders increasingly understand the effect purpose has on business outcomes. But purpose can't be limited to just a slogan. To advance, inspire, and unite a company, purpose must be actualized in the day-to-day work." What better way to tie employees directly to a company's purpose than through rituals?

Performance. When we put psychological safety and purpose together, what do we get? Better performance. A study at Google found that rituals were the key to more effective teams.

The Three Ps are just a way of pointing out what rituals do for us—they help us feel connected in an increasingly disconnected world. Rituals are the tools of the human workplace.

The rituals roadmap that follows traces the employee lifecycle from the first day to the last and everything in between, as well as a day-in-the-life of employees today—meetings, eatings, and taking breaks.

All Aboard: Rituals for Recruiting, Hiring, and Onboarding

Our first stop on the rituals roadmap is—where else?—getting people on board. And in case you haven't heard, the race for talent is on. Getting it right from the beginning impacts everything else down the line.

A beginning isn't just another random moment in time. The beginning sets the tone for everything that follows. Kickoff rituals have a lot of power.

Because the Three Ps work together, it's crucial that we elicit a feeling of psychological safety and purpose from the very first touchpoints in the employee relationship.

One of the ways rituals work best is by creating a container around the most mundane activities, thereby elevating them.

Preboarding with rituals. Consider Zappos's approach to picking up potential hires at the airport. Someone from Zappos is assigned to fetch the out-of-towner in a Zappos-decorated van. The candidate is driven to the lobby for the interview, offered a drink of water and some snacks, and has some chitchat to help put him at ease.

Seems like pretty run-of-the-mill stuff, but here's the interesting part. The people at the front desk and the driver know that the recruiting team wants feedback, good or bad, about the potential hire, so they're all super-engaged, paying extra close attention to the personal behavior of the potential employee.

One of Zappos's core values is "Be Humble," so they want to know if their interviewee is treating certain employees one way and their potential new boss or colleagues another. This clever ritual helps to ensure that new hires are a good fit. Sometimes a ride from the airport isn't just a ride from the airport!

Day one rituals. The first day of school is an iconic experience for all of us. We can all relate to the butterflies, great expectations, and stress about what to wear and where to sit. Will people like us? The first day of work is no different. And it only happens once. Smart companies use rituals to get it right.

New employees at Adobe receive a "Kickbox" containing a Starbucks card and a $1,000 Mastercard. Adobe's box also comes with a checklist of what to do in order to start pitching new ideas to the company. This onboarding ritual is so popular, Adobe has created an online guide for other companies.

Simpler, low-cost welcomes work, too. John Deere employees receive a simple email from a buddy on the current staff, giving first-day tips about what to wear and where to park. Who wants to show up in a suit when everyone else is wearing Hawaiian shirts?! Or to circle the employee parking lot worrying about being late?

This first-day buddy later shows up at the newbie's desk with a welcome banner in tow.

March Through the Arch: Rituals for Beginnings

Okay, job seeker, you've got the job. Congratulations! And you, Manager—you've hired the next rockstar cohort. Well done! After the balloons have deflated, the music video has been viewed, and the empty bowl of candy has been moved from the new person's desk, everyone defaults to just showing up at work. Then what?

One of the ways rituals work best is by creating a container around the most mundane activities, thereby elevating them. There's the requisite business of being in business, and then there are the rituals that help us power up and through the day—the work of work. So this next stop on our roadmap shines a light on beginnings and endings.

Opening ceremonies. For most of us who report to an office, our opening ceremonies kind of naturally evolve—we walk out of the elevator into the office, grabbing a coffee along the way. For those who work from home, it's helpful to think about how to create personal opening ceremonies to help start the day and delineate home from work. Not an easy task! But rituals can really help us create the transitions that have never mattered more.

Jodi Kovitz is the founder and CEO of #movethedial, a company devoted to changing the story of women in tech. At 9:30 a.m. on Monday mornings, her team comes together for what Kovitz calls a "grounding ritual," in order to "connect on a human level, and to invest in the culture and connectivity of the team." Each person shares three things: (1) something they're grateful for, personal or professional, (2) something they're proud of, and (3) something that they're struggling with.

Wouldn't it make more business sense to launch the week with projects and bottom-line projections? Well, in case you haven't heard, the soft stuff is the new hard stuff. And for Kovitz, "It's more important for people to feel glued together, connected, grounded, valued—like they have a reason to be there. And to ease into Monday is really a beautiful thing."

Bookending rituals. Morty Schapiro made the move from the president of Williams College to Northwestern University

in the summer of 2009, and soon realized that Northwestern didn't have a ritual to welcome incoming students.

A colleague suggested, "Let's walk the kids through the arch that's on campus." A ritual was born. Schapiro and his team rushed to quickly organize a march through the arch in September 2009. They didn't bother getting permission from the city that first year, which turned out not to be a problem, since only about 20 kids participated, and they just dodged the cars to march through the arch.

By year three, every single incoming student—over 2,000 kids—marched through the arch. Today, it's a ritual not to be missed. The marching band leads the students through Weber Arch, so named by Schapiro for his predecessor and the fourteenth president of the university, Arnie Weber.

These days parents, told in advance where to find their kids in the sea of purple, line the streets and take pictures. The kids feel like they are part of something special as they walk through the arch like all those who came before them, and begin to come together as their own class.

Students said that the march makes them feel more connected to their classmates and the university. It's likely the same goes for the parents who are kvelling from the sidelines.

Meetings: Rituals for Gatherings That Matter

Before the COVID crisis hit, experts like Harvard Business School professor Nancy Koehn estimated that approximately 11 million formal meetings were held in U.S. workplaces each day. Average employees sat through roughly 62 meetings every month.

People frequently check out of these meetings. And when we're sitting through that many meetings a month, who could blame them? Doodle, the online meeting service, reported that meetings cost the United States over $399 billion in lost productivity in 2019.

We humans still love to meet, even when it's making us crazy and/or unproductive. That's why it's so important that we bring rituals to our meetings, making the most of the human urge to sit together, face-to-face, and collaborate. We can do this in two ways: first, by having a purpose, and second, by inviting presence.

More Than Assembly Is Required: Have a Purpose

The word "meeting" is defined as "an assembly of people, especially the members of a society or committee for discussion or entertainment." But here's the thing: "assembling" is for Ikea furniture. Mere assembling is not going to make magic happen. With rituals we can transform everyday assemblies into workplace magic.

In ***The Art of Gathering***, Priya Parker writes that in determining our purpose, "The more focused and particular a gathering is, the more narrowly it frames itself and the more passion it arouses." We ought not to have a meeting to discuss something that can be sent out in an email or viewed on a company dashboard.

Your Physical, Mental, and Spiritual Presence Is Requested

Now that you know that your meeting has to have a purpose, you have to be sure people actually show up, not just in body but in mind, and even spirit. Presence is a prerequisite for psychological safety and helps ensure that your purpose manifests.

The best meetings invite people to bring their presence into the room, and there are rituals to help us do that. Chiming in and chiming out of meetings is a way of waking people up and bringing them to the present.

Before jumping into the news and status-of-the-day part of your meeting, it's always a good idea to take a moment to gather people together, asking them to leave whatever they were doing before at the door. A chime is like an "Enter Here" signal.

Eileen Fisher, the fashion queen of comfy-chic, rings a literal chime at the beginning of meetings. The chime signals a minute of silence and meditation prior to a meeting commencing.

Fisher asserts, "I think when people start to pay attention to themselves, they start to pay attention to their relationships, to the people around them and how they treat each other, and they start to notice the people in the supply chain."

With one tiny ritual, people begin to feel psychologically safe and connected to purpose, which helps their performance.

Eatings: Rituals for the Most Important Meal of the Day: The One We Share

Four professors from the Cornell School of Management have found that eating together is strongly associated with

unit-level performance. Organizations that sit down for a meal together—even without cooking it together—strengthen "social glue." Yet, elevating the meal to ritual status is only applicable for situations "where cooperation, communication, and organizational citizenship [have] value." Eating together is only important for the kind of workplace that values the Three Ps: Psychological safety, a sense of shared Purpose, and increased Performance.

> Rituals can help companies bridge the personal and professional.

A Pizza Friday Like No Other

Motley Fool, the wild and wacky investment firm founded by brothers David and Tom Gardner, have turned an ordinary pizza day into a ritual to write home about. On the last Friday of every month, Motley Fool buys 80 pizzas for the office.

But what makes this Pizza Friday different from all other Pizza Fridays is that they buy 10 pizzas from eight different beloved pizza joints in the area. Describing how they make it dramatic, Lee Burbage, the chief people officer, says, "People are very passionate about their pizza. We open Pizza Friday at noon on the dot. If anyone tries to get pizza at 11:59, it's not there. The line curls around the corner, and at noon everybody floods in. It's chaos because everyone knows the pizza that they want."

On offer are all kinds of pizza, from gluten-free, to vegan, to a Mexican pizza, the most popular from a restaurant just down the street. According to Burbage, Pizza Friday is Motley Fool's oldest tradition.

As Burbage put it, "There is no employee survey that would get me that pepperoni preference and be able to deliver that to them." Which is to say that some rituals are so powerful they go way beyond the details and straight to the heart, as well as the stomach.

Rituals for Taking Professional Development Personally: Spotlight on LinkedIn's InDay

A sense of being linked to one's personal purpose and human potential is a must-have for people at work, and it's often ranked higher in importance than salary. Deep, relevant professional development is where it's at. For many employees today, growing on the job is a must-have, even more important than money. According to data collected by Culture Amp, a company devoted to developing software solutions for workplace culture, learning is more important than compensation.

Rituals can help companies approach professional development in a way that's engaging, inspiring, and keeps people coming back for more. Rituals can help companies bridge the personal and professional.

LinkedIn InSpires: Happy InDay!

LinkedIn's 16,000 employees take a day off every month for their personal-professional development. InDay began in 2010 when just 1,000 employees worked at LinkedIn. The company had been in such "insane hyper growth," LinkedIn's cheerleader/culture champion Nawal Fakhoury recalls, since its founding in 2003, that leaders were worried about burnout. The team searched for ways to keep their talent a number one priority. "The coolest part is that in 2010 we invented InDay, which is short for Investment Day.

InDay includes things like a mindfulness class for employees, guided by a leader from wise@work, the developers of an app that helps people learn the "soft" skills needed to succeed at work, one of which is mindfulness.

What we previously relegated or even disregarded as "people" skills are now front and center as we begin to see how important people's experience at work truly is. In today's complex, demanding workplace, it's more important than ever for everyone to be emotionally intelligent and self-aware.

InDay also offers the "Git Up Dance Class." Maybe you're wondering how on earth learning a line dance can be considered professional development. Mindfulness—maybe—but dancing? How does Steve Sordello, the CFO who envisioned InDay, justify paying employees to meditate and dance?

Mindfulness and exercise are two of the most important ways to stay healthy, happy, and engaged. According to a 2016 survey conducted by Limeade and Quantum Workplace, 88 percent of employees that report having higher

well-being feel engaged at work versus 50 percent of those with lower well-being. Since happy, healthy employees are more engaged, more productive, and less likely to leave, the bottom line sees a cumulative benefit.

#InDay

InDay is not just a ritual but maybe even a prototypical ritual. Not only does it pass the Three Ps test with flying colors, but people would lose their minds if it went away.

An interesting characteristic of rituals is that they have a cadence, a rhythm, a life of their own. Because InDay happens every month, it shapes life at LinkedIn—there's before InDay, InDay, and after InDay. There's life leading up to InDay, then life coming down and preparing for InDay, like a Friday Shabbat or a birthday or a weekly breakfast. It's a shared marker people and teams use to feel connected to their lives at work.

Christina Hall, LinkedIn's former head of HR, said that the cadence makes the ritual feel "elevated beyond a perk."

InDay is a ritual that helps people take professional development personally. Everyone can interpret and live InDay in their own way, without pressure or judgment. It's the truly human way to learn.

The No-Smoke Break: Rituals for Taking a Breather

You may not remember the days of the smoke break, inspiring people to gather a few times a day either in a lounge or outside, huddling together, offering each other a light, taking one big exhale in unison, then catching up on the latest gossip.

According to the director of the MIT Human Dynamics Lab, "Much of the important information about how to be successful and productive at a job is not going to be found in a memo or an employee handbook, but rather around the water cooler." So while we don't need cigarettes for social glue at work, we do benefit from rituals like water coolers.

It's been proven again and again that "downtime replenishes the brain's stores of attention and motivation, encourages productivity and creativity, and is essential to both achieve our highest levels of performance and simply form stable memories in everyday life." So what are some ways to turn a no-smoke break into a ritual?

Break With a Best Friend

Beauty and wellness company Moon Juice is a company on a nonstop mission to create a sustainable, healthy, beautiful world for all of us. When Moon Juice's director of e-commerce was hired, the company agreed to let her bring her dog to work. Now, her pup is the office dog.

Every day, around 2 p.m., the dog needs a walk. But here's the thing: When it's dog-walking time, it's not just the dog's owner who gets up and goes for a walk. A colleague or two or three always join in. As Moon Juice president Elizabeth Ashmun said during an interview, "I've never seen her go alone."

This ritual uses something as ordinary and necessary as a dog walk to unleash the team members to get up and move and connect. And what better way to get a jolt of joy than by walking with humans' best friend?

Another great way to create rituals that really mean something to people is to ride on the coattails of what's already happening in the office, especially if it's grabbing everyone's attention. Embracing cultural events, for example, is a powerful way for companies to gather together and bask in the glow of connection.

At Microsoft in Redmond, Washington, home to almost 40,000 Microsoft employees, Halloween has taken on supernatural proportions. Instead of people with small kids ducking out early for Halloween parades and to prepare for trick or treating, Microsoft invites spouses to load up the minivans with kids in costumes and descend on the campus in the afternoon. People decorate, give out candy—the whole nine yards.

We See You: Rituals for Recognizing and Rewarding

Millennials and Gen Zers have brought many things to the table that we all need. One of those things is an insistence on being recognized at work—for a job well done, for sure, but also feedback about what's working and what isn't. Ideally, feedback happens all year round and not just once a year at review time.

Here are three different kinds of rituals that can send the message "we see you": (1) rituals that reward individual performance, (2) rituals that reflect milestones, and (3) rituals that connect to the collective. Let's look at the first two.

Rewarding Kind Customers

If you ever see a man on the street or in an airport doling

Begin each meeting with a moment for employees to ground themselves or find their center.

out KIND bars from his backpack, don't worry. That's just Daniel Lubetzky, founder and executive chairman of KIND Snacks, philanthropist, Shark Tank entrepreneur, and lifelong devotee of being, well, in a word—kind. He doesn't just recognize customers through ritual, but he pays attention to his employees, too.

And kindness is always at the heart of it. Early on, Lubetzky launched a ritual and called it KINDOS, recognizing employees and rewarding them with KIND bars and cards of gratitude. He now has a long-standing tradition of awarding one employee every year with a KINDOS award.

Lubetzky continues to recognize kindness. Lubetzky told me, "So when I travel on a flight, I always bring 72 KIND bars, and I hand them out." Why 72? Each box has 12 bars in it, and six is the number of boxes he can carry with him.

Think about how seen these people feel when Lubetzky recognizes and rewards people for random acts of kindness from a brand that now has mass recognition itself. Through this ritual, the ordinary KIND bar becomes something else, something that connects people to Lubetzky's purpose of being kind.

We See You: Rituals That Reflect Milestones

Aimée Woodall asks people to create their own adventure on their first anniversary at the Houston-based marketing, strategy, and design agency Black Sheep. She and her team know how tough the first year can be, so they really go all out and take the entire 18-person company out for an evening "crafted around who they are, what they care about, what they like, and their personality."

Um. Wow!

As Woodall said, "It might be a very extravagant dinner, especially if they are a foodie. For some people, it's like, 'I want to go get hot dogs and go to the Astros game.' The greatest example of a totally different approach was when we brought picnic lunches and went to a bingo hall because that's what that person wanted to do."

Black Sheep, being the ones on the outside of the herd, have an interesting take on what it means to belong. They certainly know how to create a ritual that makes a lifelong impression! Making a ritual personal ensures that it won't be forgotten.

Design Your Own Roadmap

You might ask, what now? How can you use rituals as the tools to create a human workplace?

Start by creating your own unique map. Discover the rituals that your organization—however big or small—already has in place across the employee lifecycle, paying close attention to the following:

- **Recruiting and onboarding**: Chances are, your company already has a set of processes for all of these things. So think about how you can add a little TLC to them. Maybe every new hire receives a welcome pack with candy and snacks. Whatever you choose to do, make sure it fits with your company brand and sets the tone for how you want potential and new candidates to view your company from the very first impression.
- **Beginnings**: Start as you mean to go on. You can easily take something you already do in the morning with your employees and make it a beginning-of-the-week ritual. Remember that a ritual is 100 percent intentional. So even something as simple as sending a morning check-in email with intention at the beginning of each week can be made into a ritual.
- **Meetings**: Begin each meeting with a moment for employees to ground themselves or find their center. Start off with a round robin show-and-tell with everyone in the room. The important thing to remember for meetings is to make everyone feel like they can contribute if they want to.
- **Eatings**: Transform your meals into rituals. Remember, it doesn't matter what you eat or where you eat it. The most important meal of the day is the one we share.
- **Professional development**: The best professional development is personal. What better way to say, "We

appreciate you" than to give employees the opportunity to grow themselves professionally and personally? You don't have to dedicate a whole day to it like LinkedIn does, but think about what your company already does for professional development, and add in the personal touch necessary to make it a ritual.

- **Taking breaks**: Rituals that help us pulse our attention make us more productive. Whether it's a one-minute dance party, a few pushups, or a walk around the block to get some air, regular breaks are good for the health of your people and your business.
- **Recognition and milestones**: It's only human to want to feel seen and to feel recognized. Whether it's once a year or every week, rituals are an important tool in the human workplace to reward performance, celebrate milestones, and connect individuals to the collective.

Perform a rituals litmus test to see—are they, in fact, rituals? Are the Three Ps at work?

- Do they provide Psychological safety?
- Are they linked to Purpose? If the first two are a yes, then you can be sure that your ritual is Performance-enhancing.
- Finally, would people Protest if it went away?

If you don't have rituals, then what? Look for opportunities for rituals through the employee lifecycle in these ways:

- If you want to create rituals, start with your company values. It's the best way to make rituals feel authentic and organic within your company.
- Remember that rituals can be top-down or bottom-up, so ask your team for ideas.
- Be willing to scrap rituals that aren't working, feel inauthentic, or feel like a box check.

The world of work is always changing. But human beings' needs remain the same. After food, water, and shelter, we need each other. Rituals, as the stories above show, are just the thread to sew us close.

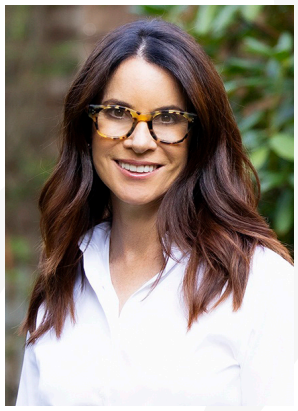
In other words, this rituals business is not just a feel-good exercise. When we're engaged at work—through rituals, through connection, through psychological safety and purpose—we outperform those who let go of the rituals and traditions that keep us connected and feeling like we belong.

Whether you're facing a team, a global company, a day in your life, or an incredibly awkward task, rituals can turn your everyday routines into magic.

Once you experience the power of rituals for yourself and your company, you won't stop believing.

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  by Joe Bertotto



Erica Keswin is a best-selling author, internationally sought-after speaker, and founder of the Spaghetti Project, a roving ritual devoted to sharing the science and stories of relationships at work. She helps top-of-the-class businesses, organizations, and individuals improve their performance by honoring relationships in every context, always with an eye toward high-tech for human touch. Erica was named one of Marshall Goldsmith's Top 100 Coaches in 2020, as well as one of *Business Insider's* most innovative coaches of 2020.

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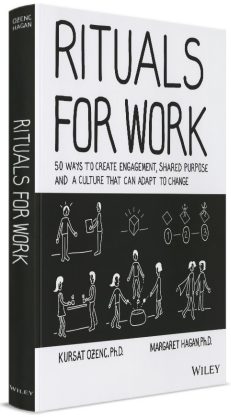
Rituals for Work

Kursat Ozenc, Ph.D. and Margaret Hagan, Ph.D.

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Rituals for Work

50 Ways to Create Engagement, Shared Purpose, and a Culture That Can Adapt to Change



by **Kursat Ozenc, Ph.D. and Margaret Hagan, Ph.D.**

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THE SUMMARY IN BRIEF

Rituals for Work shows how creative rituals can make our personal and business lives more meaningful and rewarding. Rituals are powerful tools: They reinforce good habits, motivate personal and professional achievement, create a common bond between co-workers, and build shared values. They can transform an organization's culture and provide a foundation to achieve common goals.

A ritual is only effective when its purpose is clearly defined. This book goes beyond simple analysis to provide actual recipes for individual rituals designed to promote specific habits, change negative behaviors, and instill values. Each ritual can be adapted to achieve a multitude of goals and tailored to fit your organization or team's specific needs.

An informative and inspirational resource for executives, managers, team leaders, and employees of every level, ***Rituals for Work*** provides a blueprint for building a culture of engagement, innovation, and shared purpose for organizations of all sizes, across industries.

IN THIS SUMMARY, YOU WILL LEARN:

- To change behaviors, form positive habits, and define shared goals.
- To build shared values, foster innovation, and encourage strong teamwork.
- To deal with conflicts effectively and engage others to find resolutions.
- To learn the fundamental concepts of ritual-building and share your knowledge with your team.

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Why Bring Rituals into Work?

Companies and people face big challenges at work today. There are low levels of employee engagement, high levels of stress and fear, inhuman environments, and failed reorganizations. These problems at work require a multifaceted set of strategies to make more human-centered, values-driven, and creative workplaces.

Rituals can be one powerful strategy to improve our work lives—and help us act more like we aspire to be. They are practices that can bond people together, help us move through conflicts, amp us up to better performances, and assist us in adapting to change.

Rituals are actions that a person or group does repeatedly, following a similar pattern or script, in which they've imbued symbolism and meaning. They have unique factors that elevate them above normal experiences. Unlike a routine, rituals are not mindless. They are done with people recognizing that something special is happening that they are tuned into.

They involve some physical movement. There is usually a patterned rhythm of people moving that activates a sense of something special going on. There are symbols at work. They could be props, words, or actions that represent something bigger—usually a higher value. These symbols invoke a sense of the extraordinary that transforms the average into the special.

A good ritual tells a story, which often helps a person make sense of something that is going on, figure out what it means in a bigger picture, and deal with it.

Often, the culture of an organization is set by talking in the abstract. This could be through writing down a manifesto, core principles, or a constitution. Rituals are ways to bring these big, abstract ideas into daily practice. By default, they involve physical actions and concrete behaviors. A good ritual will take the underlying values and intangible beliefs of a company—all these valuable, invisible things—and make them visible, interactive, and lively real-world practices throughout the organization.

Part I: The Power of Rituals

Rituals for Better Work

Rituals give order and meaning. Foundational studies of rituals emerged out of the work of sociologist Emile Durkheim. When he studied religion, he discovered rituals as a central backbone to how belief systems operate. Rituals make beliefs concrete and graspable for people. People gravitate toward the function and structured behavior that rituals offer. This structure brings people a sense of things being in their control and a sense of meaning.

Rituals also give people a safe space to experiment. Anthropologist Clifford Geertz found that when people act out rituals, they can jump from what the "real" world is to another one that is more ideal. Rituals let people imagine other ways of behaving and living, taking a break from their everyday rules and routines. They give people safe, structured zones to build better ways of living.

A recent review of scholarship on rituals found that the actions of physically going through rituals help people feel satisfied. The ritual actions regulate people's emotions, keeping them calm. Rituals also regulate people's performance, helping them to act in a steadier and more focused way. Finally, rituals regulate people's sense of belonging, giving them a stable feeling of social connection.

Rituals involve four key principles:

- **Principle 1:** Rituals have a magical, je-ne-sais-quoi factor.
- **Principle 2:** Rituals are done with intentionality, with the person tuned into this being a special moment.
- **Principle 3:** A ritual carries a symbolic value that gives a sense of purpose and that's beyond the practical.
- **Principle 4:** A ritual evolves over time to better suit the people and the situation.

How to Bring Rituals into Your Work, Team, and Organization

You may have a hunch that rituals could make a difference in your work life—that you could have better ways of working day to day, that you could improve how your team functions, or inspire a better sense of community. As you think about which specific ritual might work best for your situation, there are some key mindsets to adopt—those of an anthropologist and those of a designer.

- **Anthropologist:** Be a keen observer of situations as they exist. Spot where there are sparks of "meaning" that already occur. Tune into when people are talking about their values, beliefs, and goals. And articulate people's everyday routines and aspirations.
- **Designer:** "Everyone designs who devises courses

Set a context for people to do the ritual in their own way, so they are supported with a structure but are allowed to decide exactly what it is and how to do it.

> of action aimed at changing existing situations into preferred ones," writes Herbert Simon, the Nobel Laureate, in ***The Sciences of the Artificial***. Embrace the designer role by trying new experiments to see what works—and by using your existing materials, like routines, spaces, and goals.

Here are several strategies to help you in deploying rituals:

Create a safe space. To bring rituals into a group, the most important thing is openness and transparency among participants.

Facilitate ritual design. To make your ritual successful, you need alignment and collective buy-in from your team members. Use design methods to facilitate conversations and create alignment.

Seed advocates. In every endeavor, you will have more interest from some who believe in the need and value of a ritual more than the others. Find those people and seed them inside a group.

Don't impose a top-down ritual. For a new ritual to take off, there's no way to command people to participate without sparking a backlash—and defeating the purpose of it. Instead, set a context for people to do the ritual in their own way, so they are supported with a structure but are allowed to decide exactly what it is and how to do it.

Don't call it a ritual. Particularly if you're trying to convince your colleagues who may be skeptical of culture-building exercises, you can simply do the new thing, or ask for them to humor you—without a formal label.

Keep it cheap and lightweight. You can create rituals without requesting a huge budget, arranging large time obligations, or putting too much effort into complicated arrangements.

Tap into the charisma of an instigator. Who in your organization has the ability to bring out others' creativity and playfulness? They should be involved in the launch. Find "early adopters," who are already keyed into doing things differently, and empower them to be leaders in the culture.

Don't mix it up with routine. Rituals can have routine qualities, but rituals are not routines. A ritual is an intentional act; it needs you to be present and committed when it's happening. Routines, on the other hand, are automated and often only get recognized when they're broken.

Rituals can be a means to build up habits. That said, building a habit is not building a ritual. Rituals carry a core of meaning and values, which can help an individual or group to get motivated or regulate their emotions in order to build a habit.

Get beyond the "fun." Not all rituals are positive. Participants can go beyond just the most obvious rituals—which tend to be around creating "fun" energy and structuring the day. That means looking for low points in our working lives.

Make the rituals your own. Don't use the examples below as strict recipes. Adapt them to your own work culture by drawing from your own history, values, in-jokes, routines, and symbols.

Know they don't always live forever. Rituals are not always meant to be permanent institutions.

Don't overwhelm people at first. You have to introduce a ritual in "the sweet spot"—where the experience feels new but not too new.

Now let's look at a few rituals from each of the five types of workplace rituals: creativity and innovation rituals, performance and flow rituals, conflict and resilience rituals, community and team building rituals, and organizational change and transition rituals.

Part II: Rituals for Work

Creativity and Innovation Rituals

Creativity and innovation happen when people break the script and make non-obvious connections. Rituals can provide a structure for people to switch to a creative mindset and push the boundaries of the ordinary. They can also help teams develop a culture of experimentation.

The Daily Drawing. Use this ritual when you need to fire up your right brain right before creative work or any kind of serious work. Once a person sits down at their desk, they take out a card or a notebook sheet and then spend exactly one minute doodling anything they like. It can be something they will work on, something they are thinking about, or a random sketch. The only rule is that it must be a drawing and it must take one minute—not more, not less.

The goal of the Daily Drawing is to be loose and easy with creative work. Rather than start the day at the desk with the computer and emails, this ritual starts the day with a small creative challenge. It doesn't have to be good; it just has to happen. If it's done every day, it becomes a low-barrier activity to jumpstart creativity without too much thinking or planning.

The Surprise Ride Along. Use this ritual when you need to charge leaders with more empathy for users and find sparks for innovation. The Surprise Ride Along is a way to disrupt a project, with leaders whisked away from offices and boardrooms and into the field. They are challenged to set aside their preconceived plans and spend the day listening, watching, and observing the people the project is meant to benefit. It's a ritual that's about radical empathy and finding new paths for creativity.

The organizers should arrange the Ride Along like a surprise party—the team members shouldn't know it's coming, and they should think that they'll be going about work as usual. Then they'll be told that they're actually going to be spending the day shadowing a customer or serving as front-line staff.

The Ride Along has both a symbolic and functional purpose. The act of spending the day listening and observing should reinforce the value of empathy. And the face-to-face experience can catalyze better work by focusing leaders on specific problems and empathetic understanding of others' experiences. The Ride Along demands a high degree of planning, just like a surprise party.

The Skill-Share Fest. The Skill-Share Fest is a day off from the normal work routine, where team members share their maker skills with one another in a festive environment. Everyone can teach the rest of their team how to cook a certain dish, build something, perform a dance, make a craft, or some other skill that they've developed. It's structured like an "unconference" where individuals can set the agenda by proposing sessions they'd like to offer or those they'd like to attend.

The company Pinterest developed this ritual around one of their core values of "knitting." They run a Knit Con that lets all of the employees share projects and skills they've developed, so people can learn from one another and create new things. It's a way to encourage employees to bring their "whole self" to work and find hidden connections among team members—appreciating the talents they don't usually get to share at work.

Performance and Flow Rituals

Performance and flow rituals help people to deal with high-stakes work situations, cope with anxiety, and focus on getting to their goals. They can bring a sense of control in times of uncertainty—like during a big meeting, in the middle of a pitch or a trial, or when overwhelmed with too many deadlines.

Rituals' use of repetition and physical action help develop a sense of flow and confidence. Research shows that performing rituals helps people to regulate their emotions, decrease anxiety, and get into a flow state. Following the pattern of a ritual can also help people to block distractions and set rules for themselves about how to work better.

The Moment of Reverence. The Moment of Reverence is a short ritual that occurs right before an important event, meeting, or talk. It is taken from a hospital team practice at the Beth Israel Deaconess Medical Center. Right before a surgery begins, the whole team of doctors, nurses, and others stop what they are doing. They take a short moment to remember the person on whom they are going to conduct the surgery.

The goal is to ensure that everyone remembers the humanity of the situation. It's about breaking the routine procedures, pausing to recognize the importance of what's happening, and appreciating the people involved. The moment can also reinforce the mindfulness that everyone should be proceeding with—to encourage care, precision, and empathy.

At Beth Israel, before operating on a patient, the team pauses right after completing the pre-surgery checklist for a moment of reverence. The circulating nurse reminds everyone who the patient is, if they are someone's mother, father, sister, or brother, and to be considerate of the patient's needs. Everyone is silent during the moment. Once the set time is over, the team continues on with the medical work.

Six Daily Questions. Six Daily Questions is an individual ritual to remind yourself of your goals and life priorities on a daily basis. Business educator and coach Marshall

Goldsmith designed this ritual to keep himself focused on his primary goals. Every day, at the same time, he arranges for someone to call him. They ask him the same six questions every day (that he wrote himself, for himself):

- Did you do your best to set clear goals?
- To make progress on those goals?
- To find meaning?
- To be engaged?
- To be happy?
- To build good relationships?

The person on the other side just listens without judgment, and says encouraging words before hanging up. Behavior change is hard. It needs goal-setting, awareness, and a persistent attitude. Six Daily Questions is a daily reminder ritual to help individuals get there.

> Rituals can be strategies to navigate conflicts, to manage anger and frustration, and to move towards a more constructive relationship.

Silent Disco Thursdays. Silent Disco Thursdays is a group ritual for employees who want to do heads-down work without meetings and distractions. During a set time, everyone is silent and listening to their favorite music. The ritual is meant to rescue teams from meetings and the fatigue that comes with interruptions, distractions, and small interactions.

Every Thursday, employees who want to join can come to the silent disco area, grab their headphones, and do their work as if they are at a party. Just like at Silent Discos in other contexts, the central organizers can broadcast a few channels of music, and everyone can choose on their headphones which channel to listen to.

Conflict and Resilience Rituals

Conflicts are an inevitable part of work life—as are failures. Both can bring intense emotions and possibly destroy relationships. Rituals can be strategies to navigate conflicts, to manage anger and frustration, and to move towards a more constructive relationship.

Ideally, they can structure spaces for more candid, transparent communication—as well as personal resilience to deal with mistakes. They bring awareness, reflection, and mindfulness to increase people's ability to manage negative things at work.

Burn the Argument. Burn the Argument is a ritual to move people past a conflict that flared up. After a conflict has arisen among team members, have them release their emotional energy by symbolically burning their feelings.

Instead of hoping that the people will be able to move on after the argument, have them explicitly write down what they were arguing about and what their feelings are. Make sure that they hear each other's point of view. Once everyone is done, ask each person to silently reflect on how they might move past the argument. Give them one minute, and then ask them to let it go silently.

Then have them put these written-down accounts and emotions into a shredder—or have them tear them up. Then, combine their scraps together, and burn them in a heatproof container. The goal is to have the symbolic actions translate into real forgiveness, in which the people agree to move forward and to acknowledge each other's points of view.

No Rehash Rule. If, during meetings, there's a tendency for people to circle around the same complaints or discussion topics, the No Rehash ritual is a small prompt to move past them.

The ritual is a short one, built around a No Rehash rule that you must establish in your organization. During a meeting, anyone is empowered to invoke this rule when they feel the meeting is being derailed or getting repetitive. They can hold up a "No Rehash" paddle, card, rubber chicken, or other symbol. They don't need to say the word—the action should be a signal for the people talking to come back to the point and to leave the topic that has been exhausted.

The ritual should be a short, humorous reminder to keep meetings more focused and to let people feel they are able to cut off unproductive lines of conversation in a direct but not confrontational way.

The Small Moments Jar. The Small Moments Jar helps teams build a healthy culture by instilling a habit of recog-

nizing contributions of all shapes and sizes. When a teammate does something great—whether it's helping out on a deadline, giving a great presentation, or bringing in fancy cupcakes—another teammate can write it down on a small slip of paper and put it in the jar. The jar should be emptied regularly, such as at the end of the weekly all-hands meeting.

The Small Moments Jar should be integrated into the team's day-to-day, with a low threshold of what can be recognized. The jar should grow week to week, with all kinds of small appreciations. After there are at least 25 to 30 notes in the jar, you can start pulling notes out to feature them. The trigger to open them could be a weekly meeting, a team lunch, or another regular activity where everyone is together. The goal is to spotlight small, positive moments.

Community and Team Building Rituals

A community ritual can help build a shared identity through symbols, stories, and history making. These then can become reference points for people to draw on core values and feel connected.

Rituals can also be key for better meetings. They can bring humor, surprise, and meaning to routine work, to bring the best out of co-workers. They can help bring people into sync, get more productive, and build stronger empathy.

The Remote Holiday Party. Holiday parties are not easy to run when team members are in many different locations. The Remote Party is a ritual meant for distributed teams, so that people can get to know each other and relax together virtually. It's a way to develop work relationships beyond just connecting around work videos or conference calls.

When it's holiday season, the facilitator can set a holiday party deliberately for distributed teams. They will set a theme and schedule a party time where everyone can join comfortably, across different time zones. The celebration can be structured with in-person time to mingle, eat, and drink—and then times for virtual connection for gift exchanges, awards and thank yous, and other more formal activities.

Depending on the level of technology, there can either be videoconferences set up inside a party room—for whole groups to be calling in to other groups—or it can be individual to individual. The facilitator should set up a shared music list, so that the different offices can play music for each other. If they want, they can also encourage people to dress up in special clothes.

Walking Meetings. The Walking Meetings are a simple ritual that has people walk together, along a route, when they are trying to talk through a problem or brainstorm new ideas. It shifts typical meetings or seminars from static, sedentary face-to-face gatherings to side-by-side active experiences.

A Walking Meeting is particularly powerful if a group has been in a long conference or working session, sitting with their computers in front of them for a long stretch. By changing how people are arranged, giving them a common destination, and having them walk alongside each other, the group can develop new connections and gather more inspiration during the meeting time.

Research shows that walking boosts creativity and convergent thinking. As people move in sync, their minds can also synchronize as well. Walking together can foster bonds between people. And when moving side by side, rather than facing off across a table, people can operate with less hierarchy and develop more peer-to-peer conversations.

Our Year in Pictures. This ritual adapts a family photo wall to an organization. It creates a visual shared history of the people in the organization. At the end of the year, for a holiday party or otherwise, the team shares photos of the past year.

These images can be from work events, parties and offsites, screenshots of their daily computer life, or pictures of their work product. Everyone must share at least one photo. One person, with graphic design skills, then takes the images and assembles them into a huge collage poster. They can either print it out as a large poster to be framed and hung up, or even as a large vinyl wall covering to take up an entire wall. The visual can help form work into a narrative and also bring a sense of family to the organization.

Organizational Change and Transition Rituals

Individuals, teams, and organizations have life cycles, just like in our personal lives. At work, there are arrivals, departures, mergers, advancements, divorces, retirements, demotions, and more.

During all of these transitions, rituals can be an effective way to help people deal with change. Rituals can give people back a sense of control, helping them make sense of what's happening, get used to new roles and routines, and maintain stability during times of change.

Crash the Desk. Crash the Desk is an onboarding ritual for a new employee's first day of work. While the person

Rituals can give people back a sense of control, helping them make sense of what's happening, get used to new roles and routines, and maintain stability during times of change.

is away from their desk on a tour or lunch, all of their new teammates leave a personal item on their desk. Then, when the person comes back and discovers their desk full of objects, they must go around with each item to find who it belongs to. When they find the right person, they can chat about what the object means.

This ritual is a welcome tour mixed with a game. It structures a way for a new person to interact one-on-one with different team members, so they can begin to build relationships and don't feel that there's a one-against-many dynamic.

Smashing the Old Ways. Smashing the Old Ways is a ritual ceremony for an organization to officially break from a previous strategy or a dysfunctional practice. In it, the leadership calls the organization together. It sets up a stage where some big, breakable symbol of its "old, dysfunctional ways of working" are set up. Then, when people gather together, the leaders announce, "We are going to destroy these together."

Each person gets a turn with a sledgehammer to smash the old thing. It's like a piñata game—collectively destroying the thing until it's in smithereens. This is adapted from a Zipcar ceremony, in which employees were invited to smash desktops to reinforce the push for a mobile-first business.

It marks the transitional moment, from one large-scale company strategy to another one, in a strong way. Additionally, it creates a cathartic moment where the negative energy and anxiety about change can be released through controlled destruction. It's also a story for people throughout the organization to hold on to and tell others.

The Name Seeker. Name Seeker is a naming ritual for a temporarily formed project team. When people come together for a short collaboration, often it's hard to get them to feel like they share an identity or to get them to invest in the team.

This ritual has new teammates kick off their collaboration by picking a name together, using their favorite books. They randomly choose words from the books and then work together to make them into a name and form a shared story around the name.

The key of the Name Seeker ritual is to get teams to create a name together that will not last forever but that will work for as long as the temporary team is operating.

Part III: Designing Rituals With and For Teams

After reading about other rituals, perhaps you are interested in creating one that would fit your context and goals. The basic process of creating a new ritual has three big phases: Discovery, Design, and Deployment.

In the Discovery phase, you explore potential moments, inspirations, and intentions that could be at the heart of your ritual. Then in the Design phase, you switch to experimenting with various elements to create the right experience. In the Deployment phase, you think more strategically, about how to roll out your ritual so that it is nimble, low-barrier, and likely to be adopted and adapted by your community.

Step 1—Discover: Set Your Intention. Set an intention to be at the heart of your ritual. What is the point that you want it to make or the emotion you want it to embody? An intention can be based on your or your organization's values, beliefs, goals, motivations, or aspirations. For example, it could be about being a better colleague, inspiring more creativity on your team, or creating a sense of welcome to new employees.

Step 2—Discover: Find a Hook. A trigger is an opportunity moment around which you can build a strong ritual. Some triggers might be when a colleague gets promoted, a product is released, a team kicks off a project, a conflict arises, or a product fails. Once you identify the trigger context, pick a specific situation within this larger context to anchor your ritual. It could be at a weekly meeting, at a coffee break in the lounge, or at a goodbye dinner. This specificity of time and place will make your ritual more likely to stick.

Step 3—Design: Ideate. Brainstorm ritual ideas that would bring your intention to life. Ideally, you can do this with others, to combine your insights. To get inspired, try ritual-specific prompts that draw on what we know from

scholarship about what works, like drawing from Isabel Behncke's work on social technologies:

- **Prompt 1:** Share food and drink.
- **Prompt 2:** Use special costumes—especially things on your head.
- **Prompt 3:** Involve rhythm and movement.

Step 4—Design: Define a Symbolic Prop or Act. After a first round of brainstorming, see if there's any key moment and symbolic prop or act that you can build your ritual around. There are some exercises that can help you iterate upon your initial ideas.

- **Iteration 1:** Add a magic prop—give extra powers to a prop for your ritual. For example, for an athlete you could give the sneaker a special aura.
- **Iteration 2:** Add a reward moment—of physical, emotional, or social payoff.
- **Iteration 3:** Add a catharsis moment—that would be a particular action to release negative emotions and energy.

Step 5—Design: Refine It into an Arc. A good ritual has a narrative arc with a beginning, middle, and end. Take your selected idea and make it into a full arc. You can do this with storyboarding, drawing out the new ritual in steps. Try to refine the ritual based on the ritual principles mentioned above.

Step 6—Deployment: Act Out. Now act it out, to test whether the ritual works in practice. This will be like a second round of brainstorming—but less intellectual and more physical. By acting it out—and taking it as an improv project in which you can change exactly what you're doing—you can refine your ritual into something that feels comfortable, playful, and meaningful.

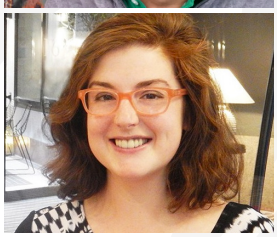
Step 7—Deployment: Codify. Define the essential script and props, and detail the arc's beginning, middle, and end. List your intention and context trigger to make it complete. Think about how best to involve others and scale up your idea into regular practice. Be open to your designed ritual being adapted. It's an experiment that may fail to catch on in its original plan, but people can improve upon it to make it the right fit for their work life.

We spend so much of our lives at work—whether in a big company, a small startup, or on our own projects. But how much do we invest in making our work lives better? When it comes to our relationships, our creativity, our focus, our life transitions, and the ups-and-downs of our organizations, rituals can help create a more intentional, connected, and meaningful work culture.

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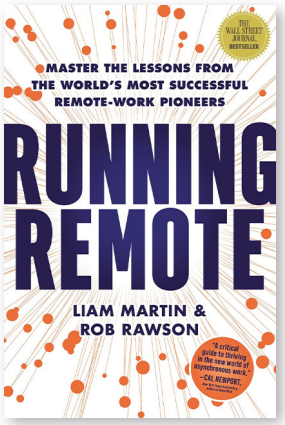
Running Remote

Liam Martin, Rob Rawson

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Running Remote

Master the Lessons from the World's Most Successful Remote-Work Pioneers



by **Liam Martin & Rob Rawson**

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THE SUMMARY IN BRIEF

It's no secret that the world has gone remote in the steepest, fastest, most disruptive way imaginable. But where and when people work are not even half the story. That's why this book isn't merely about remote work. It's about a whole new way that any company can work. It unveils a philosophy and methodology first discovered and developed by organizations well before COVID-19 hit. These organizations were the first to embrace the remote challenge, posing a simple question: What if you could work with people all over the world, but you could never meet with anyone in person?

The answers they uncovered were groundbreaking, counterintuitive, and will likely transform the way we work–that is, the way everyone works–for all time. The accent has shifted toward the centrality of deep focus–the stuff that creates productivity, clarity, measurability, scalability, and yes, even human happiness. The rapid adoption of the Async Mindset is not just a trend, it's one of the major reboots in human history. In ***Running Remote: Master the Lessons from the World's Most Successful Remote-Work Pioneers***, organizations will learn how to take this giant leap toward greater work sanity for everyone.

IN THIS SUMMARY, YOU WILL LEARN:

- Three principles of the Aysnc Mindset
- Why this time marks the end of cities
- How to hire and on ramp the remote worker
- How to transition from colocating to remote

Part I: The Spaceless Office: Mastering the Fundamentals

Lies We Learned in Silicon Valley

For the last decade or so, many organizations have operated under a few "soft" but not unharmful myths that grew out of Silicon Valley. Here are just a few:

The Myth: Workers are granted maximum freedom by instilling a culture of previously unheard-of perks like nap pods, snacks, self-focus time, and the like.

The Truth: Perks aren't culture or true freedom. Real autonomy recognizes the individual's sovereign and unique needs and wants–no matter how personal or specific. There are as many different human situations as there are humans.

The Myth: Interconnected Silicon Valley culture boosts creativity by affording workers more time to play and interact with one another outside the realm of actual work duties.

The Truth: Water coolers don't spark creativity, individuals do. Lounge culture is not only less effective than previously imagined, it can prove to be the undoing of an otherwise strong company by setting up a petri dish of uniform thinking and entrenched office politics.

The Myth: Remote work means unhappy employees and deteriorating productivity.

The Truth: Autonomous, asynchronous work delivers both quantifiable employee satisfaction and measurable growth.

It should go without saying that these Silicon Valley myths are no longer trendy news. They've become dangerously entrenched. But once you get the myths out of the way, it's possible to understand just what makes the Async Mindset different.

Asynchronicity fosters a true culture of cooperation, respect, and self-respect. By cutting out long commutes and fast-food lunches, remote work has the power to bring greater health to everyone involved. It also grants each team member the time and space to put their life focus where they want it, when they want it. But most important, the Async Mindset encourages each person to explore, embrace, and reveal his or her truest self. That's a perk beyond measure.

Remote-first founders and companies in transition have encountered every frustration there is. The remote pioneers discovered the hard way that remote work and on-premise office work are not parallels.

If you're trying to recreate the office, you've already lost.

To thrive in a contemporary, digital context, you need to throw out almost everything you know about what makes an on-premise office tick. You must make a mental shift to build a successful remote team.

This fresh mindset is rooted in three reliable, recurring, and overlapping principles: *deliberate, purposeful communication*; *democratized, open processes*; and *detailed metrics*.

Deliberate Async Communication

As even first-graders now understand, all work communication can be divided into synchronous and asynchronous activity. However, even many sophisticated grown-ups can barely grasp the powerful but subtle differences between these two modes. Those steeped in the traditions of face-to-face, workplace communication are especially prone to get it wrong.

Deliberate communication is a whole lot more than just choosing to go sync or async. Being deliberate means infusing every form of communication with intentionality and purpose–and that requires deep focus.

Most people instinctively prefer synchronous communication or at least think it's better. After all, humans are, at their core, synchronous beings. We move through space *in time* facing all the inevitable distractions that real life delivers by the second.

Paradoxically, though, it is this very unorthodox state of being that makes asynchronous activity so special and so useful from an organizational standpoint.

As author Cal Newport brilliantly argues in ***Deep Work: Rules for Focused Success in a Distracted World***, the really meaningful work can only be done by working deeply–in a state of high concentration, without distractions, with all your energies hunkered down on a single task. For people to achieve the extended flow state of deep work, they'll need an environment that subtracts as much "normal life" as humanly possible, while keeping present all the tools necessary to accomplish their task.

The great pity of it is that most synchronous communication between workers–in other words, the vast majority of interruptions–can and should be consumed asynchronously.

Synchronous, on-premise work life is a distraction machine, a brutal chain of false starts that destroys the flow of every individual, all day long.

Metrics, presentations, updates, and even brief messages are all much better on your time, when you're ready. Synchronous, on-premise work life is a distraction machine, a brutal chain of false starts that destroys the flow of every individual, all day long.

Async demands maximum informational granularity, recorded for all time. Deliberate async communication is directly related to open, democratized processes, because it can allow multiple players to participate, edit, rethink, and spot-check one another's work, moving a process toward maximum accuracy.

It may be better–sometimes–for blue sky creativity and group problem-solving, but when productivity is at stake, synchronous communication is rarely preferable. Moreover, it often comes with a heavy price–power-mongering, micromanagement, office politics, and snuffing out of valuable input. Here's the cold, hard truth: Communicating synchronously is mostly a big waste of time.

Democratized Workflow–The Power of Process

The promise is this basic: the Async Mindset leads to nothing short of virtual, autonomous meritocracy. For this meritocracy to function, however, strong *process documentation* is required at every level. The term may sound dry, but it does not mean mere "rules" or musty "guidebooks" of the old-style office variety. Process documents are a living, growing thing, an all-hands-on-deck work-in-progress that opens channels of communication and makes way for healthy remote functionality…and serious growth.

In fact, one of the greatest remote pioneer discoveries is this: The more dialed in your process, the fewer emails and meetings you actually need.

By conceptualizing a company remote first, the trailblazers learned to streamline the chain of events that makes an organization most productive, eliminating everything that made office life wasteful, dreadful, and drudgeful along the way. It's important to note that process is itself a form of over-communication. But laying out the minutiae helps free each of us to use our processing power to focus on more complex problems and get the work done right. In a nutshell, process is the ultimate "ounce of prevention that's worth a pound of cure."

Processes free up the organization for creativity. Once you've thrown a lasso around everything that's repeatable, you're ready to grow. Process is not just about the lines of digital communication, it's about the way your company translates directives into real-life action. In remote-first organizations, all knowledge is recorded and categorized, so that any single individual can consume that information and perform any role in the organization, without synchronous explanations of any kind.

Building processes is a unique adventure for every department of every organization, but some basic principles guide the way.

- Discover: Ask questions, explore, observe, research
- Design: Do it once for yourself, write it down thinking of and for others
- Deploy: Test, apply, use, get feedback
- Debug: Refine, review, re-apply, re-discover

Detailed Metrics–Multidimensional Proof

One die-hard principle the remote pioneers all agree on: Setting and measuring crystal-clear KPIs are at the heart of remote sustainability. In fact, remote work has changed the very definition of metrics, because–counterintuitively–it takes vivid and specific, quantitative directives to set workers free from their managers, so that they can perform at their best.

The remote difference is that metrics do not merely function as "grades" or "scores"–they are the signals for instantaneous understanding of the situation at hand. When your data is in order, you can act accordingly inside a week or even a day versus a month or a year, course correcting where necessary while becoming much more nimble than your competitors.

The outcome of all these hard measures is that old-school management metrics like yearly reviews and generalized

feedback are rendered even more redundant than we already knew they were. In the optimized remote environment, every activity is now its own review, and you know where you stand long before some middle manager tells you so.

Every individual contributor inside a company should know exactly what his or her performance is without having to talk to a manager. If someone is unclear about the target or unclear about how quickly to get to that target, both manager and employee have failed.

When you're asynchronous and remote, metrics are the only thing that can differentiate your performance from the performance of others. Charisma doesn't matter, looks don't matter, office politics don't matter. The only thing that matters is how well you perform on your metric–it's the ultimate meritocracy.

Traditional companies usually don't have actual metrics. They have tertiary data or conversations about metrics. Real metrics, when set properly, require no explanation. You can't talk your way out of bad numbers when you're facing remote-first metrics.

You must absolutely free yourself from explaining your metrics. If you have to extrapolate from them, then they are either not simple enough to understand, or, even worse, they're likely vanity metrics–useless puffery that you'd be wise to get rid of anyways. The way async works is different.

Every single person in the organization must have at least one metric that they report on weekly. Not biweekly or monthly or seasonally. It's got to be weekly. Every single one of those reported metrics must have an intended target with a significant chance of failure.

The most important job of a remote-first manager is finding the right metric. Once you find the right metric, you've got your instrumentation to get the company where it needs to go, and the meaning is nonnegotiable.

Which leads to another key dimension: Every metric is quantitative in measurement, not qualitative. "Write a book you feel will help people transition to an asynchronous work style" is not a strong metric. "Writing a book that consistently gets a 4.5 star rating or higher on Amazon" is better.

A metric in its purest form need never be discussed–it is simply reported. If you need to course correct going forward, so be it, but the data is the data.

Every team member in a department needs to be responsible for presenting his or her own metrics and reading the relevant metrics of others each week. If there is a corollary issue that's stopping you from achieving your metric, you must bring up that issue, separately and preferably asynchronously, with a request for the help or resources you need to get your metric on track. In other words, let the metric stand alone, separate from excuses and reasons.

In addition to weekly reports, it's important for top brass to audit these metrics and ask themselves: *Is this really the most important thing we need to talk about inside this business, department, or team? Can two existing metrics be combined to produce a single, stronger indicator? Are there any vanity metrics measuring things we don't really care about?*

If you can't demarcate success or failure, then there is no point in having that metric. Good metrics don't happen by chance. This high-level clarity quickly divides the wheat from the chaff and bypasses the bad mix of vanity, charisma, and bruised feelings that make in-person work ambiguous.

Part II: The Timeless Team: Building Remote/Async Culture

The End of Cities

To be sure, the Async Mindset is not just a technical matter, or even just a work matter. In a development that nobody could have predicted even twenty years ago, the network of collaboration and company culture has moved into a totally digital realm, and the implications for cities–especially tech hubs like Silicon Valley, New York, Toronto, and Austin–are enormous. Just why do we hang on to the primacy of the city office anyway?

In the world of business, the push for innovation is constant–in products, in services, in brands and styles… but ironically, *not in work itself*. For all its great strides and advances, Silicon Valley's business model is fundamentally flawed, in no small part because it is highly dependent upon a series of *homogenizations*: venture capital funding, uniform culture, top-down thinking, and the never-ending yearning for a big exit. This deadly combo sets the tone.

VCs would not invest in remote-first companies because they believed that the only way to build tech unicorns is to have the entire operation under one roof. Fast-forward ten years, and VCs are now tripping over themselves, investing in remote-first companies. They finally discovered that, yes, you really can build and scale a business *not* under one roof.

No longer can you attract top talent through expensive lunches and swankier offices. The Silicon Valley Epoch has served its historic purpose.

Keep in mind–the VCs didn't embrace the Async Mindset because it finally seemed fun to them. They learned that it is very quickly becoming the only viable model for what they love most–hyper-growth.

It might have once been true that you'd find the best people in San Francisco or New York, but no more. As the very highest-level talent leaves big cities, the new concentration of labor is in a place less easily defined–anywhere and everywhere. Several studies of the Silicon Valley exodus demonstrate the idea that no city is safe from labor loss, but consider the following: Remote work never loses labor due to migration.

What we're experiencing is not merely a seasonal variance. It's the transformation of a generation of workers who are willing to exchange less pay for greater sanity. With that in mind, employers will have to wake up to the changes or find themselves adrift. No longer can you attract top talent through expensive lunches and swankier offices. The Silicon Valley Epoch has served its historic purpose.

The word *global* might sound grandiose, but stepping outside Silicon Valley and putting your business in the cloud is simply the most obvious step a company can take to prepare for hyper-growth. If you need to hire fast, if you need to scale horizontally, if you need 5x or 10x on processes that are already in place, you need to "go out of town"–the planet will always have a talent capacity advantage over your home base.

On-ramping the Remote Worker

Among the many challenges of building and sustaining a remote work environment, none is more pressing than mastering hiring, on-ramping, and nurturing the new employee. Finding new employees and getting them onboard is no longer a job that an entrepreneur can leave in someone else's hands–old-school human resource models have proven ineffective for the kinds of organizations the remote pioneers built.

To draw in the best people, the remote manager or team leader must go past the usual criteria and understand each potential employee's unique life challenges, including time management issues, work-life split, higher goals, and more. Paradoxically, it's a process that's a lot more personal than the traditional hiring practice.

Obviously there's no single path to hiring remote, but the following are a couple of indispensable advantages to deploying the Async Mindset when you get down to business.

- **Remote allows you to search for the *most precise fit* imaginable.** Looking for somebody who has had exactly thirteen months of experience counting chickens and is also an expert juggler and a pescatarian? That person is likely out there and remote allows you to find and bring that person on board. Be demanding. You don't have to settle for "close enough" anymore.
- **Gazing at the employee's curriculum vitae won't give you even half the story.** Google them, figure out what they're really about, identify proof of work. Good work leaves evidence, and that evidence is almost always easy to find.
- **People are no longer looking for jobs, they're looking for projects.** Smart managers and workers alike know that projects can turn into jobs and even careers, but remote allows all involved to let the relationship grow at its own pace. Don't cling. Let the talent enter and exit your company as easily as possible.
- **Actively seek out self-starters who are ready to act independently without direction.** Employees who are dependent upon synchronous collaboration to complete their jobs generally won't survive in an async organization. It's a self-starter's game and the industrially needy are often weeded out quicker than they would be in an office.

To find remote workers and help them onboard, do the following:

1. **Build a pipeline.** Utilize job boards as well as your internal customers and friends of employees
2. **Implement an asynchronous job interview.** Al-

ways ask for a CV, but focus on the applicant's proof of work rather than explanations of previous roles.

3. **Invite your second round to a video interview.** Keep these video interviews brief as you should already know if the person you're interviewing can do the job before the interview starts. Synchronous meetings are where you try to find out who they are.

4. **Bring in a second interviewer to collaborate.** Don't discuss the candidates until you've both completed the process, so that you can separate signal from noise. If you both have the same conclusions, great. If you don't, you may need another round of interviews.

5. **Whenever possible, hire on a trial basis.** Hiring remote allows you to actually work with someone right away, before you really start to *work* with them. A few months in, have a "speak now or forever hold your peace" meeting with managers, stakeholders, coworkers and even subordinates to decide if someone is a good fit.

The very act of implementing remote work creates a bellwether within organizations. If you have somebody who's not doing the job, you'll find out far sooner that you would in a traditional office. That speed is doubled in the remote hiring process, where weak links can often be spotted before the person is even seriously considered.

The Perils of Going Remote...for Companies in Transition

Transitioning companies–those that have previously existed for some time in a colocation office–often find that going remote will be scary. Allow your organization and yourself to evolve into an Async Mindset, and you will see creativity, productivity, and profits grow faster than you ever imagined possible.

Often, the problem is that companies in transition focus on the wrong elements at the beginning. Their line of inquiry tends to reflect a basic misunderstanding about the nature of remote work and, by extension, asynchronous work.

Things like:

- What kind of tools are best for remote?
- How do you deal with conflict in a remote meeting?
- How do you make sure employees stay engaged?
- How do you build company culture in a remote team?

The uncomfortable fact is that these are the wrong questions to ask. When the pandemic pivot happened, there were three giant mistakes many made right out of the gate, all of them interconnected.

The first was not understanding how differently you must communicate in a remote organization. The second was continuing to manage by presence. The third was failing to recognize that the old-school manager has no place in a proper remote-first organization.

As so many of the remote pioneers agree, these companies have put the cart before the horse. A deep Async Mindset and methodology are the first things to work on.

If you don't get a handle on how it's done, you're probably going to get blown right out of the twenty-first century marketplace. From a helicopter view, here are the broad elements you'll need to master for a sound, remote-work transition:

1. **Build an asynchronous communication model before you get started.** How can you annoy your team less so they can do more? It's a question you should be asking yourself ten times a day.

2. **Poll and align your entire team, front-loading them for working in an asynchronous model.** Get everyone on the boat by showing them the real value of the process.

3. **Build and digitize all of your company's processes**. This is tedious at the onset but is the only way to achieve scalability in an office or not.

4. **Develop a reporting structure that allows all workers to report their core numbers to everyone in the organization.** Empower employees with all the data at their fingertips so they can all think like an owner.

5. **Heavily reduce or cancel all meetings about metrics.** Meetings should discuss issues that come out of the numbers, not a place to discuss the numbers.

6. **Measure the rate at which your employees embrace all the adjustments that async work entails**. Provide course corrections as quickly as possible.

The autonomous organization is intertwined through communication, process, and measurement. Regardless of role,

every party is connected to the whole. By being radically transparent and measuring everything inside the organization, and then giving back those measures to everyone, every party is empowered to make independent decisions that move the operation forward.

Going forward, every job that can be made remote will be. It's an operational technological inevitability. It's cheaper, faster, clearer, and smarter.

What this means for the future of work cannot yet be known, but at the very least, it must be accepted that the global landscape is changing, very fast. The old office is just that–old–and it's slated for extinction. The world and its myriad companies are going remote, without a doubt.

Will you be on the winning side or the losing side? That all depends on your willingness to let go of the old ways.

Work is no longer a place–it's something you can take with you, wherever you go. Top-tier talent are becoming digital nomads en masse. They will no longer be set up in one city, state, country, continent, or hemisphere. The sooner you get used to it, the better.





Liam Martin is Chief Marketing Officer at Time Doctor. As the mouthpiece for Time Doctor, Liam has become a remote work ambassador of sorts, featured in Forbes, Inc., Entrepreneur, Business Insider, and Fortune. He speaks at conferences around the world, including SXSW, SaaS Stock, Nomad City, HR of Tomorrow, and The Digital Workplace, and he's consulted with more remote first-founders and operators than probably anyone on the planet. Rob Rawson is Chief Executive Officer of Time Doctor, a workplace solutions firm focused on allowing customers to build distributed teams that can work wherever and whenever they want, so the business can focus on allocating their office-running costs elsewhere.

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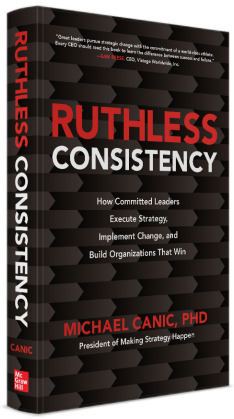
Ruthless Consistency

Michael Canic

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Ruthless Consistency

How Committed Leaders Execute Strategy, Implement Change, and Build Organizations That Win



by **Michael Canic, Ph.D.**

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THE SUMMARY IN BRIEF

According to *Harvard Business Review*, "most studies still show a 60–70 percent failure rate for organizational change projects—a statistic that has stayed constant from the 1970s to the present." When all is said and done, a lot more gets said than done.

In ***Ruthless Consistency***, author Michael Canic identifies the three surprising reasons most strategic change initiatives fail: Leaders unwittingly send mixed messages that demotivate their people and undermine those initiatives. Leaders focus on what they do instead of what their people experience. Leaders are not as committed as they think they are or need to be. The antidote to these problems? Ruthless consistency.

Following this principle, Canic introduces an intuitive yet comprehensive model for success. Simply put, leaders who develop the right focus, create the right environment, and build the right team—consistently—are leaders whose organizations win. ***Ruthless Consistency*** is a must-read for every leader who wants to implement change successfully.

IN THIS SUMMARY, YOU WILL LEARN:

- Three principles you need to succeed.
- To stop strategic planning and embrace strategic management.
- How to be a coach, not just a manager.
- To overcome the three enemies that undermine commitment.

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Introduction

When All Is Said and Done, a Lot More Gets Said Than Done

If you want to play the odds, bet on failure. That's what's likely to happen when you execute strategy or implement organizational change. Published failure rates for strategic planning, for example, range from 70 to 90 percent.

It's not just strategic planning. The same is true of any strategic change initiative (SCI). Mergers and acquisitions? Up to 90 percent fail. Lean Six Sigma? Between 60 and 90 percent fail. Software and systems projects? Over 70 percent fail.

And how costly is all this failure? For IT projects alone, the worldwide cost has been estimated at up to *$3 trillion* a year.

It gets worse. When SCIs repeatedly fail, you create a track record of failure. You create an expectation of failure. You create an acceptance of failure. And you create a culture of failure. Failure becomes the norm.

You might be thinking, "Hold on. It's not like our efforts have been a total failure. We've made progress. We've gotten some things done."

That's it? That's your reaction? And you're the leader?

The tragedy of repeated failures is how they poison organizational culture. It becomes easy for people—starting with you—to rationalize anything other than success. And it becomes all but impossible to get people to believe in and support the next SCI. The culture of failure becomes self-perpetuating.

Bad News and Good News

If you've decided that this travesty has to end, and you're intent on getting to the root of the issue, then take a look in the mirror. It's you. It's what you as a leader haven't done but need to do to execute strategy, implement change, and build an organization that wins.

Here's the good news: There are principles to help you win. But you have to supply the commitment. It won't be easy and it won't happen overnight. Anyone who tells you otherwise either is lying or hasn't lived it.

Let's start with three surprising principles you must embrace to succeed.

Part I: The Reality

Most SCIs fail, but why? It's because leaders don't have a complete picture of reality: what it takes to execute strategic change, their role in making it happen, and the level of commitment required.

If you're fed up with failure, then first you need to understand the reality of why things fail.

First Principle: What Matters More Than Anything You Do Is Everything You Do

The difference between success and failure is ruthless consistency. It turns out that's true not just for continuous quality improvement; it's true for any SCI. Successful implementation requires more than just a pinch of training, a dash of resources, and a dollop of communications. It requires a systematic approach to aligning *everything* with the desired outcome. Everything matters. The whole truly is greater than the sum of its parts.

Think of it this way. It takes only one misaligned wheel to make your car undrivable, one misaligned vertebra in your back to incapacitate you. One misaligned element in any system can undermine everything.

Ruthless consistency is the key to implementing strategic change.

Saying that everything needs to be consistently aligned is one thing, but doing it is another. To be ruthlessly consistent you have to do three things: Develop the right focus. Create the right environment. Build the right team. Continually. That's it. Every SCI always comes down to those three things.

Developing the right focus means identifying and articulating why your organization must change, what you intend to achieve, and how you intend to achieve it. Creating the right environment means aligning every organizational touchpoint, so that your team can and will execute on the right focus. Building the right team means securing the right collection of talent to make it happen.

But let's be clear. Ruthless consistency does not mean robotic repetition. It's not about mindless and mechanical activity performed without variation simply for the sake of being consistent.

Ruthless consistency means that everything you do—as creative and innovative as that might be—is consistently aligned with your purpose, your intentions. Ruthless consistency not only allows for creativity and innovation, it

> If there's one thing to sear into your mind about leadership, it's this: It's not about you. It's *through* you.

demands it. Why? You're operating in an ever-changing environment. New technologies emerge. Customers' needs change. Processes become obsolete. Practices get stale. What made your organization successful in the past could kill it in the future. Creativity and innovation are requirements of ruthless consistency, not enemies.

Second Principle: What You Do Is Not as Important as What Your People Experience

Leader thinks he does a good job communicating. Employees think otherwise. Leader concludes that communications aren't the problem; employees are the problem.

Reframe your thinking. It doesn't matter that you're telling if they're not hearing. Just like it doesn't matter that you're training if they're not learning, or that you're empowering them if they don't feel empowered. What matters is what they perceive, what they believe, and what they feel.

Why? They're the ones doing the real work. They're providing the service; they're making the product; they're engaging the customer. Implementing strategic change depends on them. Ultimately, it's not about you. It's about them.

To be fair, we haven't been trained to view the world from our employees' perspective. We've been trained to view it from a leader's perspective. Countless books have been written, presentations delivered, and workshops conducted on leadership: what great leaders do; how great leaders became great leaders; how you, too, can become a great leader.

Yet, if there's one thing to sear into your mind about leadership, it's this: It's not about you. It's *through* you. What you do is validated only by what they experience and, as a consequence, what they do.

For people to do what you need them to do and perform at their best, first you have to understand their perspective. Ultimately, this is about empathy. Seeing through their eyes. Thinking in their minds. Feeling with their hearts. And then taking the right actions.

Third Principle: You're Not as Committed as You Need to Be . . . Yet

It's one thing to say you're committed and another to be committed.

Think of a failed SCI you've experienced. Now, write down all the reasons why it failed. Be brutally honest. Were you as committed as you needed to be to successfully execute that SCI? Did you set specific goals? Did you regularly communicate them throughout your organization? Did you communicate why you needed to achieve them and how you intended to achieve them?

Did you provide your people with the knowledge and skills needed to achieve the goals? With sufficient resources—materials, budget, and time? With sufficient authority to make decisions and take action in support of the goals?

Did you provide them with ongoing feedback and guidance about their performance? Did you recognize and reinforce them for the right behaviors and right outcomes? Did you hold them constructively accountable when needed?

Did you redesign whichever processes needed to be redesigned in support of the goals? Revise whichever policies needed to be revised? Change your org structure as required?

Were you committed enough to identify, examine, and align every touchpoint with your goals, so as to overwhelmingly tilt the odds in your favor? Did you persevere when the change wasn't happening or wasn't happening quickly enough?

Many of us have the will to win. We love the feeling of winning. We want to be associated with winners. But do we have the will to do what it takes to win?

Part II: The Right Focus

It starts with the right focus. A focus that articulates, "What must we achieve? Why must we achieve it? How will we achieve it?" Without a concise "what," there is no focus. Without a compelling "why," SCIs are merely should-dos, not must-dos. And without a clear "how," the "what" is nothing more than a dream.

You're committed to winning? Then start by developing the right focus.

Stop Strategic Planning

To develop and sustain the right focus, strategy has to be a process, not just an event. The goal isn't just to develop a plan or even implement a plan. The goal is to institute a system that ensures strategy is an ongoing, managed process.

The Strategic Management Process has four phases: Assess, Position, Plan, and Implement. In the Assess phase you develop a compelling Case for Change—the strategic "why." It emerges from a solid understanding of the strategic context in which your organization operates, context that spotlights gain and pain—the consequences of changing versus not changing.

In the Position phase you concisely define your strategic positioning—the strategic "what." What are we driven to achieve, what business are we in, what makes us desirably different in the marketplace, and what must our culture look like to win?

In the Plan phase you clearly outline the critical few SCIs that must be accomplished for your organization to win—the strategic "how." This phase charts the course from strategy to reality.

In the Implement phase you sustain focus by (1) instituting mechanisms to systematically manage implementation, (2) creating an environment that consistently points people in the right direction, and (3) securing the capabilities that can and will make it happen.

How does strategic management stand apart from strategic planning? In short, strategic management is strategy + execution.

Embrace the Joy of Pain

Your objective in the Assess phase is to attack your assumptions, understand the strategic context in which your business operates, and develop a Case for Change—the strategic "why." It must be compelling enough to overcome the four poisons that inhibit organizational change: complacency, arrogance, the fallacy of extrapolation, and psychological inertia.

Organizations are far more likely to change when they have a strong drive to achieve a desirable outcome (gain), coupled with a strong drive to avoid an undesirable outcome (pain).

Here is an example of paired Case for Change statements:

"If we don't optimize our product portfolio, then revenues and margins will continue to shrink, and our future will be at risk" (pain).

"If we optimize our product portfolio, then revenues and margins will grow, which will help secure our future" (gain).

With a well-thought-out Case for Change, it becomes almost unthinkable that you wouldn't take action. Each pair of statements offers you and your Strategic Leadership Team a stark choice. Pain or gain. Your choices will determine your legacy. Choose well.

Climb the Right Mountain

You're clear about why your organization needs to change. Now, what would it look like for your organization to win?

An unfortunate consequence of the popular view that you should dream big and pursue your passion is that it implies any dream is worth pursuing. It isn't.

It's not that you shouldn't dream big. It's that before you commit to pursuing your dream, you need to understand the three Rs—rewards, risks, and requirements. Understanding these allows you to answer the question, "Is this a dream I am truly committed to pursuing or not?" There's no wrong answer, as long as it's an informed answer.

Once you conjure up your next big dream, ask yourself these questions: Why that dream? Why not some other dream?"

"What rewards make it uniquely worth pursuing?"

"What risks and consequences are associated with pursuing it? Am I willing to accept them?"

"What is required to fulfill the dream? Am I willing to meet those requirements?"

Do Less, Use More Resources. . . No, Really

You've identified why you need to change. You've determined what you need to achieve. Now, you need to plan how. How are you going to realize the gain and avoid the pain outlined in your Case for Change? How are you going to win? How are you going to live up to your Brand Commitment and Cultural Commitments?

Through your SCIs.

You're going to take on too many SCIs because you're ambitious, you see the opportunities, and like the proverbial kid in a candy shop, you grab at everything. What happens? Resources get diluted, people get stretched too thin, and

before you know it, instead of everything being a priority, nothing is a priority. Failure.

Do less, and you'll accomplish more. As Tim Cook, CEO of Apple, once explained, "We say no to great ideas in order to keep the amount of things we focus on very small so we can put enormous energy behind them."

Let's say you've come up with a list of potential SCIs. How do you prioritize them?

- Conduct targeted research into the most promising SCIs.
- Identify criteria for evaluating the relative merits of each, such as resource requirements, length of time to complete, payback timeline, organizational trauma, probability of success, return on investment, and so forth.
- Determine if any criteria should be weighted and if any should be immediate disqualifiers.
- Discuss and rate each potential SCI against each criterion (using, for example, a 1–5 scale); total the ratings.
- Compare the overall ratings for each option and ask if they pass the "gut test." Does your assessment of their relative merits seem fair and reasonable?
- If yes, select the very few top-rated items that the organization has the means to strongly support. If no, then revise the evaluation model and go through the first five steps again.

Put the "Exec" in Execute

Now comes the hard part—making it happen. Everyone's energized. You've come out of your annual strategy session with a clear focus and a set direction. But then reality starts to seep in. Your plate is already overflowing. How are you going to find the time to get it all done?

Clear your plate. All of us spend time on activities that, if we're honest, add little or no value. Eliminating those activities allows us to free up time for the strategic work.

Operationalizing your SCIs requires Execution Plans. An Execution Plan outlines the time-linked milestones and associated resource requirements (material, financial, and people) for each SCI. It identifies the Executive Sponsor—the Strategic Leadership Team member ultimately responsible for the SCI, the Champion—the person entrusted with managing its execution, team members, and periodic contributors. Finally, it documents the ROS—the expected return on strategy that justifies the SCI.

The goal isn't just to develop a plan. And it's not just to implement the plan. The goal is to institute a robust, repeatable process for assessing, developing, and implementing strategy.

How do you sustain the process and make sure nothing falls through the cracks? Develop and manage a control document such as a Master Calendar. Use it to matrix all the key strategic activities against the months of your fiscal year. Then review the Master Calendar at monthly Progress Tracking meetings, and look ahead to what needs to be done in the coming months.

Doing this, nothing gets overlooked or forgotten. It ensures the Strategic Management Process becomes the overarching management process for your organization.

The goal is to institute a robust, repeatable process for assessing, developing, and implementing strategy.

Part III: The Right Environment

You've developed the right focus. Now you need to create the right environment, one in which every touchpoint is aligned with your intentions. An environment that your people experience as ruthlessly consistent.

Why the right environment before the right team? Because most leaders have a team in place. And until you create the right environment, you won't know for certain whether you have the right team. When you create an environment in which people are aligned, equipped, coached, supported, and valued, you create a culture of engagement, a culture of performance.

Everything Starts with Heads and Hearts

Implementing strategic change depends on people. You can have plans and goals and timelines and meetings, yet none of it matters unless you engage the hearts and minds of your people and align them with what you want to achieve. It's not about buy-in; it's about want-in.

Most leaders think about engaging their employees once they've identified their SCIs. Too late. The decisions have been made. And the employees weren't involved in the process.

There are three times to engage your employees: before, during, and after you've developed your Strategic Framework. It starts with getting their input—their perspective on the issues, opportunities, and challenges facing your organization—before you make any strategic decisions. An anonymous, all-employee survey as well as focus groups with select employees are good first steps.

Then, once a draft framework is developed, get their feedback. An effective way to do this is to conduct a half-day One Team Meeting involving all your employees. Seat them at round tables, present the draft Strategic Framework, and then have them discuss and flip-chart what they like about it, what concerns they have, and what questions they have.

Have each table present their highlights to the entire team. Collect their outputs and review them later with the Strategic Leadership Team. Be open to modifying your Strategic Framework, and if you do, give the employees credit for it, acknowledging them for their ideas.

Once you've finalized your Strategic Framework, engage your employees again. Involve them, when appropriate, as members of your SCI teams.

For all that's been said and written about having a sense of purpose—as important as that is—what's even more important is that you connect the dots between purpose, goals, and each person's role—what is expected of them. What ignites purpose is when they clearly see how what they do as individuals contributes to the big picture, to success.

You're Not a Manager; You're a Coach

There's a critical distinction between being a manager and being a coach. Coaches take responsibility for the performance of their team and each team member. Coaches view their role as helping team members perform at their best, helping them learn, improve, and grow.

Rarely will the coach of a team sport talk to individual players about winning. Instead, the coach will talk about performance and improvement, focusing on what each player can control because if each player does what she can and should do, then the team result will take care of itself.

Two people are responsible for a team member's performance. You and the team member. You're responsible for creating an environment in which each team member can perform at their best. Each team member is responsible for performing. Both you and the team member play a critical role; both of you must be committed.

You don't motivate people. You create an environment in which the right people will be motivated. And that doesn't mean the same environment for everyone. The Golden Rule of Coaching is that different approaches have different effects on different team members at different times. Great coaches are adaptive.

There's also a common misconception about performance. It's that by repetitively doing something, we automatically get better. That experience translates into improvement. But we don't learn simply by doing. We learn by processing the feedback we receive from doing. And not just any doing. The doing has to be focused and intentional.

- Don't review performance; improve performance. Coaches provide SMART feedback and guidance—specific, meaningful, actionable, real time.
- Great coaches are "performance doctors." Much like medical doctors, they diagnose the factors that are influencing performance and then prescribe what's needed to improve.
- Great coaches ask incisive questions. You don't want a team of mindless order takers; you want a team that continually learns, grows, and improves. Strong coaches promote this by asking incisive questions.

Part IV: The Right Team

You have to have the right team. How do you build it? It comes down to processes. Yes, processes. Robust and rigorous processes for attracting strong talent and selecting the best candidates. Not necessarily the most capable individuals but the most capable team members. Then, having a process to evaluate and strengthen those processes.

Don't Just Recruit; Compete

Many organizations are finding that the standard approaches to attracting talent just aren't good enough. It's time to rethink recruitment.

Adopt this mindset, and you'll have a fighting chance: Compete for talent. You're no longer simply recruiting; you're competing for talent. You're not just hiring; you're

There are enemies conspiring against your commitment. Fortunately, you're able to confront them. They're in the mirror.

competing for talent. And you'd better compete for talent as fiercely as you compete for customers, because prospective employees have choices, and they're asking the same questions as prospective customers: Why you? Why not your competitors? What makes your organization special? What's in it for me? How will you help me grow? What opportunities will you provide?

How can your organization compete for talent?

Develop relationships. Increasingly, companies are competing for talent by hosting events that interest prospective recruits. Know your target audience, and design events that appeal to their interests, both work related and personal.

Look for the opportunities in the obstacles. Changing workforce trends provide you with opportunities, not just obstacles. The growth of the gig economy and the desire for more flexible and varied work schedules are examples of such trends.

Uhhh, about your hiring standards. Having a hard time finding talent? Lower your hiring standards, but do it selectively. Make sure not to lower your performance standards. And never compromise your organization's values or the individual traits that are critical to success. But you may want to reconsider your requirements for education, experience, and skills. Are your educational requirements nice-to-haves or must-haves? Can experience be gained? Can skills be developed?

Be Selective in How You Select

If building the right team is critical to your success, then you'd better have an effective, efficient, and evolving selection process. How confident are you that your current selection process meets those criteria?

Which assessment method can give you the confidence that you're selecting the best candidate? The reality is, no one method can do that. Look for converging evidence. The more that evidence from different methods converges on the same conclusion, the more confident you can be in that conclusion.

Start by identifying the assessment methods that are most relevant for the position.

Qualification screening. First, you need to identify what success looks like for the position you're filling, and then you need to determine the basic requirements for success (skills, experience, values, and traits). Don't erect false barriers. Distinguish between must-haves, should-haves, and nice-to-haves.

Interviews. You want multiple interviews conducted by various people, including the candidate's future boss, peers, and, if applicable, direct reports.

Role-plays. When a position you're hiring for requires strong interpersonal skills, such as sales or customer service, role plays can be helpful.

Trait profiles. Trait profiles can provide you with insights into a candidate that might be hard to determine from an interview. How conscientious is the person? Does the person prefer a more- or less-structured environment? While many assessment instruments are available, the High Potential Traits Indicator evaluates traits that have been extensively validated as linking to workplace success.

Job simulations. If you're hiring for technical skills, consider having the candidate demonstrate them. If making presentations is critical to the role, for example, then have the candidate deliver a presentation to your team.

Part V: The Right Commitment

Right focus, right environment, and right team—that's what it takes to win. But it's all theoretical unless you embody the motive force that drives it: the right commitment. At first glance it seems easy enough. Be committed. Of course, it's not so easy. There are enemies conspiring against your commitment. Fortunately, you're able to confront them. They're in the mirror.

The First Enemy You Must Defeat

As a committed leader, the first enemy you must defeat is complacency. Yours.

Are you constantly looking forward? Is your work your passion? Are you immersed in it? People who don't just achieve success but sustain success always have an inspiring next goal.

Develop a Personal Case for Change, a case compelling enough to ensure you're ruthlessly consistent in developing and sustaining the right focus, creating and recreating the right environment, and building and rebuilding the right team.

First, determine what you need to do differently to drive strategic change in your organization. Next, document both the pain that will result if you don't do what you need to do and the gain that will result if you do.

The Enemy That Grows Stronger By the Day

Distractions. It's like you're at the Grand Bazaar with a thousand vendors yelling at you, pulling at you, enticing you with their wares. And it's never-ending.

Yet, distractions don't torpedo strategy execution; distractibility does. Distractions are what lure your attention; distractibility is how you respond. Manage yourself by prioritizing your priorities, taking breaks, and committing to being 100 percent present.

The Enemy That Poses as a Friend

The third enemy you must confront is the most insidious. It makes you feel good and good about yourself. It poses as a friend. Left unchecked, it will lure you along the path to failure. Ego.

Let's be clear. To be an effective leader you need a strong and secure ego. You have to be able to confront tough situations, make painful decisions, overcome massive challenges, and take risks that, even if well calculated, could lead to severe outcomes. And you must have and project confidence through all of it.

Yet, it's possible to have a strong ego and not be an egomaniac. To control your ego, understand that vulnerability can enhance your credibility; acknowledge others' strengths and accomplishments; admit mistakes; and be more concerned with learning than knowing.

Leadership expert Jim Collins wrote, "The signature of mediocrity is chronic inconsistency." Yes, and the signature of excellence is ruthless consistency.

What drives all of it is the right commitment. Ask yourself this one question: "Do I have the will to win or the will to do what it takes to win?"

There will be many challenges—obstacles, setbacks, and frustrations—but they won't determine your success. Because in the end, it's not you versus those challenges. It's you versus you.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

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- ***Strategy First: How Businesses Win*** by Brad Chase



Michael Canic, Ph.D. is the president of Making Strategy Happen, a consulting firm that helps committed leaders of mid-market companies turn ambition into strategy and strategy into reality. Previously, he managed the consulting division at The Atlanta Consulting Group. He also held a leadership role at FedEx, where his district became the most recognized in the Americas for service quality. A compelling speaker, he has delivered more than 600 presentations to audiences on four continents, many through Vistage Worldwide which, with over 24,000 members in 20+ countries, is the world's largest organization of CEOs and business leaders.

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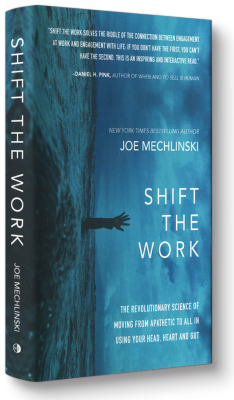
Shift the Work

Joe Mechlinski

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Executive Book Summaries®

Shift the Work

The Revolutionary Science of Moving from Apathetic to All In Using Your Head, Heart and Gut



by **Joe Mechlinski**

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The Summary In Brief

How can businesses expect to thrive if close to three-quarters of the workforce shows no passion—or even interest—for the work? And, if we aren't ALL IN at work, how can we expect to be ALL IN at home and in our personal lives?

Shift the Work explores the emerging science around each of our three brains—our head brain, our heart brain, and our gut brain. As we understand ourselves as a whole, we can move away from a work world that is designed solely to meet the needs of the brain in our head. Each part of the book offers a new perspective on work as well as exercises to reconstruct your thinking about the workplace.

Author Joe Mechlinski draws from personal experience, stories from businesses, and the latest in neuroscience to bring us hope about the future of the workplace. We do not have to accept a 70 percent disengaged workforce as a fact of life. Applying these ideas can help you improve your attitudes about work. You can become a leader in improving workplace engagement and the personal lives of those you influence.

In This Summary, You Will Learn:

- How to embrace gratitude through a shift in language.
- To read the signals sent by your three brains—head, heart, and gut.
- To recognize purpose in work as more meaningful than money.
- Ways to elevate relationships as a workplace motivator.

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Work On Purpose

Recent discoveries in neuroscience reveal that at every moment, your body's neural network, which connects the brains in your head, heart, and gut, is sending signals about what it finds helpful or harmful. People claim, "I don't live to work; I work to live." The statement ignores the fact that people spend a majority of their waking day at work.

Change Your Language, Change Your Life

Working on purpose begins with a change in attitude. You may think that starts with the heart, but change can begin with head-driven action. Change the way you talk about your life. Try phrases such as these: I don't ***have*** to be with the people I love. I ***get*** to be with them. I ***get*** to bathe my children. These obligations toward loved ones are opportunities to hug them a little tighter and deepen the bond. Take the same approach with work obligations: I get to answer email. I get to have a client meeting. Small changes reconnect you to your priorities, passion, and purpose. They empower you to shift your work.

Adopt an Attitude of Gratitude

High levels of serotonin, the neurotransmitter that regulates feelings of happiness, are released from the gut when people express gratitude or perform acts of generosity. Our language has a biological impact. Studies have shown that the more we practice gratitude, whether through journal writing or sending thank-you cards, the more thankful we will feel months later.

Gratefulness can cause you to turn off your phone at night and spend quality time with the significant people in your life. This attitude drives you to treat the smallest clients the same as the largest accounts, grateful and humbled that they selected your company over all the others.

Every morning, write in a journal three things you are grateful for, three things that would make the day great, and an affirmation of how you see yourself. The ***five-minute journal*** is an excellent tool to enhance your optimism and to build stronger relationships. At the end of the day, list three amazing things that happened, and one way the day could have been better. Articulating your dreams and desires has the power to make them reality.

Know With Your Head

We readily acknowledge the brain in the head. It's where synapses, electrical impulses, and hormones talk to each other, which is what allows for consciousness and awareness. Most importantly, it's what gives us the ability to identify patterns and make sense of the world.

Use Your Brain to Set Your Priorities

Think of your day as an airline flight, and you are the captain. Most of us wake up in the morning and take off as quickly as possible. We shower and dress, and eat a bagel in the car, or grab a coffee on the way. This is the equivalent of taking off and waiting until you're in the air to think about a flight plan. Forget preparing for a meeting. We're lucky if we manage to show up on time. As the pilot, take control. Examine every instrument before takeoff to make sure it's in good working order. Identify the destination before the plane speeds down the runway.

Every moment is an opportunity to execute your vision. Don't waste it on what came before, or let it pass you by because you're too fixated on what comes after. Throughout the day, constantly do everything possible to stay in the moment.

Use Your Brain to Know and Explore Your Path

Workers are like drivers heading down a dark road, and the company's values and mission are the headlights that show us the path. Even if the headlights are only strong enough to show us what's fifteen feet ahead, we still feel confident continuing down the road because we have faith that the company's mission will keep guiding us through the darkness. To have any chance at engaging the head brain, we need clear vision and mission. We must feel that we are provided with the space to use our frontal cortices to innovate in our jobs.

A deli in Michigan has what they call their "Three Bottom Lines." They are great food, great service, and great finance. Every worker is supplied with detailed information about the company's finances. This effort at educating the workforce treats everyone like adults and partners in the mission. Employees who know the profits and losses connected to their specific job are more likely to innovate. In this environment, the person who cleans the trays is more likely to bring up how customers throw out a lot of unused napkins and ketchup packets.

What gets you up in the morning? What keeps you awake at night? Schedule one hour in your day to sit comfortably and think. No smartphone. No laptop. No conversations. Quietly spend time with the thoughts in your head brain.

Engaging the brain in the head allows us to process information, notice patterns, and take away blind spots that

Annie O'Dell exuded passion. She stood out for having a unique point of view, one that was shaped by her connection with the brain in her heart.

prevent us from seeing a different future. Once engaged, we can begin innovating at work and in our own lives.

Own With Your Heart

The brain in the head has us checking off boxes, keeping us on a path, and sticking to a process. The brain in the heart allows us to experience the moment and connect to our actions in an emotional way. When we face adversity and aren't feeling great about our direction, it's the heart that steers us and decides whether the commitment is worth it.

The brain sends orders to the heart, but the heart also sends orders back to the brain. Research shows how signals sent from the heart impact our attention, perception, memory, and problem-solving. It's why we tell people to take a deep breath before they decide on the next step to take.

When making decisions, we are cautioned not to let feelings get in the way, as if emotional choices have less value. A major function of the heart is to regulate blood pressure, which will rise with passion, excitement, or stress, and may fall with feelings of depression. We know something in the head, but we own it in the heart. The term "speaking from the heart" implies that what is being said has authenticity.

The head can devise all sorts of strategies for putting you in front of an audience, but it depends on the heart brain to make the connection.

The head brain will notice if the person standing across from you is happy, but it's only once the heart brain receives the message that it releases the oxytocin and pumps the blood at a faster rate. It will change your voice and the way the muscles in your face move. The person standing across from you will observe and absorb these changes.

Working from the Heart Releases Passion

The level of passion speaks to the question of whether you own what you do in your heart. Does your belief in the company make you want to do a great job at work, or are you completely indifferent to the company's success? A group of employees was surveyed in order to learn whether, if knowing what they now know, would they accept the job again if offered it today—72 percent answered in the affirmative. This sounds high, but is it really? Would you go to a restaurant if a quarter of the diners said they'd never come back? Not every task we are asked to do at work is glamorous or fulfilling, but if we believe in the overall mission, we are willing to accept the tasks as part of the job.

Motion Creates Emotion

Annie O'Dell exuded passion. She stood out for having a unique point of view, one that was shaped by her connection with the brain in her heart. Annie noticed that in company meetings, everyone was dividing their attention between the proceedings and their phones. She took a trash can, covered it with green felt, decorated the lid like a frog face, and called it Kevin. As a new rule moving forward, everyone would deposit his or her phone into Kevin at the start of meetings. She had this natural ability to light people up, whether it was her colleagues, clients, friends, or strangers.

The heart brain is about inspiration and ownership. It is an energy field. Working from the heart takes practice. If we want to connect with people, we need to stand where they are standing, to see the world through their hearts.

Take your eyes off yourself and consider what it means to walk in the shoes of a co-worker. Own their place for a moment to see what it will take to encourage enthusiasm and excitement in your workplace.

Drive With Your Gut

Empathy is a drug. It releases dopamine in the brain, oxytocin in the heart, and serotonin in the gut. This biochemical reaction is the body's way of connecting us to the greater good and prompting us to act on that feeling. It's the body's way of asking, "What are you going to do about this situation?"

The brain in your gut regulates your serotonin level, which dictates your mood and behavior. Intuition, inspiration, and sixth sense refer to sensations from the gut. The gut produces 70 percent of the stress hormone, cortisol. It does more than turn our stomachs at anxious moments. The gut brain is responsible for processing information during sleep. Seventy percent of serotonin—the neurotransmitter responsible for relaying signals across the brain to help us think clearer—is produced in the gut. The gut is also responsible for 90 percent of our immune system, keeping you healthy!

Having the Guts to Lean In

When we talk about finding greater purpose, we are talking about the gut intelligence center. When we are faced with a crucial decision, and we appeal to our intuition, we feel a tightening in our stomachs. Those butterflies-in-your-stomach feelings before giving a big talk, sitting down to an interview for a dream job, or walking down the marriage aisle is the gut brain's way of talking to us and telling us what's important. It is directing us towards purpose.

Guts for Purpose and Principles

Harley Davidson struggled mightily back in the early 1980s when Japan's manufacturing took the upper hand. After several buyouts, the company was down to a 15 percent share of the marketplace. A new CEO took over, and the first thing he did was leave his office for an extended period. He traveled the country, visiting dealerships and hosting Harley-sponsored road rallies, which brought thousands of bikers together to celebrate Harley Davidson. This new strategy was about reconnecting customers and dealers to this product. His idea was that Harley riders thought of the motorcycle as more than a bike. They thought of it as a community, one that is based on principles of patriotism and the independent spirit. In less than fifteen years, market share has climbed to 85 percent.

The gut brain is about impact and greater good. Want to consider your purpose? Take a moment to write your obituary. What would you like people to say about the path you took?

Shift to Make it Work

It's time to shift our thinking from dogma to data, from story to science, as we seek purposeful engagement with work. When we care for ourselves enough to transform our work, we take the crucial step in beginning to properly care for others and our planet.

The business world clings to the fallacy that money is the chief concern of workers when survey after survey refutes this claim. Feeling there is no room to grow, poor leadership, a desire for a better work culture, and a wish for more challenging work are the top four reasons people leave their jobs; better pay and recognition at work are reasons five and six.

The diagnosis is clear. More than two-thirds of the workforce is not engaged, and unless we begin listening to the three brains in our bodies, we will fail at finding the greater purpose to shift these numbers.

The science tells us we can integrate our head, heart, and gut into the work world by thinking a deliberate way, using certain words, and creating habits and patterns of behavior. If we can use the three brains to become fully engaged for the eight hours a day we spend at work, if we can generate passion and purpose and establish constructive patterns, then we'll return home as better spouses, parents, children, and citizens. This is how we'll get rid of the current apathy and workers across the country can say, "Yes, what I'm doing is worth it!"



Joe Mechlinski is a *New York Times* bestselling author speaker and entrepreneur who believes that an engaged workforce is the key to unlocking human potential. To transform the purpose of business, Joe founded SHIFT, a collective of businesses spanning consulting, executive membership, and venture capitalism. All focus on one idea: Better you. Better us. Better all.

Joe's podcast, Shift Happens, features inspiring guests such as *New York Times* bestselling authors Dan Pink and Tucker Max.

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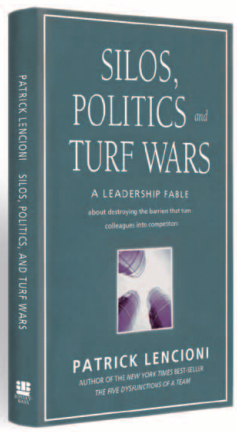
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Silos, Politics, And Turf Wars

Patrick Lencioni

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Patrick Lencioni

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A Leadership Fable About Destroying the Barriers That Turn Colleagues Into Competitors

SILOS, POLITICS, AND TURF WARS

THE SUMMARY IN BRIEF

The concept of "silos" has become synonymous with the barriers that separate work teams, departments and divisions — causing people who are supposed to be on the same team to work against one another. These maddening factions breed the office politics and in-fighting which ultimately kill productivity, squash profits and push the best people out the door. Silos cause stress, exasperation and disappointment by forcing employees to fight unwinnable battles with people who should be teammates.

In this summary, New York Times*' bestselling author and acclaimed management expert Patrick Lencioni presents a dynamic leadership fable that reveals how organizations can overcome the "silos" that divide work units and paralyze performance. This summary also offers solutions to a key leadership issue — the impact of turf wars and political infighting on organizational effectiveness.*

Written in the form of a realistic but fictional story, this summary tackles a tough business issue in both an entertaining and instructive way.

In addition, this summary will also show you:

- ✓ ***How to recognize the signs of the devastating power of silos.***
- ✓ ***Why it is necessary to take steps to start knocking down the walls that divide departments.***
- ✓ ***How to create a rallying cry or an over-arching thematic goal.***
- ✓ ***How to determine an organization's defining objectives and standard operating objectives.***
- ✓ ***Why it is important to measure and monitor your organization's performance against these goals.***
- ✓ ***How employees can survive the confusion that is often found in matrix organizations.***

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SILOS, POLITICS, AND TURF WARS

by Patrick Lencioni

— THE *COMPLETE* SUMMARY

THE FABLE

Part One: Entrepreneurial Ambition

Honeymoon

Five months. That's how long it took for Jude Cousins' entrepreneurial passion and excitement to fade into anxiety and panic. While it was true that he had never started a company before and didn't know exactly what to expect, five months just seemed like too short of a honeymoon to Jude.

To be fair, Cousins Consulting wasn't really a company. Just a consulting practice operating out of a spare bedroom in Jude's home. No employees. No politics. Just Jude, his passion and his three clients. Two of which, unfortunately, were already in jeopardy.

Hatch

For the seven years prior to starting his consulting firm, Jude had received nothing but encouragement and recognition in his career, which only served to magnify his frustration as an entrepreneur.

After an unsatisfying post-college stint in journalism, Jude took a job in the marketing department at Hatch Technology, a fast-growing company that developed financial software for consumers and small businesses. Beginning his career at Hatch as a copy editor, Jude worked his way through every department in the marketing division, with detours into product management and operations.

Given his work ethic and general curiosity about whatever he was doing — not to mention the rapid growth of the company — promotions came frequently for Jude. At the age of 28, four years after joining Hatch, he was named director of corporate communication.

Jude knew that the secret to his success had everything to do with his insatiable passion for learning. As he liked to tell his friends, he felt like he was being paid to go to business school. Even still, he was not content to have his education limited to one company. So Jude began volunteering to sit on a variety of advisory boards for small but growing companies in the area, all of which were happy to have someone of his talent providing advice, especially when that advice was free of charge.

Jude was eagerly soaking up everything he could and forming strong opinions about how he would run a company one day, which he had come to believe was his ultimate goal. From a professional standpoint, Jude had everything he needed. Between his responsibilities at Hatch and the variety of companies he was being exposed to as an adviser, he had no complaints. His work was interesting enough and his workload, though substantial, was manageable. Jude certainly had no intention of changing his career.

Until the merger.

Batch

Though it had been announced to the press as a merger of equals, anyone with a sense of the market knew that Hatch was on the losing end of the acquisition by its slightly larger competitor, Bell Financial Systems. Carter Bell, the company's brash CEO, had a much higher profile in the industry and wasn't about to lose control of his company in a merger.

But because he didn't want to rock the new boat too soon after the deal was closed, he chose to build something of a Noah's Ark management team with two heads of sales, two heads of marketing, etc. As a result, the seeds of discontent were planted within the new organiza-

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Part One: Entrepreneurial Ambition

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tion that would cleverly be called Batch Systems.

As for Jude, his duties and title were divvied up between him and his counterpart from Bell, so he took on a slightly diminished role as director of advertising. With every passing week, Jude was finding it harder and harder to get things done. Infighting had risen to a new level and attention had shifted drastically inward, away from issues such as customers and competitors, and toward battles over budgets, titles and responsibility for mistakes.

And while it could be expected that these feuds might develop between employees of the two former companies, new levels of inter-company conflict were rising in other areas, too. There was the headquarters versus field office split. And marketing versus engineering. And even within engineering, researchers and developers seemed to be at war over who warranted more head count, budget dollars, and recognition for the success of products.

Politics

Because of his narrower and more divided duties, Jude realized that his political capital at Batch was not particularly high. Which is why he decided to ignore the tornadoes swirling around him. But he was smart enough to realize that avoidance and denial would probably not be the best course of action, and that problems don't usually go away on their own. And besides, he was not the kind of person to stand by and watch things unravel.

So, with the security of a nice little nest egg in hand — thanks to the company's rising stock price — Jude decided to go sniffing for another job. Given the growing economy and his network of friends in the industry, it wasn't surprising to Jude that he quickly had a full slate of interviews and that many of them yielded offers. But each time he started to consider a job change, he'd get sucked back into his "day job" by an urgent project and the idea would go dormant.

The Leap

Then it happened. The company's stock, defying the chaos that was driving its employees crazy, hit a level that was three times the merger price. Now Jude's nest egg began to feel like a full-grown bird, and even if he didn't stay long enough for all of his options to be vested, he'd have the stock equivalent of two years' worth of salary. Deciding the time was ripe for a change, he left Batch and started his own consulting business. ■

Part Two: Roller Coaster

Low-Hanging Fruit

Jude settled on the name *Cousins Consulting* for his new business. Though he sold himself as a general consultant with expertise in marketing and operational effectiveness, it seemed clear that his ability to land clients had more to do with his reputation, the relationships he had with executives, and the rapport he developed during sales calls.

Clients

The clients Jude worked with included the following:

The Madison Hotel. The Madison is San Francisco's oldest, largest and most prestigious hotel. Dante Lucca, the hotel's CEO, had overseen a massive and expensive renovation of the 300-room facility, restoring it to its position as the jewel of Nob Hill. He also received some recognition within the industry for flattening the management structure of the hotel. Recently, occupancy had begun to drop in the face of mounting competition and there were rumors that employees were entertaining overtures from organized labor. Dante hoped Jude would be able to provide him with advice around market positioning and strategic clarity.

JMJ Fitness Machines. JMJ is a manufacturer of high-end consumer and institutional exercise equipment. The company's CEO, Brian Bailey, was trying to figure out how to reduce his company's costs to compete with cheaper labor overseas, but without hurting quality or productivity.

Children's Hospital. Not only did Brian hire Jude as a consultant, he referred him to Lindsay Wagner, president and CEO of the Children's Hospital of Sacramento.

Sacred Heart Church. Finally, Jude agreed to help Father Ralph Colombano, the pastor at Sacred Heart Church in Walnut Creek, Calif.

Exactly how Jude would ultimately add value to these clients was still somewhat unclear to him. But based on his advisory board experience and his observation of the parade of consultants hired by Hatch over the years, he was confident that he would be able to justify the cost of his services.

Candy

For the first three months, Jude was a kid in his own candy store. In any given week he might find himself walking the factory floor at JMJ, touring the operating room at Children's Hospital, or doing customer research at The Madison. More than the novelty of these activities, Jude loved observing real business problems and trying to solve them. In those first months alone, he found ways to make meaningful contributions to almost every one of his clients.

The first setback was the devaluation of his Batch stock, driven primarily by the ongoing loss of key talent just below the senior executive level. Then Brian Bailey called.

"Jude," he said, "I just wanted to call and thank you for the work you did with the assembly team earlier this month. We're going to take what we learned there and apply it in design and procurement, and I think we'll be able to save considerable money before the end of the year. So let's wrap up your consulting gig at the end of the month."

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Part Two: Roller Coaster

(continued from page 3)

Analysis

Jude saw that he had two problems. First, he needed more clients. Though he had enough money to pay the bills for six months, beyond that he had been counting on the Batch stock to rebound, which was fading a little more every day. Second, he needed something to sell to those clients. Until now, Jude hadn't felt the need to be so specific.

Determined to power through the problem, Jude did what he would advise any other businessperson to do. He asked his customers what they wanted. What really kept them up at night? What made them want to quit sometimes? A few of the executives mentioned quality. Two talked about labor problems. All of them referred to technology changes.

Discovery

Going through his notes for the third time, Jude spotted it. Silos. Everyone but Brian had complained about it at one time or another. Some called it *departmental politics*, or *infighting*, or *lack of divisional cooperation*.

Lindsay described the problem at Children's Hospital where doctors and staff members seemed to be almost at war at times. At his hotel, Dante couldn't get the front office staff to cooperate with housekeeping and maintenance. Father Ralph surprised him most of all when he explained that the Parish Council and the Parent-Teacher Committee were at odds over how to use the school facilities. Then Jude remembered Batch. Headquarters versus the field. Sales versus engineering.

It had been right in front of him all along and yet he hadn't realized how universal the problem was and how much pain it caused. This silo thing was exactly the issue he needed to build his practice around. He decided to approach his old clients and even his old company. And, to his surprise, almost everyone was interested. Everyone, that is, except Brian, the CEO over at JMJ Fitness Machines. ■

Part Three: Rally

Jude wanted to know why. So he made an appointment. "I want to know why it is that you don't think you have a silo problem around here," he asked. Brian invited him to ask the employees themselves.

Snooping

Jude felt like a plainclothes police officer as he roamed the company's halls and the factory floor asking questions. Deciding that it would be best not to bias the people he questioned, Jude always asked the same two open-ended questions: What's going on that's good? What's going on that's not so good? Then he probed in a more direct way. He might ask a factory floor worker, "How do you like working with people from finance?" Or he'd ask someone in sales, "Do you think that marketing is doing enough to help you sell products?" He got nothing that would indicate a silo problem.

Then he began asking a host of more direct, somewhat desperate questions that he thought might elicit some indication of departmental stress. "Which department do you dread working with the most?" "If you had to take resources from one department within the company, which would it be?" Most of those questions provoked looks of confusion more than anything else.

Jude couldn't figure out why Brian's company didn't have a silo problem.

History Lesson

One day, he got the break he was looking for. He discovered that a health club in Los Angeles had purchased 15 treadmills from JMJ, and one of its customers, a minor celebrity, had a serious accident while using one of them. The story hit the press, the health club blamed the manufacturer, competitors took advantage of the situation, and JMJ's lawyers gave the executive team the horrible advice to avoid making any public statements that might hurt them in court.

Within a week, customers began canceling orders and returning recently purchased equipment. Sales dried up, and the company was staring at a major layoff and possibly a shutdown within six months.

And that's when Brian made the most enlightening comment of all. "You know, sometimes I think that was the best thing that ever happened to this company."

Puzzle Pieces

Brian said, "I pulled my team together and told them that we had six weeks to restore our reputation. That meant we had to demonstrate that our products were safe, to rebuild our reputation, to fix our relationships with key customers, and to rebuild morale. We decided that the only way to salvage morale was to get everyone involved, even a little pissed off, about what had happened to us."

Jude was now starting to get excited. "Tell me the truth, Brian. Before all of that happened, was there a silo problem around here?"

Brian thought about it. "Well, I did fire a few department heads because they didn't seem to care as much about the company as they did about their own little fiefdoms. And before I arrived, the incentive trips were limited to people in the sales organization."

Armed with this new intelligence, Jude returned to his former company where, in front of its executive team, he asked the question, "Has anyone here ever worked for a company in crisis?" After hearing several examples from the executives, he suggested Batch could fix its silo problem by finding a way to rally its people around a common cause *before* a crisis hits. ■

Part Four: Moments of Truth

Test Number One

Several days later, Jude continued to flesh out his theory with Lindsay and her team at Children's Hospital. After forcing its executive team out of their departmental silos, he was able to get them to agree that improving patient service was the rallying cry or, as he decided to call it, the ***thematic goal***.

He then asked everyone to write down the handful of things that needed to happen "if we're going to accomplish our thematic goal of improving patient service."

Jude surveyed the room, pointing to each executive for a response. By the time everyone had spoken, Jude had written these four different subject areas on the board:

- **Better patient throughput**
- **Integrated clinical information systems**
- **Improved case management**
- **More joint planning**

After listing these ***defining objectives***, he decided not to wait for someone to ask the next inevitable question: *What about our day jobs?* "Rest assured that we're not forgetting about the fact that we have to continue doing surgery and treating patients and paying bills and collecting insurance," he said. "Those things are and will always be critical. But if that's all we're thinking about, then every month and every quarter and every year that goes by won't make this a better hospital."

Deeper

He then pushed the team to figure out how to measure each of those areas and then to come up with a short list of ongoing operational objectives they needed to track. The team opted to keep the measurements simple by using the color green for objectives that were on track, yellow for not quite there, and red for definitely not there.

The team settled on the following measures for ongoing measurement:

- **Occupancy of Beds**
- **Clinical Outcomes**
- **Operating Income**
- **Staffing Ratios**
- **Cost per Discharge**

This overall structure would help to keep the team focused. If anyone were to argue for something that is good for his or her department or functional area but that doesn't have a meaningful impact on any of these things, then the team would all be able to explain why it shouldn't be a priority.

Fast Forward

Within months, Jude's business grew rapidly through word-of-mouth and strong client references. Over the course of the next three years, his firm had grown to seven consultants and two office staff, and now had a Web site.

On the eighth anniversary of the firm's founding, Cousins Consulting had grown to more than 15 consultants and five staff members handling marketing, finance and client support. Vertical markets had been established in health care, technology, education and nonprofits.

And then one day it happened. It was during a staff meeting. Jude asked for input about how to allocate marketing dollars for the upcoming year. One of his health care specialists responded first. "We think it's about time that we received our fair share of the budget."

Jude frowned. "Excuse me?"

The consultant started to repeat himself. Jude interrupted him. "Who is we?"

"Me and Fred. We think that the health care vertical deserves more money this year."

There it was. The first real silo to sprout at Cousins Consulting. Though he was tempted to dive in and crush it immediately, Jude decided to let it sit there in the open for a moment so he could appreciate it in all its destructive glory.

Then he crushed it. ■

THE THEORY

Introduction to Silos

Building a cohesive leadership team is the first critical step that an organization must take in order to give it the best chance of success. However, even when leadership teams become cohesive, there is another, more structural issue that often thwarts their efforts and creates unnecessary politics within an organization. That issue is silos.

Silos are nothing more than the barriers that surface between departments within an organization, causing people who are supposed to be on the same team to work against one another. And whether this phenomenon is called departmental politics, divisional rivalry or turf warfare, it is one of the most frustrating aspects of life in any sizable organization.

In most situations, silos rise up not because of what executives are doing purposefully, but rather because of what they are failing to do: provide themselves and their employees with a compelling context for working together.

Without context, employees at all levels — especially executives — easily lose their way. Even the most well-meaning, intelligent people get distracted and confused

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Introduction to Silos

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amid the endless list of tactical and administrative details that come their way every day. Pulled in many directions without a compass, they pursue seemingly worthwhile agendas under the assumption that it will be in the best interest of the organization as a whole.

But after a while, employees in different divisions begin to see their colleagues moving in different directions, and they begin to wonder why they aren't on board. Over time, their confusion turns into disappointment that eventually becomes resentment — even hostility — toward their supposed teammates. And then the worst thing of all happens — they start working against those colleagues on purpose!

The Silo Mentality

This maddening problem exists, to different degrees, in most companies. And in too many of those companies, leaders who are frustrated by the silo mentality mistakenly attribute it to the immaturity and insecurity of employees who somehow just refuse to get along with one another.

But the fact is, most employees deep within an organization have a genuine interest in working well across divisions. That's because they feel the daily pain of departmental politics as they are left to fight bloody, unwinnable battles with their colleagues.

If there is a place where the blame for silos and politics belongs, it is at the top of an organization. Every departmental silo in any company can ultimately be traced back to the leaders of those departments who have failed to understand the interdependencies that must exist among the executive team, or who have failed to make those interdependencies clear to the people deeper in their own departments.

There is a simple and powerful way for leaders of any organization to create context around that interdependency: They must establish, for the executive team as well as the rest of the organization, a thematic goal. A rallying cry. ■

The Thematic Goal

A thematic goal is a single, qualitative focus that is shared by the entire leadership team, and ultimately, by the entire organization, and it applies for only a specified period of time.

To avoid politics and turf battles, executives must establish an unambiguously stated common goal, a single overriding them that remains the top priority of the entire leadership team for a given period of time. In turn, this thematic goal serves to align employees up and down the organization, and provides an objective tool for resetting direction when things get out of sync.

Key Elements

A thematic goal is not a long-term vision or, as Jim Collins and Jerry Porras refer to it in their book *Built to Last*, a BHAG (big, hairy, audacious goal). Nor is it a tactical metric or measurable objective. While it is important that companies have both a vision to motivate people and a set of tactical objectives to guide their daily activities, the thematic goal lies somewhere in between them, and may be more important. That's because it bridges the two by making the vision more tangible and by giving the tactical objectives more context. The key elements of a thematic goal include:

Single. There can be only one true thematic goal in a given period. That is not to say there aren't other desires, hopes and objectives at play, but none of them can be attempted at the expense of accomplishing the thematic goal. When a company is tempted — and most always are — to throw in one or two more, they defeat the purpose of the thematic goal, which is to provide clarity around whatever is truly most important.

Qualitative. The thematic goal is not a number, and it is not specifically measurable. It is a general statement of a desired accomplishment. It requires a verb, because it rallies people to do something. Eventually a thematic goal will indeed be supported and clarified by metrics, numbers and target dates. But this comes into play two stages later in the goal-setting process and should not happen sooner.

Time-Bound. The thematic goal does not live beyond a fixed time period, because that would suggest that it is an ongoing objective. To the contrary, it is a desired achievement that must occur during a set period of time — usually between three and 12 months, depending on an organization's business cycle and its unique situation.

Shared. The thematic goal applies to everyone on the leadership team, regardless of his or her expertise or interest. While it is true that some thematic goals will more naturally fit within one particular executive's area of responsibility, it is critical that all team members take responsibility for the goal and for doing anything they can to move the company, not just their department, toward the accomplishment of that goal.

This means executives must remove their functional hats, the ones that say *finance* or *marketing* or *sales,* and replace them with generic ones that say *executive*. And not only do they have to avoid being parochial in their advocacy, they must dare to make suggestions and ask questions about areas other than their own, even when they know relatively little about those areas. That's because the most insightful questions and ideas often come from people with a more objective — even naive — viewpoint than those who live and breathe an issue every day.

But a thematic goal, on its own, will leave an organization confused about what exactly to do. And that's where *defining objectives* come into play. ■

Defining Objectives

Once a thematic goal has been set, a leadership team must then give it actionable context so that members of the team know what must be done to accomplish the goal. These are called defining objectives because they are the building blocks that serve to clarify exactly what is meant by the thematic goal. It's also worthwhile to look at these three required elements of a defining objective:

Qualitative. It is tempting for executives to want to over-quantify defining objectives because it gives them a sense of closure and certainty, especially after struggling with the notion that the thematic goal was not quantified. However, assigning numbers and dates to defining objectives only serves to limit the involvement of leadership team members who cannot see how they might directly impact a numerical target.

Shared. Even when a clarifying objective seems to be geared specifically to a member of the leadership team with functional expertise, it is critical that all leaders assume a very real sense of accountability and responsibility for achieving it. And even if a given executive has no technical knowledge about that objective, he or she must play a critical role in ensuring that every angle is explored and every distraction is avoided. Often the best ideas about an issue come from people not closely involved in that issue.

Time Bound. When the thematic goal is no longer valid, the defining objectives also disappear. ■

Standard Operating Objectives

It is critical to acknowledge the existence of other key objectives that a leadership team must focus on and monitor. These are the regular, ongoing objectives that don't go away from period to period.

Standard operating objectives include topics such as *revenue* and *expenses*, as well as other items such as *customer satisfaction*, *productivity*, *market share*, *quality*, etc. The danger for a company lies in mistaking these critical objectives for a rallying cry, because most employees struggle to rally around "making the numbers" or "cutting costs."

But that's not to say that a thematic goal cannot involve one of these categories. If a company's biggest area of focus in a given period is accelerating revenue growth, then that could be the leadership team's thematic goal. Or maybe in the face of the loss of many key customers, the executive team decides that increasing customer satisfaction is the rallying cry for that period. Fine.

But leaders must resist the temptation to say, "If we don't make our numbers, then nothing else matters." While that may be true in the most literal sense, it doesn't qualify as a thematic goal if it isn't unique to a given period. Instead, call it what it is: a critical but standard operating objective.

By using these standard operating objectives as rallying cries too often, executives engage in the "boy who cried wolf" syndrome, provoking cynicism and lethargy among employees. Calling revenue a standard operating objective shouldn't diminish the importance of achieving it. ■

Metrics

Once the thematic goal, defining objectives and standard operating objectives have been established, a leadership team can now start talking about measurement. Without these three other areas, metrics have little or no context, and employees, including executives, will not be nearly as motivated for hitting those metrics as they could be.

Keep in mind that even metrics are not always quantifiable numbers. Often, they are dates by which a given activity will be completed. Trying to artificially assign specific numbers to immeasurable activities is unwise because it encourages the achievement of arbitrary outcomes that may or may not contribute to the thematic goal. ■

Case Studies

The best way to understand all of this is to look at examples because there are many different kinds of thematic goals and related objectives. Here are two examples:

Example #1: A Global Pharmaceutical Company

Situation: As two of its bestselling drugs went generic, the company purchased a smaller but sizable competitor in order to acquire a host of early stage drugs in the emerging anticholesterol market and related categories.

Thematic Goal: Complete the merger.

Defining Objectives: Establish a comprehensive strategy for the new organization, create a single, unified marketing message, establish a single look-and-feel (logo, collateral, etc.), eliminate redundant and underperforming products, and merge back-office systems and processes.

Time Frame: Nine months.

Standard Operating Objectives: Revenue, market share by product category, profitability by product, employee turnover, and adherence to new product development and approval schedule.

Example #2: A Two-Year-Old Software Company

Situation: Sales have increased faster than plan, along with the number of employees and customers.

Thematic Goal: Establish an infrastructure for continued growth.

Defining Objectives: Install a more scalable and comprehensive accounting system, upgrade the customer tracking system, establish polices and procedures for human resource management and hiring, hire a chief administrative officer, and outsource IT support.

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Case Studies

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Time Frame: Six months.

Standard Operating Objectives: Make revenue numbers, maintain cash flow, retain key customers, achieve positive assessments from market analysts, and get positive marketing/PR hits. ■

For additional information on more examples, go to: http://my.summary.com

Managing and Organizing Around the Thematic Goal

Once a leadership team determines its thematic goal, defining objectives and standard operating objectives, it needs to keep that information alive in the course of running the organization. The place where it needs to be reviewed and discussed is during regular staff meetings.

There are two steps required to establish a real-time agenda, and the process should take no longer than 10 minutes.

First, go around the table and give every member of the team 30 seconds to report on his or her three top priorities for the coming period. Then, review your team scorecard, which is nothing more than a to-be-graded list of the items that make up the defining objectives and the standard operating objectives. Rate the objectives by color — red, yellow or green — based on the judgment and intuition of the leadership team members.

Once the ratings have been done, the team members are ready to decide where to spend their time and energy. This is the time to challenge someone on the team who is planning to spend time on an issue that is either unimportant to the thematic goal, or related to an area that is already doing well. This kind of peer accountability about how team members are prioritizing their precious time and resources is key to an organization's ability to focus, and it is the thematic goal that provides the context for doing this. ■

Thematic Goals and Long-Term Context

When a thematic goal runs its course and is largely accomplished, an organization must come up with another, and then another. Successful organizations achieve a delicate balance between predicting what is going to happen over the long term and responding to unexpected circumstances along the way. This calls for a planning approach that provides the right amount of context without unnecessary restrictions.

A thematic goal provides that context because it exists within the framework of six to 12 months: a time horizon that can be accurately managed. Organizations find that their plans become irrelevant or stale. Shorter-term goals don't provide enough time for people to get their hands around something difficult.

Does that mean we should abandon weekly metrics? Absolutely not. But they should be established within the context of longer-term thematic goals. And what about three- and five-year plans? They're fine too, as long as you don't lead yourself to believe that they're going to last.

When a thematic goal is clearly established and communicated, employees should be able to look up from their work at any given time and see how they're contributing to an outcome that is far enough away to give them the ability to succeed, but not so far away that they cannot imagine ever being finished. ■

Matrix Organizations

Matrix organizations are forums for confusion and conflict. They have certainly not contributed to the breakdown of silos; they've merely added an element of schizophrenia and cognitive dissonance for employees who are unlucky enough to report into two different silos.

But the matrix is here to stay, and so it is critical that we understand how to make thematic goals work within it. Ironically, a thematic goal is exactly what is needed to transform a matrix reporting structure from a tool of confusion to one of collaboration.

The real problem with matrices is that they put employees in difficult situations by asking them to please two leaders who are not aligned with one another. By achieving clarity about the number one priority in an organization, and by clearly identifying the defining and standard operating objectives that contribute to it, an employee will have far less reason to fear being pulled apart at the seams.

And if that employee does start to feel some pull, it is a great opportunity for elevating an issue to the leaders in charge, because, like a canary in a coal mine, it is an indication that alignment is breaking down. ■

For additional information on the extremes leaders choose when planning, go to: http://my.summary.com

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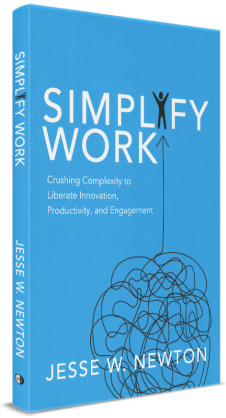
Simplify Work

Jesse W. Newton

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Simplify Work

Crushing Complexity to Liberate Innovation, Productivity, and Engagement



by **Jesse W. Newton**

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THE SUMMARY IN BRIEF

Complexity is wreaking havoc on organizations and individuals at an increasing rate. Organizations and the people in them are paralyzed by controlling and energy-sapping rules, processes, and transactional expectations, all of which are giving rise to a sense of hopelessness and holding organizations back from delivering breakthrough innovations and executing at speed.

Simplify Work promises to reveal the typical drivers of complexity in our organizations and in our lives and provides a practical method for simplifying work. Author Jesse W. Newton shares his experience and research regarding how to go about simplifying work in a careful and sustainable manner. This information will benefit anyone that believes there could be a better way to run our businesses in the 21st century.

IN THIS SUMMARY, YOU WILL LEARN:

- To identify the key drivers of complexity in your organization.
- How to use design thinking to identify and solve top complexity problems.
- To rethink strategy, structure, and systems to simplify work.
- Personal steps to take to become free of burdening complexity.

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Sarah T. Dayton, Editor-in-Chief • Meghan Kozak, Director of Content • Kylie O'Connor, Graphic Designer

Complexity is wreaking havoc on organizations and individuals at an increasing rate. We are on the front step of a new industrial revolution but are still using 20th-century methods of organizing how work gets done. Consequently, many organizations cannot realize the phenomenal performance potential this new revolution promises.

Also, individuals are unhappy, unhealthy, and burning out at an increasing rate. The time is right to rethink how work gets done.

Bogged Down in a Spaghetti of Structure

An epidemic of debilitating complexity is affecting businesses large and small. This disease restricts innovation, limits productivity, disengages the workforce, and eventually leads to organizational failure. Debilitating complexity takes the form of unnecessary and complicated structures processes, systems, rules, metrics, and checks and balances. Businesses traditionally add more and more of these things as they grow, which stifles innovation and entrepreneurship.

So many people are stuck wasting a significant part of their day doing low value, non-core activities. The implication for business is that things move too slow, people think and act in silos, it's hard to get anything done, decision making is poor, innovation is missing, risk-taking is low, and it all leads to increasing costs and being left behind by more nimble competitors.

Today we are of the front step of the fourth industrial revolution. We are living in a digital era where artificial intelligence, big data, and the internet of things are revealing big opportunities for us to finally step out of transactional, repeatable work and focus our time, energy and capabilities on the activities with the greatest value. It is now critical to refocus teams and strip out and simplify unnecessary work.

While getting to simple may take a lot of hard work and persistence, there are some core components or ways of "getting to simple" to help in this important endeavor.

Get Clear on Purpose: There has to be a clear sense on the strategy, mission, or vision so you can begin to remove the things that are cluttering the business.

Organize: A comprehensive picture of the current state should be obtained so themes can be extracted and used to group and organize the minutiae.

Reduce: Prioritize, reduce, and remove those things that are not essential.

Using Design Thinking to Simplify Work

There is a bigger process that more effectively guides simplification beyond the common methods of getting clear on purpose, organizing, and reducing: Organizations can use design thinking to simplify work.

People take for granted how their lives are shaped by design, from the physical feel of a seat to the convenience of an online shopping experience. Design is everywhere and is constantly seeking to improve human experience. Design thinking has a number of defining characteristics that set it apart from traditional problem-solving methods.

One is taking a human-centered approach versus a purely analytical approach. Designers put themselves in the shoes of the people who will be using the product or experiencing a service. Through this they reveal critical problems to be solved or opportunities to enhance the design. When pursuing simplification, truly immersing oneself in the world of the worker reveals all kinds of contextual insights that would never be gathered purely from a survey or data analysis.

Design thinking is also highly participative. There is a focus on engaging clients and impacted teams throughout the simplification process as there is so much value in doing so. When they're engaged in the process, it fosters buy-in and ownership, which is essential if the solutions are to be embedded into the business and sustained over time.

The design thinking method can be sequenced in three steps:

1. **Empathizing and Illuminating:** Capture information about what people actually do and how they do it through stakeholder interviews, workshops, observations, and surveys. The key is to ask great questions, often the same question multiple ways, and truly listen to reveal opportunities. Make sense of the "current state" information by quantifying the amount of work spent on various activities and aggregate sources of frustration.
2. **Ideation:** Bring together small teams of diverse areas of expertise to brainstorm and explore any and every avenue to solve the top problems. If someone comes up with an interesting idea, others should feel energized to build on it, tweak it, evolve it, or explore tangents. The team will begin to converge on the ideas, grouping

them into themes and from that, a prioritized list of the top three to five solutions should be generated.

3. **Prototyping and Iterative Implementation:** With prototyping, the solution ideas coming out of the ideation process are rapidly designed and tested. The intent is to learn as much as you can through experience and then iterate the design based on lessons learned. The learning, adjusting, and evolving never stops. This promotes a culture of continuous improvement, curiosity, and reflection which then reduces the risk of failure mentality that can stymie innovation.

Common Simplification Focal Areas

Many parts of a business can create confusion, cloud focus, and absorb time and energy but some specific areas generate the lion's share of this muddy state.

Simplify Strategy: As organizations grow, they often expand into new business units and geographies or acquire other businesses. All of this expansion has traditionally resulted in more complexity. More structures, processes, rules, and responsibilities are defined to maintain control of the expanding workforce, and strategic focus gets hazy.

Interestingly, there is one common tactic that leaders deploy to successfully turn around a business: they shed all extraneous business units and return clarity and focus to the business. They simplify strategy. Sometimes organizations need to pare down the number of initiatives they have running at one time to regain strategic clarity.

Another method for simplifying strategy is to simply ensure that everyone knows what the strategy actually is. It is surprising how often employees are not truly clear on what is most important in their business. Without a clear understanding of an organization's strategic priorities, one cannot make decisions that align with what the company needs to do to win.

An effective communication campaign can play an important role in building collective understanding and buy-in for an organization's strategy. All the complex elements of a strategy need to be distilled into a pithy, succinct statement or visual. Language is crucial, so each word needs to be carefully selected. The simpler the language, the better.

How the communication is delivered is also critical. The messages need to be displayed or delivered in a way so that it is rapidly understandable, energizing, and easily attainable. This is often done by carefully visualizing complex content, using metaphors, and storytelling. Metaphors paint a picture for us, which speeds understanding. These metaphors, when used in a story format, are remembered more easily.

Rethinking Organization Design: How a company is organized is often a significant driver of complexity. Structural design directly affects how people get work done, how goals are met, how decisions are made, how communications flow, and how the degree of control influences accountability and autonomy.

The most common organization structure type that most large businesses have today is a matrix. It caters to complex organizations that have multiple business units operating in markets around the world. Back-office functions are integrated into regional shared service centers and business units are organized by market, product, or service.

The challenge with matrix organizations is that people get lost in the web of functions, product groups, customer segments, and geographies. They become territorial with resources and talent, coordination becomes a nightmare, and more approvals are required to ensure oversight of performance.

Companies are starting to explore new ways of operating that are counter to the traditional models. Instead of assuming that people cannot be trusted and therefore need to be controlled, the emerging designs serve to liberate the intelligence of their people by empowering them with the autonomy to work, decide, and execute as they see fit. This autonomous team structure, otherwise referred to as an agile organization or holacracy, is getting more and more attention.

The major differences that this relatively new structure embodies include:

- **Clarity from the top:** Vision, mission, and strategy are set and clearly articulated by leadership.
- **Removal of layers of management:** Vertical reporting lines are removed and replaced with pods of small teams.
- **Category pods:** Pods are established for each product, service, or market.
- **Small autonomous teams that are focused on a particular opportunity:** Each team determines how they solve problems and make decisions, when to execute, and how to incorporate lessons learned.
- **Coordinating nodes:** Teams are closely coordinated through ongoing check-ins.
- **Managers become coaches:** Traditional managers

are redeployed as coaches, and their role is to enable effective teaming, mitigate conflict, and provide feedback and coaching.

There is a lot of value in evolving an organization model to empower people, but each company needs to carefully create a model that will work in their unique commercial environment.

Stripping Out Bureaucratic Practices

Bureaucracy acts like an anchor, prohibiting efficiency and killing momentum. An important contributor to bureaucratic practices is unwieldy processes. Identifying better ways of doing a repeatable process has been a core management task for a long time and has delivered tons of value to businesses over the past century.

Examples of processes that are unwieldy and inappropriately time consuming include: performance management, budge setting, travel booking, expense processing, and compliance.

Schedule a bi-annual or annual review of core processes and take steps to reduce or remove low value processes. The more we can redesign or remove non-core, low value activities and enable space and focus, the more likely we are to free the performance potential of people.

Making Sense of Systems

Too many employees struggle to find the information they need within their company's information system. IT functions need to deliver simple and user-friendly solutions for employees, so the complexity is contained as much as possible and people get the right information or connectivity when they need it, in a form that is digestible and usable so that focus and energy can be used on problem solving and innovating.

Simplify You

People have more and more work to do, are spending less and less time with their families and are not taking time to disconnect and recharge. The go-go-go mindset reduces one's ability to think strategically and operate in a proactive manner. Steps can be taken and skills can be built to smash complexity in your life, take control, increase your energy, be more productive, and be happier. It's time to begin to live simply.

Here are the steps you can take to simplify you:

1. Reduce clutter: It is mentally liberating to get rid of things that are not needed. With a simplified environment, we feel less stress and mentally scattered.
2. Get clear on what is most important: With clarity on what truly matters most you can say no to the various things that pop up during the day that are not your highest priorities.
3. Plan effectively: Annually, quarterly, and weekly plans should be completed for your professional and personal life. Put all plans, including date nights and taking your kids to school, on your calendar and adhere to it.
4. Avoid distractions and interruptions: Turn off phone notifications, designate time for email, and avoid low-value meetings.
5. Nurture and protect energy: Learn to meditate, practice positivity, prioritize quality sleep, and remain active.

The image of what work could be like when simplification takes hold is an inspiring one. The idea of people rapidly learning and developing, using all their creative potential, and positively throwing all of their energy into work that matters is a beautiful image. We can get there. We just have to take the first step to simplify work.



Jesse W. Newton is the founder and CEO of Simplify Work, a global consultancy that specializes in unburdening organizations from paralyzing complexity. In his work with clients, Newton advises across the spectrum of simplification focal areas, including rethinking organizational structure, transforming culture, and building smart skills in individuals and teams. Clients include Mondelez International, McDonald's Corporation, and PepsiCo.

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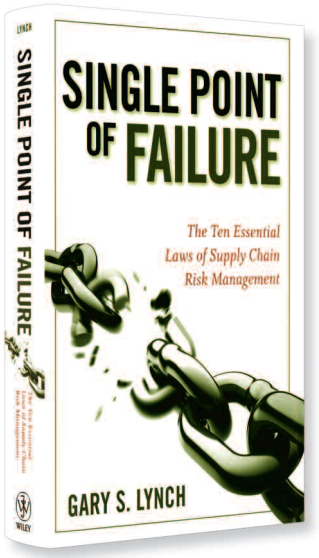
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Single Point of Failure

March 2010

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Management: Strategies



Single Point of Failure

The Ten Essential Laws of Supply Chain Risk Management

by Gary S. Lynch

THE SUMMARY IN BRIEF

It is mind-boggling to consider what it takes to produce the products we depend on — critical drugs like blood thinners, plastic-based products such as syringes, isotopes for medical imaging and milk-based formula. Or maybe your livelihood depends on having access to your online order entry system or on the timely receipt of parts from your suppliers on the other side of the world. The occurrence of a single point of failure — whether a product contamination, labor strike, trade credit crunch, earthquake or health crisis — can interrupt the flow of goods and cause total systemic failure.

In *Single Point of Failure*, internationally recognized industry veteran Gary Lynch reveals the 10 vital laws you can use to successfully identify, measure, mitigate and finance risk. Lynch offers guidance for establishing your organization's supply risk management program, avoiding bad decisions and gathering better information and data to make good decisions.

You need to learn the root causes of problems and decide whether you have the proper systems in place to mitigate risk. Addressing risk from several points of view, this summary shows you how to remain agile to avoid risk, be resilient to absorb risk, develop sustainable methodologies and maintain risk solutions.

IN THIS SUMMARY, YOU WILL LEARN:

- How to establish your organization's supply risk management program.
- Why no risk strategy is a cure for bad decisions.
- What causes supply chain risk management demand to trump supply.
- Why managing the parts does not equal managing the whole.

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THE COMPLETE SUMMARY: **SINGLE POINT OF FAILURE**

by Gary S. Lynch

The author: Gary S. Lynch, CISSP, is the managing director and global leader of Marsh's Supply Chain and Risk Management Practice. He has contributed to the World Economic Forum Global Risks Report. He is also the author of *At Your Own Risk* and has appeared on NBC Nightly News, Bloomberg TV, ABC and CNBC. Additionally, he has been published in *CEO Magazine*, *Shanghai Business Review* and *CIO Insights*.

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Introduction: Getting to the Truth

The supply chain represents the ecosystem of flows, relationships, infrastructure, labor, assets, technology and processes that drives a business. For most, it is the business — excluding the market and clients. As the supply chain concept evolved over the past decade, so did the opportunity to improve productivity, eliminate overhead, and speed the flow of goods and services.

Supply chains and supply chain management have matured and now represent the "business network" or "value chain" needed to support the innovation, creation, manufacturing, assembly, distribution, service and disposal of product.

Risk

In an overseas product factory, a contract manufacturer actually is not dealing with unique or segregated problems; the processes at that plant exist as part of a complex supply chain, and an enlightened manager recognizes that the level of risk passes from there all the way up the chain — from the manufacturing floor in Taiwan to the customer in New York. Marketing managers, accountants and mailroom supervisors (as well as those who are directly engaged with the operations of supply chain such as logistics, procurement, production and transportation personnel) all face the same issues; they may not have the same control demands, but the concept is identical. All processes consist of a series of steps and functions that equate to a chain. But it takes only a single weak link, the *single point of failure*, for the entire chain to fail; so the risk-conscious culture must be agile, resilient, sustainable and adaptable. This premise applies everywhere and to everyone, and the simple truth of this problem cannot be ignored.

More alarming, perhaps, is the very real possibility that a supply chain could contain many weak links, and failure can (and will, based on Murphy's Law) happen at the worst time, in the worst conditions and more than once — such as a pandemic.

Remember, *believing* that all is well may be a self-deception. You need to continually analyze and evaluate the risks to your supply chains and business networks, determine and learn from the root cause of problems and decide whether you have the proper philosophy, culture and systems in place to identify, measure, mitigate and finance risk. Good business strategy dictates that you must:

- Remain agile to avoid risk.
- Be resilient to respond, adapt and absorb risk.
- Develop methodologies that are sustainable to scale and maintain risk solutions.

The Laws of the Laws

Risk is a parasite that resides in every process. Thanks to globalization, the risk parasite can quickly weave its way through the logistics, sourcing and production processes that support long-tailed supply chains. The parasite can lie dormant in these processes, undetected by the organization. Then an event unleashes the parasite, creating a single point of failure, a broken link in the chain. The catastrophic outcomes can affect any stakeholder in the supply chain regardless of geographical or organizational boundaries. Whether an explosion at a natural gas plant or the availability of a single part, today's interdependent and lean supply chains as well as a fiercely competitive global marketplace leave little space, or time, for error.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

No Boundaries

Think of the risk parasite as a metaphor to remind us how to address existing vulnerabilities and anticipate future challenges throughout the supply chain before they become catastrophic. The risk parasite knows no boundaries. It resides in every resource and attaches to every process flow.

You need to define exposure to uncertainty in terms of impact: the cost of the loss, and what that loss means in terms of stakeholders, your brand and reputation, and even to the basic ability to provide goods and services to your customers. With this definition in hand, you can better understand the practical realities, or the Laws of the Laws, to guide you with the execution of your own supply chain risk management. Consider these four concepts:

Law of the Laws #1: Everyone, without exception, is part of a supply chain. We live in an age of interdependency; small ripples upstream cause tidal waves downstream. Ultimately, you are responsible for risk itself (risk accountability).

Law of the Laws #2: No risk strategy is a substitute for bad decisions and a lack of risk consciousness. Almost all adverse impacts can be traced back to a bad decision somewhere in the chain. Bad decisions are made without accurate or relevant information (uninformed decisions), significantly influenced by emotion and not made fast enough.

Law of the Laws #3: It's all in the details. The details are needed to understand and manage risk in the flow of products, services, information and cash. Broad generalizations can be costly by over-allocating resources to the wrong priorities.

Law of the Laws: #4: People always operate from self-interest. Operating in self-interest yields short-term gains and long-term risk. The need for collaborative tools, rewards and communications vehicles and an iterative learning process is essential to migrate away from self-interest. ●

Law #1: If You Don't Manage and Lead Change, You Have to Surrender to It

In today's world of complex global supply chains, uncertainty itself is certain since there are so many contributions of resources (labor, technology, physical assets and relationships) that are exposed to a broader scope of threats. It is for this reason that the supply chain must be viewed in its entirety and in a level of detail that has never been analyzed before. New operating assumptions must be applied. The operating assumptions must include:

- "Expect the unexpected" now should be considered the norm. The impact must be better understood, measured and monitored, as well as viewed in its aggregate.
- The risk of low-frequency/high-impact events and high-frequency/previously perceived impact events should not be managed separately; the consequences of both can be one and the same.

For an organization to be prepared for the unexpected, it has to identify potential triggers (whether individual events or the aggregate of warning signs), listen to the risk-conscious culture (and move qualified information quickly), rapidly escalate issues to those in authority and take action. It must also leverage existing risk programs, such as business continuity, crisis management, disaster recovery and emergency management.

A Moving Target

Managing supply chain risk is a matter of never-ending vigilance because change is your only constant. True risk management often occurs only when you are confronted with the unexpected. The looming catastrophe sharpens your response time and often, in the direst of circumstances, you perform best. Of course, avoiding catastrophic situations is the real goal, and it is not an easy one considering the nature of change itself.

We need to revolutionize our way of thinking at the core. This new thinking is characterized by the concepts of collaboration, visibility, consciousness, measurement (quantification, modeling, prioritizing), diversity, continuous improvement, embedded monitoring, decision modeling and expedited qualified information flows. With this new and enlightened, holistic approach, risk can become truly manageable. Without it, organizations end up applying 20th-century thinking to 21st-century problems. And that will not work.

Change is the constant, and if you're not out front leading change and shaping it, then you will forever be behind trying to catch up. ●

Law #2: The Paradigm Should Destroy the Parasite

If your organization is like most, your supply chain risk management practices are fragmented across organizational functions and defined internally by a variety of functional or departmental managers. However, the real-

ity of managing supply chain risk in today's constantly changing, complex global environment is that there is simply too much to manage and not enough resources to do it with — a single point of failure.

Additionally, the absence of industry and organizational policies, processes and protocols for prioritizing supply chain risk represents yet another significant single point of failure. How can the organization apply the basic principle of economics to get the greatest return from the least investment?

Establish Priorities

The process begins by establishing priorities. Today, supply chain risk activities are typically driven by, first, functional risk groups (security, environmental, health and safety, continuity) within an organization, working with business or operational stakeholders (security group and the head of distribution work together on managing a security risk such as product shrinkage or theft); and second, executive management via an executive mandate, normally defined at the top and communicated down through the organization by a senior executive such as the chief executive officer (CEO) or chief financial officer (CFO).

While both are important, there is yet another often-overlooked source for prioritizing the organization's supply chain risk. It is the owners of the risk, more commonly referred to as the external stakeholders. These owners represent customers, investors, regulators, underwriters, rating agencies and, in some instances, the government. They have the most to lose; they are responsible for setting the risk priorities or what might be referred to as the *risk paradigm*. The external stakeholders *define* the risk expectations that the organization must *execute*. This is a subtle but critical distinction that, if not conformed with, can lead to significant operational inefficiency or, worse, to a single point of failure.

A Risk Paradigm

A risk paradigm set by the stakeholders rather than the organization yields more aligned, efficient and resilient supply chain risk management.

The risk paradigm is non-negotiable and represents a contract between the owners and the custodians (those who will execute). When managing supply chain risk, the organization has little say in setting risk thresholds and priorities.

The internal priorities are established once the external stakeholders set their risk expectations.

Engineering efficiency into the supply chain is mandatory and so is the effective and efficient allocation of risk resources. The identified risk paradigm will receive the investment benefits of resources, capital, management attention and time. ●

Threats and Vulnerabilities

Effective supply chain risk management requires not that you focus only on the functional stages of the supply chain, but that you also understand the threats and vulnerabilities relevant to your extended supply chain — the market, value drivers, flows, processes, functions and resources that make up your organization.

Your supply chain risk (and its reliance on the process of Define, Narrow, Act) has to be viewed, and continuously re-reviewed, through a macro-threat lens. You need to pick apart the entire DNA of the risk parasite and destroy its effectiveness, remove it or neutralize its destructive force in minute detail.

Law #3: Manage Your Business DNA in a Petri Dish of Evolving Risk

Just as billions of human DNA collectively create a living being, the big picture for the organization relies on infinite supply chain configuration possibilities.

To map supply chain DNA and to truly understand behaviors that form the basis of how risk is being managed throughout your supply chain requires an understanding of the beginning and the end.

A New Definition of DNA

DNA can be redefined to create a model for aggressively mastering the risk challenge. Remember, your supply chains are your business in every sense of the word, so you need a three-pronged attack to get rid of the risk parasite within the chain itself. This new kind of DNA is: **D**efine, **N**arrow, **A**ct.

The three-pronged attack — *Define, Narrow, Act* — has to be applied systematically on multiple tiers of your and your supplier's organizations. The problem in many situations is that each function, department, segment, company and even individual operates within its own defined universe. The solution to supply chain risk management is to be able to view the entire organizational chromosome and then understand how your own universe fits into the larger picture.

The *Define, Narrow, Act* approach encompasses not

only the immediate responsibilities and routines, but it is holistic and inclusive of every piece of the supply chain from end to end. The supply chain is everything in this regard, because it is the route along which everything — product, information, cash and the risk parasite — travels. But while the supply chain is everything, it can also be nothing without a dynamic, effective and insightful series of initiatives.

Everyone managing supply chain risk needs to develop an appreciation for the larger organizational universe. Once that is understood, then the collective priorities — *Narrow* — can be pursued. It is a form of multidimensional thinking. ●

Law #4: In Supply Chain Risk Management, Demand Trumps Supply

Supply chains are slaves to demand. As demand unexpectedly increases, supply is depleted. In response to the shortage of demand, the organization will seek other means to fulfill and move supply and the network design of the supply chain will be permanently altered.

Extreme volatility in demand over short time intervals will have magnified effects not just to supply but to the strategic design of existing supply chain configuration, such as the location of key suppliers and warehouses. On the other side of the equation — if the threat is there and the market and/or customers lose confidence, then demand evaporates.

Two other demand factors have a significant and permanent effect on supply chains: product obsolescence and loss of confidence.

Organizations will need to establish greater visibility and transparency into the supply side of the chain. Just as critical, organizations need to begin the demand view by establishing visibility downstream — into the demand side.

Specifically, the organization should establish a clear line of sight and better understanding of:

- Customer and demand
- Market trends (local and global) and competition
- Distribution and sales channels (ability to get the product to the market)
- The external environment and the macro economic, cultural and geopolitical factors that impact it, such as a financial downturn, protectionism/trade restrictions and geopolitical instability.

Design

The design of an effective risk management system requires that the supply chain be completely understood, from source to final destination. This of course must start with an understanding of demand. This requires that everyone in your organization:

- Question their own basic assumptions about the business
- Broaden their organizational view to include not only the immediate environment but also the remote environment of suppliers, vendors and even customers
- Evolve this level of comprehension to understand where demand comes from
- Engage all parties, upstream and downstream, to collectively manage risk.

Everyone's Customer

Remember that the customer, whom a majority of employees never meet and whom few even understand, is the original driver of the entire supply chain; and all of the risks that your organization faces as part of that supply chain are traced directly back to the customer.

Risks that threaten the customer perception of your company and its presence in the market are risks you cannot afford to suffer. ●

Law #5: Never Set Up Your Suppliers for Failure

Failure at the genesis of the supply chain moves throughout the entire system, and failure can mean a specific delay, damage or price increase; or it can mean overcapacity problems that could last for years. Failure can be caused by, but is not limited to, poor economic and financial conditions. The failure of the environment in which the supplier operates, such as an infrastructure problem caused by a natural hazard or a geopolitical event, can also result in severe consequences.

Trust but Verify

In the mood of creating an effective partnership with your suppliers, you need to get your organization thinking in a different way about the whole supplier relationship. For example, your suppliers are not really *outside* of your supply chain or your organization.

An enlightened and holistic view accepts the simple reality: You cannot separate your organization from its suppliers. It's part of the same risk paradigm and cross-reliance.

In this newly recognized partnership between yourself and your suppliers, you need to adopt a new view of the entire system. A "trust-but-verify" concept has to replace one of the two more common points of view: trying to completely control suppliers and imposing restrictions on them without corresponding compensation, or ignoring the risks entirely and considering those risks as belonging to someone else. Neither of these models work, however "trust but verify" is more likely to help make the supply chain operate more smoothly, with less risk, and in a win-win environment.

Two Reform Ideas

Here are two ideas for reform going along with this:

1. Financial consolidation. Create joint venture partnerships, rather than strict vendor relationships, with suppliers demonstrating strong financial positions. By entering into relationships with solid companies, rather than with questionable suppliers offering low cost but low stability, you avoid the unpleasant surprises that are most likely to come up during recessionary times.

2. Increased exposure for customers. You may need to contend with the problems of recessionary times by simply requiring customers to live with longer lead times for some products. This affects your ability to compete and may also directly affect your markets, notably when your products are sole-sourced. But unless you can solve the problems of sole sourcing and financing issues, this could be the only alternative left to your organization. ●

Law #6: Managing Production Risk Is a Dirty Job

What are the risks relevant to the manufacturing, fabrication, construction, assembly or subassembly production processes, resources and systems, such as the enterprise or manufacturing resource planning applications? Here are a few: labor strikes, workplace violence, cyber attacks, rising water, wind damage, machinery failure, obsolete technology and inventory, failed relationships, shifting earth, sabotage, pandemics, intellectual property theft, material and product shrinkage (theft) and infrastructure failure.

We must also take a closer look at all that can be exposed to uncertainty (vulnerabilities). The scope of resources includes labor, intangibles (knowledge, experience, corporate memory), process, technology, data, communications networks, machinery, boilers and physical assets, hand tools, vital records and public filings, inventory and relationships.

External Risks

What about the risks that the manufacturing process presents others in the community? In December 1984, a Union Carbide (now part of the Dow Chemical Co.) plant in Bhopal, India, leaked 42 tons of toxic gas. The actual death toll has been disputed, but Greenpeace cites a conservative number of 20,000. In the end, the presence of this manufacturing facility in Bhopal resulted in significant loss of life and damage to the environment. Sites that support production operations — especially manufacturing, processing and construction — are ground zero for environmental disasters and the rapid reproduction of the risk parasite.

A possible way to reduce production and labor risk may include shrinking the size of the supply chain while, at the same time, creating diversification in the routes of the chain itself. The solution should be based on where vulnerability exists and how big a priority the organization assigns it. That solution has to include, at the very least, these six absolute requirements:

1. Don't centralize warehouse and manufacturing or single point of failure manufacturing processes.
2. Never outsource without knowing where and who is involved, and without inspecting thoroughly and regularly.
3. Don't sleep. Don't assume you can fix the problem and then walk away; you can't.
4. Don't assume that you are the most important player in your suppliers' supply chain. This may occur in regions where prices are low, but the countries involved are piracy-friendly.
5. Never assume that insurance will make you whole or protect your reputation after a loss; it won't.
6. Expect to be on your own locally for the first 24 to 48 hours after a disaster, and longer if the disaster involves regional outages as well. You need an emergency plan to offset the down time and loss of productivity, protect valuable assets and ensure worker safety. ●

Law #7: The Logistics Risk Management Rule

Managing the parts does not equal managing the whole. Logistics management involves the integration of information, transportation, inventory, warehousing, material handling and packaging, safety and security. A ripple effect of missing a logistics target never diminishes in severity; it always increases as it spreads throughout your supply chain.

Movement and Uncertainty

The movement of goods creates uncertainty and logistics is all about movement. Before goods become final product, raw materials are extracted from the ground, forests, water and fields and then transported to suppliers. The goods (materials, components, liquid) are later shipped to manufacturers, assemblers or refineries. The goods are typically converted into work in progress or finished products. These goods are constantly moving through the product life cycle, with an occasional stop in a warehouse, distribution center or factory. The speed, frequency and size in which the goods move through the supply chain are dictated by demand and controlled and coordinated via logistics networks.

During the journey, goods are exposed to a continuous barrage of risks, including theft, destruction, delays, spoilage and even obsolescence; thousands of vulnerabilities, single points of failure, are presented throughout the life cycle of global supply chains.

Managing logistics risk requires an integrated view, one that parallels the flow and goods, cash and information across the supply chain. Functional risk management is still essential, as in the case of managing cargo security. But the functional elements must be integrated into the risk intelligent supply chain. One technique for managing product risk is to conduct a root-cause analysis to identify sources of risk. The organization can then assign responsibility to the appropriate functional unit for additional analysis, measurement and resolution.

Once the risk analysis is completed, successful practices can be implemented.

Priorities and Economics

Keep in mind that the goal of logistics risk management is not to try to eliminate the insurmountable number of risks that exist throughout the supply chain network. Instead the goal is to effectively and efficiently allocate precious risk resources against the greatest priorities — the single points of failure that will have the greatest impact. Simply stated, it's a case of economics — getting the greatest return from limited risk investments (resources allocated to the task). ●

Law #8: Mitigation

If supply chain risk management isn't part of the solution, it will become the problem.

The concept of *mitigation* — reduction of risk to a manageable level — is central to your supply chain risk management program. This idea may be thought of as managing the risk parasite to a level where it can no longer continue to damage the body of your organization. Like an actual parasite, you many not be able to remove it, but you can neutralize its damaging effects.

Building an Action Plan

Those managing risk in the supply chain should have systems for capturing and escalating these risk decisions or, more to the point, for forcing a risk decision. The range of choices in response to any risk includes avoid, accept/retain, mitigate, transfer or finance — but the choice has to be made. Second, a system for monitoring the action and ongoing exposure is essential to make sure the risk is managed in the desired way; this is especially important if you decide to mitigate a specific risk.

Although multiple views may be brought to bear, supply chain risk must be viewed from one vantage point, and it involves a short list of two critical questions:

1. *Who is responsible for understanding and managing threats?* You need to identify not only functional methods for mitigating risk, but also to decide how to communicate the importance of these steps to the decision makers.

2. *How can my organization build the required attributes and change its traditional view of risk?* The key to avoiding or reducing risk in the new, interrelated world is to develop the intelligence and the flow of information — anticipating, avoiding through agility and flexibility, or reacting to warning signs, containing and responding. The resiliency of your organization is going to be defined by how effectively you are able to identify, seize and build on these required attributes. ●

Law #9: Financing

Financing risk exposure takes many forms; uninsured risks can be catastrophic if your organization has failed to ensure that its true exposures are adequately covered.

Insurance as a supply chain tool for managing risk is a crucial and important element of any program, and has been for centuries. In fact, for more than 500 years, insurance has made logistics possible when it would otherwise have been too risky to take a chance on losses. The expansion of supply chains both geographically and technologically makes insurance more important than ever.

Insurance and Its Role in Supply Chain Risk Management

Risk financing and insurance can be categorized in five dimensions, each of which has significant impacts on your organization. Examples of these are:

1. *Disruption of the supply of goods or services and inadequate coverage levels*, which causes a failure to satisfy a customer's requirements on time and exposes the organization.
2. *Price volatility* may result in difficulties in passing on price changes and impact profits.
3. *Poor quality* of products or services, either upstream or downstream, which impact on the customer's financial satisfaction and include future financial consequences.
4. *Reputation damage*, which arises from problems within the supply chain, such as environmental threats. There is insurance for reputation risk; however, coverage is not broadly available and is expensive.
5. *Unnamed perils (in the absences of physical damage)*. In most policies, unnamed perils are not covered. For example, in 2009, the Influenza A (H1N1) outbreak was probably not covered unless your policy included a very specific clause specifying coverage for infectious or communicable disease outbreaks. ●

Law #10: Your Supply Chains Are All Independent but Unique

We all live with risk. Risk doesn't exist at a distant port or in a warehouse in another country; it is everywhere. However, risk is manifested in a unique way for every industry, geography, organization and individual.

If you apply the rules of organizational supply chains to your own behavior, you reduce your own risks and the risks to the organization of which you are a part.

Questioning Old Assumptions

What if the premise on which your organization is built is no longer valid? The point is not that it is a troubling idea, but that it is not asked often enough. The same thing applies to you personally. We humans do, indeed, need to continually evaluate and reevaluate our premises, the assumptions on which we operate and the beliefs that drive our activities.

On a personal level, risk is not meaningless nor should it be ignored, as it has been by so many people on the organizational level. But there is a danger. Just as organizational risk has lost its association as a negative or even as a threat, it has become easy for us as individuals to ignore or forget the supply chain risks we all face.

You can mitigate and eliminate risk only by (1) being aware of it, (2) measuring its impacts, (3) recognizing the course of events, materials and information, (4) deciding what steps have to be taken today to avoid future exposure and (5) constantly monitoring it.

Unavoidable Reality

The unavoidable reality of the globally connected supply chain means that single points of failure are found everywhere and not just within organizations. All of the troubling aspects of supply chain risk that we face are better managed by awareness and cooperation with other stakeholders. This is the most important point of all. Risk does not exist in isolation or elsewhere in our personal or organizational lives. We cannot escape it, but we can manage and mitigate it.

The degree to which you can manage risk ultimately determines how well you identify single points of failure and then pinpoint the steps you can take today to avoid dangers in the future. ●

Introducing Supply Chain Insurances

The idea of developing products specifically to address modern threats is being actively considered by a number of insurers. A new product needs to be designed in such a way that it derives exposure limits, retentions and the premium calculation parameters directly from the insured's profit and loss statement, but also in response to the realities of today's global markets — while also addressing the specific requirements of the modern supply chain and realistically addressing the threats faced within it.

Insurers have historically been reluctant to offer realistic forms of protection because insufficient data have been available to reliably assess the financial risks that accompany the launch of a new supply chain insurance (SCI) product. The reduction in value suffered by a number of companies from a supply chain failure minus the price for SCI insurance represents the value added by such an insurance product.

RECOMMENDED READING LIST

If you liked *Single Point of Failure*, you'll also like:

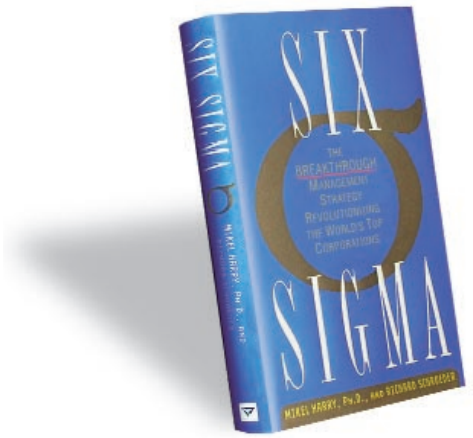
1. ***Proactive Risk Management* by Preston G. Smith and Guy M. Merritt.** Dramatically improve the way you handle project risks using the practical, easy-to-use, fact-based approach contained in this book.
2. ***The Complexity Crisis* by John L. Mariotti.** In this far-reaching study, Mariotti shows readers how corporate America can "keep it simple" and avoid the complexity of crisis.
3. ***The Solutions Focus* by Paul Z. Jackson and Mark McKergow.** You may not have to uncover the root of the problem in order to arrive at a good solution. Change experts use these proven techniques to get results.

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Six Sigma

Mikel Harry, Ph.D. and Richard Schroeder

SOUNDVIEW Executive Book Summaries®



By Mikel Harry, Ph.D., and Richard Schroeder

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The Breakthrough Management Strategy Revolutionizing the World's Top Corporations

SIX SIGMA

THE SUMMARY IN BRIEF

The Six Sigma Breakthrough Strategy is one of the most compelling and successful management strategies of the last quarter century. Using examples of successful implementation of the Six Sigma Breakthrough Strategy at such companies as General Electric, AlliedSignal and Polaroid, Mikel Harry, Ph.D., and Richard Schroeder (both of the Six Sigma Academy, Inc.) lay out in detail the theory and practice of achieving the astounding level of quality (3.4 defects per million opportunities) at the heart of this approach.

The Six Sigma Breakthrough Strategy is compelling and successful because it focuses on business processes and the components that comprise those processes. Among the lessons the authors impart in this summary are the following:

- What factors and business needs lead companies to implement Six Sigma.
- How to benchmark performance and use statistically constructed metrics to measure progress.
- How to break down a process into its elemental components, then find and correct the disconnects and variables that lead to errors, problems and dissatisfaction.
- How to structure your Six Sigma project teams, from the top down, and motivate them to succeed in their project-related endeavors.
- How to implement the Breakthrough Strategy at the business, operations and process levels.
- How to prepare your organization for the challenges, changes and ultimate rewards of Six Sigma.

There are also confirmations of Six Sigma's worth by no less a pair of executive-level experts than GE's Jack Welch and AlliedSignal's Lawrence Bossidy. They, among others, both note that in spite of the tremendous effort required to achieve Six Sigma quality, the Breakthrough Strategy is well worth every drop of sweat, every moment of frustration, every minute of training it requires.

The rewards of extreme quality can be yours, too. Turn the page to begin the process ...

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Why Six Sigma?

What drives companies to implement Six Sigma? Quality alone is not the most important motivating factor. Six Sigma is about improving profitability — each sigma shift provides a 10 percent net income improvement (see "The Cost of Quality" table below), a 20 percent margin improvement, and a 10 to 30 percent capital reduction.

Why Else Do Companies Implement Six Sigma?

It Sets Different Standards. Past definitions of quality focused on *conformance to standards* as companies strived to create products and services that fell within certain specification limits. If companies produced quality products and services, their performance standards were correct regardless of how those standards were met — even, for example, if a part had been reworked extensively to meet the standard. Six Sigma broadens the definition of quality to include (for both company and customer) expected standards of *economic value* — for example, the costs to produce a product — and *practical utility*.

It's Process-Oriented. Companies use thousands of processes (activities that take an input, add value to it, and produce an output) to create their products and services. Those processes can be industrial (involving machinery coming in physical contact with delivery materials) or commercial (involving human intervention, such as processing payroll or orders, that support industrial processes). Six Sigma creates specific improvement goals for every process within an organization, allowing companies to understand and incorporate new technologies for improved process performance.

It Stands for Quality. For some companies, the cost to deliver a quality product can account for as much as 40 percent of the sales price. For a company whose annual revenues are $100 million, and whose operating income is $10 million, the cost of quality is approximately 25 percent of revenue, or $25 million. If that company could reduce its cost of achieving quality by 20 percent, it could increase its operating income by $5 million — or 50 percent of current operating income. No wonder former Motorola CEO Bob Galvin was once quoted as saying that leaders must take quality to a personal level in order to create lasting improvements. ■

The Cost of Quality

Sigma Level	Defects Per Million Opportunities	Cost of Quality
2	308,537 (Noncompetitive companies)	Not applicable
3	66,807	25 - 40% of sales
4	6,210 (Industry average)	15 -25% of sales
5	233	5 -15% of sales
6	3.4 (World class)	<1 of sales

Each sigma shift provides a 10 percent net income improvement.

What Is Six Sigma?

- It is a business process that allows companies to drastically improve their bottom line by designing and monitoring everyday business activities in ways that minimize waste and resources while increasing customer satisfaction.
- It guides companies into making fewer mistakes in everything they do, from filling out purchase orders to manufacturing airplane engines, eliminating lapses in quality at the earliest possible occurrence.
- It doesn't merely detect and correct errors; it provides specific methods to recreate processes so that errors never arise in the first place.

The author: Mikel Harry is founder and CEO of the Six Sigma Academy, Inc. Richard Schroeder is president of the Six Sigma Academy. They implement Six Sigma programs at major corporations around the world.

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The Players in Six Sigma

Before we examine the Six Sigma Breakthrough Strategy in detail, let us first review the different players in your company who will be involved in the process.

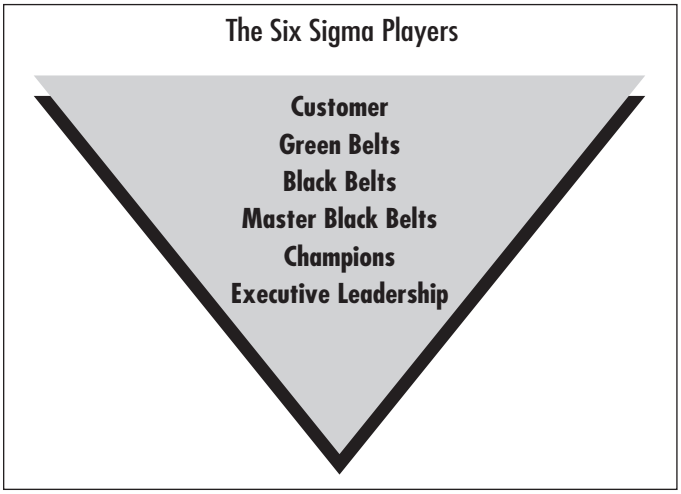
The inverted pyramid is a powerful metaphor for the support Six Sigma requires to succeed. At the bottom of the pyramid, supporting and balancing the structure, is the executive leadership, whose vision and values form the foundation, and without whose commitment the entire enterprise would crumble. At the top of the pyramid is the customer, around whose expectations Six Sigma quality is built. Between the executives and customers are the four types of players in Six Sigma: champions, master black belts, black belts and green belts.

Champions

These key leaders fall under two categories: Deployment Champions (who function in executive capacities, with the added responsibility of nurturing Six Sigma) and Project Champions (who function at the business unit level and nurture Six Sigma at the project level). These individuals organize and lead the initialization, deployment and implementation of Six Sigma — choosing the specific projects and implementing the required strategies and tactics.

Master Black Belts

These individuals are selected by Champions to act as in-house experts for disseminating the Breakthrough Strategy knowledge throughout the organization. They devote 100 percent of their time to Six Sigma — training and coaching Black Belts and Green Belts and communicating overall progress and status of projects within their areas or businesses.



Black Belts

These individuals, working under the tutelage of a Master Black Belt, apply the tools and knowledge of Six Sigma to specific projects. Like Master Black Belts, Black Belts devote 100 percent of their time to Six Sigma projects. They undergo extensive training in statistics and problem-solving techniques, and should pass that knowledge on by training 100 Green Belts every year. Indeed, the bulk of executing the Breakthrough Strategy falls to Black Belts.

Green Belts

These employees execute Six Sigma as a part of their overall jobs. Although focused on the day-to-day projects that comprise their work, they are still given two primary tasks under the Breakthrough Strategy: deploying the success of Six Sigma techniques and leading small-scale improvement projects within their respective areas.

Breakthrough Strategy Training

Training for roles under the Breakthrough Strategy need not be limited to people within your organization; you can also leverage the training to improve your business partnerships. At GE's Travel Center, a unique cross-training program enables collaborative Six Sigma training between Travel Center management and managers at Carlson-Wagonlit Travel, the company that handles GE's company travel. A Carlson-Wagonlit executive achieved Champion status, then worked closely with the Travel Center's Master Black Belt to train Black Belts and Green Belts at both companies, cementing their business relationship, not to mention their collective commitment to quality. ■

AlliedSignal: Six Sigma Players in Action

AlliedSignal's Champions have created an infrastructure that supports Six Sigma training and deployment company-wide. Champion candidates must attend three and a half days of Six Sigma executive overview and participate in the traditional four-month Black Belt training process. Master Black Belts are selected from the best of the Black Belts; each Master Black Belt, in turn, must train and mentor 10 Black Belts. Those 10 Black Belts are then asked to train and mentor 10 Green Belts.

As a result, Six Sigma has been deployed across the company in a rapid fashion. Until 1998, Green Belt training was an optional program available to interested parties. The company has since made it a requirement for all salaried employees to undergo the 26 hours of training required for Green Belt certification.

This move to mandatory participation and the improvements that have resulted from the rapid Six Sigma deployment have helped AlliedSignal save $1.5 billion since the program was implemented in 1994.

The Six Sigma Breakthrough Strategy

There are eight phases involved in applying the Breakthrough Strategy to achieve Six Sigma performance in a process, division or company: **Recognize, Define, Measure, Analyze, Improve, Control, Standardize** and **Integrate**.

Each phase is designed to ensure the methodical and disciplined application of the Strategy, the correct definition and execution of Six Sigma projects, and the incorporation of results in day-to-day business endeavors.

These eight components of the strategy fall into one of four categories:

Identification. The *Recognize* and *Define* phases fall under this category, in which companies begin to understand the fundamental concepts of Six Sigma and recognize the Breakthrough Strategy as a problem-solving methodology with a unique set of tools. These phases allow companies to recognize how their processes affect profitability, then define what the critical-to-business processes are. The key component for companies to address in these two phases is variation across processes — how much of an impact variation has on results in terms of cost, cycle time and defect rates.

Characterization. *Measure* and *Analyze* fall into this category, which considers where a process is at the time it is measured and points to the goals to which a company should aspire by establishing baselines and benchmarks — thus providing a starting point for measuring improvements. Leadership creates an action plan to close the gap between current and desired processes, in order to meet goals for a particular product or service. It entails breaking down every product into its key characteristics, creating a detailed description of every step in a process, and measuring short- and long-term process capabilities.

Optimization. This category (comprised of the *Improve* and *Control* phases) identifies the steps required to improve a process and reduce the major sources of variation. Key process variables are identified through statistically designed experiments, and the "vital few" that have greatest impact are isolated. The knowledge gained from these steps is then used to improve and control a process, ultimately improving profitability, customer satisfaction and shareholder value.

Institutionalization. The *Standardize* and *Integrate* phases that comprise the Institutionalization stage address the integration of Six Sigma into the way a business is managed on a day-to-day basis. More than just a focus of projects through to completion, this stage offers a way to step back and look at how collective results of smaller projects affect the large, high-level processes that run the day-to-day business. ■

The Three Levels of Breakthrough: Business, Operations and Process

Almost every organization can be broken down into three basic levels. The highest level is the *business* level — the umbrella level that encompasses everything related to the company. The next level is the *operations* level, while the lowest level is the *process* level.

The success of Six Sigma is defined as the extent to which it transforms each level of an organization to improve that organization's overall quality and profitability. The fluidity of the methodology allows it to work up and down the different levels of the organization.

The Breakthrough Strategy is applied to each level of the organization as follows:

Business Level

The business-level application of the Breakthrough Strategy focuses on making significant improvements to the informational and economic systems used to steer your business, such as customer feedback or supplier quality. It requires a three- to five-year commitment from executive leadership to consistently do the following:

● ***Recognize* the true states of your business.** Do you really know the states (or conditions) of your business — for example, how well your company is doing in customer service (see box below)? You cannot

(continued on page 5)

Business "States" and the Systems that Support Them

The states of your business are the global business conditions created by the systems used to guide and manage your business. For example, you might focus on the state of your company's customer satisfaction. Customer satisfaction depends on 1) delivering a product or service that is free of defects; 2) delivering a product or service on schedule; and 3) delivering a product or service at the lowest possible price.

Each of these elements of customer satisfaction can be linked to specific systems in your company. For example, to deliver defect-free products or services, you need reliable quality measurement systems. Reliable scheduling systems are required to deliver products on schedule. Finally, good accounting and management systems are needed to deliver products or services at the lowest costs.

With Six Sigma, you'll identify the business states you need to improve, then work on the underlying business systems that will lead to that improvement.

The Three Levels of Breakthrough: Business, Operations and Process

(continued from page 4)

improve what you do not measure; identifying the various states of your business help you properly focus on what must be improved.

● ***Define*** **what plans must be in place to realize improvement of each state.** Creatively consider how to achieve a higher level of performance and relate those things to customer satisfaction.

● ***Measure*** **the business systems that support the plans.** Know what you need to measure and how to properly measure it, and get executive commitment to pursue the correct measurements.

● ***Analyze*** **the gaps in system performance and benchmarks.** Diagnose capability measures and assess performance gaps, through analyzing benchmarks and uncovering the "secrets" of how businesses operate at higher sigma levels.

● ***Improve*** **system elements to achieve performance goals.** Define your measuring system, collect the necessary data, analyze that data and prioritize your efforts for improvement.

● ***Control*** **system-level characteristics that are critical to value.** Monitor those efforts and their elements over a period of time, conducting regular "audits" of performance and controlling these critical-to-value characteristics.

● ***Standardize*** **the systems that prove to be best-in-class.** Compare the optimal performance of your business systems with similar examples elsewhere. When appropriate, apply these findings to other business units, capitalizing on the potential savings of your system-level analysis and control.

● ***Integrate*** **best-in-class systems into the strategic planning framework.** Roll the improvements out to all pertinent business units, folding these improvements into critical business strategies and tying the initiative to compensation as an incentive for full cooperation.

Operations Level

The Breakthrough Strategy helps expose "operational issues" for what they are: a collection of higher-level problems that become confounded. The Strategy helps break apart the "issue" into its components, allowing you to define problems, formulate plans and take positive actions. The Project Champion's role in this effort is as follows:

● ***Recognize*** **operational issues that link to key business systems.** Often, the tactical solution to an operational issue is masked by the underlying support system. For example, imagine a company's quality information system (QIS) which provides statistical data on product defects. The problem is that the defects are not identified until after the fact. Thus, while specific problems can be fixed, defects continue to appear sporadically over time. The company will not be able to improve its quality until it has identified the systemic problem: a QIS that delivers a posteriori data. Once it recognizes that the issue is system-dependent, it can find a solution (for example, an in-process quality measurement system).

● ***Define*** **Six Sigma projects to resolve operational issues.** Choose projects carefully. Six Sigma projects are usually identified and selected based on whether the project will save costs, is connected to operational issues with larger critical-to-quality (CTQ) issues, is connected to the operation of a business support system, and can proceed in a time-efficient manner.

● ***Measure*** **performance of Six Sigma projects.** Quantitatively gauge how well projects progress, in both an absolute and a relative sense, collecting and analyzing data at the appropriate business levels.

● ***Analyze*** **project performance in relation to operational goals.** Compare the performance of a number of Black Belt projects with the operational goals of your business, and investigate the relationship between cycle time and quality.

● ***Improve*** **the Six Sigma project management system.** Say, for example, that a business is tracking the savings generated by a project. At this point, it might start comparing projected and actual project costs. Or it might want to track other variables, such as net savings or project completion time.

(continued on page 6)

The Importance of Benchmarking

Six Sigma makes ample use of benchmarking — a continuous practice of comparing your organization's processes with those of your competitors, noting what it takes to be the best and what it takes to get there. Companies must determine which type of benchmarking they wish to perform:

● **Internal:** Comparing common processes among diverse functions within a single company (for example, how effectively orders are processed).

● **Competitive:** Looking at direct competitors and their processes, measuring levels of customer loyalty, customer service and market share. This reveals what customers value most about your goods and services and how well your customers think you are doing in the areas that matter most to them.

● **Functional:** Focusing on the process itself, and organizations with similar processes, regardless of industry.

The Three Levels of Breakthrough: Business, Operations and Process

(continued from page 5)

● ***Control* inputs to the project management system.** Institute regular audits of the project management system, ensuring standards are established and consistently met.

● ***Standardize* best-in-class management system practices.** Once you have uncovered a best-in-class management practice, make it a standard and transfer that standard to all relevant sectors in the business.

● ***Integrate* standardized Six Sigma practices into policies and procedures.** Institutionalize your Six Sigma practice into the fabric of day-to-day operations, interweaving the practice into operating policies and procedures and reinforcing them through rewards and recognition.

Process Level

Black Belts focus on processes, working to recognize poor processes that result in problems, additional costs and eroded quality. Their role in applying the Breakthrough Strategy is as follows:

● ***Recognize* functional problems that link to operational issues.** Break down errors in an effort to recognize the interrelated problems that cause them. Note the hierarchical nature of these process problems — in other words, how *process* problems connect to *operational* issues, which are, in turn, tied to support systems that link to *business* issues such as customer satisfaction and profitability.

● ***Define* processes that contribute to the functional problems.** Determine whether the functional problems you have are related to products, services or transactions. Create process maps, breaking down necessary processes into individual steps, events or activities, to effectively search for solutions to problems.

● ***Measure* the capability of each process that offers operational leverage.** Express how well each process is performing, in the form of a measurement, noting the CTQ characteristics of each element, and its impact on the business.

● ***Analyze* the data to assess prevalent patterns and trends.** Determine the relationships between the variable factors in the process and determine the direction of improvements.

● ***Improve* the key product/service characteristics created by the key processes.** The Black Belt must focus on CTQ characteristics inherent in a product or service and then find ways to improve the capability of those characteristics. This is done by screening for variables that have the greatest process impact and establishing operating specifications for each.

● ***Control* the process variables that exert undue influence.** Process improvement is sustained by implementing measures that control the key variables. Note the difference between controlling the variables and merely monitoring them — you must address these variables *before* they contribute to problems, not after the fact.

● ***Standardize* the methods and processes that produce best-in-class performance.** Promote and standardize the Six Sigma methods that produced optimum results, as well as the optimized processes that result in exceptional performance.

● ***Integrate* standard methods and processes into the design cycle.** Don't create new processes for every new design or evolution in an existing design; make changes to the design itself to maximize efficiency.

The Breakthrough Strategy is designed to ensure that companies apply its precepts in a disciplined, methodical way; doing so at all levels ensures "leveraged" success. ■

Implementation and Deployment of the Strategy

To achieve Six Sigma, companies must determine how to focus and deploy the Breakthrough Strategy so that

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What Black Belts Need: The Psychology of Six Sigma

Black Belts, who shoulder the bulk of the responsibility for Six Sigma project work, must be properly motivated to reach the levels of achievement expected of them. Here are some ideas:

● **Compensation.** Compensation and reward mechanisms send a message to employees about the worth of the Black Belts to your organization and its Six Sigma endeavors. GE's Jack Welch ties 40 percent of bonus compensation for managers to the intensity of their efforts and measurable progress toward Six Sigma quality in their operations.

● **Promise of Promotion.** GE's ranks of general managers, directors and vice presidents are full of Six Sigma leaders — Black Belts who proved their worth to the organization and were rewarded accordingly.

● **Recognition.** Motivation is highest when success is acknowledged. Verbal and written recognition is inexpensive and simple, whether done privately or in an open and public manner.

● **Permission to Fail.** Most Six Sigma-conscious CEOs view mistakes as tools for the personal growth of both the Champion or Black Belt, and the organization, as it works toward Six Sigma status.

Implementation and Deployment of the Strategy

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key business priorities and strategy issues are sufficiently addressed. The approach that one company takes in this endeavor might differ from the approach another takes, but one component is constant: All implementation and deployment strategies must flow down from the executive leadership. Six Sigma is not a "grassroots" initiative.

Among the many factors you will need to address prior to implementation and deployment are dependencies, structure, focus and project selection.

Deployment Dependencies

Successful implementation of the Breakthrough Strategy depends on an interaction of several principles, among them:

- Active, visible, top-down leadership.
- Metrics that accurately track the progress of the initiative, weaving accountability throughout and providing a tangible picture of the company's efforts.
- Internal and external benchmarking that provides an honest assessment of the organization's true market position (the recognition of which may be termed a "significant emotional event").
- "Stretch" goals that focus on significantly changing, rather than "tweaking," existing processes.
- Sufficient and pertinent training at all levels of the organization.
- Champions and Black Belts that promote and carry out the initiatives at all levels of the organization.

Creating Focus

How a company decides to focus its Six Sigma projects directly influences the way Six Sigma is deployed. Companies can focus their efforts on any number of factors, including the following:

- **Cost Savings.** Using this factor, a company can determine the number of projects it needs to complete to save a specific dollar amount. There are limitations inherent to this approach; it is, for example, difficult to establish a new mindset about quality within the company when the dollar figure is the focus.
- **Deliverables.** Identify the product family or system that is both of utmost importance to your company, as well as being the greatest cause of poor customer satisfaction. The danger in this focus is that your defects become more important than the processes or systems that create the product.
- **Processes.** This is the best way to attack the root causes of defects and customer concerns. It requires strong cross-functional coordination — correcting a process in one division almost always has applications for other divisions within the company.

GE: A Six Sigma Success Story

When GE CEO Jack Welch first considered implementing the Breakthrough Strategy in 1996, he discovered the company's operations were running at somewhere between three and four sigma, or about 35,000 defects per million — a number consistent with the defect levels at most successful companies. At a company the size of GE, that translated to a cost of $7 billion to $10 billion each year in scrap, reworking of parts, and correction of inefficiencies.

Welch committed the company to reaching Six Sigma status (3.4 defects per million) by the year 2000. Recognizing that the initiative would go nowhere without training and vision, he committed an astounding $450 million in 1996 and 1997 to train 5,000 executives and managers and 80,000 engineers and other employees in the Breakthrough Strategy. Welch also made Six Sigma training a requirement for any kind of advancement at GE.

The company used Six Sigma strategies to poll customers on the most critical-to-quality (CTQ) measurements of their business. It also used the Breakthrough Strategy to raise the quality of their service divisions, such as Capital Services (where Six Sigma efforts helped achieve a 62 percent reduction in turnaround time for repairs) and international divisions like GE Aircraft Engines (the Canadian division that reduced border delays by 50 percent through following the Breakthrough Strategy).

The result: In 1998, revenues rose 11 percent, to $100 billion; earnings increased 13 percent, to $9.3 billion; working capital turns rose from 7.4 percent in 1997 to 9.2 percent. Even more encouraging, though, is the company's continued eagerness to invest in its most important asset — its intellectual capital — and the resulting dedication from its employees to achieve each new challenge and objective.

Structural Elements

How a company organizes the personnel involved in Six Sigma projects depends on how it's focusing its deployment, as well as how Six Sigma is integrated into the organization — whether resources are freed up to focus solely on Six Sigma concerns. There are a number of concerns that must be discussed and decided upon prior to launching Six Sigma projects:

- **Black Belt selection.** Who chooses Black Belts and what criteria must be used? How many Black Belts does the endeavor require? How will Black Belts be recog-

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Implementation and Deployment of the Strategy

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nized and rewarded for their efforts?

- **Project selection.** What criteria must be met to engage or terminate a project? Who will sign off on projects, and what criteria will they use?
- **Metrics.** Which metrics will be standard across the company? What improvement goals will the company set?
- **Coordination.** How will Six Sigma be coordinated with other organizational endeavors?
- **Budget.** How will the company handle budget issues, such as whether the salaries of Black Belts are categorized as direct or indirect costs?
- **Training.** How will the company train its Master Black Belts to deliver Black Belt training? What guidelines will be used for Black Belts to select and/or mentor Green Belts?

Project Selection

The key to good project selection is to identify and improve those performance metrics that will best boost your company's financial success and impact its customer base. Projects can be measured through the following key metrics:

- **Defects Per Million Opportunities,** or the total number of defects per unit divided by the total number of opportunities for defects per unit, multiplied by 1,000,000.
- **Net Cost Savings,** or the verifiable reductions in fixed or variable costs.
- **Cost of Poor Quality,** or the cost (in scrap, rework, warranty claims or returned material) of failing to produce 100 percent quality the first time through.
- **Capacity,** or the number of good units a process is able to produce in a given period of time.
- **Cycle time,** or the length of time it takes to produce a product or service. ■

Preparing an Organization for Six Sigma

One thing Six Sigma mandates above all else is change — the movement from often deeply held behaviors that do not deliver quality to different behaviors that all but guarantee it. This often clashes with company cultures and subcultures that are resistant to change, when the old, paternalistic ways of doing business fall in direct conflict with a new reality. Individuals who have done the same job successfully for many years may feel the need (or the entitlement) to cling to the past. If it ain't broke, the thought goes, why fix it?

To achieve Six Sigma, your company must endure extensive psychological changes, entrenching the quality improvement efforts into a progressive corporate culture over an extended period of time (at least five years, as the authors have discovered). Your company might be using traditional metrics (such as first-time or final yield) to measure quality, but those metrics often focus on previous performance, rather than proactively preventing mistakes from recurring.

Six Sigma shows companies how inadequate such metrics are to get to the heart of problems and disconnects that cost significant amounts of money without management even realizing it. Often, it shows companies just how "average" they are.

As is the case with so many other aspects of Six Sigma, one of the best illustrations is that of GE. Jack Welch believes only true believers and visionaries ("A" players, in company parlance) have any business being in leadership positions in GE. In order to get people involved in Six Sigma — to cultivate Green Belts and Black Belts — you must first have forward-thinking executives and senior managers on board in leadership roles, to evangelize the Breakthrough Strategy and motivate people to implement its precepts, and to embrace change at every level. ■

Polaroid's Project Selection Criteria: A Snapshot

Polaroid's endeavor to reach Six Sigma quality levels by 2001 is one of the most remarkable case studies in implementation of the Breakthrough Strategy. One reason for this is the criteria by which Polaroid Black Belts (or, in the company's parlance, "Variability Reduction Leaders") select projects. The company breaks its criteria into three primary categories:

- **Low Yield Rate.** When one or more of the company's processes produce low yield on a continual or unpredictable basis.
- **Cost of Poor Quality.** This criterion measures products and processes that require continuous and unusually high levels of inspection or quality-related intervention in order to deliver products or services to the consumer. This factor can be compared against revenues to determine the need for a Six Sigma project.
- **Capacity.** Undercapacity means that a company does not have the facilities, tools or human resources to produce products on time. While this hasn't been a concern for Polaroid to date, the company feels it is an appropriate criterion for selecting a Six Sigma project.

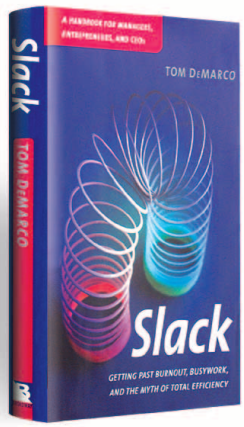
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Slack

Tom DeMarco

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Tom DeMarco

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Getting Past Burnout, Busywork And the Myth of Total Efficiency

SLACK

THE SUMMARY IN BRIEF

Change has become the organizational mantra in today's fast-paced and increasingly global marketplace. But too often this need to change and adapt is confused with keeping employees busy all of the time and achieving total efficiency.

Constant overtime and aggressive schedules are symptomatic of the "Hurry Up" organization. Efficiency is pitted against effectiveness, minimizing cost against minimizing time. Middle management has been squeezed so that there is less management and more "on task" efforts.

What gets lost in this "Hurry Up" organization is the time it takes to think up new procedures or products; in other words, slack. In today's knowledge-based economy, unlike the factory-based model of prior centuries, creative management of slack is essential for a healthy, growing organization. In this summary, Tom DeMarco explores some of the most common, die-hard management theories (Total efficiency, Management by Objective, Internal Competition) and shows how they are inappropriate for today's knowledge-worker-based economy. He then shows how to create productive slack in your organization.

What You'll Learn In This Summary

✓ **To be truly agile, corporations must manage slack at all levels.** By sacrificing a little bit of efficiency, you can make your organization a lot more effective.

✓ **The true cost of stress on the organization.** Constant stress might cause your employees to work faster, but it doesn't mean they'll work smarter or get more done; in fact, they often react by slowing down.

✓ **How to become a learning organization.** The knowledge economy is here. Is your company a learning organization?

✓ **The importance of middle management.** Here is the crucial level where re-invention occurs.

✓ **Rethinking risk and risk management in the knowledge economy.** Risk is a given in today's fast-paced economy.

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What's Wrong with Efficiency?

Not too long ago, efficiency was the catchword for defining the successful corporation. A project arrived on an employee's desk or station and he or she attended to it immediately. When finished, he or she immediately accepted the next piece of work. Efficiency experts were hired to fill in any gaps in workflows to assure employees were as productive as possible.

Today's economy is based on knowledge workers; their needs are fundamentally different from the factory work force, or even the office work force of more stable or predictable times. Forcing knowledge workers to conform to an overly efficient work flow system is detrimental to their effectiveness — and, eventually to the overall ability of a company to be as flexible as needed to meet the demands of a constantly changing, increasingly global market.

The Task-Switching Penalty

Here's one way overefficiency results in reduced effectiveness:

In a typical day, employees change tasks any number of times. With downsizing, fewer employees are expected to do more work, thus increasing the amount of daily task-switching. While fewer employees may look cost-effective at first glance, what is often overlooked is the true penalty that task-switching incurs with knowledge workers. Usually, this task-switching penalty is higher than any projected cost savings.

Take the example of a typical knowledge worker: a graphic artist. After a downsizing effort, her workload is increased from four to six projects at a time. Every project requires at least 10 minutes to physically prepare — getting the right materials, reviewing notes from the last group meeting, etc. Thus, the task-switching penalty for this person's work is 10 minutes.

Creative work also involves a few intangible phases, such as conceptualizing and immersion.

For example, imagine the graphic designer is conceptualizing an ad campaign or developing in her mind an interesting mix of images to convey a point. This process is interrupted as she is called on to do another task. Once she returns to her conceptualizing, how much time would she need to get back to the same point in her thinking? If she returns the next day, chances are she will have to go through some of the same mental steps she went through today.

The *immersion* phase is another of these intangible phases. Immersion involves the time writers, researchers, inventors, analysts or programmers need to mentally prepare themselves for their work. Think of a salesman building up confidence before a big presentation, for instance.

Interruption of these intangible phases adds to the task-switching penalty.

The Myth of Fungible Resource

The reason task-switching penalties are ignored is because employees are seen as "fungible resources." Fungible can be described as follows:

> **fungible:** *adj*. (especially of goods) being of such nature or kind as to be freely exchangeable or replaceable, in whole or in part, for another of like nature or kind.

Money, for example, is fungible. If you take some of it out of one pile and put it another (say move it from "maintenance" to "groceries"), you do not lose anything in the transfer. Dollars out of maintenance equals dollars into groceries.

Employees, however, are different. Time taken from one task cannot be transferred to another task without losing something in the transfer.

In other words, people believe that a writer or graphic artist who is "busy" only 57 percent of the time has 43 percent of her time free to devote to other projects from different departments, for example. But knowledge workers aren't fungible. To do their work effectively, they

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Benefits of Slack

- ✓ Flexibility that allows for ongoing organizational re-design
- ✓ Better people retention
- ✓ Better responsiveness of employees

What's Wrong with Efficiency?

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need slack time to cover the task-switching penalties as well as the immersion and conceptualizing phases. The more tasks given to the employee, the more of the 43 percent in "free" time is lost in the transfers. ■

Knowledge Workers Need Control Slack

Besides time slack, knowledge workers also require "control" slack. Unlike previous blue-collar work forces of a generation or two ago, today's knowledge workers value challenges in their jobs as much as pay. They want to be constantly growing their careers (as well as their paychecks). Managers need to find ways (other than monetary) to motivate these workers. One way is to give them more control over their careers, or at least appear to.

Think of a non-profit institution. What motivates people to "work" for no pay? In many such situations, volunteers are given total control over projects. If they are micro-managed, they quit.

Of course, in commercial enterprises, managers need to assert some control. Some, but not all. Managers need to give some leeway to knowledge workers — and that means allowing time for experimentation, and, sometimes, mistakes.

Managers need to find ways to offer knowledge workers choices that will not only achieve the corporation's goals, but also their own growth needs.

Controls Encourage Busywork

Many managers believe knowledge workers still need to be kept "on task." Let's look at how knowledge workers actually respond to factory-like efficiency controls.

Under such control models, workers are seen as individual stations along an assembly line of tasks. Information or parts move from one worker to another, each adding his or her own piece to the eventual finished product. One bottleneck in this assembly line slows others down.

But in today's much more dynamic and fluctuating workplace, things are not as smooth or predictable as in a factory. Deadlines or projects change direction halfway through, and work flows become uneven. Those with less work worry about being seen as less productive. To balance out the unevenness, knowledge workers actually slow down, so that they always have something to work on, or to "look busy" with whenever the boss happens to stroll by. ■

What Human Capital is Worth

As mentioned earlier, knowledge workers have an intrinsic need for slack time for the conceptualizing and immersion process phases. Using slack to give knowledge workers room for these intangible needs is nothing less than an investment in your human capital. Without slack, your employees won't have time to adapt to changes in the marketplace, and your company can lose its inventiveness.

In the knowledge-based economy, all employees matter. Of course not every employee is a star performer and some employees will always need to be re-assigned or even fired. But the costs in time and money of replacing any employee can be staggering.

Consider this formula to calculate the worth of your company's human capital:

Human capital =
(Time to get up to speed x Salary + Overhead) x 50%

Imagine employee A announces he is leaving. You replace him with employee B, who needs six months to get to the same level that A was when A left. Your investment in B's domain knowledge is 50% of 3 months' worth of B's salary and overhead. In other words, when A left, the company lost three-person months.

Extrapolated to show aggregate human capital over the long-term shows how damaging steady turnover can be. Existing employees must spend time teaching the new hires the routine, leaving less time for flexibility or slack in their own jobs. And if workers are constantly stopping their own work to help others, their frustration levels can lead them to leave. Thus, even when your non-star performers leave, the effect can be as damaging as when a star employee leaves. Everyone matters. ■

The True Cost of Stress and Healthy Internal Competition

It's not uncommon for workers today to be under enormous deadline pressures. Such "aggressive" schedules, which often lead to overtime on a regular basis, are meant to get results faster and cheaper, but what they mostly end up creating is unhealthy stress. Across the

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The True Cost of Stress and Healthy Internal Competition

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organization, such constant stress results in reduced effectiveness, employee burnout and increased staff turnover. As the saying goes, "people under time pressure don't think faster."

Too Many Cooks…

Although it's easy to understand the stress understaffing places on the rest of a project team, overstaffing can be just as much a problem. How does this happen?

Let's say top management has leaked an impossible deadline for a radically re-designed product that your department is in charge of producing. You know the deadline is a farce and try to convey this to your boss. Now you're both in a bind. The usual solution you're offered is twice the number of staff you actually need, to try and make up for the tight schedule.

This puts you in the position of the nine pregnant women in one room who still can't produce a baby in one month. The early conceptual phases of a project take time — and, in fact, are better managed with just a few key people. More people doesn't quicken the conceptual of a redesign — it just requires you to spend more time thinking up essentially busy work to occupy them.

Aggressive Deadlines Are Not a Sign of Success

Managers need to accept responsibility for setting these aggressive deadlines. It's become almost a rite of passage for managers to brag about the incredible deadlines they've made (or almost made).

However, there are detrimental effects of aggressive schedules. Today's knowledge workers by definition spend a lot of their time thinking. Routinely staying late to meet an unrealistic deadline robs them not only of needed sleep, but also their own private time. Tired, grumpy employees just can't think as sharply as well-rested employees. In fact, studies have shown that longer days (say 12 hours instead of 8) do not accomplish more than shorter ones. Stressed workers feel used and begin looking for new jobs.

Unhealthy Competition

Finally, top managers need to look at what kind of competitive message they are sending to their middle and lower level managers. Do you encourage managers to compete against each other, or to combine their competitive efforts? By definition, knowledge work is collaborative. Rewarding individual managers based on their performance relevant to other managers sends a very non-collaborative message. Collaboration—and learning and reinvention—take time. In a knowledge-based economy, "healthy" internal competition needs to go the way of the punch-clock.

Characteristics Of a Culture of Fear

- ✓ It is not safe to voice doubts
- ✓ Goals are so aggressive that there is virtually no chance of achieving them
- ✓ Power trumps common sense
- ✓ The consequence for not "knuckling under" to aggressive schedules is ridicule and abuse
- ✓ Those who are fired are generally more competent than the people who aren't
- ✓ Everyone is terrified of confronting their manager

Stressed Managers Aren't Effective

So much for stressed workers. What about stressed managers? Unfortunately, most of us have at one time or another witnessed a managerial tantrum—inappropriate, verbal abuse. Often it is just chalked up to "one of those things," and no one confronts the manager. If this behavior is allowed to continue, it pervades the corporate culture and creates a fearful environment—a "Culture of Fear" (see box above). Needless to say, such a culture is extremely detrimental to productivity, effectiveness, flexibility and re-invention. And most of time, this culture evolves through aggressive schedules and other organization-wide stress. ■

A Word About Litigation

One symptom of a "culture of fear" run amok is litigation. By one estimate, about one-tenth of U.S. corporations are involved in some sort of litigation — a situation that degrades morale among all employees (not to mention wasting time and money). A company involved in a court case doesn't have time to spend on re-invention and innovation.

Often, litigation arises from a flawed contract that neither side should have agreed to in the first place. Healthy companies, on the other hand, know that allowing someone to fail in an effort is not the same as finding blame. Writing a good contract requires slack. Imagine two vendor companies with identical contracts, the only difference being that the cheaper one has eliminated any wiggle room (or slack) into the deadline. Ultimately, writing contracts that both sides feel good about signing is the aim. ■

Management Models to Avoid

No one wants to operate in a culture of fear, but we all have pressures and deadlines. How we deal with these pressures determines what kind of atmosphere we create for our employees. In this section, we examine four common management models.

The First Law of Bad Management

Consider the manager as a sense organ, always considering his or her effect on employees, and constantly adjusting his or her focus as needed. But unfortunately many managers approach their job from the opposite point of view — by imposing an external framework or "management model of the week." If one model doesn't seem to provide instant results, they assume the fault is with them and keep trying. It's easier to keep trying something rather than to admit we failed. If we read a book about the great success of one management model, then we'll do whatever it takes to get those same results at our companies. Thus we have *The First Law of Bad Management*: If something isn't working, do more of it.

The Second Law of Bad Management

Without any slack in your company, it is almost inevitable that managers will commit the second law of bad management: "Put yourself in as your own utility infielder."

There is an almost unconscious belief that since managers do not directly perform any services or make any of the products for the customer, their role is "less essential" than others. But management does matter, and good management is the backbone of a healthy organization.

Management is not easy because it involves slippery issues such as interacting with people, motivating people, and resolving conflicts. Management is more nuance than science. Because of this, it is psychologically soothing to step in as a "pinch hitter" for an employee here and there. We can relieve ourselves of the management challenge and do something with which we are familiar.

There is another reason why managers fall into the second law of bad management: safety. In organizations that have trimmed staff to the bare minimum, as well as ones that operate under a culture of fear, only work directly related to making product and bringing in revenue is safe.

Process Standardization

Everyone benefits from product standardization. No matter which company manufactured our telephone, we can make and receive calls at will.

However, people — in particular, knowledge workers — are not products. Trying to standardize the procedures for knowledge workers is counterproductive and ignores the human capital value of knowledge workers. Taylorism, which grew out of Frederick Winslow Taylor's 1911 book, *The Principles of Scientific Management*, set out to create "interchangeable parts" for the human aspect of factory work. Even within the

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Standardization Is Not an Answer

One study at Bell Laboratories set out to identify the work procedures of its best engineers. Specifically, the study sought to isolate the different work habits of the most effective engineers. Surprisingly, the study did not find that many differences in procedures. Where differences were apparent, though, was in how these star performers managed their network of connections. These star employees, for example, had their phone calls returned on an average of 20 minutes while other employees waited four hours.

By trying to standardize knowledge workers' work procedures you focus too much on the mechanics of the task, rather than the rich connections that they have with their colleagues.

When a Corporate Quality Program Goes Too Far

The dedication to quality movement (with close to $1 billion a year in sales of conferences, books and seminars on quality, this model can certainly be called a movement) is unfortunately more bark than bite and has had the curious effect of making true quality harder to achieve. Why? Because quality takes time. Sadly, most corporate quality programs focus almost exclusively on eliminating product defects, and in doing so ignore other, perhaps more important attributes — such as uniqueness, usefulness and integrity. And to actually ensure real quality, companies need to scale back on quantity. What if a company ranked its products in terms of usefulness and only focused on those that were deemed the most useful? It is risky to challenge long-standing product lines.

The drawbacks of quality obsession can be summarized as follows:

- ✓ Defect prevention and removal efforts add too much overhead and time and become unresponsive to market trends.
- ✓ A new technology or process may at first be too defect-prone and thus abandoned instead of being used to create innovative new products.
- ✓ Anything deemed too risky may be squashed, leading to less and less creative re-invention.

Characteristics of a Powerful Visionary Statement

To be effective, a Visionary Statement needs:

- ✓ **an element of present truth;**
- ✓ **an element of proposed future truth;**
- ✓ **to be balanced between what is and what could be, with the could-be part wonderful but not impossible.**

Management Models to Avoid

(continued from page 5)

factory setting, however, examples abound of how manufacturing organizations have "gone beyond Taylorism." One example is Volvo's "team" configuration of workers. Each team follows one vehicle all the way through the production process, rather than each employee doing one specialized task on thousands of vehicles passing along an assembly line.

Management by Objective

Another popular management method (dating to the 1950s) is management by objective. In this model, individual departments within a corporation select a few quantitative measures, or objectives with which to gauge their success each quarter. Managers are responsible for moving each indicator toward a selected target. Each department's objective is a piece of the overall organization's strategic goals.

The problem with management by objective is that it is based on maintaining the status quo, and reaps only incremental changes. It also depends on stable market and business conditions, and in today's business environment, something is always changing. Thus, if one department's objective is to increase output, it may do so at the expense of another department — say human resources, which may face increased turnover due to the increased output. ■

The Role of Slack In Change and Growth

Organizations can't grow if they refuse to change. And while change is possible without learning, what would be the point. Change is often sparked by what you learned — and depends on new skills to become a reality.

More than anything, change, learning and growth require vision, leadership and timing. Slack is the lubricant that makes all of these possible.

Vision

If an organization hasn't clearly articulated what it is and what it stands for, then it cannot change. It can only react to external changes. Vision is essential for a healthy, growing organization. Companies with a well-defined vision also tend to have a well-established culture, which is what Peter Drucker considers the foundation for any constructive change.

People want to be led, but they need to know where they're going. Therefore, a powerful visionary statement, such as President Kennedy's "Ask not what your country can do for you but what you can do for your country," is essential for any meaningful change. The power of this statement is its implicit message that we are a country of achievers, that we are about doing what needs to be done.

Leadership

Crafting an effective visionary statement is only the first step of leadership. At its core, leadership is the ability to get people to sign on to your own agenda. And there is no one-size-fits-all formula for becoming an effective leader (but there are unfortunately lots of formulas for poor leadership!).

Because humans tend to be short-term thinkers, the challenge for leaders is to clearly define a long-term goal so that the short-term pain required for achieving it is seen as worthwhile.

Nokia offers a good illustration of effective corporate leadership. Throughout the 1950s this wood pulp and paper company had few acquisitions, such as transmission cable. Then in 1960 two of its engineers envisioned a future company in high tech—which is where the company is today. How was this achieved? By engaging every manager at Nokia to implement the necessary steps to transform their departments.

Top management orchestrated the overall direction, and gave encouragement. Part of this encouragement involved giving managers the slack they needed to lead their departments in new directions.

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Give-and-Take Leadership

Companies that allow open give-and-take, including respectful disagreement, are in effect letting leadership be seen as a rotating function. Employees feel safe in sharing their inspirations. What these companies are doing is showing that they trust their employees, which is a very powerful gesture. What inevitably happens is that once companies give this trust, employees return the feeling of trust.

The Role of Slack in Change and Growth

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Timing a Change Initiative

Even the best leadership can flop with poor timing. Corporations, like individuals, tend to resist change. In addition to following a set of sensible, step-by-step approaches, you need to time your change initiative carefully.

All too often, companies initiate change only when revenues start to decline. However, this is the worst time to try something new. Already, employees are feeling under pressure to improve productivity, and introducing new procedures will only heighten their anxiety. Instead, look further ahead to anticipate the slowing of a growth cycle, then introduce a change while employees are still experiencing success.

How Middle Management Makes Change Happen

Where does change happen? It doesn't happen at the top: Top managers may give the direction of change, but they are not involved in the day-to-day tasks that make it happen.

It doesn't happen at the bottom: Front-line employees don't have the overall perspective to reinvent — nor do they have the authority to carry out reinvention.

The answer: Change happens in the middle. The key role of middle management is to lead the company through change.

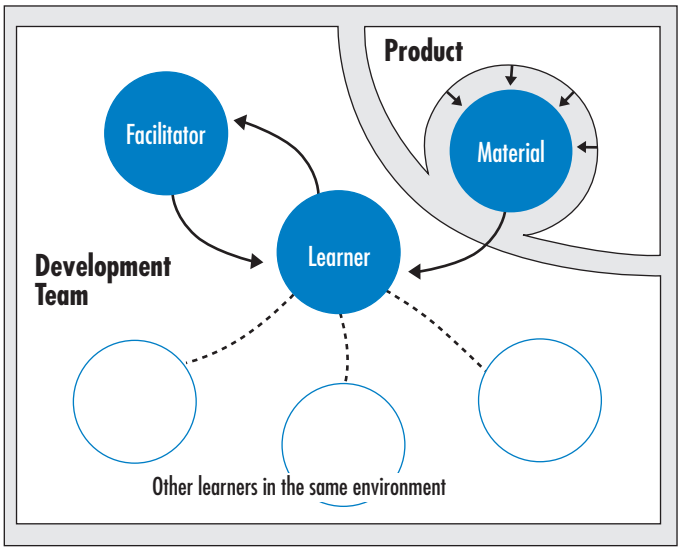
Those companies that flattened their hierarchies have flattened themselves in more ways than one.

Middle management has mistakenly come to mean mindless bureaucrats doing nonessential tasks that merely maintain the status quo. While change initiatives do need direction and support from the top office, if managers at the next level down are not empowered to work together or are not given the time to work on the change, change will wither on the vine.

Managers who are isolated and overworked on day-to-day tasks cannot lead change initiatives and help the company to reinvent itself. Companies need to allow some slack time for managers to devote to reinvention.

Or, to put it another way, those companies that flattened their hierarchies have flattened themselves in more ways than one.

To understand why slack time and the freedom to interact with other managers is so important to reinvention, we need to look at the core activity of reinvention: learning.



Where Learning Happens

Without learning, the organization cannot know what to change and how to change. Learning and change go hand in hand.

In companies, the team is an ideal configuration for creating a learning environment. Teams have common goals and objectives, and being in a group satisfies people's need for community.

The learning environment that a team supplies is shown above. It includes a facilitator or coach, material (a doable piece of project work carved off for you to learn on), and co-learners. Learning tends to happen best in an environment in which knowledge workers are learning together.

Learning Without Teams

The problem is that in many companies, managers are not learning in a team environment, but rather in isolation. While many new managers often are offered help in learning the mechanics of their job, most get no guidance in the areas that really matter: people selection and motivation, team jelling, listening, promoting and choosing correctly when to entrust new responsibility. After a one-week session of learning abstract concepts about management, the new manager is thrown back into his or her cubicle and expected to "manage."

This isolation of managers might be masked by the existence of the company's management "team." However, a management team is usually no team at all. Think about the format of your management meetings: Is it a working meeting, where issues get decided and directions are focused in a give-and-take among the managers? Or is it merely a "status" meeting, made up of individual managers taking turns talking to the boss?

Taking turns talking to the boss is not a team activity.

(continued on page 8)

The Role of Slack in Change and Growth

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Real teams are given real responsibility — and accountability — for their actions. It is at this team level of middle managers where important organizational learning can happen, but only in an environment that encourages joint communication, participation and responsibility. ■

Getting Comfortable with Risk

Without any risks, there would be no possibility of profits. Managing risks costs money, and spreading your risk tends to decrease the amount you need to spend to protect against it. But the problem for managers — as opposed to insurance executives — is that often your risk is concentrated in one project.

How much control do managers really have as to whether or not the project will be completed on time, come in on budget, or deliver enough value? You have only limited control over retaining the key employees through the projects' completion, for instance. And the tools you do have for controlling these other risks are by nature counterintuitive.

For starters, risk management asks you to quantify an uncertainty, and in most corporate cultures, managers are not allowed to be uncertain. By applying risk management techniques, however, you can better quantify the probability of certain risks occurring. Once you have considered all of the negative possibilities, you are better prepared to predict an accurate deadline.

The basics of any risk management approach must include:

- **Listing of each risk.**
- **A process for uncovering new risks.**
- **Quantification of each risk's potential impact and likelihood.**
- **Identification of a transition indicator, an "early warning" of a risk beginning to materialize.**
- **An action plan for coping with the materialization of each risk.**

This is a dynamic process, and includes elements of risk containment and mitigation.

Containment

Once an identified risk actually occurs, you need the flexibility to keep the project moving forward with minimal delays. If, for instance, your lead engineer leaves and you need to hire another, you draw on a risk reserve pool of funds for the hiring and training costs. This same reserve is drawn upon when unforeseen things happen (i.e., such as a natural disaster or terrorist action). Having a reserve set aside at the beginning reduces the interruption time.

Mitigation

Even before a risk occurs, you need to prepare for it. If a fire breaks out, you'd need to have thought of purchasing and installing a fire extinguisher well before the actual event. Before beginning any project, you need to write a plan of action in case each risk actually materialized. Mitigation planning is essential to effective risk management.

Risk-taking has replaced maintaining the status quo in today's business environment. Business leaders must constantly be developing new markets or exploiting new technologies that will transform their companies into growth engines. If you can't identify and name the risks you face in each project, you may be practicing risk-avoidance.

Below is a checklist of questions to ask about your company's most important project. The answers you give will determine whether you are managing or avoiding risks.

Managing Risks

1. **Is there a written list of risks?** Does it contain major causal risks and is it available to everyone working on the project?
2. **Is there a method for discovering new risks?** Is it safe for employees to signal new risks?
3. **Are any of the identified risks potentially fatal?** These are the ones that need your attention first.
4. **Is each risk quantified as to probability and cost and schedule impact?**
5. **Are there transition indicators identified for each risk, and are these indicators being monitored?**
6. **Is there a single person responsible for risk management?** (Generally, assigning this responsibility to one person is more effective than dumping it on the entire group. When the group is responsible, it's too easy for each member to assume someone else is looking out for risks.)
7. **Have you identified 'conditional' tasks on the breakdown structure?** This shows that you have considered the possibility of risks occurring, and have planned for it.
8. **Have you split the project's goal and schedule?** Remember that the earliest date by which the work could be done makes an excellent goal but an awful schedule.
9. **Is there a real possibility of finishing before the estimated date?** If not, the schedule is merely a goal, not an estimate. ■

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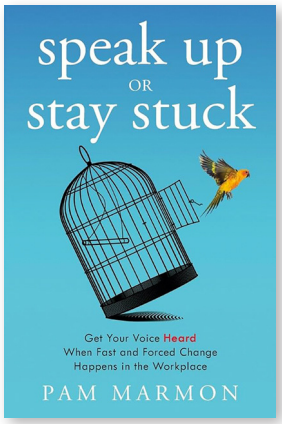
Speak Up or Stay Stuck

Pam Marmon

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Speak Up or Stay Stuck

Get Your Voice Heard When Fast and Forced Change Happens in the Workplace



by **Pam Marmon**

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THE SUMMARY IN BRIEF

Organizational change can be scary. While we don't particularly look forward to it, it is something we must understand, acknowledge, and embrace.

By helping us travel across the past, present, and future timelines, the book ***Speak Up or Stay Stuck: Get Your Voice Heard When Fast and Forced Change Happens in the Workplace*** helps us identify our change identity, find our voices, expand our influence, and become change resilient.

Author Pam Marmon lays out a roadmap to help us face organizational change head-on without getting negatively impacted by it. Through compelling stories and powerful actionable steps, she helps us leverage our voice and make change our choice.

IN THIS SUMMARY, YOU WILL LEARN:

- How to identify new organizational change growth mindsets.
- To determine appropriate ways to advocate for what you need.
- To discern what you can control and influence.
- To enlarge your change capacity.

Introduction

Change is inevitable. But change does not happen to you. It happens for you.

This book is for every leader who believes there is a better way. It is for every mid-level leader, manager, and influencer who has been told to "go make this organizational change happen," and yet feels voiceless, unrepresented, and stuck.

One of the central themes of this book is to use your voice and see change as a choice; not an act that you're forced to perform.

In Part 1, I address your view of how organizational change impacts your identity and experiences. In Part 2, you explore how the LESS (listen, empower, speak, solve) model helps you find your voice and grow your influence among senior leaders. In Part 3, you learn to expand your organizational change capacity and cultivate your personal change experience.

Part 1: The Past

Chapter 1: Your Change Identity: Below the Surface

Many of us experience pain in our lives without properly grieving hurtful and harmful experiences. The first step to overcoming grief is to acknowledge what has happened. If you've been in the workplace long enough, you've likely experienced poorly executed organizational change. If you want to move beyond the feeling of being stuck, grieving is necessary because it acknowledges the past, the hurt, and the loss, and then it frees you to accept the future. To view organizational change on a deeper level, ask yourself:

- How have my past workplace experiences shaped me into who I am today?
- What am I holding onto that I need to let go of?
- How can I position myself to be part of the solution in the future?

While grieving is necessary, it is important to not stay there for too long. Once you get past the grieving phase, it's time to forgive. Recognize past failures and hurts and extend grace to your leaders and to yourself so you can heal and move forward. Remember, you cannot control most changes in life or the workplace. You can, however, control your own expectations, your own behavior, and how you perceive the world.

Practice gratitude to change your attitude. A posture of gratitude offers you a perspective that enables you to turn difficult workplace circumstances into growth.

Chapter 2: Your Mindset: The Lies We Believe

What we believe about ourselves will manifest in our lives. If we pause and reflect, each of us will recognize that we have limiting beliefs. Those are thoughts and ideas that subconsciously drive our behaviors and ultimately direct the outcomes in our lives. Unless you're intentional, recognizing and correcting these beliefs is challenging. A few of the many limiting beliefs you might face during organizational change include:

- You are fearful of the fact that your leaders don't care about you. But the truth is, your leaders do care about you.
- You are worried that if you speak up, you will lose your job. If doing the right thing for the right reason causes you concern for your financial stability, it's time to determine how you want to invest your time and talent.
- You lack confidence because you feel what you think doesn't matter. The reality is, in some way, your contributions are making a difference and you are important to those around you.
- You have limited experience which makes you think you don't have much to add. The fact is, we are all on a learning curve, and we all have something to add.
- You feel a sense of resignation because you believe it won't matter if you speak up. You may be right, but you'll never know for sure unless you act. Sometimes it's your ideas that will shift the experience of others.
- You blame your senior leaders for not knowing how their decisions impact you. They may not know how the decisions made impact the people doing the work. If you can, try to speak the truth in a timely manner.
- You experience feelings of regret. You think you can't speak up now because you didn't speak up before. Living with regret doesn't change the past. If you seize the moment and act today, you can change the future.

Once you understand and acknowledge the lies you may have believed regarding your senior leaders, it becomes endlessly easier to adopt the positive mindset that change happens for your benefit and there is always something you can learn. Practice being the hero of your story by not giving your power away but instead taking responsibility for your life.

Part 2: The Present

Chapter 3: Listen: The Great Exchange

Listening is a required first step before formulating and offering valuable perspectives. Listening is synonymous with gaining understanding. People can only listen when they're ready to hear. Active listening can position you to understand the reason for the workplace change. It can help you and your team prepare to achieve the desired results.

Being on the receiving end of communications requires active listening. But how can you become a skilled listener and find your voice during organizational change?

Acknowledge that listening is the first step to understanding workplace change initiatives. Adopt a posture of curiosity and inquisitiveness, and assume the best intentions for your senior leaders. Practice patience and build trust as the impact of the workplace becomes clearer and more tangible with each phase of the initiative. Three of the most important messages to truly listen to include:

- Why is this change taking place?
- How will this change impact me and my team?
- What is expected of me to make this change successful?

Remember, once the change officially happens in your organization, you will be held accountable to deliver results that are directly linked with the change. So, voice your questions and listen to the responses before the change initiative is in full swing.

Chapter 4: Empower: Expand Your Influence

When rolling out a large organizational change, senior leaders rely on influencers to take the first step and demonstrate support. You have a choice: you can use your influence to propel the vision forward, or you can use your influence to slow down the progress.

Your influence is powerful. Empowering others means connecting to others by inviting them into the conversation. Acknowledge that you have the power to influence how workplace change is implemented in your organization. Allow adequate timing for others to accept the change. Empower senior leaders to help you understand and connect to the strategy of change, and then impart the understanding to others.

Leverage emotional intelligence as you empower and connect to your people. Make sure you invite them into the conversation when possible and consciously project a positive attitude. Finally, practice negotiations to advocate for creative solutions that benefit your organization.

Chapter 5: Speak: Find Your Voice

How effective you are as a communicator within your company is greatly impacted by its ecosystem. Low trust is a symptom of a broken culture. People who trust their leaders openly and respectfully share what is on their minds, but people who are fearful of their work environment often hold back.

If you want things to change in your organization, go first. Make the culture better. Be trustworthy, be kind and considerate, and become a better leader. Remember, your presence and position carries a responsibility regardless of the size of your sphere of influence.

Observe and consider how your immediate supervisor or senior leader wants to be communicated with. Communication is often divided into two categories: direct and indirect. Direct communicators prefer to communicate facts over feelings, be succinct, present clear and precise information, and ask specific questions.

Indirect communicators prefer to observe what is said as much as what is not said, read between the lines, avoid demands, and provide space for a proper response. Matching the communication style of the person you communicate with increases the likelihood of being heard.

Knowing what your senior leaders value helps determine how you can present your message in a way that will resonate with them. Leverage influencers in your organization to channel your message if your senior leaders prefer receiving communication from them. Finally, practice communicating during the optimal timing for your messages to be heard.

Chapter 6: Solve: Get Results with Minimum Friction

If you want your voice to be heard, you must deliver the right results because that is what is top of mind for your senior leaders. Think of results as your microphone. You can yell and scream to get attention, or you can use an amplifier and a microphone to confidently whisper your message.

If you want to stand out, you must deliver the results your senior leaders want. Some of the most important areas of interest to your leaders include: maximizing profit, achieving strategic goals, outperforming competitors, minimizing expenses, cultivating a healthy organizational culture,

establishing financial stability in the organization, attracting and retaining qualified talent, increasing customer satisfaction, and more. Ask them to define their desired outcomes. Stay empowered to define the processes that will lead you to the solutions for those outcomes. Leverage data and stories to communicate how you and your team are supporting the organizational strategy and the change in your workplace. Practice achieving and communicating metrics that your senior leader values to optimize your messages being heard.

Part 3: The Future

Chapter 7: Becoming Change Resilient: You and Us

Change resilience is about an entire ecosystem that nourishes, challenges, encourages, supports, and then surprises each of us. But here's the hard truth: change resilience is not about you; it's about us, together, because our interdependency and connection are precisely at the heart of resilience. The purpose of growing your change resilience is so you can discover the strength to uplift and refuel yourself, give yourself endurance, and propel yourself beyond your perceived limitations.

Aside from deploying collective efforts to build change resilience, you can expand on your own personal resilience to help you with organizational change specifically in the areas of your mind, body, and soul.

The best way to build your mental resilience is to feed your mind new ideas and new challenges and to create new thought patterns. On the other hand, the worst thing for building resilience is stress. Replace limiting thoughts with uplifting thoughts. Remember, the greatest weapon against stress is our ability to choose one thought over another. Choose to reframe your thoughts in a positive light instead of letting stress take over.

A healthy body is always better equipped to handle stress. Drink plenty of water, eat healthy foods, exercise, and do breathing exercises to build a resilient body. Nurture relationships and your spirituality to build a resilient soul. Practice reappraising your circumstances to grow your change resilience.

Chapter 8: Your Resilience Blueprint: Beyond the Horizon

The Resilience blueprint is a personalized document that will help you become more resilient and agile in the face of unpredictable circumstances, such as organizational change, so that you feel grounded and unwavering. it will help you move from your comfort zone, where you feel safe and in control, into your growth zone, where you achieve your purpose.

A resilience blueprint begins with a daily declaration to inspire you, center you on your vision, and guide you along the path forward. Following the declaration are your thoughts on these eight components:

- Daily declaration. In this section of the blueprint template, write a few encouraging and motivating sentences that will serve as a daily reminder of the way you are choosing to live your life.
- Gratitude. When you begin to count your blessing regularly, gratitude oozes out of your heart and you realize that life is full of joyful micro moments. An attitude of gratitude has the power to change you in a positive and long-lasting way.
- Mindset. Your mindset shapes your behavior, impacts your results, and carves out your influence. The most important voice defining your identity is yours. Describe the mindset you strive for and include the phrases you can say to yourself when negative thoughts arise.
- Guiding principles. Your guiding principles are how you live your life. These principles will consistently direct your behaviors

Conclusion

When facing organizational change, have you been the hero or the victim? Have you been marginalized and made to believe that you are "not enough" in some way? Have you believed lies that have caused you great harm? What story did you tell yourself when workplace changes failed? What story did you believe?

Pause here just for a moment with me. Close your eyes, take a deep breath, and pause. This pause has the power to change your life. This pause represents your choice. I want to remind you that change is not happening to you. It is happening for you. That said, keep on growing, adapting, and transforming our world for the better. Our future is in your hands.

No one ever suggested that guiding a company is easy. But the capacity you have to lead change in your company can also change lives for the better. That's a worthy goal. And remember, inside every challenge lies an opportunity.



Pam Marmon is the CEO of Marmon Consulting, a change management consulting firm that provides strategy and execution services to help companies transform. From executives at Fortune 100s to influencers at all levels, Pam helps leaders achieve lasting organizational change with minimal disruption. Pam is the bestselling author of *No One's Listening* and *It's Your Fault.* She is also the creator of the LESS change management framework.

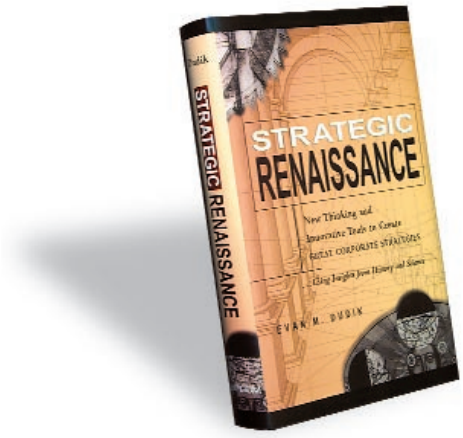
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Strategic Renaissance

Evan M. Dudik

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By Evan M. Dudik

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STRATEGIC RENAISSANCE

THE SUMMARY IN BRIEF

Do you have confidence in your corporate strategy? Is it succeeding in today's hyper-competitive world? If your company needs to develop a more scientific strategic approach, one that's sophisticated and creative, yet rigorous and results-oriented, then this summary is for you.

You have probably discovered that the old strategic approaches, including the pet concept of sustainable competitive advantage, just aren't working anymore. Your company is probably falling short because it is relying on imitating your competitor's strategies, brainstorming in dead-end circles with consultants, or seeing great ideas smothered by your corporate culture and the old way of doing things.

This summary offers a better way to develop strategy, showing you how to set your own course by systematically creating and exploiting opportunities. You will first be introduced to four guidelines for developing strategy: creating a strategic hypothesis; creating the if-then statement; using the Pivot and Hammer strategy; and understanding the principal of complementarity. You will learn, especially, how the military strategy of the Pivot and Hammer can be applied to business.

Next, you will learn why sustainable competitive advantage (SCA) doesn't work and how it should be replaced with opportunity creation and exploitation (OCE). You will then learn how to test and exploit the most promising strategies you created, expanding on the strategy until you have used it to its full advantage and it is time to start the cycle all over again. You will begin creating flexible asset bases that allow for continual redeployment into new strategies.

Finally, you will learn the importance of an effective top management team to harmonize your company's strategy and culture.

By applying the techniques you will explore in this summary, you will create a strategic renaissance for your company as we enter a new era of business where the old rules no longer apply.

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Don't Let Case Studies Decide Your Strategy

Business leaders, executives and strategists have looked for years to business books for strategic success. These books tout both the latest and the oldest business strategy concepts, usually using well-known companies as examples of how the strategy the author is touting works. The problem is that most of the time the companies used to illustrate the author's theory were hand-picked to prove why the author's theory is right. We don't know how many other successful companies the authors ignored because their strategy didn't fit the author's theory. The writer espouses a theory and then goes looking for confirming evidence.

Consider this example. When a well-known expert on logic and the scientific method, Professor Bob Cane, agreed to appear on television to debate the validity of horoscopes with a professional astronomer, he expected to squash the astrologer like a bug on the windshield of the scientific method. Instead, it was the astrologer who squashed him. The astrologer had truckloads of supporting facts at his disposal. He cited case after case in which the stars had predicted natural cataclysms, wars and the deaths of famous people. He had hundreds of confirming examples.

What the audience didn't hear about, of course, were the millions of predictions that never came true. But the astrologer was using the same logic as most strategy book authors. They provide as evidence lists of companies in which the strategy worked, but leave out any mention of companies in which the strategy didn't work. The premise that examples are proof is simply wrong.

There is a better way. It isn't the amount of evidence that can be marshaled to support a theory, such as examples of life happening according to horoscopes, business surging according to prescribed strategy, and weight dropping because of diet. Instead of proving a theory, we must go about disproving it. If you intend to prove the business strategy you want to pursue is right, you must pose the question in a way intended to prove it wrong — in other words, in a way that it is falsifiable. Here's how.

If-Then Statements

A business strategy is a prediction about what markets, customers and the competition will do in the future and how that will change depending on the action you take.

The best way to make a strategy falsifiable is to put it in the form of an if-then statement; the "if" clause sets out the conditions and the "then" clause sets out the expected results — precisely. The more precisely you state the conditions and the results, the more testable the strategy becomes.

A Tale of Two Theories

Wal-Mart has steadily been taking retail discount store market share from Kmart. The last decade has been a tale of two strategies. Kmart focused on upgrading its merchandise and store atmosphere. Wal-Mart focused on reducing inventory costs through sophisticated inventory management, improved vendor relations and lower transportation costs.

Each company's strategy was and is a testable hypothesis. Wal-Mart bet that overall lower prices would let it gain market share while Kmart bet that an upgrade would increase its market share. Their assumptions might have looked like this:

Kmart: If store atmosphere is upgraded through a $200 per square foot investment, and selection is upgraded by 2 percent per item on average, and a $50 million ad campaign focused on value and selection is launched, then in markets where we compete with Wal-Mart and Target, our market share will increase five points and average gross margin will increase at least 10 percent.

Wal-Mart: If prices are lowered storewide by an average of 2.5 percent, and we maintain gross margins at their current levels by reducing logistics costs, then market share in areas where we compete with Kmart will increase by at least 5 percent compared to stores without price reductions.

The author: Evan M. Dudik is president of Evan M. Dudik & Associates, Inc., a management consulting firm based in Vancouver, Washington. Dudik has also been a consultant for the international firm McKinsey and Company and a lobbyist in Washington, D.C.

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Don't Let Case Studies Decide Your Strategy

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For example, the statement "consumers will like lower prices" isn't good enough. A business strategy statement would be "If we can reduce average prices below competition by 3 percent, our market share will grow 10 points." That hypothesis can be tested — in other words, can be proven true or false. After you reduce prices by 3 percent, measure whether your market share grew 10 points. That's much easier than trying to assess whether consumers like lower prices. ■

The Four Key Elements of a Successful Strategy

There are no cookbooks for strategies. Because of the many variables involved in the success of a company, strategies will always differ in some ways from company to company.

The four elements in this article, therefore, do not represent a formula for a successful strategy for your company, but rather four guidelines to help in the development of a strategy. These four guidelines are as follows:

1. The Strategic Hypothesis

The first guideline is to create a strategic hypothesis that is about something vital, crucial and central to the company. Ask yourself, "If this strategy were adopted, would it be vital to the company?" If the answer is yes, ask what would be even more vital to the company. If you do, you will be cutting to the core of what your company needs to create a winning strategy.

2. The If-Then Statement

The second guideline is to recognize that the strategy must be conditional, an if-then statement. The "if" part of the strategic hypothesis sets the conditions for the expected result. The "then" part sets out the results, or at least what we hope the result will be. Don't confuse a strategic hypothesis with a goal. When GE says it plans to be number one or number two in every market it serves, it is stating a goal, not outlining a strategy. A computer company competing with Compaq might state, "*If* we focus resources ($x millions, y engineers) on new product development, *then* we will be able to match Compaq in time to market, beating them on price by 3 to 5 percent. The result will be $x million in cash flow and $x reduction in inventory."

3. The Pivot and the Hammer

Successful armies have long concentrated their force at an identified "decisive point." The place where you decide to concentrate your effort is the Hammer. The Hammer is where you play offense versus your competitors. But the Hammer depends on the Pivot. The Pivot is where you play defense, where you are already strong enough to hold the line while you channel resources into the Hammer.

How does the Hammer and the Pivot work? Since the Pivot is largely defensive, it relies on the idea that it takes much less effort to defend a position on the battlefield or a brand on the shelf than attacking or creating a new brand. Thus, as shown in the example above, Microsoft was able to play defense with its operating systems — where it was already strong — while moving on the offensive in other software sectors.

This is the power of defense. Armies that use the Hammer and Pivot to their advantage pull forces from their defensive positions (the Pivot) to their offensive position (the Hammer) and strike with overwhelming force. Businesses can do the same.

The next article explores the Hammer and Pivot strategy in more detail.

4. The Principal of Complementarity

A sound business strategy needs to consider complementarity. That is, the elements of the strategy must complement what your company already does. Consider Costco, for example. It sells to its customers in larger than normal qualities, thus complementing its strategy of buying larger than normal quantities at low per unit cost. Another example: Requiring vendors to package their items to fit Costco's specific, standardized warehouse pallet dimensions complements its marketing message that consumers can find items at Costco not found anywhere else. ■

Microsoft Uses Hammer and Pivot Against Netscape

In the 1980s and 1990s, Microsoft used its market power in operating systems as a Pivot point on which to Hammer one software sector after another — Lotus in spreadsheets and office suites and WordPerfect in word-processing. It hammered and hammered away until it fully dominated the office suite software market. Then came Netscape and the Internet explosion. When Microsoft realized it needed to get into the browser business, it pivoted using its now dominant office suite Office and developed a clunky browser it gave away free. And resources that could go into improving Office now go into Internet, e-commerce and multimedia development.

Strategic Anatomy: Strategy's Hammer and Pivot

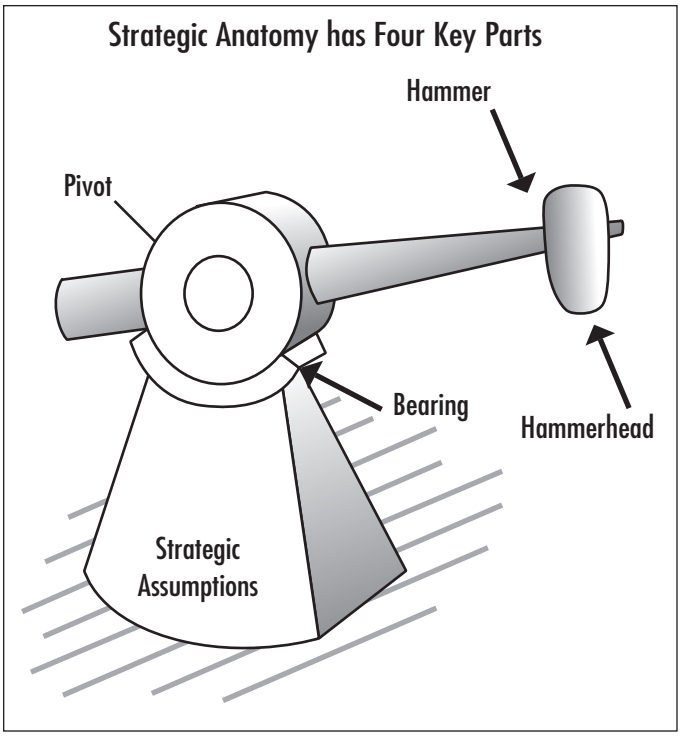
One strategy stands head and shoulders above the others. If you can fashion a robust Pivot and a powerful Hammer, half the battle is won. However, it's easier said than done. To do it right you must understand what lies behind the strategy. That means understanding what or where your Pivot is.

What is a Pivot? It's those aspects of your current business that you can rely on to hold their own while you shift resources to create the conditions called for in your strategic hypothesis. Those aspects of business can be:

- ✓ **functional areas like finance, control, manufacturing or sales;**
- ✓ **main business units that are steady money-makers;**
- ✓ **a brand name prominent in consumers' minds; or**
- ✓ **a geographic business unit.**

For example, Chrysler's brand name is synonymous with cars, but the automaker is marshalling its resources into trucks and SUVs. Thus, for Chrysler, cars represent the Pivot while trucks and SUVs represent the Hammer.

Once you identify the Pivot, you should continue to dig deeper, looking for a *Bearing*. Often you will find that there is one crucial element that makes the Pivot a Pivot; this is the Bearing. It might be something like a crucial asset, skill, culture factor or even in some cases an individual like a brilliant engineer or researcher.



Let's take the example of a large retail chain. The cash flow of its successful stores allowed it to move into new markets. The stores are the Pivot of the company's strategy. But why were the stores so successful? Location and pricing were important, but the true key to the success of this retail chain was the chain's team of competitive and savvy retail buyers that was successfully mobilizing every day the right mix of merchandise to a customer base whose demographics changed constantly. The team was managed and motivated by an energetic veteran of several department store chains. This veteran was the Bearing.

For the strategic Hammer, the counterpart to the Bearing of the Pivot is the Hammerhead. The Hammer is where the force of a strategy is focused; the Hammerhead is the part of the Hammer that transmits that force.

Tupperware's Hammer is its sales force. The Hammerhead: the ability of Tupperware representatives to recruit hostesses and sell effectively to the parties' participants. Those few minutes of the sales pitch are when the full force of the Hammer is deployed.

Using the Hammer and Pivot

To develop a competitive strategy using the Hammer and Pivot, you must identify your competitor's Hammer and Pivot and decide which of the two you will attack, when and how.

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Hammerheads in the Music Industry

The music industry is undergoing a revolution, and the turmoil illustrates that no business can take the anatomy of its Hammer and Hammerhead for granted. Record labels are being threatened by the advent of digital music transmission and the downloading of tunes to computers and portable players. For years, the industry's Hammer has been to field talent scouts to spot acts and artists with potential. Once found, the Hammerhead had been huge amounts of money spent on publicity, media events and advertising. Awareness created music store demand, driving less recognized artists off the shelves.

The digital revolution is a direct attack on the Hammerhead. It lets artists bypass the publicity machine and get right to the consumer, wherever he might be. No doubt music industry moguls are getting nervous and working to develop a strategic plan of their own.

Strategic Anatomy: Strategy's Hammer and Pivot

(continued from page 4)

For example, you might develop a hypothesis in which you decide to use your company's Hammer to go head-to-head with the competitor's Hammer. Thus, if a competitor grows its sales force by 800 people, you grow yours by the same amount.

Another strategy: Attack the Pivot. Blockbuster developed exclusivity deals with motion picture studios, thus attacking the Pivot of the independent video stores: their ability to get product in their stores. ■

The End of an Era: The Twilight of Sustainable Competitive Advantage

To develop a winning strategy, you must focus on finding what you can do *differently* than your competitors. Being different makes a difference — but only if you choose the right aspects on which to be different.

When McDonald's faced declining same store sales and stiff competition from other fast food chains, it did what most businesses do: It reduced the price on its flagship sandwiches, the Big Mac and Egg McMuffin, to a mere 55 cents, if bought as part of a "value meal." Apparently McDonald's couldn't think of any way to be different from Burger King, Wendy's and other competitors other than on price. But competitors quickly retaliated with their own "value meals."

McDonald's then tried to offer different food, notably the "adult" sandwich, the Arch Deluxe. The new product failed.

McDonald's succeeded only when it returned to the tried-and-true strategy of focusing on kids, in this case by developing new movie tie-ins. The difference was no longer in the food or the pricing. Instead, food was redefined as a form of entertainment rather than nourishment.

The Problem with Sustainability

Being different gives a company a competitive advantage. Sustainable competitive advantage — finding an advantage and then making sure that no competitor can match that advantage — is the traditional approach to strategy. The problem is that sustainability is becoming impossible to achieve.

Today, no new product is likely to be without imitators for more than a few months. Low prices are also no guarantee of a sustainable advantage for a number of reasons. One example: With consumers comparing prices on the Internet, only the absolute lowest cost producer wins. And even if you are the lowest cost producer and can somehow make a profit, someone else can come along and offer irrationally low prices. The Internet will now let someone who was able to get an item for a nickel on the dollar reach your customer — and take business away from you.

In sum, this is the era of the twilight of the sustainable competitive advantage. Most of the differences used in the past to erect sustainable advantage are disappearing due to technology, transportation, communication and the globalization of culture. Sustainable competitive advantage should no longer be the touchstone for the quality of strategic thinking. ■

Stress and the Finch

Stress has become a byword for people everywhere in the industrialized world. And recent studies into the evolution of animals may carry clues to how stress can be a useful response encouraging change and innovation in the animal kingdom and the business world. How finch face and respond to environmental stress is instructive.

When faced with stresses like El Nino or drought, finch populations become more and more differentiated as they respond to stress and adapt. Within years, not generations, they are so different they can no longer interbreed. If the rapidly changing business climate we face as we globalize is anything like the stress finch suffer and adapt to, businesses would be well advised to emulate nature by creating and trying out as many strategic hypotheses as they can. Some will fail, but others will carry the key to success.

Making Strategy Dynamic: The Dawn of Opportunity Creation and Exploitation

What will replace the concept of a sustainable competitive advantage (SCA)? Companies can turn instead to *opportunity creation and exploitation* (or OCE) as an alternative. Unlike SCA, OCE is a cycle of activity rather than a single state to be reached.

Creation and Discovery

The first phase of the OCE cycle involves **opportunity creation and discovery.**

In most companies, the best approach is to generate many strategic hypotheses, test them, modify them to make them more precise, and winnow out the likely winners from the losers. This, of course, is the exact

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Making Strategy Dynamic: The Dawn of Opportunity Creation and Exploitation

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opposite of what most companies do. Typically, a company and its consultants seek one perfect strategy for the company and decide which one to pursue without any testing. What the planners really need to do is become a laboratory of strategic experimentation and testing. That's the only way to avoid the astrologer's trap of only paying attention to confirming evidence and ignoring everything else.

Recognition, Breakthrough and Exploitation

The next step in the cycle — **opportunity recognition, breakthrough and exploitation** — begins with an analysis of each tested hypothesis to determine which was a success, a near success or a failure. Resources must then be allocated to create a breakthrough, or first measurable success from the strategic hypothesis.

Consolidation

Next comes **opportunity consolidation**. At this stage, the strategy takes hold and begins to earn a return on investment. It's time to turn the project or products over to less-experienced managers. Meanwhile, those who created and exploited the strategic opportunity can prepare for the next phase. They will be responsible for making the links between the "if" and "then" portions of the strategy as definitive and predictable as possible.

Dismantling and Recycling

The final phase is characterized by **opportunity dismantling and recycling.** Even the most brilliant, well-tested, and thoroughly implemented strategy must someday come to an end. Instead of trying to keep it alive as long as possible, a healthy approach is to probatively dismantle it. Here's the approach to take:

First, continually test the current successful strategy until its boundaries are revealed, anomalies begin to occur, and breakdown is just over the horizon.

Then, account for all assets — physical, financial, human and emotional — committed to the strategy, and withdraw these assets from the old strategy so they can be redirected into a new one.

Remember, testing the current strategy and attempting to falsify it is never over. Also remember that opportunity creation and discovery must be continual. Don't wait to start opportunity creation until your current strategy is wearing down! The world is moving too fast for even the most successful companies to stop pushing their strategic functions. ■

Better Tools for Better Strategies: Creating, Testing and Falsifying Strategic Ideas

The first stage of opportunity creation and exploitation is opening your mind to strategic hypotheses or opportunities and then choosing among them. Later, you will have to close your mind through testing and falsification of the hypotheses. But what does it take to open your mind up to new opportunities for exploration? After all, in today's world of fierce competition, the most important criteria for hypotheses generation is beating your competition to the best ideas. To do this, you must:

✓ **Be intellectually productive and produce lots of hypotheses.**

✓ **Have a broad range of strategic hypotheses.**

✓ **Get those hypotheses from the right sources.**

This may all seem logical, but the reality is different in most companies. Rather than explore lots of ideas, most will scrutinize all new ideas and eliminate most before they see the light of day. Another major problem is that in most companies the same people develop ideas over and over again. Yet the key to creativity is to start with lots of ideas, not a few. It also helps to use the right tools. There are three good tools for idea generation.

The Executive in the Parking Lot

First, it's essential to get your top management out of the executive office and into the parking lot and field. Most executives are bright, industrious and very capable of generating great ideas. Brought face to face with real customers, most executives readily come up with reams of ideas. Left in the corporate suite, they lose touch with what customers need and want. If you can't get them out in the field, at least make sure they hear audio or see

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The Wrong Tools

Don't use the wrong tools for idea generation. First, forget about most standard market research. The problem is that researchers don't know what questions to ask. Surveys only measure past experience and can't get at unknown desires or needs. Another problem with market research is that it eliminates serendipitous discoveries because it only answers questions that are asked. You won't fare much better using the other standard idea generator, a consultant. Most consultants come prepared to find the strategy they think the company should follow, which is hardly conducive to testing multiple strategies at the same time.

Better Tools for Better Strategies: Creating, Testing and Falsifying Strategic Ideas

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written feedback from real people.

The Focus Group

Another great tool if used properly is the focus group. Focus groups are great for generating ideas, pushing your thinking, ruling out nonstarter hypotheses, and providing raw materials for idea generation. Don't use them to test live hypotheses, though.

There are some rules for using focus groups.

The first is to format group sessions so that responses are anonymous. This can be done using group decision software and letting participants type their responses at their workstations. Everyone can "talk" at once, no one or two group members monopolize the conversation, and all responses are recorded for later review. An electronic boardroom can mean the group is three to five times as productive as it would be in the usual group setting. Focus groups also do well using props and simulated shopping experiences.

Another powerful tool for focus group idea generation is a technique called guided imagery. A skilled moderator takes the group on an imaginary tour in which they solve a problem similar to the one they face but still very different. For example, a group trying to generate ideas for improving a company's Web site were lead on a guided imagery tour of the history of the compass. Next, they were asked to describe the ideal compass if they were modern day explorers, then asked to compare this ideal compass to the ideal Web site. Out of the session came a new "killer" application that led to a profitable income stream for the company.

The Stretch Target

A third tool is the stretch target. Create an apparently impossible target in market share, profitability, product features, productivity or cost. Then challenge your team to imagine any possible way to reach the goal. By forcing people to stretch their ideas almost to the breaking point, sometimes solutions come forward that would never have been conceived if the goals were more modest.

Testing Ideas in the Courtroom Laboratory

After the ideas have been generated, and the hypotheses formulated, it is time to test them. Begin by breaking into legal teams. Those assigned the role of supporting the idea become prosecutors while those assigned the opposition role will have to fight against it. Each strategic hypothesis consists of four things:

1. A set of givens or assumptions that are agreed upon. For example, an assumption might be that your company is losing market share to a newcomer in town.

2. The logic of the strategy, which must include a discussion of the supposed relationship between the "if" statement in the hypothesis and the "then" statement. The logic must be such that people who hear the "if" statement naturally believe the "then" portion should follow. For example, if Kmart undertook to revamp store images, it must have been because top management had a belief that there was a relationship between nicer stores and better merchandise and greater sales.

3. The fact-based reports that support the logic of the if-then statements. These could include customer comments and pilot studies.

4. Refutation of the assumptions put forth by the opposing team's logic or tacts. ■

UPS In-Depth and Sideways Exploitation

A classic example of taking a winning strategy and expanding on it is the UPS story. For years, UPS focused on a strategy that involved wringing the last drop of efficiency out of its system. It dominates the parcel delivery market through the relentless pursuit of logistical efficiency. Drivers are trained how to get into and out of their trucks, when to idle, even when to risk a parking ticket. Operations run with military precision. No one can touch UPS for small parcel delivery nationwide. Efficiency is number one and lets UPS reach into communities that other carriers couldn't afford to reach.

By the mid-1980s, UPS realized it had wrung as much efficiency out of its strategy as it could. It then moved its strategy sideways into rapid air delivery of smaller parcels, and into the overseas market.

Strategic Breakthrough: Making the Right Choices and Choosing the Right Tools

Once your strategic hypothesis has survived a "trial," it is ready to use. At this crucial juncture, there are choices top management must make to take advantage of a breakthrough hypothesis and eliminate those that aren't going to work as hypothesized. Management must then make some tough choices about asset allocations in order to take advantage of the breakthrough ideas.

It's time for a real-world test. Come up with an implementation strategy. Focus all efforts on a single, real-world realization of the hypothesis. In the Kmart store revitalization example, this phase would include creating a portfolio of floor plans and merchandise selection

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Strategic Breakthrough: Making the Right Choices and Choosing the Right Tools

(continued from page 7)

followed by an all-out effort in a few stores to implement the revamp. If the stores do as well as the hypothesis suggests, it's time to use the Hammer. Commit resources from a Pivot and get the rest of the stores up to the level of the trial stores.

Exploitation of a winning strategy means looking at the results and tweaking them. Do some store layouts produce greater sales than others? If so, modify the plans. This is sideways exploitation of the strategy (see box on page 7).

At some point into your strategy you will face the choice of going deeper or expanding sideways. Be careful. You may not be strong enough to deeply exploit your strategy while you also expand it sideways. Make a conscious choice of which path to take, realizing that going deeper exploits the Hammer while expanding sideways means using your newfound strategic strength as the Pivot.

Deploying Resources

The appearance of a real-world, money-making success signaling a hoped-for strategic breakthrough is one of the most exhilarating and most dangerous moments in a company's history. That's because a true breakthrough demands the wholesale commitment of resources to its exploitation. At this point in your strategic plan it becomes crucial to focus on asset mobility and creating reserves.

Asset mobility means that the assets of your company can be used to exploit varying opportunities and can be shifted as breakthroughs are achieved. Resources must be withdrawn from less promising endeavors and shifted where the strategy says they are needed. Of course, asset mobility means that those assets have to be flexible or adaptable. The problem is that building in flexibility may mean those assets aren't as efficient as they could be. Perhaps the classic example of inflexible assets is the ultramodern Mazda plant built in Hiroshima, Japan in 1992. At the time it was the most modern and efficient plant in the world. When sales of the models the plant was designed to produce efficiently dried up, the assets weren't flexible enough to allow retooling. As a result the efficient plant sits largely idle.

Hard assets aren't the only ones that have to be flexible; so do soft assets like human resources. The best way to gain a flexible human resource pool is to stop the typical corporate behavior of hiring only from within the industry. That's a guarantee of inflexibility.

To maintain maximum flexibility, smart companies create a reserve similar to what the military has done. This rapid deployment force can then be counted on to be moved into position when a strategic hypothesis turns out to be a winner. Your rapid deployment force (or RDP) should be as flexible as possible to allow deployment into new and difficult areas. Creating an RDP isn't as difficult as it might at first seem. In fact, most companies already have a force. These are the few trusted executives who can always be counted on to take on really important or onerous missions.

If you are going to succeed at exploiting the opportunities you have created, you also need to create financial reserves. Without them, you won't be able to efficiently exploit opportunities you discover. ■

Born Allies and Sworn Enemies: Corporate Strategy Meets Corporate Culture

To succeed, a company needs a robust strategy vigorously executed. Strategy is the cerebral side of success. The other side is hands-on implementation of strategy. Implementation puts a premium on a responsive organization and its culture. Successful implementation makes two demands on a company's culture.

First, the culture must have enough confidence to be both a bold, fertile creator and a stern tester of hypotheses. Second, the culture must be strong while remaining flexible, prepared to play offense in crucial, targeted areas and an unyielding defense in others. The problem with corporate cultures is that they often produce behaviors that trip, ensnare and defeat strategies that could be winners. Culture routinely sabotages strategy.

The key to success is to make sure your top management team understands the cycle of strategic hypothesis generation, implementation and exploitation. They then drive the rest of the workforce.

Top Management Teamwork

If the key to successful strategy implementation is a committed top team, companies need to know how to assemble that team. The top management team (TMT) is the vital bridge between company culture and strategic vision. To create the team, create these conditions:

- ✓ **Make the fate of the individual the fate of the unit.**
- ✓ **Give the team common goals that are concrete and tough.**
- ✓ **Ensure high frequency of association.**
- ✓ **Ruthlessly weed out untrustworthy team members.**
- ✓ **Create exit barriers to leaving the team.**
- ✓ **Make the team as small as possible.**
- ✓ **Choose generalists for top team positions.** ■

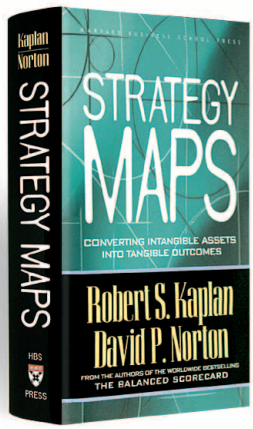
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Strategy Maps

Robert S. Kaplan and David P. Norton

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Robert S. Kaplan and David P. Norton

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STRATEGY MAPS

THE SUMMARY IN BRIEF

More than 75 percent of the average company's market value comes from intangible assets that traditional metrics don't measure. The Balanced Scorecard is a revolutionary performance measurement system that allows organizations to quantify critical intangible assets, such as people, information and culture. Now the people who first developed the Balanced Scorecard, Robert S. Kaplan and David P. Norton, have created a powerful new tool based on their ongoing research. The strategy map allows companies to describe the links between intangible assets and value creation so all aspects of strategy can be implemented in a manner that ensures sustained value creation.

The strategy map allows managers to align investments in people, technology and organization capital for the greatest impact. By paying close attention to improving internal processes such as operations, customer relationships, innovation and culture — and making proper investments in intangible assets — human capital, information capital, and organization capital management can implement a structured plan to achieve strategic success.

What You'll Learn In This Summary

✓ Which organizational processes are most critical for enhancing productivity.

✓ How to understand a strategy map and the cause-and-effect relationships between processes and intangible assets.

✓ How to manage internal processes to achieve your differentiated value proposition.

✓ How to define and measure intangible assets and then integrate and align them with strategy for true value.

✓ How to develop a customized strategy map for your company based on your unique strategy and goals.

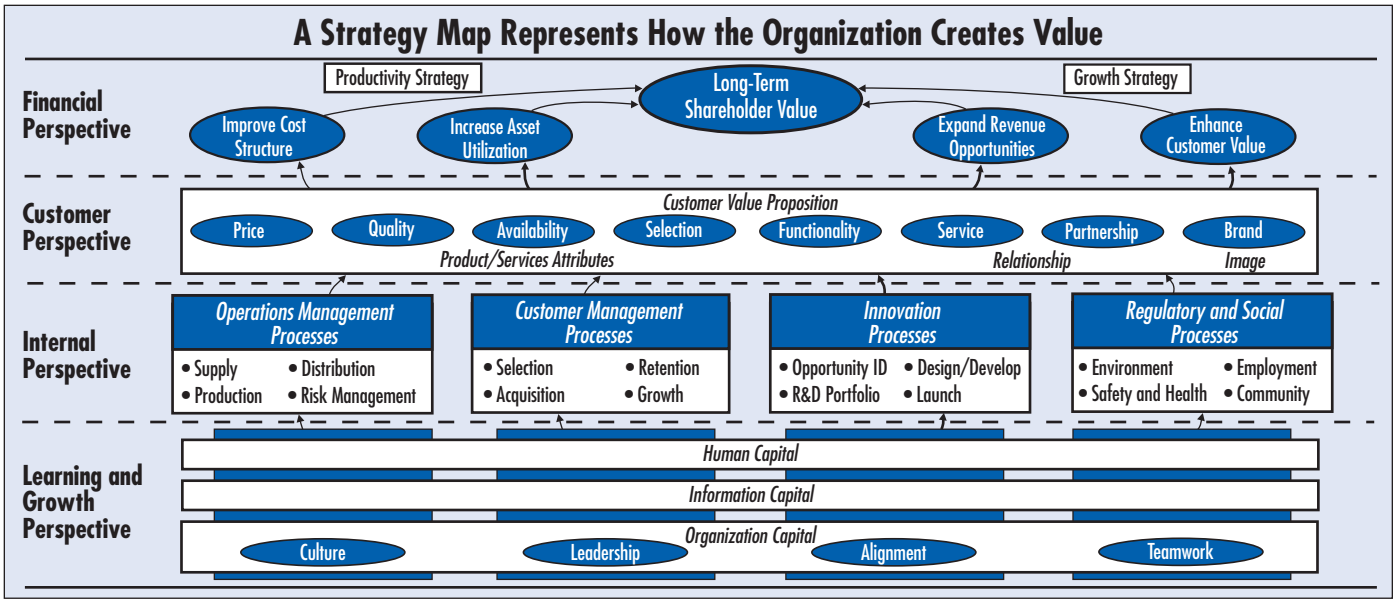
✓ How to plan an implementation campaign based on the strategy map.

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STRATEGY MAPS

by Robert S. Kaplan and David P. Norton

— THE *COMPLETE* SUMMARY



Strategy Maps

A strategy describes how an organization can create sustained value for its shareholders, customers and communities. Most organizations have different methods of communication, alignment and implementation, but the Balanced Scorecard (BSC) is an effective way for nonprofits and public-sector organizations to describe strategies for creating value. The BSC includes the lagging indicators of financial performance and customer value proposition, and the leading indicators of internal processes as well as learning and growth.

Measure With the Strategy Map

The strategy map is a visual framework of the cause-and-effect relationships among the components of an organization's strategy, and it is used to integrate the four perspectives of a BSC — financial, customer, internal, and learning and growth. It provides a uniform and consistent way to describe strategy so the objectives and measures on the BSC can be established and managed. It illustrates the time-based dynamics of a strategy and the relationships that link desired outcomes in the customer and financial perspectives to outstanding performance in critical internal processes. These processes in turn create and deliver the organization's value proposition to targeted customers and promote productivity objectives in the financial perspective. The strategy map also identifies the specific capabilities in the organization's intangible assets that are required for delivering exceptional performance in critical internal processes. The strategy map is based on several principles, including the following:

- **Strategy balances the contradictory forces** of short-term financial objectives for cost reduction and increased productivity, and the long-term objective of profitable revenue growth.
- **Strategy is based on a differentiated customer**

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The authors: Robert S. Kaplan is the Marvin Bower Professor of Leadership Development at Harvard Business School and chairman of the Balanced Scorecard Collaborative. David P. Norton is co-founder and president of the Balanced Scorecard Collaborative.

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Strategy Maps

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value proposition, because satisfying customers is the source of sustainable value creation.

- **Value is created through internal business processes.** Strategy maps and BSCs describe what the organization hopes to achieve, that is, strategic themes.
- **Strategy consists of simultaneous, complementary themes** or clusters of internal processes that deliver benefits at different points in time.
- **Strategic alignment determines the value of intangible assets.** The three components in the learning and growth perspective are human, information and organization capital. ■

Value-Creating Processes

There are a few processes that companies must focus on to deliver a differentiating value proposition and that are most critical for enhancing productivity and maintaining an organization's franchise to operate.

- **Operations Management.** Producing and delivering products and services to customers.
- **Customer Management.** Establishing and leveraging customer relationships.
- **Innovation.** Developing new products, services, processes and relationships.
- **Regulatory and Social.** Conforming to regulations and societal expectations and building stronger communities.

Executives practicing the art of strategy must identify the critical few processes that are the most important for creating and delivering their differentiating customer value proposition.

Operations Management Processes

There are four ways organizations can improve their operations management processes to deliver goods and services:

1. Develop and sustain supplier relationships. The best suppliers are low-cost, not just low-price. Lower the total cost of acquiring goods or services by: working with suppliers to achieve just-in-time capability; seeking their new ideas and suggestions; outsourcing; and establishing supplier partnerships to provide services directly to customers.

2. Produce products and services. Lower the cost of production by continuously improving process quality, process responsiveness, fixed asset utilization, and working capital efficiency.

3. Distribute and deliver products and services to customers. Deliver responsively to customers, lower the cost to serve them, and enhance the quality of delivery service.

4. Manage risk. Do more than just avoid income and cash-flow fluctuations. Create shareholder value in ways that investors cannot accomplish on their own. Reduce costs of financial distress, such as bankruptcy; moderate the risk faced by important nondiversified investors; decrease taxes; reduce monitoring costs; and lower the cost of capital.

Activity-based management (ABM) and total quality management (TQM) are two ways to help employees make fundamental improvements in operating processes by determining the cost of a process and then improving it. The five steps of ABM are:

1. **Develop the business case.**
2. **Establish priorities.**
3. **Provide cost justification.**
4. **Track the benefits.**
5. **Measure performance for ongoing improvement.**

Strategy maps can provide significant value to companies using other quality programs in these four ways:

1. **They provide explicit and testable causal linkages between strategy and reality.**
2. **They establish targets beyond existing best practices.**
3. **They identify entirely new processes that are critical for achieving strategic objectives.**
4. **They set strategic priorities for process enhancements.**

Customer Management Processes

In the past, customer management focused on transactions — promoting and selling the company's products.

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Manage Risk

Companies can manage risk by modifying operations. For example, Microsoft uses an operating policy of employing large numbers of temporary workers who can be laid off if business slows down. Disney built its major theme parks in areas where weather is generally pleasant and predictable: Anaheim, Calif., and Orlando, Fla. This lowers the volatility of theme park revenues due to weather conditions. Companies can also take operating actions to reduce the risk that their products or services will be made technologically obsolete by competitors or by employee actions that can damage their brand and company reputation.

For Additional Information about Activity-Based Management, go to: http://my.summary.com

Value-Creating Processes

(continued from page 3)

Building customer relationships was not a priority. Now that technology allows customers to launch their own transactions, the balance of power has shifted to them. Customer management processes must help the company acquire, sustain and grow long-term, profitable relationships with targeted customers.

Customer management must:

- **Select customers.** Identify attractive segments, craft a value proposition to appeal to those segments, and create a brand image that will attract those segments to the company's products and services.
- **Acquire customers.** Communicate the company's value proposition to the market, secure prospects, convert them to customers, and build dealer relationships.
- **Retain customers.** Ensure quality, create value-added partnerships, correct problems, and transform customers into highly satisfied raving fans.
- **Grow relationships with customers.** Get to know customers, build relationships with them, and increase the company's share in customers' purchasing activity.

Customer management processes focus on the relationship and image dimensions of the basic customer value proposition. Effectively acquiring customers improves the customer perspective of the strategy map. The effects of the financial perspective of the strategy come primarily through related revenue growth.

Innovation Through Operations

Identifying the specific functionality of a product or service that is of interest to the customer and being first-to-market are both important objectives for the innovation process to provide customers with the value proposition. For example, continuous reductions in the size of the basic memory or processing chip in semiconductors generate advantages in speed and functionality of the device. And for innovative companies, being six months late in product innovation could be more costly than a 20 percent overrun. A third customer objective is to innovate by extending existing or new products into new markets. Honda's excellence in engine performance was originally developed for motorcycles and cars. Now the company has entered other segments such as lawnmowers and backup engines for utilities. Canon's product leadership in optics for cameras has been leveraged into products for printers, copiers and medical electronics. E-Bay expanded its consumer auction capability into a powerful tool for selling used and reconditioned commercial equipment.

Financial measures include *sales from new products* and *revenue mix versus target*. Learning and growth linkages require strong support from information technology, such as databases; employee competencies, such as customer marketing and service; and a customer-centric culture and climate.

Innovation Processes

Maintaining competitive advantage requires continual innovation to drive customer acquisition and growth, margin enhancement, and customer loyalty. Despite its importance, innovation is often overlooked in favor of other management processes.

Managing innovation should include four important processes:

1. Identify opportunities for new products and services. Anticipate future customer needs by consulting external sources and customers. Develop new, more effective, or safer products to meet their needs.

2. Manage the research and development portfolio. Actively manage the product/offer portfolio that includes a mix of different kinds of projects: new science and technology; entirely new products; the next generation of existing products; enhanced features for specific market segments; and alliance projects through acquisitions, licensing or subcontracting.

3. Design and develop new products and services. Use a specific development process with explicit goals to bring new concepts to market. Develop a concept, plan a product, and engage in detailed product and process engineering. Manage the project portfolio, reduce development cycle time, and manage development cycle cost.

4. Bring new products and services to market. When new products are developed, manage a rapid launch, effectively produce the new products, and effectively market, distribute and sell the new products.

Excellent innovation processes affect different areas of the strategy map. They offer *customers* a value proposition by supplying specific performance attributes in a timely manner and extending existing or new products into new markets. The *financial* aspect of the strategy map achieves revenue growth and enhanced margins from innovative products and services that offer distinct advantages over competitor products. For innovation, the *learning and growth* perspective of organizations needs expertise in the underlying science and technology for new products; a high-level information technology to create and deliver products; teamwork both within the company and with external idea sources; and a culture that

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For Additional Information on structured innovation processes, go to: http://my.summary.com

Value-Creating Processes

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emphasizes innovation, disruption and change.

Regulatory and Social Processes

At a minimum, companies must comply with national and local regulations on the environment, employee health and safety, and hiring and employer practices to avoid shutdowns or litigation. They should also strive to enhance their reputations among customers, investors, their community, and potential and current employees. Be as rigorous in assessing returns from community investments as other investments.

1. Environment. Because of extensive regulation, organizations are forced to consider issues like energy and resource consumption, water emissions, solid waste production and disposal, and aggregate environmental measures. To leverage their environmental capabilities to create shareholder value, organizations reduce costs with waste management, differentiate their products by offering environmentally friendly products, manage their competitors by creating voluntary standards, redefine their markets with recycling programs, and manage risk by providing their people with better information.

2. Safety and health performance. Different measures include Occupational Safety and Health Administration (OSHA) requirements, lost workdays, accidents and illnesses per hours worked, off-the-job injuries, or employee exposures to hazardous compounds. Determine what makes the most sense to your organization given your strategy and other processes.

3. Employment practices. Much of the quantitative reporting about employment practices focuses on achieving employee diversity. Companies should not just have employee practices on their BSC to comply with regulatory reporting standards, but to explicitly drive the strategy toward enhancing shareholder value.

4. Community investment. This can be achieved through employee volunteerism, corporate foundations, and other philanthropic efforts. Though many companies report on the investments they make in community-based organizations, there are no measures for evaluating the outcomes. Executives should demand tangible returns from community-based programs as they would from any other investment. ■

Triple Bottom-Line Strategy Map

Amanco is a company in Latin America that produces and markets plastic pipes and fittings for fluid transportation. Its mission is to profitably produce and sell complete, innovative, world-class solutions for the transportation and control of fluids while operating in a framework of ethics, eco-efficiency and social responsibility. In 2002, the company revised an earlier sustainability scorecard to align better with the BSC framework.

The company's strategy map shows Amanco's commitment to triple bottom-line performance:

1. **Create economic value sustainably.**
2. **Generate value through a system of corporate social responsibility.**
3. **Generate value through environmental management.**

The financial, customer, process and technology dimensions support this strategy with specific objectives and targets: 10 percent annual sales increases; measuring on-time delivery; adding a screening phase to product development to determine health and environmental impact; using e-business to create a deeper knowledge of customer needs; and measuring job satisfaction.

Amanco adds a fifth dimension: environmental and social. The environmental performance objectives are to reduce per-unit inputs and wastes from products and processes by measuring per-unit energy and water consumption and the waste and scrap of raw materials. Its social impacts objectives relate to community development projects throughout Latin America; each operating company must implement at least one project with a nongovernmental organization (NGO) in a local community.

The company now communicates the strategy more objectively and clearly, so executives and employees better understand strategic goals and the triple bottom line.

Intangible Assets

Intangible assets are invaluable to sustainable value creation, but their value derives from their interrelation and cannot be measured independently. Their soft nature makes measurement more subjective than financial measurements of organizational performance. The learning and growth perspective of the BSC shows how an organization can align its intangible assets to its strategy. There are objectives and measures for three components of intangible assets: human capital, information capital, and organization capital. They must be *aligned* with the objectives for the internal processes and *integrated* with each other so there are synergies among them. Three targeted approaches are strategic job families, the strategic IT portfolio, and the organization change agenda.

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For Additional Information on a Strategic Readiness Report, go to: http://my.summary.com

Intangible Assets

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Aligning Intangible Assets to Strategy

Strategic alignment is the dominant principle in creating value from intangible assets. Even if IT and HR are both well developed in your company, they are probably not strategically aligned. The strategy map and BSC enable organizations to describe intangible assets, align and integrate them to the strategy, and measure the assets and their alignment.

The typical strategy maps and BSC focus on strategic competencies, strategic information, culture, leadership, alignment and teamwork. The strategy map creates alignment and integration by providing a common point of reference for the enterprise strategy. The internal perspective identifies the critical few processes that create desired outcomes for customers and shareholders. Identify the strategic job families, define their competencies, their portfolio of technology investments, and the culture they need. Then, by developing, aligning and integrating your intangible assets to these few strategic processes, you can create the greatest returns.

Finally, you measure the intangible assets. Their value does not come from how much they cost, but how well they align to the strategic priorities of the enterprise. Prepare a Strategic Readiness Profile based on the principles of a balance sheet, where assets are ranked by their liquidity. Strategic readiness, analogous to liquidity, describes the status of intangible assets and their ability to convert to higher sales and lower spending — cash. Strategic readiness is converted into tangible value when internal processes increase revenue and profit. A Strategic Readiness Report shows consolidated snapshots of the ability of each class of intangible asset to fulfill its strategic role by defining the asset, aligning it to the strategy, and measuring the degree of readiness.

Human Capital Readiness

Companies must develop a measure of human capital readiness to represent the availability of employee skills, talent and know-how to perform the internal processes critical to the strategy's success.

To do this, companies must:

Step 1: Identify strategic job families. All jobs are important to the organization but some jobs have a much greater impact on the strategy than others.

Step 2: Build the competency profile. One way to do this is to interview those who best understand the job requirements of a job family and create a competency profile detailing the knowledge, skills and values required by successful occupants in a position. Use the profile when recruiting, hiring, training and developing people for that position.

Step 3: Assess human capital readiness. Drawing from approaches ranging from self assessments to 360-degree feedback, evaluate an individual's performance and potential in these critical job families. Provide individuals with a clear understanding of their objectives, meaningful competency and performance feedback, and a practical approach for future personal development. If a strategy map reveals the need for strategic job families that don't exist yet, create new job profiles based on the competencies required for the new processes.

Step 4: The human capital development program. Under the *strategic job family model*, the organization concentrates HR programs on the critical few jobs that are pivotal to the strategy. This focus creates speed of action and efficient spending, but this approach implies that many jobs are nonstrategic. The *strategic values model* assumes that strategy is everyone's job and part of everyone's objectives and actions. Both models are legitimate, but don't work well as one integrated program. They should be segregated and funded separately. Closing competency gaps in strategic job families should be the basis for reporting on strategic human capital readiness. The strategic values model provides the basis for a revised performance management program for setting objectives for the entire work force.

Information Capital Readiness

Information capital (IC) is the raw material for creating value in the new economy. IC includes systems, databases, libraries and networks, and makes information and knowledge available to the organization. IC has value only in the context of the strategy.

To align IC with the company's strategy:

1. Describe information capital. IC has two components: technology infrastructure, such as mainframes and communication networks; and information capital applications, a package of information, knowledge and technology. Information capital applications build on the infrastructure to support the organization's key internal processes. They can affect business transactions, analyze information, or transform the prevailing business model of the enterprise. Together, technology infrastructure and information capital applications form the *information capital portfolio*.

2. Align information capital to the strategy. Typically, 90 percent of the sizable annual expenses for a typical IT budget go to existing applications, with lit-

(continued on page 7)

For Additional Information on strategic job families, go to: http://my.summary.com

For Additional Information about describing information capital, go to: http://my.summary.com

Intangible Assets

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tle left for the discretionary investment that funds strategic alignment. Companies can increase operating efficiencies to provide more discretionary money, but too much new informational capital too quickly cannot be effectively absorbed. Depending on the strategy, 5 to 15 percent of the budget is the goal for total information capital spending. This spending can either replace obsolete systems with state-of-the-art technology or apply totally new technology to new applications.

3. Measure information capital readiness. Information capital strategic readiness measures the degree of preparedness of the organization's information capital to support the enterprise's strategy. The most frequently used approach is a numerical indicator that identifies the status of each application. Management provides the subjective judgment for where to invest resources to create strategic readiness. Greater rigor can come from more quantitative, objective assessments of their application portfolios, such as surveying users about their satisfaction with each application, financial analysis of each application, and technical audits of the infrastructure of each application.

Organization Capital Readiness

Organization capital is the *ability of the organization to mobilize and sustain the process of change required to execute the strategy*. It provides the capability for integration and alignment of intangible and tangible assets with the strategy by changing behavior based on the strategy map.

Organization capital is typically built on four components:

1. Culture. The predominant attitudes and behaviors that characterize the functioning of an organization should back up the organization's strategy. The BSC forces the ambiguous replies to employee surveys to be defined more precisely. There are models for measuring culture and climate, but all are imperfect due to their incredible subjectivity. One option is to design a questionnaire specifically to evaluate the company's value proposition.

2. Leadership. Leadership to manage transformational change is a core requirement for becoming a strategy-focused organization. Two approaches have been used to define the role of leadership. The *leadership development process* focuses on how leaders are developed in an organization. The *leadership competency model* focuses on what a leader should be by describing appropriate traits. Process developments use objective, verifiable indicators, such as key positions without successors or number of external hires. Companies focused on the development process must have a leadership competency model to guide the development process, and companies focused on leadership competencies must have leadership development programs.

3. Alignment. Alignment requires all employees to be empowered in the same direction. First, leaders must create awareness of the high-level strategic objectives to all employees in ways they can understand. Next, they must ensure that individuals and teams have local objectives and rewards that contribute to achieving targets for high-level strategic objectives.

4. Teamwork and knowledge sharing. There's no greater waste than a good idea used only once. Companies must generate, organize and develop knowledge, and distribute it through a "push system" or by providing easy access when people are searching for existing information relevant to their immediate needs.

The strategy map and a BSC should focus on these attributes as they relate to the company's change agenda. Use the strategic objective and the measure you are using for each attribute to create an organization capital readiness report and determine the organizational changes required to implement the strategy. Management should create targets for each of the measures that represent a significant improvement from existing performance. HR can then develop a program that aligns HR organization investments to the enterprise strategy. ■

For Additional Information about measuring climate and culture, go to: http://my.summary.com

Building Strategies and Strategy Maps

An organization's strategy map and BSC should tell a story that differentiates the organization from competitors. It should show the interrelationships among the organization's internal processes and intangible assets that create sustainable competitive advantage.

Customizing Your Strategy Map

No organization can excel at every internal process and learning and growth objective. They differ in priority based on the strategy. Keep in mind Michael Porter's argument that "[p]ositions built on systems of activities are far more substantial than those built on individual activities."

A sustainable strategy seeks to capture the most value from the entire value chain.

Total value creation can be split into three segments:

- **Value captured by supplier.** The prices paid to

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Building Strategies and Strategy Maps

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employees and suppliers less opportunity cost for providing products and services to the company.

- **Value captured by company.** Net price received from customers less prices paid to employees and suppliers for products or services sold.
- **Value captured by customers.** The difference between the maximum price customers are willing to pay for products and services and the actual prices they paid.

Value created is distributed among these three value participants depending on their relative strength and bargaining power.

Strategies position the company where it can capture value and make an attractive profit. Undifferentiated products allow customers to capture most of the value created. No matter what sustainable strategy a company uses, it should develop a customized strategy map that represents its value proposition, and its alignment of internal processes and learning and growth capabilities that will deliver superior financial performance.

- **A low total cost strategy** requires delivering consistent quality, reduced product acquisition time for customers, and a somewhat limited selection. These companies should focus on operation management processes.
- **A product leadership strategy** requires being first-to-market, capturing high market share where switching costs are large, and extending superior functionality of their products into multiple market segments. These companies should highlight innovation processes.
- **A complete customer solution strategy** requires building long-term relationships with customers, developing complete customer solutions, providing excellent service, and forging quality relationships. These companies need to focus on customer management processes.
- **Lock-in strategies** require creating high switching costs for customers, creating industry standards, or selling an initial product that needs endless upkeep, such as a razor that continually requires new blades. Companies relying on this strategy need to put attention into many types of internal processes.

Planning the Campaign

A strategy map is a one-page representation of the cause-and-effect linkages among the objectives for both the outcomes and drivers of strategy. The objectives in the map are converted to the BSC of measures, targets and initiatives. But the strategy map is only a static representation. In order to create a dynamic strategy, managers must **quantify** by establishing targets and validating the cause-and-effect relationships in the strategy map; **define the time line** by determining how strategic themes will create value in short-, medium- and long-term horizons to create sustained value creation; and **select the initiatives**, the ultimate drivers of change that will close the gaps between projected and current performance.

Planning the campaign is a six-step process to conduct scenario planning exercises while the strategy map is being built:

1. Define the shareholder/stakeholder value gap. Define the overarching objectives and measures, identify the targets and value gap, and allocate the value gap to growth and productivity goals.

2. Reconcile the customer value proposition. Clarify target customer segments and customer value propositions, select measures, and reconcile customer objectives with financial growth goals.

3. Establish the value time line. Show how the value gap will be closed over the established planning horizon by allocating it to different themes.

4. Identify strategic themes. Identify the critical few processes that have the greatest impact and establish measures and targets.

5. Create strategic asset readiness. After defining the human, information and organization capital required to support the strategy, assess the readiness of the assets to support the strategy, and establish measures and targets.

6. Identify and fund the strategic initiatives. Clarify and secure funding for the strategy after establishing specific initiatives required to support the processes and to develop the intangible assets. ■

IBM's Complete Customer Solution

IBM dominated the computer industry from 1960 to 1980. The company did not offer the lowest prices; it did not often deliver its new products on time; and its products were not the most technically advanced, most powerful or fastest. But IBM did offer its customers a complete personalized solution to their problems. The company provided hardware, software, installation, field service, training, education and consulting. Bonding with the customer in this way enabled IBM to earn exceptional returns over a long period of time until technology changed and the company could not keep up.

For Additional Information on a lock-in strategy, go to: http://my.summary.com

For Additional Information on planning the campaign, go to: http://my.summary.com

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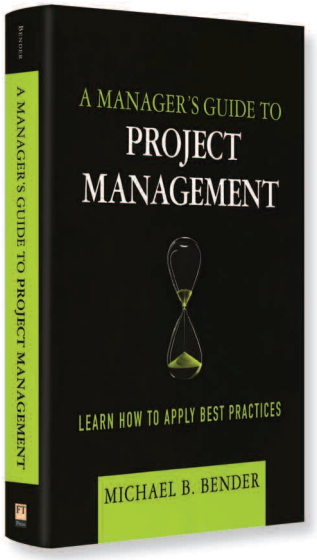
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Management: Project

A Manager's Guide to Project Management

Learn How to Apply Best Practices



by Michael B. Bender

THE SUMMARY IN BRIEF

As an executive, you know there's only one reason to start a project: to add value.

In *A Manager's Guide to Project Management*, top project management consultant Michael Bender reveals how to make sure all your projects fully support your goals and run effectively from start to finish.

Bender shows how to use balanced portfolio techniques to get maximum value from every project, systematically reduce risk in tough-to-manage global environments and improve organizational performance through strategic outsourcing.

Drawing on decades of experience, Bender illuminates the executive's role in establishing the conditions for successful project delivery and presents specific tools and techniques for ensuring that projects meet the strategic goals of the organization.

Bender shows how to structure organizations to support more effective project communication and decision-making, integrate project processes with other processes and oversee projects more effectively. He also presents a discussion of understanding and managing projects as capital investments, including detailed coverage of managing balanced project portfolios.

As an executive, you realize the rewards or suffer the penalty of project results. Here are the tools to get the results you're after — and get them consistently.

IN THIS SUMMARY, YOU WILL LEARN:

- How to align project management with business strategy.
- How to choose the right projects and oversee them effectively.
- How to structure your organization to promote better project decision-making.
- How to manage multiple projects in complex environments.

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THE COMPLETE SUMMARY: **A MANAGER'S GUIDE TO PROJECT MANAGEMENT**

by Michael B. Bender

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Understanding Projects and Project Management

Ultimately, both projects and project management have only one goal: to add value to your organization. You, as an executive manager, establish the values important to the organization. You then communicate these values and establish a strategic plan to foster and improve the organization along these values.

To manage projects, you hire project managers and pay them a salary. They then add more activities to the project for planning, management and oversight, which all add to the cost and time of the project. However, these costs and activities must reduce both the cost and time for the project by increasing efficiency and reducing rework.

Specific Goals for Project Management

Other specific goals for project management are:

- **You're making your clients happy.**
- **You're making money and being fiscally responsible.**
- **You're achieving your strategic objectives.**
- **You're optimizing your resource usage.**

Things Are Getting Better

No matter where you are, no matter what condition your projects might be in and no matter how well your organization manages its projects, you want things to get better. Fortunately, improving project management is as simple as improving any business process. Also fortunately, the techniques are the same.

Project management is an evolving discipline. Historically, the discipline concentrated on itself — focusing on the tools, processes and techniques for successfully executing projects. Now that these are well developed, the discipline must look outward, focusing on its environment. Executive management shoulders the responsibility to conceive, design, implement and manage the organization's overall objectives, culture, environment and processes for all disciplines, including project management.

Focusing on these key areas will help you drive your organization's success in projects and programs:

- **Foundations.** Establish an understanding for sound project management practices.
- **Alignment.** Ensure that projects align with all the organization's activities.
- **Management.** Track, measure and improve project management as an organizational discipline.
- **Investment.** Ensure that the capital and resources invested in project activities yield valuable results.
- **Resource optimization.** Use outsourcing and advanced technologies to improve resource optimization.

Project and Program

A project can be an activity that takes 30 minutes or 10 years, as long as it's unique, temporary (has a beginning and an end) and creates a unique, well-defined product.

Although the concepts we apply to project management are appropriate regardless of size, the classical tool sets presented here and in most seminars assume that you're managing a project that's typically several months long or longer and involves at least a small handful of people.

The distinction between a project and a program is sometimes merely semantic; other times the distinction

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

is clear. Let's consider two program examples.

The first is a new product launch program. Here the organization engages in several eclectic projects to effect the new product launch. The technical team must develop the product, the marketing team must develop advertising and marketing materials, the sales team must be trained, a production line development project is required and logistics must be handled. These are all very different projects, but they must be managed in a coordinated way to successfully launch the new product.

The second example is an air traffic control system. This system involves developing several computer-based systems: one for the airport control areas, one for the en route controllers, a separate system for the towers, another for communications management and finally one for radar management. The project plans to develop all these systems will be similar because they are all real-time computer-based systems. You can manage this program as a single, large project, blurring the distinction between project and program.

Programs consist of two or more projects that require coordination. The projects might relate in two key areas. In the previous examples, the projects require coordination because they share a common high-level goal. Projects can also relate because they share a common resource pool. When that occurs, the project managers must coordinate the use of the resources to provide efficiency across the program.

Whether your organization calls this a project or program is irrelevant. What is relevant is that everyone in your organization uses the terminology consistently.

Project Management Terminology

Here are some additional terms that are important to the project manager:

*A **portfolio** is the entire collection of projects and programs an enterprise, organization, division or department of an organization undertakes to achieve its overall objectives.*

***Scope** is what's included and not included in the project.*

***Goals** include any generic goal, objective, requirement, specification or target.*

***Objectives** are business-level or organizational-level goals.* These are the primary reasons to undertake a project, including such items as market share, return on investment (ROI), sales objectives and membership drive objectives.

***Requirements** are the measurable characteristics of a product or service.*

Three Key Project Definition Concepts

There are three concepts that are key to successful project definition:

- The project charter is the one project document that cannot change.
- The charter is a contract between executive management and the project manager.
- Appropriate project management and subject matter expertise must be employed in developing the business case, to ensure a balance of scope, time and cost.

Project Definition and Planning

The purpose of project definition is to make sure the project builds the right things. The purpose of planning is to make sure the project team builds them efficiently. Project definition is not formally part of the project. Perhaps for this reason, it is the least understood and most poorly implemented part of the project environment.

All projects begin with some stimulus, such as a competitor announcing a new product, the cost of some raw material suddenly increasing or the strategic planning committee wanting to increase market share by 20 percent.

The stimulus initiates an analysis to determine whether it warrants becoming a project. This analysis creates a business case for the project. The business case is summarized in the form of a project charter. The charter is an executive-level summary of the business case that contains, at a minimum, the essential items executive management needs to make a decision on whether to proceed with the project.

The key purpose of project definition is to:

1. Identify the benefits the organization expects out of the project.
2. Define the project sufficiently for a qualified project manager to begin developing a project plan.
3. Determine the organizational viability of the project.
4. Identify and communicate risks, assumptions and issues currently known about the project to both executive management and the project management team for planning purposes.
5. Formally sanction the project and assign the project manager. ●

Aligning Project Management With the Organization

The benefits derived from aligning projects with organizational objectives seem intuitive, yet few organizations either enforce or encourage such alignment. The issue might be a misunderstanding of the true effects of misalignment, a lack of skills or know-how to enforce alignment or simply an assumption that the staff will automatically align projects themselves. Misaligned projects waste valuable resources at best and can rip organizations apart at worst.

Strategic Alignment

Integrating project management into the organization requires you to align it three ways:

- **Strategic alignment.** Project objectives align with organizational objectives.
- **Organizational alignment.** Project resources integrate seamlessly with resources engaged in other business processes, research and operations.
- **Process alignment.** Project activities interface seamlessly with other business processes.

Conditions for Successful Alignment

Whether you encourage some level of competition to generate new ideas or strive for a more cohesive planning structure, successful project alignment relies on six factors:

1. Balanced and comprehensive objectives. Successful and stable portfolios require a balanced, cooperative environment in which projects and personnel work together for the organization's benefit. The portfolio of projects must balance both project objectives and resources based on an agreed-upon strategy — the strategic plan.

2. Specific and durables objectives. The efficient organization focuses resources on durable objectives designed to move the organization toward its vision.

3. Hierarchical framework. A well-developed hierarchical framework — essentially, a clearly established and understood objectives pecking order — translates high-level objectives to the appropriate level for the task performers, project managers, program managers and other management and technical functions.

4. Measurable objectives. Measurements and metrics offer business analysts, project managers, product marketing managers and other project stakeholders clear guidelines for balancing project objectives.

5. Stakeholder agreement. If stakeholders disagree with the objectives of the organization (or project), conflict will disrupt progress, even to the point of project sabotage — a situation that exists much more frequently than many realize.

6. Environmental and organizational assumptions. We know the influence assumptions can make on a project plan. We write them down, confirm them and store them. We then identify risks in case the assumptions are wrong or change.

Strategic alignment is not a passive event. Senior management must actively pursue project and portfolio alignment. Your quest for alignment begins with quality and stable organizational objectives, a strategic plan and the buy-in of that plan. You must constantly communicate these items and develop processes to enforce alignment with strategic direction. Hierarchical frameworks and durable and specific objectives provide clarity at all levels of the organization. Finally, a stable portfolio keeps resources working efficiently, helping to ensure project success. There's a time and place for conflict, prioritization and infighting; there's also a time and place for productivity.

A Framework for Strategic Alignment

The **goals breakdown structure (GBS)** is a process that translates organizational objectives into project and product requirements and, ultimately, component specifications. This tool can be used to create a framework for aligning all projects with strategic objectives.

The GBS in project management originates from an advanced concept known as **requirements traceability.** This concept requires the project team members to demonstrate how the products and services they create will support and map to the project's requirements. This concept ensures that the final product will meet the project's requirements. The GBS is a more structured and proactive approach. Use it as a planning tool in addition to an analysis tool.

When we expand the concept to the organization as a whole (let's refer to this as the **organization goals breakdown structure [OGBS]**), we start with the highest goal in the organization: the vision statement. We then determine the characteristics that the organization must portray and the actions it must take to achieve that vision. We present this information in the form of mission statements, value statements, quality statements and so on. We then use these statements to create the organization's strategic plan. The strategic plan identifies the organization's objectives or goals for the foreseeable future. These goals may include market penetration for product lines, developing patents in new technologies or

expanding into new foreign markets. The goals defined in the strategic plan then become the business objectives for projects.

Process for Constructing an OGBS

The process for developing an OGBS is easy:

1. Start with a high-level objective. The OGBS starts with the highest-level objective. For a project, this is the project goal or mission statement; for an organization, this is the vision statement.

2. Break it down into smaller objectives. The next step is to decompose the objective into smaller, more detailed objectives.

3. Ensure layer integrity. Ask the question, "Is this tier complete and sufficient to ensure the success of the above layer?" If not, more goals are needed or existing goals require elaboration. The second question is, "Are any objectives not needed to ensure success of the above layer?" If so, remove or adjust the unnecessary goals to prevent waste.

4. Add measurements. As you complete each tier or subdivision, establish the targets, metrics or other measurements needed to balance, monitor and track success.

5. Continue the process. As you complete each tier, continue progressively, decomposing the layers into more detailed and elaborate goals.

Organizational Alignment

Organizations' cultures, structures and infrastructures must accommodate a variety of work, including projects, processes, operations and research. Each organizational structure exhibits benefits and problems. As an executive manager, you must design the organization to accomplish all work.

There are many different types and permutations of organizations. The key to success lies less in the structure and more in the formal delineation of roles and responsibilities. True ownership — having a person, department, team or group that is completely responsible and accountable, with full authority — forms a cornerstone for defining the organization. Ensure that each project, process and deliverable has an owner, and your organization will be fine, whatever its structure.

Process Alignment

Successfully implementing project management depends on clearly defining the deliverables for decisions and information exchanges between the project management processes and other ongoing processes.

Project work is not ancillary to an organization; it's an integral part of it. Viewing projects as a normal business process helps integrate them into the organization, smoothes the interfaces between project activities and ongoing activities and improves overall organizational efficiency. Creating a deliverables-based interface between project work and ongoing work further enhances overall efficiency. ●

Project Management Oversight

A sound **project cost management system** is a strategic tool for the executive manager for three reasons:

1. It helps manage projects as investments.
2. It helps evaluate project management at the organizational level.
3. It offers tools that aid in strategic outsourcing.

Earned Value

The recognized standard for project cost management is called **earned value management (EVM),** or simply **earned value (EV).**

EVM offers three additional benefits:

1. It can track and manage both costs and progress across multiple projects, programs and even the portfolio.
2. It is a primary aid in determining root cause for project management issues.
3. It is compliant with the Sarbanes-Oxley Act, which is required for fiscal project tracking.

Project Cost Management

The name EV originates from its core concept that each project has a value. In EVM we deem that the value of a project is its burden cost. Although the true value is likely greater than the cost, this value is both speculative and immaterial to EVM's purpose; therefore, it is not considered. If we deem that the value of a project is its burden cost, then the value of each work package in a project is worth its burden cost. As a work package completes, we "earn" its "value" toward the project. These values then become the basis for project cost and progress tracking.

At any point in time, the project plan tells us which work packages should have been completed. The sum of their estimated burden costs gives us the **planned value (PV).** The work packages we actually completed by that date tell us our EV. The difference between the two values tells us whether we're behind or ahead of schedule.

After the project starts, the project manager and finance group have the primary responsibility for project cost management and tracking. They must report progress periodically and escalate exceptions as they

occur. The project communication plan describes how to escalate the exceptions.

Project Oversight

Project management oversight involves three perspectives: product quality, performed by the quality control department to ensure that the products meet their requirements and specifications; project quality, where the quality assurance department and project management office (PMO) make sure that the project team performs the right actions; and projects linked to the executive team, which ensures that the two previous perspectives are defined and performed, and ensures that the projects support the organization's strategic plan.

Project management oversight involves defining doctrine and the level of discipline to be performed in both quality control and quality assurance. It also demands that executives get reports on projects to keep the processes on track.

Finally, executives need to ensure that the projects', programs' and portfolios' objectives align with the organization — incorporating appropriate organizational changes, excluding inappropriate changes and focusing on the organization's vision.

Project Management Oversight

Executive management plays a key role in making sure that project management supports the organization. Using existing and well-defined procedures, executives can develop a simple structure to monitor and track how the organization manages projects, handles problems and improves project management over time. These key tools include earned value management (EVM), change management and standard continuous process improvement technologies.

Successful project management also requires both executive direction and oversight. It is your responsibility to define project management's role within the organization, to provide organizational structure and resources to succeed in project management, and to make sure those resources are doing their jobs. ●

Projects as Capital Investments

The purpose of any project is to add value, and the value must outweigh the project cost.

The value doesn't need to be purely monetary. Consider a project to finish a basement. Although you certainly hope to add real value to your house, you recognize that the financial value added will likely be less than your investment. The additional value comes from enjoying the basement while you live in the house.

Organizations are no different. Not-for-profit organizations' goals are not monetary (presumably). For-profit organizations recognize the need to invest in the organizations' culture — to develop mores that inspire honesty, hard work, respect and personal growth. You also recognize that many projects offer financial benefits that might be difficult to quantify. Information technology (IT) infrastructure projects often fall into this category.

This discussion leads us back to the balanced portfolio: a portfolio designed to cover all aspects of the organization. A stable, balanced portfolio demands that we consider all goals for a project before work begins. We recognize that changing our mind midstream is highly disruptive and inefficient, not only at the project level, but also at the portfolio level.

Grade and Cost of Quality

Grade refers to the number and type of features in a product. A high-end product (high grade) might have many features, and a low-end product (low grade) might have few. However, each product would have equal quality if the number of defects is identical.

In project management, *quality* is defined simply as meeting requirements and specifications.

In a product-oriented company, the product marketing managers or other marketing subject matter experts determine the market niche and, therefore, product grade. However, the project manager has a clearly defined mandate: to ensure that the product meets quality standards by reducing or eliminating defects so that the product meets defined requirements.

Developing a Balanced Portfolio

A balanced portfolio contains all programs, projects and activities required to ensure the success of all strategic value tracks.

One concept is critical to budgeting for a balanced portfolio: Project budgets must include all costs associated with the project.

Each organization is different. As an executive manager, you must work with your colleagues to determine an approach that satisfies your needs. Codify the results of that collaboration in the form of a portfolio doctrine. Consider these points:

- Use project archives to determine appropriate budgets for mandatory and consequential projects.
- Consider outside money sources for opportunistic projects.
- Properly fund strategic projects.

- Look for creative projects that satisfy multiple value tracks, balancing the remaining time and money.

Translating Value Tracks to Financial Benefit

Many non-monetary value tracks translate easily into financial benefits in both for-profit and not-for-profit organizations. Concepts such as cost-of-quality enable project and process designers to achieve optimum financial gains regarding quality. Increasing customers translates to increased profits using predictable and easy-to-build models; efficient improvements translate into specific cost reductions.

Frequently, however, establishing these metrics is difficult and relies on assumptions, which must be both acknowledged and documented. Define a corporate culture tailored to your organization's vision. Certainly, an excellent culture is much more productive than a poor culture. So if you spend money on a project designed to improve your culture, the issue becomes establishing the productivity gain versus the investment capital relationship. Just because you might have difficulty establishing clear target metrics doesn't mean you should avoid the project.

When all else fails, you can compare projects using a benefit-cost ratio. If, for example, you are a museum and you want to compare projects that will increase membership, you can compare projects using a ratio such as new members/$1,000 of project cost.

Establishing standard practices, aligned with the organization's portfolio doctrine for conducting these translations, further enables project and portfolio designers to properly select and reject projects.

Basic Project Selection Methods

We can now use our building blocks to develop simple methods for selecting and rejecting projects. These include:

- **Net Present Value (NPV) Tables.** NPV tables are one of the simplest forms of portfolio project selection methods. The portfolio designer simply enters appropriate projects into a table and sorts the projects from highest NPV to lowest.
- **Internal Rate of Return (IRR) Tables.** IRR tables work identically to NPV tables, except that you sort the projects by decreasing IRR or modified internal rate of return (MIRR). Most organizations that use IRR or MIRR have a minimum value that they will accept for a project.
- **Benefits/Cost Ratio.** Benefits/cost ratios are useful for selecting projects in which the direct financial benefits might be unimportant or difficult to calculate. Calculate the benefit/cost ratio by dividing the desired target metric by project cost. The target metric should map to the strategic plan or organization value statements.

Balancing a Portfolio

Achieving an optimized project portfolio involves more than a strictly financial perspective. Our quest to balance the organization's portfolio and eliminate frequent project reprioritization demands a balanced suite of projects/programs that achieve all organizational objectives.

Two simple tools are useful for balancing projects across multiple objectives: balanced and weighted scorecards.

Balanced scorecards are tools designed to establish strategic objectives. The benefit of using a balanced scorecard for portfolio management is that the scorecard establishes a complete set of clear, measurable objectives for the portfolio designer.

Weighted scorecards are valuable when projects offer multiple objectives. The portfolio designer creates a matrix in which the organization's benefits run down the left column and the projects run across the top. The strategic plan assigns a weight to each benefit based on its importance. The portfolio designer then determines the relative contribution for the projects for each objective.

The only criterion to determine whether a tool is useful is to determine whether it helps you define and manage projects that increase your organization's value while minimizing resources.

Portfolio Management

Value tracks are specific, well-defined areas where the organization intends to benefit.

The challenge in developing a balanced portfolio stems from balancing resources against the potential benefits. A single project might benefit the tax reform value track, but it might absorb so many resources that the health care and education value tracks suffer. Balancing resources across the value tracks becomes the challenge. We can approach this problem from two perspectives: using a creative approach or using a strategic approach.

The **creative approach** involves generating project ideas from the staff. The organization considers a suite of projects that aim to provide value along the defined value tracks.

The **strategic approach** uses the organization's objectives as the primary driver. This approach is analogous to developing a strategic plan for a for-profit organization. The organization defines short-, medium- and

long-term objectives, and then defines projects to meet those objectives.

Experts generally recommend a **mixed approach**, in which the strategic planning committee defines the core strategic projects and allows the staff to design the rest of the value track projects.

Maintaining a Balanced Portfolio

The portfolio manager, the project management office (PMO), or another tactical authority can manage a well-balanced portfolio using tactical means. If the portfolio was well designed, the designer can pipeline the projects based on resource availability and strategic need. The PMO or portfolio manager can initiate projects at designated times with little or no strategic review or intervention. However, even in the most efficient and predicable environments, senior-level management must review the project status periodically, if just as a check and balance. ●

Globalization and Resource Optimization

We cannot fully discuss outsourcing without addressing globalization. Globalization has opened up new markets and ideas, and offers new and less expensive vendors. However, the rush to capitalize on globalization has cost many organizations money, clients and respect. Many organizations that outsourced their IT or customer service activities overseas are now pulling them back. Other companies that outsourced their manufacturing overseas are reeling from quality issues and lawsuits. As with any other discipline, globalization and strategic outsourcing must mature.

Globalization and Strategic Outsourcing

Successful outsourcing begins with clear, measurable performance requirements.

The goal in specifying performance requirements for research is not to restrict the research, but to ensure that the research is done professionally and produces true, accurate results.

Globalization Factors

The organization should commit to a country or region where it plans to outsource. You should put sufficient structure in place to support outsourcing to that country or region:

- Train appropriate staff on the culture, customs and language for the region.
- Plan trips to the region regularly to establish face-to-face relationships.
- Start slowly, make small mistakes and resolve them before making major commitments.
- Consider outsourcing in the same countries where you're planning to sell.

The final step to ensure a successful outsourcing strategy is providing sufficient oversight. Consider these tools for management and oversight for outsourced work:

- Your work package is the vendor's project.
- Write the right contract. Consider these three major contract types: fixed price, cost plus and time-and-materials (T&M). You should outsource well-defined work packages with a fixed-price contract.
- Verify productivity and progress.
- Payment considerations. Vendors should demonstrate true progress before receiving payment.

Globalization and strategic outsourcing can add a significant advantage to most organizations. However, you must carefully consider and plan your strategy to ensure success. With maturity, you'll develop a virtually infinite resource pool and portfolio agility, enabling you to capture new opportunities or prevent disasters without impacting your strategic plans and organizational direction. ●

Project Portfolio Reviews

Consider these typical portfolio reviews:

- **Regular portfolio reviews.** As with all ongoing activities, senior management should review project portfolios on a regularly scheduled basis.
- **Phase gate reviews.** The project management office, steering committee, portfolio manager or specially designated gate review teams should review projects at phase gates to determine progress and authorize subsequent phases.
- **Exception meetings.** Exception meetings can be conducted as needed to handle special situations.

RECOMMENDED READING LIST

If you liked *A Manager's Guide to Project Management*, you'll also like:

1. ***The Project Manager's MBA*** **by Dennis J. Cohen and Robert J. Graham.** Master the entrepreneurial approach to projects, the basics of accounting, business strategy and more.
2. ***The Solutions Focus*** **by Paul Z. Jackson and Mark McKergow.** Change experts use these proven techniques to approach old and new challenges with creative flexibility that gets results.
3. ***Leading Change*** **by John P. Kotter.** Kotter simplifies the messy, complex process of corporate change and provides a blueprint for the steps you need to take, whatever your change effort may be.

Summary

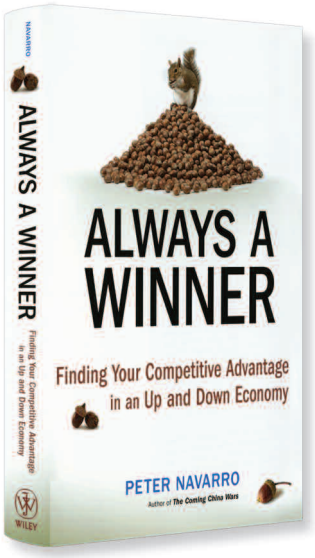
January 2010

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Management: Strategies

Always a Winner

Finding Your Competitive Advantage in an Up and Down Economy



by Peter Navarro

THE SUMMARY IN BRIEF

Most companies make a lot of money during economic expansions and lose a lot of money during recessions, but it doesn't always have to be that way.

In this summary, economist and author Peter Navarro shows you how your organization can be a winner over the course of its *entire* cycle — not just when economic times are good. *Always a Winner* arms you with all the strategies, tactics and forecasting tools you will need to profitably manage your organization through every business cycle season — from the best of boom times to the worst economic slumps.

Practical and insightful, in *Always a Winner* Navarro offers immediately useful advice to help your company survive and thrive in the increasingly risky conditions of the 21st century.

Navarro's call to action is simple: If you really care about your organization, you will learn to strategically manage the business cycle to create a powerfully competitive and sustainable advantage over your rivals. In the end, you will attain the superior financial performance sought by every executive team in the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How to forecast movements and key recessionary turning points in the business cycle.
- How to implement a set of "battle-tested" strategies over the course of the business cycle.
- How to rebuild your organization with a broader strategic business cycle orientation.
- How to make your organization more recession-resistant and resilient over the long term.

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THE COMPLETE SUMMARY: **ALWAYS A WINNER**

by Peter Navarro

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For additional information on the author, go to http://www.summary.com.

A Big Picture View of the Always a Winner Organization

A recession can do far more damage to your organization than any 10 competitors. Without question, it is one of the most important lessons this business executives around the world have all-too-painfully learned in the wake and carnage of the crash of 2007 to 2009.

Contrary to a popular view before that historic crash, the business cycle is not dead. Nor has this highly volatile and often destructive cycle even been tamed. This is a lesson sharply underscored by the culpability of America's own Federal Reserve and central banks around the world in helping to trigger the crash of 2007 to 2009 by first creating, and then perpetuating, a bubble global economy.

Because recessions can do far more damage to your organization than your competitors and because recessions will continue to be as inevitable as death and taxes, the 2007-2009 crash should serve as every business executive's epiphany about the need to recession-proof one's organization.

By learning to strategically manage the business cycle, your organization will be able to create a powerful competitive and sustainable advantage over your rivals and thereby find the grail sought by every executive team in the world: superior financial performance. In this way, you will be "always a winner."

What Are the Three Steps to Becoming an Always a Winner Organization?

In order to always be a winner, your organization must become a Master Business Cycle Manager by following these three steps:

Step One. Develop and deploy strong forecasting capabilities to anticipate movements and key turning points in the business cycle and effectively disseminate that forecasting information to key decision makers.

Step Two. Apply well-timed business cycle management strategies and tactics across the functional areas of your organization in a synergistic and integrative fashion in response to your forecasting data.

Step Three. Over the longer term, build your organization with a strong business cycle management orientation, an executive team with a high degree of economic and financial market literacy, and an organizational structure and culture that strongly support and facilitate all strategic business cycle management activities.

By following these steps, your organization will not only recession-proof itself when the business cycle comes crashing down, it will also gain a competitive advantage over its rivals while minimizing costs, maximizing profits and increasing market share. In this way your organization will achieve superior financial performance and always be a winner over the entire course of the business cycle.

How to Strategically Manage Through the Business Cycle Seasons

Here is a broad overview of each of the major principles of strategic business cycle management:

• **Production, Inventory and Supply Chain Management.** The astute strategic business cycle manager is even more vigilant about the dangers of a recession when economic times are at their very best. In anticipation of a recession, the strategic business cycle manager begins to trim both product inventories and the inventories of the raw materials and components necessary to produce the products.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

• **Human Resources Management.** If the desire is to trim labor costs during a recession, the time to start doing that is well before the recession hits. The Master Cyclist (short for "Master Business Cycle Manager") executive team uses the deepest and darkest days of a recession to cherry pick the very best new employees for its company from a talent pool now swollen with some of the very best and brightest from the industry.

• **Advertising and Marketing.** There is a mound of research indicating that counter-cyclically increasing advertising during a recession is one of the fastest ways to build brand and seize market share. Not only are advertising rates cheaper, but there is far less congestion in the advertising market, and messages are thereby heard much more clearly.

• **Pricing the Cycle and Credit Management.** Price elasticities generally become *more elastic* as a recession takes hold, thereby making products more sensitive. That's why, as a Master Cyclist rule, you always want to be cutting your prices as the economy softens.

• **Capital Expansion and Modernization.** By counter-cyclically increasing your capital expenditures to build new plants and modernize existing ones, your organization will be first to market with products that reflect the latest innovations and styles.

• **Acquisitions and Divestitures.** "Buy low and sell high." That's the Master Cyclist mantra when it comes to executing your organization's acquisition and divestiture strategy.

• **Capital Financing.** Shave a couple of hundred basic points off your capital costs over the course of the business cycle and save your organization millions of dollars. That's the mindset every Master Cyclist brings to the capital financing table. In this critical dimension, corporate finance teams have at least two parameters to optimize: the organization's debt-to-equity ratio and its ratio of short-term to long-term debt.

Step I: Becoming Your Own Economic Forecaster

Before learning how to become your own economic forecaster, it's useful to learn about both how and why the business cycle moves and the various forces that can trigger a recession. A useful starting point for this discussion is to introduce one of the most powerful forecasting tools, the GDP (Gross Domestic Product) forecasting equation.

The economic growth of any nation is measured by its GDP. As a practical matter, GDP growth is driven by only four components: consumption, business investment, net exports and government spending. By using a select set of leading economic indicators and reports to track each of these major GDP components, any business executive can develop a very keen sense of the movements and key turning points of the business cycle.

GDP Changes Chart the Business Cycle

The real, inflation-adjusted percentage changes in the GDP not only help us chart business cycle movements, the quarterly and annual GDP growth rates also provide a very useful benchmark for the health of any economy.

The GDP forecasting equation may be usefully represented as follows:

$$GDP = C + I + (X - M) + G$$

In this equation, **C** stands for consumption and **I** stands for business investment. The term **(X – M)** represents net exports, which is simply the difference between the amount of exports, **X** (what a country sells to other countries), and the amount that country imports, **M** (what a country buys from abroad). Finally, **G** stands for government spending, and often, during a recession, the government is called on to be the spender of last resort to stimulate an economy out of the doldrums.

Understanding that any given recession can alternately be consumer-led, business investment-led, export-driven, triggered by misguided fiscal or monetary policies or precipitated by a major exogenous shock such as a steep oil price hike, is a critical step toward developing your own forecasting capability.

How to Forecast the Business Cycle in Four Easy Pieces

While any organization that is serious about forecasting the business cycle should use one (or both) of the traditional forecasting tools — an in-house model or an outside subscription service — this is merely the start, rather than the end, of your organization's forecasting duties. Indeed, the task of forecasting the business cycle cannot be delegated to a remote group of economists. Rather, *every executive must learn to become his or her own business cycle forecaster.*

A relatively simple but very powerful forecasting method relies on these tools:

1. Monitoring the shape of the bond market's yield curve.
2. Assessing the stock market's bullish or bearish trend.
3. Following the corporate earnings calendar and, most important:
4. Tracking the GDP forecasting equation.

Why the GDP Equation Is Your Most Important Forecasting Tool

By using a relatively select set of leading economic indicators and economic reports to track all five major components of the GDP equation, any business executive can anticipate movements and key expansionary and recessionary turning points in the business cycle.

By individually tracking consumption, investment, net exports and government spending, you will become a much more accurate forecaster and be able to spot recessions much sooner. Any given recession may be triggered by any one of the four forces driving the GDP. In this sense, tracking each of the individual GDP components serves as an early warning system.

Another important reason to track the individual components of the GDP equation may be gleaned from this critical point: Even if the broad economy does not succumb to a recession, a fall in any one of the GDP components might hit your own organization very hard.

Why Tracking the Consumer Is the Ultimate Confidence Game

In order to properly track the consumption component of the GDP equation, it is useful to think in three dimensions:

1. How much is the consumer willing to spend? This is a function of the consumer's mood and confidence.

2. How much can the consumer afford to spend? This depends on the consumer's "budget constraint," which is a function of *both* the consumer's income *and* wealth.

3. What is the consumer actually spending his or her money on? Is it big-ticket items, such as cars and houses, or, fearful of a recession, are consumers shifting their spending patterns toward nondurable goods, such as food and medicine?

Why Taking the Pulse of Business Investment Is as Simple as ISM

Conceptually, business investment can be divided into two categories: fixed investment and inventories. *Fixed investment* includes everything from new factories and office buildings, to computer equipment, machine tools and assembly-line robots. *Inventories* are what pile up when a recession hits and what gets depleted during a robust economic boom.

In general, it is the fixed investment component of the GDP that strongly drives economic growth; inventory levels help signal the relative strength or weakness of the economy.

The Institute for Supply Management is the largest supply chain management association in the world, and the monthly release of its ISM index data is eagerly awaited by business and government leaders as well as the financial markets. This is because the ISM index has had an excellent track record of signaling business investment-led recessions.

Because of its success in signaling past investment-led recessions, the ISM index should be one of the most important weapons in your personal forecasting arsenal.

How Falling Exports Can Flatten an Economy in a Flat World

Properly analyzing America's International Trade report and, more broadly, understanding the roles of differing trade patterns as potential recessionary triggers require a much higher degree of economic and financial market literacy than interpreting other elements of the GDP forecasting equation.

To understand the messages of the International Trade report, it is critical to understand such complex relationships as those that exist among interest rates, inflation, oil prices, exchange rates and trade flows as well as basic economic concepts, such as the price elasticity of demand.

This is precisely why, in an era of globalization, every business executive must commit not just to becoming his or her own economic forecaster but also to improving his or her own economic financial market literacy.

Why Uncle Sam Is the Spender of Last Resort

The best way to monitor government spending is to review the U.S. Treasury Budget report on a monthly basis. This report provides a running estimate of the annual budget deficit as economic conditions change.

Today, as the U.S. government and governments around the world continue to up the fiscal stimulus ante dramatically — and the U.S. debt burden rockets past $12 trillion — the world is faced with a ticking budget-deficit time bomb of unprecedented proportions. The bottom-line implication of this gloomy longer-term picture is that, over time, *chronic budget deficits are increasingly likely to threaten your organization's ability to borrow capital at reasonable interest rates*.

Budget deficits can also be highly inflationary; and once such deficit-induced inflation hits, the Federal Reserve must respond with interest rate hikes that will hamper your ability to raise capital and will likely trigger a recession. For all these reasons, it is critical that you and your executive team closely monitor the U.S. Treasury Budget report on a monthly basis.

How Do I Fear Thee, Inflation? Let Me Count the Ways

While *demand-pull inflation* comes from too much money chasing too few goods, *cost-push inflation* comes about when the economy suffers from an energy price shock or a food price shock. Here's why this distinction is so important: While any increase in demand-pull inflation is likely to increase the chances that the Federal Reserve will *raise* interest rates, any increase in cost-push inflation actually *reduces* the possibility of a rate hike.

Core inflation represents demand-pull inflation while non-core inflation represents cost-push inflation. And note, the reason why energy and food prices are excluded from core inflation is that they are considered to be highly volatile. While food and oil prices may rapidly go up, they also often rapidly go down.

Follow the inflation indicators as part of your GDP forecasting equation protocol because inflation can trigger a recession both directly and indirectly. And know the difference between demand-pull and cost-pull inflation and how the Fed is likely to react to each.

Why the Bond Market Is Not a Casino

If the price of a bond goes *up* and the interest rate paid on that bond doesn't change, the effective yield of the bond has to *fall* because the bond buyer has paid a higher price for the right to earn the same return. From this example, we see a relationship absolutely critical to understanding how yield curves invert. In particular: Bond yields are inversely related to bond prices. Thus, if investors drive the price of, say, the long bond up through increased demand, the yield of the long bond will fall.

The bond market is decidedly *not* a gambling casino. Rather, the bond market is much more like a very sophisticated forecasting tool.

The intelligent speculations of a myriad of very informed investors can reveal the likely direction on the business cycle. Given the yield curve's remarkable accuracy in predicting key recessionary turning points in the U.S. economy over the last 40 years, any business executive who ignores the collective wisdom of the yield curve does so at his or her own peril.

Why Forecasting a Recession Is No Bull (Market)

In general, the earnings of most companies rise in economic expansions and fall during recessions. Accordingly, any stock market investor who believes the business cycle will be in an expansionary mode is likely to be bullish and buying stocks. If the majority of investment dollars in the stock market reflects this bullish position, the stock market trend will be up on the consensus speculation that the economy will continue in its expansionary mode.

If, however, stock market investors anticipate that a recession is on the horizon, they will begin selling stocks. If enough stock market investors become net sellers, any bullish uptrend will quickly morph into a dangerous bearish downtrend. Any such downtrend may signal concerns that a recession may be on the way — or that a recession in progress may continue for the foreseeable future.

Together with the bond market's yield curve spread, the stock market provides business executives with extremely important information with which to guide their companies through an up-and-down economy. Accordingly, any executive who ignores the messages of the stock and bond markets is just plain foolish.

How the Corporate Earnings Calendar Literally 'Guides' Your Strategy

Like clockwork, every quarter on Wall Street, the earnings season rolls around; and during this season, every publicly traded corporation must publish a quarterly earnings statement. For stock market investors interested in individual companies, the earnings season provides a wealth of information.

In using the corporate earnings season as a forecasting tool, there are two important questions to ask:

1. Did the majority of the companies meet, miss or exceed their earnings targets?

2. Did the majority of firms "guide" their forecasts higher or lower, or leave their guidance unchanged? (The term *guidance* refers to the fact that most companies also provide in their earnings announcements whether they expect next-quarter earnings to be above or below the levels previously forecast.)

How to Follow the Always a Winner Indicators and Reports

The best way to follow the leading indicators and reports is by doing something that every business executive should do every business day anyway: Read the financial press. The recommended indicators and reports are covered extensively in publications such as *Barron's, the Financial Times, Business Daily* and the *Wall Street Journal* as well as by financial news networks such as CNBC and Bloomberg.

Step II: Always a Winner Strategies Through the Business Cycle Seasons

Now that we have finished Step One in the Always a Winner management process and you have learned to become your own economic forecaster, it's time to put your ability to anticipate movements and key turning points in the business cycle to work. That's where Step Two comes into play.

In Step Two, we learn how to implement a very powerful set of strategies at key points in the business cycle.

The Always a Winner strategies can be grouped according to seven specific functional activities:

1. Production, inventory and supply chain management.
2. Human resources management.
3. Advertising and marketing.
4. Pricing and credit management.
5. Capital expenditures.
6. Acquisitions and divestitures.
7. Capital financing.

Production, Inventory and Supply Chain Management

In anticipation of a recession, Master Cyclists begin not only to cut production and inventory. They also cut their purchases and stockpiling of whatever raw materials, components and other production inputs they might need for their factories and facilities.

The Master Cyclist executive team is always seeking to balance the costs of holding inventory versus the costs of not having enough inventory on hand — so-called stock-out costs. In this regard, as a recession looms, the downside risks of holding too much inventory quickly overtake the rewards of having enough products on hand for distribution and sale.

It's not just the bottom recessionary part of the business cycle that the Master Cyclist worries about in managing the supply chain. The Master Cyclist also understands that: It is equally important to ramp up production and begin building inventories during a recession as soon as a recovery appears to be on the horizon. In this way, the Master Cyclist will be first to market with the most innovative goods that it is able to produce.

Why Cherry Picking the Talent Pool During Recessions Is Your Quality Key

The Master Cyclist executive team not only avoids the recessionary trap of exuberantly over-hiring and any attendant mass layoffs and blows to morale. It uses the deepest and darkest days of a recession to cherry pick the very best new hires for its company from a talent pool, which includes laid off talent. In this way, this well-timed strategic business cycle management strategy exploits recessions to improve the quality of the organization.

An excellent example of such cherry picking is offered up by Microsoft's rapid response to Yahoo!'s mass layoffs and plunging morale during the 2007 to 2009 crash. In one brilliant move, Microsoft hired Qi Lu, a former top Yahoo! search and marketing executive and pioneer in search engine technology. He wound up as the president of Microsoft's Online Services.

Why Countercyclical Advertising Is the Best Way to Build Brand and Market Share

Recessions are the best time to increase your advertising for at least two reasons:

1. Advertising levels are generally down so there is far less congestion in the advertising market. This allows your advertising messages to be heard far more clearly and far more sharply — particularly if your rivals are in full retreat.
2. Here the laws of supply and demand work very much in your favor: Advertising rates are a lot cheaper so your company and its products get a lot more bang for the advertising buck.

Strategically, it is of course important for your advertising campaign to continue to focus on increasing unit sales during a recession. However, it is strategically even more important to broaden your advertising campaign in a way that focuses more on the longer-term goal of building your brand.

Why Companies Often Price Their Products and Manage Credit Exactly Wrong

While most business cycle management strategies are implemented countercyclically, the rule for properly pricing the business cycle is to do so *procyclically*. As a general rule, you should raise your prices when the economy is expanding to boost revenues. Even more critical to protecting your bottom line — and market share — you should cut prices when the economy is entering a recession.

Master Cyclist organizations never allow their accounts receivable to get out of hand. At the first sign of any possible recession, these organizations begin to pull in their accounts receivable more aggressively even as they begin to tighten credit. In this way, the Master Cyclist credit manager pre-empts any problem of uncollectible receivables.

How to Not Get Run Over by the Capital Expenditures Bandwagon

When it comes to capital expenditures, your Master Cyclist management mantra should be:

- Cut capital expenditures in anticipation of a recession to build up your cash position and avoid overcapacity.
- Increase your capital expenditures during recessions so as to be first to market with products that reflect the latest innovations and styles.

Far too many organizations engage in just the opposite kind of investment behavior.

Why You Should Buy Low and Sell High Over the Stock Market Cycle

It is essential that any executive team obey this all-important maxim: *Any acquisition must be accretive to earnings.*

In a Master Cyclist and an Always a Winner context, this maxim means that no matter how attractive an acquisition may seem from a strategic perspective, if its purchase price is too high, that acquisition will *never* be accretive to earnings. To put this crucial point another way: Any overpriced acquisition — no matter how many benefits it may convey — will never overcome its high costs and add to the company's bottom line.

One Always a Winner point should be abundantly clear: If you conserve your cash and are patient during a bullish upward trend of the stock market cycle, you will be loaded for bear once a bear market hits.

How to Minimize Your Capital Financing Costs Over the Interest Rate Cycle

Shave a couple of hundred basis points off your capital costs over the course of the business cycle and save your organization millions of dollars. That's the mindset every Master Cyclist brings to the capital financing table.

In this critical Always a Winner dimension, corporate finance teams have at least two parameters to optimize: the organization's debt-to-equity ratio and its ratio of short-term to long-term debt. Both of these parameters change over the course of the business cycle and the related stock market and interest rate cycles. Only by strategically exploiting these cyclical changes in the debt-to-equity and short-term to long-term debt ratios over time will your capital financing costs truly be minimized.

Step III: Building the Always a Winner Organization

For you to engage in truly effective strategic business cycle management over the many different functional areas of the organization and over the longer term, it is critical that you learn to rebuild your organization to reflect its new strategic intent.

Strategy and Structure

The reigning authority on both the necessity and virtue of organizations adapting to reflect their changing strategy is the noted Harvard Business School historian Alfred Chandler. In his classic book *Strategy and Structure,* Chandler astutely noted that structure must always follow strategy.

To become a truly effective strategic business cycle manager, an organization needs to possess these four characteristics:

1. A strong business cycle management orientation.
2. An executive team that facilitates the flow of forecasting data and timely decision making.
3. An organizational structure that facilitates the flow of forecasting data and timely decision making.
4. An organizational culture that supports business cycle management activities.

What Is a Business Cycle Management Orientation?

The term *business cycle management orientation* refers to the recognition by the organization's executive team that recessions represent not only potentially extreme dangers. More broadly, movements and key turning points in the business cycle represent potential sources of competitive and sustainable advantages as well as important determinants of both the flow and stability of future earnings.

Beyond an overriding awareness of business cycle movements and the strategic opportunities that recessions in particular present, a strong business cycle orientation also emphasizes this critical point: Truly effective strategic business cycle management is ultimately a learning process based on an organization's cumulative experience with dealing with past adversity.

How Every Executive Team Can Boost Its Economic and Financial Market Literacy

Regardless of why far too many members of America's business executive corps may be characterized by a relatively low level of economic and financial market literacy, it is critical that the literacy bar be raised. To raise this bar requires both a commitment to the daily discipline of reading the financial press and a longer-term commitment to training programs that systematically upgrade the business cycle management skills of the executive team.

In reading the financial press, it is essential for every business executive to very *quickly* and *intelligently* read at least three newspapers a day: the *Wall Street Journal*, the *Financial Times* and *Investor's Business Daily*. *The Economist* offers the latest in global financial news.

Why a Facilitative Structure Must Follow Your Business Cycle Management Strategy

What kind of structure must your organization develop to strategically manage the business cycle effectively and efficiently over the longer term? The answer may be found in three specific structural dimensions:

1. Your organizational structure must facilitate the timely acquisition, processing and dissemination of forecasting information.
2. Your organizational structure must facilitate the equally timely, synergistic and integrative implementation of strategic business cycle management principles.
3. Both your forecasting and strategy-setting capabilities must be integrated across the firm and not segregated in separate shops far from the centers of power and command.

The bottom line is that building an organizational structure that is fully capable of supporting your strategic business cycle forecasting and management activities is absolutely critical to the long-term success of your organization. Time spent on this critical task will be time very well spent indeed.

Why a Supportive Organizational Culture Is Essential to Always Being a Winner

When it comes to cultivating a supportive organizational culture for its strategic business cycle management activities, no company does it better than Intel — except perhaps the big-rig truck manufacturer Paccar.

Paccar operates in one of the most cyclical of industries. Nevertheless, the company has been able to turn a profit consistently for almost 70 years. As evidence of both its business cycle orientation and its high degree of business cycle literacy, Paccar's top management team has adopted a strategy of geographically diversifying risk. Paccar's team also closely follows key industry indicators (e.g., freight tonnage) and prides itself on its almost accordion-like ability to ramp up and ramp down its production at the first sign of recovery or recession.

A major part of Paccar's nimbleness may be attributed to the company's own pragmatic and supportive organizational culture. As one assembly line operator described it: "Workers appreciate how [executives] don't go into denial or stonewall when a downswing is coming. They are frank and open about cuts, and … relations between the company and its unions seem to be good."

To build this supportive culture from the ground up, at every new employee orientation, workers are warned that the truck business is cyclical and some layoffs are almost inevitable. It is in large part because of this early warning and frankness that once the economy recovers, loyal workers typically find their way back to Paccar's factories rather than those of the competition. In this way, Paccar's organizational culture allows it to retain much of its highly skilled work force even though many of its members are laid off periodically. The cultural payoff: considerable savings in recruitment and training costs and its accordion-like ability to control labor costs during downturns.

How to Protect Your 401(k) in an Up-and-Down Stock Market

The best way to completely diversify diversifiable risk is simply to hold the broad market, for example, by holding a mutual fund or exchange-traded fund representing the S&P 500 Index.

While holding the broad market may do an excellent job of protecting your portfolio from diversifiable company and sector risks, it does nothing whatsoever to protect you from the market risk associated with holding a portfolio through the up-and-down movements of the business cycle!

By learning how to be your own business cycle forecaster and by following stock market trends, you will not only learn how to manage your organization much better. You will become part of that small elite group of smart money and thereby manage your own money and retirement funds much better.

If you become your own economic forecaster, you will not only develop a much better sense of the broader economic conditions within which your business operates. You will also ensure that a recession never again catches you and your organization by surprise. ●

RECOMMENDED READING LIST

If you liked *Always a Winner*, you'll also like:

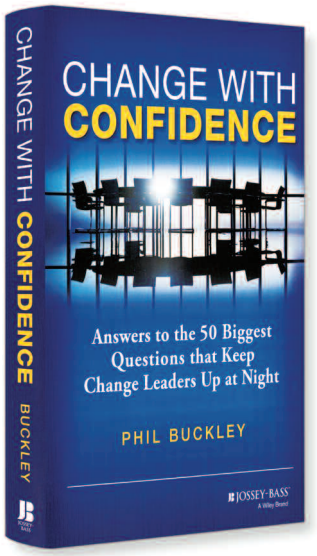
1. ***Outsmart!* by Jim Champy.** Identifies the counterintuitive lessons learned by companies able to sustain super-high growth for at least three years.
2. ***The Granularity of Growth* by Patrick Viguerie, Sven Smit, Mehrdad Baghai.** This book teaches executives how to follow a detailed approach to uncover potential growth options.
3. ***The Momentum Effect* by J.C. Larreche.** Harness the power of the momentum effect, adaptable by any business under any market condition.

Summary

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Management



Change with Confidence

Answers to the 50 Biggest Questions That Keep Change Leaders Up at Night

by Phil Buckley

THE SUMMARY IN BRIEF

Change management is about helping people decide to change successfully. If you have been charged with leading a change initiative, chances are you were chosen for the job — that is, you didn't volunteer but rather were tapped to lead or manage a large change project. You may have been given a short briefing and left to your own devices to succeed or fail in an uncertain, often threatening environment. You may find yourself struggling to adapt your skill set to unfamiliar and anxiety-inducing conditions, conscious that your performance will affect your future career paths.

Change with Confidence addresses the biggest questions that change leaders ask time and again and provides the context, examples and advice to answer them well and to enable successful, sustainable change. Whether you're trying to figure it out, are in the planning stage, are actively managing, or are working to make it stick, you'll find guidance for a wide range of issues.

Although every change has its own circumstances, there are proven processes, tactics and behaviors that lead to lasting success. *Change with Confidence* offers practical, experience-based advice on how to handle the challenge of change.

IN THIS SUMMARY, YOU WILL LEARN:

- How to analyze previous change initiatives to see what worked, what didn't, and why.
- How to find out who can influence your success or failure, help you, or trip you up.
- How to determine what resources you'll need and how to get them.
- How to overcome change fatigue and opposition to change.

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THE COMPLETE SUMMARY: **CHANGE WITH CONFIDENCE**

by Phil Buckley

The author: Phil Buckley is a senior change management professional with over 20 years of experience developing and executing change strategies to achieve aggressive business goals across global businesses in Canada, the Americas and the UK. He has managed 27 large-scale change projects, including co-leading global change management for the Kraft Foods acquisition of Cadbury with a team of 40 change leaders across 60 countries.

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PART 1: FIGURING IT OUT

All change projects require you to move people from how they currently think and act to new ways of thinking and acting. The underlying rationale for change must be that it will lead to better performance, but this starting point is rarely enough for people to make them change. They are usually set in their ways and need to be constantly motivated and supported in order to take on new ways of working.

Often, change leaders make commitments regarding a big organizational change before doing their homework. They don't spend enough time understanding where colleagues currently are and where they need to be. Comparing these two positions will deliver a sense of what needs to change (mind-sets, behaviors, skills, processes and systems), how big of a change is required and how difficult it will be to make. In total, assessing all of these aspects of your change project will give you a sense of exactly what you have been asked to do.

The Plan

What Do I Bring to the Project?

Often, people become paralyzed by the magnitude of a big change project regardless of the role they've been given. They compare the project goals with the status quo, become anxious, and allow comments like, "We've never done this before" to fuel doubt, fear and panic. Before this happens, think of what you can draw upon to help the organization make the change. Based on your initial briefing, what past experiences, knowledge, skills and relationships are relevant to the project?

What Works:

• Note the colleagues you know in the areas of the business experiencing the change. They will give you insider perspectives on needs, concerns and cultural norms.

• Think of what you have in common with the impacted groups. Personal credibility and trust are important when supporting teams through change.

• Review what projects you have worked on and what you learned from them.

• Read past performance appraisals, and record the skills and capabilities you have been recognized for. Ask peers to add to your list.

How Do I Identify What Needs to Change?

Any big change will affect how people do their work. A critical initial step is to thoroughly map out what needs to be different for the change to be successful. This will give you a sense of how difficult your change project will be for individuals and teams to adopt.

It's critical not to underestimate the changes required. Your assessment will directly affect the resources needed to implement change, and misestimating the resources required will lead either to a mid-project request for additional funds (not pleasant) or an understaffed implementation (not wise). Moreover, missed requirements will distract and frustrate your team because they come as a surprise and might put the quality of your plan or even worse your leadership in question.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Jeannette Scott**, Contributing Editor

What Works:

• Engage people early in the assessment process so that they feel part of the initiative and take ownership of the change process.

• Make sure someone is accountable for each aspect of the change project. Any unaccounted-for areas either will not be attended to or will be seen as extra work by those who eventually have to handle them.

• Chart the required changes by groups responsible for them. Describe the current and future states in terms of the mind-sets, behaviors, processes and systems that need to change.

What Other Change Projects Are Going On?

One critical factor in your project's success is the amount of change going on when you implement the project. People have limited capacity for change and the extra work that comes with change projects. Generally, the more change initiatives in play, the more challenges a project has to overcome, and each initiative can derail your project as it draws on limited resources and takes up executives' time.

In 2004, Cadbury Adams USA harmonized its enterprise operating system, a major project requiring significant resources. When certain milestones were in danger of being missed, the project team discovered that key people were not living up to their time commitments. Further investigation revealed that most of them had been assigned to projects totaling over 150 percent of their available time. It was impossible for them to honor their commitments. Certain projects were reprioritized, reducing commitments for these colleagues, and additional resources were added where this was not possible. Further delays were avoided by ensuring that sufficient resources were made available to manage the work. Insufficient resources is one of the biggest causes of project failure. ●

Communication

What Is the Water Cooler Talk About Your Proposed Change?

"Water cooler talk" is a great metaphor for what colleagues think and say when not pressured to toe the company line, and understanding such uncensored beliefs will enable you to amplify positive perceptions and refute negative ones.

Addressing colleague concerns in project communications will increase the credibility of your project and the level of trust in the project team. Furthermore, differences between "water cooler" exchanges and executive interviews will help you assess how in touch leaders are with the feelings of their team members and what views may need reconciling before the project gets underway.

What Works:

• Informally poll colleagues to get an accurate picture of how they feel about the ways of working you intend to change.

• Ensure you have input from every group impacted by the change.

• Quickly dispel any incorrect information, identify areas where there are negative reactions to the change, and provide ongoing opportunities for people to raise concerns. ●

Getting Results

What Do I Need to Know Before I Commit to Deliverables?

Big change projects are rarely managed in perfect conditions. You need to ensure that the expectations of the various team leaders are aligned with the conditions surrounding the project by weighing the deliverables against the level of change involved, resource availability and the environment in which the impacted colleagues are working.

What Works:

• Ask your stakeholders, your team and yourself, "What has to be true to be successful?" Then gauge how aligned these requirements are with the environment in which you're working.

• Confirm the amount of decision-making power you will have in the project. Your degree of autonomy will impact the outcomes you can realistically sign up for.

How Do I Measure Success?

Defining how success will be measured is critical at the start of your project. These metrics will measure how your change project is performing, along with you as a leader.

In 2000, when Cadbury Chocolate Canada acquired Trebor Allan, the newly merged company became the largest confectionery company in Canada. The project team had combined the two businesses as planned, but after 14 months, it was missing its goals. A new leader asked the team if the merger was successful, and the members said, "yes." He then asked, "How do you know?" Since the team had not identified specific measures of success for the merger other than annual financial targets, members could only claim that the plan was exe-

cuted (citing anecdotal evidence), which didn't answer the question. The silence in the room was palpable.

Defining clear and obtainable metrics will confirm your achievements, simplify reporting, and provide you with data to verify when the project is on track or when remedial actions are necessary. Once you have all the information required to get your head around the project, you need to review everything you have discovered to make sure that the change will achieve the desired outcomes. ●

PART 2: PLANNING FOR CHANGE

Once you have finished "figuring it out," you have to develop a sense of the nature of the change and a set of expectations for deliverables and create a plan that defines how you will transition colleagues and the business through to your desired post-change state. This involves breaking down the change into sequenced activities, defining the resources required to implement them, selling the plan to your stakeholders, and communicating it to your organization.

The Plan

What Does a Good Plan Look Like?

It is far easier to implement a change once you have a strong plan to guide your actions — a detailed plan that maps out the project activities and provides a framework for leaders and the project team to follow. It should operationalize the project charter and include details on deliverables, budget, resources and timelines.

What Works:

• Create a project summary to test your understanding of details and to guide the project's shape before others try to do so. You don't want stakeholders planning for you or spending time assessing other people's ideas.

• Allow for flexibility in implementation, and leave the minute details to the teams that have to make the change.

• Calibrate your plan with the resources available to deliver it. Don't take on what you can't deliver with your project team.

The following topic areas will provide a solid basis for your plan: context/background, objectives, scope (in/out), outcomes/deliverables (including measurements), approach (required changes to behaviors, process, capabilities and technology), assumptions, risks/interdependencies, governance, timeline, resources and budget.

What Governance Is Required to Run the Project?

"Governance" in this context means the managerial rules that guide how work is done. Structure and order are necessary at the start of a big change project: people need to understand how their roles contribute to the project and what is expected of them. Establishing how the project will be governed is the first discussion you must have with the leadership team or project steering committee (which may include additional people who can guide and support the project). Fight hard to enforce principles, and be flexible about everything else.

What Works:

• Demonstrate governance in a visual format as doing so shows how things are connected and is easy to understand.

• To ensure leaders are clear on decision rights, present real-life scenarios to demonstrate how decisions will be made and what the consequences of potential decisions will be. Outline who has input and who makes the final call. ●

Resources

How Do I Know What Resources I Need?

It is critical that you dedicate sufficient time to map out the number and types of team members you need. You also have to fight for required resources at the beginning of a project as the fight gets harder and more stressful when additional resources are needed midstream. Cutting corners in a budget might look good on paper, but doing so rarely delivers the outcomes you need.

What Works:

• Create a resource plan that identifies the number and type of resources your change project requires. It is helpful to link these requirements to your impact assessment and to document the qualifications required for each role. This resource plan will support discussions with leaders, and trade-off scenarios can be explored if the business can't accommodate your recommendations.

• Secure enough resources so that you don't compromise stakeholder management. If you're working on the activity-level details, you will be distracted from this important leadership role.

Building the right-sized team with the right skills is critical to your change project. It must be large enough to complete planned tasks but not so large that roles overlap and team members become idle. With the right

team in place, you can consider what skills are required for you or someone else to manage the project.

What Makes a Good Project Manager?

The project manager has the greatest impact on day-to-day project operations. He or she must have the organizational skills necessary to construct and manage the project plan, be able to uncover missed tasks, have the relationship skills necessary to align and influence diverse stakeholders, and have the critical thinking skills to solve problems. Also, this individual needs to be able to courageously tell the truth and demonstrate grace under pressure in times of difficulty.

What Works:

• Select someone who has past experience working on a project team. This experience is essential to understanding the natural flow of big projects.

• Select someone who is a good listener, facilitator, negotiator, mediator and motivator.

A good project manager is like a modern-day Renaissance man or woman who draws upon strong technical and people skills to maintain momentum regardless of circumstances. They are quick to diffuse concerns and solve problems so that the project does not get bogged down or go off track. With the project manager in place, you can start filling key project roles.

Communication

How Do I Get Leaders to Personally Commit to the Project?

Leaders can make or break a big change project. Given the power of their positions, they can reward the behaviors and actions they support and punish those they don't. Without their full support, a project has little chance of succeeding.

What Works:

• When you do get agreement from the leadership team members, thank them for their support and reinforce that the project is owned by all members of the team.

• Get the head of the organization to commit to your change project and to share with the leadership team members the reasons why he or she did so.

• Establish roles for leaders that keep them busy and visible. Keep them active on your project.

How Do I Describe the Better Future My Project Will Bring?

The best future visions appeal to the hearts and minds of colleagues. Winning over hearts ensures personal investment and engagement; winning over minds ensures alignment with the need for change from a business perspective. Individuals need to see themselves having roles in the future picture you create, and the company rewards for creating change need to be seen as their rewards.

What Works:

• Establish a connection between your change project's vision and your organization's overall strategy.

• Discuss how the change will impact customers, consumers, suppliers, government and the community.

• Communicate through stories and metaphors. People learn through simple narratives and around goals, challenges, actions and outcomes.

PART 3: MANAGING CHANGE

Once you've created your plan and it's been approved, you need to take action as quickly as possible. Ideally, you will implement your plan as it has been written, completing each activity and achieving each milestone on schedule. What typically happens, however, is that roadblocks appear along the way, changing timelines and the sequence of events. You will need to marshal your resources to address these challenges while managing stakeholders to ensure they remain supportive of the project and your leadership. You'll need to ensure your team has the resources it needs, inform and coach stakeholders, and resolve issues.

The Plan

How Do I Manage My Day Job, a Change Project and Life?

High-performance individuals usually fall into the trap of trying to do everything and either fail to do so over time or maintain everything poorly. They find it hard to focus on the task at hand because they are so distracted by everything else they must do.

Leaders who successfully balance their many life roles tend to develop mechanisms to keep on track. Although each one is different, they hardwire priorities into their schedules and ensure that the important things in their lives are honored and done first.

What Works:

• Assign many of your day job tasks to team members as soon as you are assigned to lead a big change project.

• Create a to-do list with all of the different aspects of your life represented.

• Be selective about the meetings you attend. Consider sending a team member to represent you if there's not a specific reason for you to be there.

Change leaders need to plan their schedules as rigorously as their change projects. A reasonable life balance will help you stay focused on all of your priorities.

When Is the Organization Ready for Big Change?

You need to be confident that all parts of your organization are ready to take on new ways of working. If people aren't fully prepared, they will revert back to old ways of doing things, which in turn will probably lead to business disruptions.

What Works:

• Get leadership teams to sign off on the questions that will be used to assess readiness for the change.

• Ask leaders the following "killer questions": What have you personally done to prepare your team? How have you prepared your team to be aware of risks, to know what to do if things go wrong, and know how to trigger contingency plans if required?

• Ask colleagues the following "killer questions": What should we be worried about? Are issues getting the right level of attention? How confident are you that you will be able to perform your job on the appointed date?

How you prepare colleagues to take on new ways of working must be a core element of your project plan. ●

Resources

How Do I Get More Resources If I Need Them?

Creating a resource request process based on predefined criteria will increase the probability that you will receive approval, and building these requests into project governance will change the focus of the conversation from "Why didn't you know?" to "What is the business need?"

What Works:

• Include a protocol that states you will review project resources at the beginning of each phase.

• Create a process for reviewing resources based on assessing opportunities and risks.

• Include a fact-based rationale for each resource request. This should include opportunity realization, risk management and new scope accommodation.

How Do I Keep the Project Team Energized?

Big change projects tend to exact more emotional strain than nonproject roles. There is constant pressure to drive forward on a difficult course that is heavily monitored. It is essential to balance the negative effects of stress with positive recognition, opportunities to recharge and rewards. Acknowledging people's efforts and pacing their work will give them the energy needed to succeed over the long haul.

What Works:

• Be as energetic and optimistic as you want your team to be.

• When faced with problems, show confidence that the team can solve them, and reinforce the idea that teams win together.

• Pace your team so team members don't burn out. ●

Communication

How Do I Overcome Resistance?

Identifying the reasons for resistance — everything from passive compliance, indifference or apathy to outright sabotage — and addressing them up front will neutralize these roadblocks.

What Works:

• Discuss potential reasons for resistance with colleagues when you describe the project vision to the organization, and reinforce the positive benefits of the change.

• Build in as much certainty as you can — what is going to happen and when, what aspects will change and what will stay the same, and so on. Reduce stress and fear by reducing the unknown.

• Identify "early adopters" who support the change. Ensure they have the necessary information and are invited to forums where they can influence other colleagues.

• Avoid publicly challenging people who show resistance.

What Do I Do When I Don't Know What to Do?

Your career is on the line when managing big change projects, and you will be positively regarded as someone with future potential if you demonstrate grace under pressure. How you manage difficult situations will be remembered long after people forget what you did.

What Works:

• Keep calm. Acts of desperation imply that the situation is out of control and you are not in command of it.

• Keeping people busy on doing the most important things will avoid distraction and maintain performance.

• Assign responsibility for gathering data you don't have, and request help from experts who have managed similar challenges.

• Don't blame people for problems, especially in public forums.

PART 4: MAKING CHANGE STICK

As a change leader, your role is to ensure that plans are in place so that the change lasts. If this doesn't happen, it's likely that old ways of working will seep back into the business, you will lose some of the benefits of the change, and the project will not be deemed a complete success.

The Plan

How Do I Prevent the Return of Old Ways of Working?

Old behaviors can progressively reemerge across the business, creating an inefficient and constantly mutating hybrid organization operating on inconsistent procedures. Some leaders ignore evidence of the reemergence of old practices, hoping they will just go away. If not addressed, just the opposite happens, and people will do more and more things the way they used to. You need to reward new behaviors (and challenge old ones) by building them into ongoing organizational processes, including human resources processes such as performance reviews and colleague rewards.

What Works:

• Build the leadership team's awareness of the dangers of old behaviors reemerging, and ask for their commitment to support the new ways.

• Remove access to old ways of working.

How Do I Hand Over Responsibilities to the Business?

The project team needs to transfer its responsibilities to the business operating teams once the new procedures are running smoothly. At this time, the operating teams take over, providing ongoing support activities and controlling future enhancements. A thorough handover process is necessary for a smooth transition between the two teams, and sufficient time for them to discuss project background, new roles and ongoing needs is necessary.

What Works:

• Appoint people responsible for new processes and systems at the beginning of the project, and invite them to checkpoint meetings to build their awareness of project details.

• Create a project handover plan to ensure that the colleagues with new responsibilities are properly briefed, and include in it a checklist itemizing the steps for completing a thorough transition. Track the plan's completion.

A project team's effectiveness in transferring responsibilities to operating teams often dictates the level of long-term adoption of new ways of working. A thorough handover process ensures that new owners of post-launch responsibilities have the knowledge, tools and confidence to complete their mandate.

How Do I Record Lessons Learned?

The project manager needs to drive the process of recording and sharing knowledge so that future projects can benefit from it. Understanding lessons learned helps build change capacity and skill and dramatically improves organizational knowledge on how projects work within a certain culture.

What Works:

• Create a simple "what worked" and "what could have been done better" chart to document lessons learned in a format easy to present to stakeholders.

• Interview all stakeholders and project team members, asking them the following questions: What was difficult to accomplish? What would you do differently? Were there any surprises during the project? How could they have been avoided?

The capturing and reviewing of lessons learned needs to be valued by project and leadership teams.

Resources

How Do I Plan for Post-Launch Support?

Experts are often created during a big change project, and finding ways to use these capabilities after the project closes will greatly increase the probability that new ways of working will stick. Also, doing so rewards colleagues who have helped build the business.

What Works:

• Set a concrete end date for the project. At this time, the project team will officially disband and ongoing accountabilities will shift to colleagues in the business.

• Request that project team members take on post-launch duties. They are the most knowledgeable and emotionally attached to the new ways of working.

• Assign people responsibility for each new process. This will ensure accountability for ongoing maintenance, upgrades and education — all necessary, especially in regard to new software packages.

How Do I Reward the Team?

Leaders and colleagues tend to remember two parts of a project most vividly: the beginning and the end. The middle is a gray area that is usually forgotten unless something major went wrong. People have a need to be recognized for their commitment and engagement, and by doing so, you not only acknowledge their hard work but encourage similar efforts in the future.

What Works:

• Hold a final dinner meeting for the project team to acknowledge the hard work of the team.

• Help team members transition back to operating roles. You need to make this a priority because it is the right thing to do and because people will not want to leave their operational roles in the future if colleagues have been penalized for doing so. ●

Getting Results

How Do I Keep the Change Alive?

An effective way of keeping the change alive is to determine what needs fixing or enhancing so that the change works for colleagues and the project realizes its intended benefits (or even uncovers new benefits) and full potential. Each modification should make colleagues' lives easier and improve effectiveness, so the more you can identify, the better the change will be.

What Works:

• Schedule face-to-face meetings to assess how the new ways of working are being adopted and which elements need modification.

• Set up ongoing user groups to manage challenges, record wins, and recommend upgrades.

People who are using the new ways of working are your main source of improvement ideas. They know their jobs and what needs to happen to be effective and efficient. You must provide them with opportunities to share what works and what doesn't, and listen carefully to their recommendations. Many of them will be practical and cost effective. Encouraging feedback and quickly acting on suggestions will motivate people to stick with new procedures.

How Do I Show That the Project Was a Success?

When presenting results, it is best to start with the measurements agreed to at the outset. Facts and data outlined before and after results are the best evidence of goal achievement. Then you can share additional evidence that speaks to the quality and effectiveness of your teams' work. Verbal testimonials from leaders and colleagues also are effective, but without fact-based documentation, you run the risk that these general perceptions may change over time, which can change how the project is viewed.

What Works:

• Hold a final leadership team project review meeting to demonstrate the project's achievements based on preset measurements. The most effective reviews are short and tight, conveying momentum and professionalism.

• Create an end-of-project review document that provides an overview of the project — its objectives, accomplishments and lessons learned — and schedule short meetings with all stakeholders not present at the leadership meeting to review project results.

• Ensure that high-level results are communicated to the business. This provides an opportunity for colleagues to celebrate success and reaffirms that change projects are necessary to achieve higher performance.

• Submit your project to an industry awards program. This will provide exposure for your organization and externally validate your team's accomplishments.

Facts and data are critical to showing that your project is a success, but the story behind the success will be remembered long after the numbers are forgotten. Make sure your project's success is broadcast across the organization: It is good for morale and provides another opportunity for your team (and you) to be recognized. After all the hours, days, weeks and months of hard work, it is time to celebrate. ●

RECOMMENDED READING LIST

If you liked *Change with Confidence,* you'll also like:

1. ***Change-Friendly Leadership* by Rodger Dean Duncan.** Learn how you can achieve successful change by implementing the Four Ts of change: Think-Friendly, Talk-Friendly, Trust-Friendly and Team-Friendly.
2. ***The Reinventors* by Jason Jennings.** Jennings uses his research of 120,000 companies to provide 10 rules for reinvention to help leaders move toward a continuous change model.
3. ***Change the Culture, Change the Game* by Roger Connors, Tom Smith.** The authors reveal how to transform your entire organization through each level of the Results Pyramid: Experiences, Beliefs, Actions and Results..

Summary

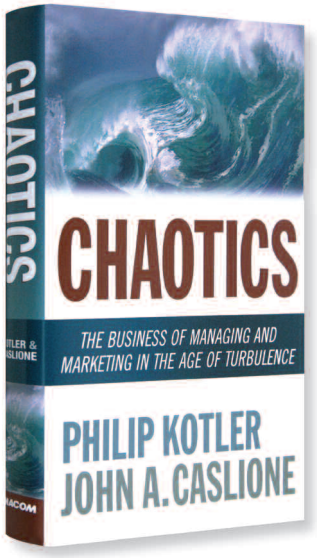
September 2009

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Management: Strategies

Chaotics

The Business of Managing and Marketing in the Age of Turbulence



by Philip Kotler and John A. Caslione

THE SUMMARY IN BRIEF

In *Chaotics*, noted business strategists Philip Kotler and John Caslione present the intriguing, if unsettling, argument that the troubled times that challenge businesses today are not an aberration, but the new face of normal. In fact, the economic downturn is part of the Age of Turbulence, where both risk and opportunity are quickly felt around the world, now inexorably linked by globalism and technology. It's a world that chews up the unprepared, but rewards the prepared — those robust companies that have the ability to quickly anticipate and effectively respond to potential threats.

Chaotics provides deep insights and practical strategies for not only surviving the current economic downturn, but also thriving amid the many slumps and spurts of prosperity that lie ahead. At the heart of the book is an innovative Chaotics Management System for minimizing vulnerability and exploiting opportunities. The system helps you completely rethink how you manage and market during recession and other turbulent conditions.

Chaotics is a timely, practical, indispensable guide for business leaders striving to survive today's economic storms and to prosper through the inevitable turbulence of tomorrow.

IN THIS SUMMARY, YOU WILL LEARN:

- How to develop early warning systems for identifying the first signs of upheaval.
- How to construct detailed worst-case, best-case and most-expected-case scenarios.
- The strategic behaviors necessary to weather the storm in each specific operational area of your business.
- How to secure your market share from core customer segments — without decimating customer research and marketing budgets.
- How to compress strategic planning into shorter time cycles.

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THE COMPLETE SUMMARY: **CHAOTICS**

by Philip Kotler and John A. Caslione

The authors: Philip Kotler is one of the world's foremost experts on the strategic practice of marketing, and was voted the first Leader in Marketing Thought by the American Marketing Association. He is the S. C. Johnson Distinguished Professor of International Marketing at the Kellogg School of Management at Northwestern University and the author of several influential books.

John A. Caslione is one of the world's most accomplished business strategists, serving as advisor to numerous large and middle market companies, and having executed global business development strategies in 88 countries on six continents. He is the founder, president and CEO of GCS Business Capital LLC, a global mergers and acquisitions advisory firm.

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The World Has Entered a New Economic Stage: From Normality to Turbulence

Your instincts — or maybe your paranoia — will tell you to remain ever vigilant because you don't know when a strong and sudden wind will hurl your company or your whole industry into unwanted chaos. Sometimes the turbulence is minor. Other times it is more dramatic, such as when the great global financial meltdown of 2008 had nearly everyone gasping for breath as the markets experienced unpredictable and uncontrollable free fall from one day to the next.

Today's economy, with its heightened turbulence, is markedly different. Today, and for the foreseeable future, the *new normality economy* is more than just normal times of up and down business cycles. We can expect more big shocks and painful disruptions, causing heightened levels of overall risk and uncertainty for businesses at both the macroeconomic and microeconomic levels.

Factors That Can Cause Chaos

- **Technological Advances and the Information Revolution**

  Information technology (IT) is one of the key driving factors in the process of globalization. The information revolution is probably the single greatest contributor shaping the new global economy.

  The Internet has transformed and globalized commerce, creating entirely new ways for buyers and sellers to conduct transactions, for businesses to manage the flow of production inputs and to market their products, and for job recruiters and job seekers to connect with each other.

  The impact of Web-based services will be felt on a macroeconomic level, as cloud computing makes small firms more competitive with larger ones. And it will help developing economies compete with developed economies. These two factors alone will contribute greatly to increased market turbulence for companies of all sizes.

- **Disruptive Technologies and Innovations**

  The concept of disruptive technology continues a long tradition of the identification of radical technical change. The entire basis of disruptive innovation is that it creates dramatic change in the market, causing the status quo technology to be quickly rendered obsolete. Disruptive technology has the potential to be the ultimate "game-changer" that can create chaos in an entire industry.

- **The "Rise of the Rest"**

  A new chapter in global economic history has begun, one in which the United States, and to a lesser extent Europe, will no longer play their former dominant roles. What *Newsweek's* Fareed Zakaria calls the "rise of the rest" attests to the turbulence and chaos caused by one of the most compelling new forces — the world's rising emerging market powers, most notably the BRIC countries (Brazil, Russia, India, China)

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Barry Silverstein**, Contributing Editor

and countries in the cash-rich Middle East.

These rising, globally aspiring upstarts from distant lands will do all that it takes to create as much chaos as necessary to trip up or buy up incumbents from the developed world to level the competitive laying field.

- **Hypercompetition**

  Hypercompetition occurs when technologies or offerings are so new that standards and rules are in flux, resulting in competitive advantages that cannot be sustained. Speed of the disruptive turbulence created by hypercompetition is driven by globalization, more appealing substitute products, more fragmented customer tastes, deregulation and the invention of new business models — all contributing to structural disequilibrium, falling barriers to market entry and the dethronement of industry leaders.

- **Sovereign Wealth Funds**

  A sovereign wealth fund (SWF) is a state-owned investment fund made up of financial assets like stocks, bonds, property, precious metals or other financial instruments. During the global financial crisis of 2008, several U.S. and European financial institutions avoided bankruptcy by accepting SWFs from the Chinese government and various Arab kingdoms.

  Ultimately, through corporate acquisitions and the investments of SWFs in the U.S., Europe and other Western economies, the role of the state (often an undemocratic one) in the global economy is rapidly expanding, and with it comes the inevitable "push back" from Western governments and businesses, creating new sources of turbulence and chaos with which businesses will need to contend.

- **The Environment**

  All companies face increased pressure to conserve scarce natural resources and reduce pollution to ward off global warming so that life on the planet is not irreparably damaged. These requirements add to the cost of doing business overall, irrespective of any investment returns. The "green movement" is growing; it is gaining clout.

  Ultimately, the value of companies is likely to change as environmental factors begin to affect their performance. To preempt any disruption or chaos promoted by environmental issue turbulence, the best companies will ultimately bring all stakeholders — both public and private — together to help shape the company's Business Enterprise Sustainability (BES) strategy so that environmentally effective "green" solutions also provide attractive returns on "green" investments.

- **Customer and Stakeholder Empowerment**

  Customers and other stakeholders are no longer passive agents in the marketing process. They can learn as much about a company, product or service as they choose. Beyond that, customers and all stakeholders can use what they have learned and tell others in their network by blogging, podcasting, e-mailing or chatting.

  Today, businesses in all markets must be able to manage and market in environments exposed to some level of turbulence. What's needed now is *a new strategic framework for operating in the face of intermittent and unpredictable turbulence.*

Management's Wrong Responses to Turbulence Now Become Dangerous

Turbulence in the business world leads to all the wrong responses from management. Many businesses and their executives subscribe to one of two conventional approaches to turbulence and the resulting chaos: They take few (if any) precautions, acting as if the storm will blow over, or else they run for cover, either slashing costs or, desperately, caught in "magical thinking," investing in new and often unrelated businesses to hedge their bets.

Here are some of the most common mistakes that business leaders make when turbulence hits:

Resource Allocation Decisions

During times of turbulence, the decisions a leader makes will be far-reaching. Never lose sight of your company's core values. Undermining the culture and reallocating resources can have long-term damaging effects. Not only can it weaken the fundamentals of the company, but it may tarnish its brand.

The harsh reality is that companies will need to cut costs somewhere when the economy is down, and there are times when a company's very survival demands dramatic cuts that absolutely must be made to save the company.

But it's essential that cost-saving measures do not impair the company's uniqueness quotient, fall short of customer needs and expectations, or place the culture and values in peril.

Cuts Versus Focused and Measured Actions

Turbulence, and the resulting chaos it brings, places every company in a different situation — some with

greater risk than others — when it comes to finances and overall liquidity. There is no one-size-fits-all strategy. This is why it is essential to avoid across-the-board cuts and instead look for measured and focused cuts.

When looking at measured and focused cuts, companies need to keep in mind how any cuts they make affect the different aspects of the business so that their value propositions are not compromised.

Quick Fixes Putting Stakeholders at Risk

Key strategic mistakes may become expensive when companies look for quick fixes to preserve cash flow. Being profitable is the endgame; every decision has to be weighed against its effects on cash flow. But when quick fixes are made to deal with the here and now, management risks jeopardizing the company's future growth.

Cutting staff, unnecessarily selling off assets, decreasing M&A activities and slashing investment in R&D can set a company up for a hard landing. As recovery comes, the scarce resource for most companies will be talent, not capital.

Reducing Marketing Expenses

When it comes time to make cuts, marketing always seems to get the first swipe and new product development the second. This is always a mistake because it destroys market share and innovation.

Failing to invest in product development is guaranteed to hinder future value creation for the company and its stakeholders. When companies neglect or reduce the importance of product development in an effort to save money, it not only limits potential growth, but curbs innovation and gives competitors who've taken the risk the upper hand.

Declining Sales and Price Discounting

Price discounting is always a risk, but when done incorrectly it can have ominous and paralyzing effects on a business. Discounting takes a toll on profits. Instead of cutting cash out of the deal, ask yourself if there is a way you can add value to your product or service. This "value added" proposition means you can "give away" something that won't come out of your profits.

When turbulence is so highly volatile, management that isn't constantly re-evaluating the cost and profitability of its transactional customers will find that it will lose money and, eventually, market share.

Studies have shown that unprofitable and highly transactional customer relationships should be reassessed during a recession. Moreover, just because the economy may be slow, management cannot neglect the threat of new entrants to its industry of the possibility of product substitutes luring away customers.

Additionally, training just doesn't simply affect the bottom line. It gives businesses an opportunity to identify weaknesses or areas where a company needs to improve before the chinks in the armor become apparent to competitors and threaten growth. Conversely, training and development allow a company to keep employees on the cutting edge.

Management that doesn't realize the value of its suppliers and distributors could actually be costing the company money. Suppliers and distributors can help lower near-term costs and give a company sturdy footing when turbulence hits. Chaos seeks to undermine this relationship.

The Three Biggest Marketing Mistakes

During times of turbulence, the most important thing is to stay alert and focused. Avoid committing the three biggest marketing mistakes that companies often make:

1. *Stretching to attract new customers before you've secured the core.* Trying to broaden your core product or service appeal to please a wider audience is risky.
2. *Cutting marketing.* Cutting your marketing spending is guaranteed to give your competitors — who don't cut budgets — the edge they need to take away your most valued customers.
3. *Neglecting the 900-pound gorilla.* During down markets, especially when turbulence and chaos reign, your customers and all of your company's stakeholders know that business isn't great. Ignoring this fact and, worse, not keeping them updated is dangerous.

The Chaotics Model: Managing Vulnerability and Opportunity

Going forward, the new age — The Age of Turbulence — will be characterized by times of a newly defined "normality" punctuated by spurts of prosperity and of downturn. Turbulence can arise at any time, in any form and anywhere — creating varying degrees of disruption and chaos for businesses.

Turbulence may alternatively open up opportunities for your business that can be exploited with your present business model or with a revised model. Chaotic situa-

tions will occur time and again, creating opportunities and/or crises. Organizations will have to learn how to seize opportunities that arise during periods of immense uncertainty.

Strategic inflection points occur in all businesses as a direct result of specific forces affecting particular businesses. Often they render your business strategy obsolete and demand a new game-changing strategy.

Once a strategic inflection point is reached, business leaders are forced to deal with their companies' previously unexposed vulnerabilities or their newly revealed opportunities — and do so with deliberate and sometimes bold action that oftentimes requires developing a new mindset, which is needed to push past now-obsolete strategies and business models. Here's just a short list of new behaviors that should be considered:

1. Business leaders and top executives must begin to see change first-hand. As the rate of change increases, so must the personal commitment by senior executives to understand it.

2. Executive management must eliminate filters. Business leaders must make sure their views are not censored and their access to unpleasant truths not blocked by anyone in their organizations who may be motivated to protect them.

3. Business leaders must accept the inevitability of strategy decay. While it is easy to admit that nothing lasts forever, it is more difficult for top executives to admit that one of their strategies is beginning to lose steam.

Beyond developing a new mindset, business executives must drop their reliance on a two-playbook strategy — one for up-markets and the other for down-markets — and continuously fine-tune their strategies or even discard them when the environment demands it.

What follows is a framework for such a new system: the *Chaotics Management System*.

Chaotics management is a systematic approach to detecting, analyzing and responding to turbulence and its chaos.

Constructing an Early-Warning System (EWS)

Business executives and their organizations must prepare steps to move their business strategies forward and execute them during turbulent times. The first step is to develop an EWS that will detect as much turbulence as possible, as quickly as possible and as far in advance as possible.

The key areas to be watched are customers and channels' competitors and complementors; emerging technologies and scientific developments (disruptive innovations and technologies); political, legal, social and economic forces; and influencers and shapers.

Business leaders should begin by answering eight key questions, and then create ongoing discussions around these questions at the opening round of meetings to kick off any EWS development:

1. What have been our past blind spots? What is happening in these past blind spots now?
2. Is there an instructive analogy from another industry?
3. What important signals are we rationalizing away?
4. Who in our industry is skilled at picking up weak signals and acting on them ahead of everyone else?
5. What are our mavericks and outliers trying to tell us?
6. What future surprises could really hurt (or help) us?
7. What emerging technologies could change the game?
8. Is there an unthinkable scenario?

Construction of Key Scenarios

A core strategic discipline of the chaotics management system is that the leaders of a business must draw together the views of top executives from all departments, as well as other subject matter experts and company stakeholders (internal and external), to begin to construct highly probable key scenarios that the company could confront.

At the very least, there should be a worst-case scenario, a most-expected-case scenario and a best-case scenario. And in times of increased turbulence, business leaders need to push their groups to investigate and analyze more possible situations, including the most feared scenarios.

Effective scenario construction requires identifying the turbulence drivers in the environment that could create chaos.

Here is one effective and efficient approach to scenario construction:

1. Decide on the key question to be answered by the scenario analysis.
2. Set the scope and time of the analysis.
3. Identify major stakeholders.
4. Map basic trends and turbulence, and the consequent chaotic forces.
5. Find key uncertainties resulting in chaos.
6. Define the key scenarios.

7. Assess the key scenarios.
8. Converge toward decisions scenarios.

Scenario and Strategy Selection

Following the construction of key scenarios, business leaders need to meet and select the most probable ones. For each scenario, they should work out the most appropriate strategy response. They will want to adopt a strategy that satisfies the amount of risk and opportunity they are willing accept.

There is too much uncertainty to know which scenario will occur. But the exercise of searching for a strategy that would do fairly well against whatever happens is worthwhile. ●

Designing Management Systems for Resilience

Whether business leaders believe the new environment presents more opportunities or threats, increasing turbulence is now a fact of business life. The most effective way of dealing with the new reality is with a pragmatic, highly disciplined approach — an approach of well-defined systems designed around a robust, resilient and responsive management framework upon which each key business operation should be based. In this way, business leaders mitigate the chances of being taken by surprise during times of crises.

Business leaders need to recognize that the environment is now changing in ways that are becoming increasingly difficult to predict. Business leaders need to confront the inevitability of economic turbulence and chaos head-on and to do so boldly by developing new strategic behaviors — chaotics behaviors — for each of the key functional departments.

The goal is for business leaders to create organizations that are responsive, robust and resilient — in short, organizations that have the ability to live and thrive. These are organizations that aspire to and attain Business Enterprise Sustainability (BES).

Here is the chaotics strategic behaviors execution plan:

1. Reconfirm the current business model and strategy.
2. Assess the organization's ability to execute strategy under chaos.
3. Define the strategic behaviors execution processes.
4. Execute the chaotics strategic behaviors.
5. Reassess and revise.

By boldly implementing the prophylactic protections of chaotics strategic behaviors, department by department, business executives will move forward to secure their companies' futures against the increasingly unpredictable environment that lies ahead. Moreover, implementing such strategic behaviors will begin the long and steady process of creating newly evolved cultures. Finally, such organizations will possess the collective knowledge and skills to create cultures that have the necessary underpinnings deeply embedded in them to attain long-term BES well into the future. ●

The Chaotics Management System

The Chaotics implementation cycle is as follows:

1. Identify sources of turbulence and chaos.
2. Identify management's wrong responses to turbulence.
3. Establish early warning systems.
4. Construct key scenarios and strategies.
5. Prioritize key scenarios and select strategy.
6. Implement chaotics strategic management behaviors.
7. Implement chaotics strategic marketing behaviors.
8. Achieve business enterprise sustainability.

Designing Marketing Systems for Resilience

Great marketers don't just rebound from crises. They build the internal capacity to expect the unexpected. They continuously reinvent business models and marketing strategies during chaotic times so that they can adapt quickly as circumstances in the marketplace change.

The company needs to revisit and revise its marketing policies and tools. The first task is to recognize the major changes that have been taking place in the marketing landscape:

1. Customers are better informed than ever. They are empowered. They can find out almost anything about any product, service or company by searching on the Internet and contacting others in their social networks.
2. Customers are increasingly ready to buy and trust well-known store brands when they are priced lower than well-advertised national brands.
3. Competitors are able to copy any new product or service faster, thus shortening the innovator's return

on investment (ROI). Competitive advantages have a much shorter life today.

4. The Internet and social networks have created radically new media and information sources, as well as new means for direct-to-customer selling.

These changes call for radically new thinking by managers and marketers. Marketers need to develop a new mindset of always being on hot standby to activate automatic response marketing programs when the turbulence whips up and chaos reigns. Marketers need to keep in mind the following eight factors as they create their chaotics marketing strategies:

1. **Secure your market share from core customer segments.** This is no time to get too greedy, so be sure your first priority is to get your core customer segments firmly secured.
2. **Push aggressively for greater market share from competitors matching up to your core customer segments.** Slashing marketing budgets and sales travel expenses is a sure sign that a competitor is buckling under pressure. Push aggressively to add your core customer segments at the expense of your weakened competitors.
3. **Research customers more now because their needs and wants are in flux.** You don't want to find yourself relying on old "tried-and-true" marketing messages that no longer resonate.
4. **Seek to increase — or at least maintain — your marketing budget.** You need to add to this budget, or take money away from those forays you were planning to go after totally new customer segments.
5. **Focus on all that's safe and emphasize core values.** Do everything possible to communicate that continuing to do business with you is safe. Sell customers products and services that continue to make them feel safe — and spend whatever it takes to do it.
6. **Quickly drop programs that aren't working for you.** If you are not watching your spending, rest assured that someone else is, including all your peers whose budgets couldn't be protected from the ax.
7. **Don't discount your best brands.** If you want to appeal to more frugal customer needs and wants, then create a new, separate and distinct product or service offering under a new brand with lower prices.
8. **Save the strong; lose the weak**. There's no time or money to be wasted on marginal brands or overly fragile products that are not supported by strong value propositions and a solid customer base. Tie in the need to appeal to safety and value to reinforce already strong brands and strong service or product offerings. Remember, your brands can never be strong enough, especially against the strong waves of a turbulent economy.

From a strategic point of view, companies must remain focused on satisfying their target customers, paying particular attention to their best customers. In many businesses, a small percentage of customers account for a disproportionate percentage of sales. ●

Thriving in the Age of Turbulence: Achieving Business Enterprise Sustainability

We need to merge new insights with pragmatic steps that business executives can take. Here are three specific actions:

1. Make strategic planning more dynamic, interactive and compressed into shorter time cycles — sequenced in three-month intervals, rather than reviewed and adjusted once a year. In these shorter cycles, responsibilities, authorities, accountabilities and performance measurements may be realigned as needed.
2. Facilitate cross-functional decision making at key levels to drive better, faster decisions. Key decision makers must be in closer proximity and connected with more frequent and faster interactive communication channels. More stakeholder representatives should be included in the discussion and decision-making process.
3. Break large organizations down into smaller, flatter groups and subgroups to facilitate and achieve faster reaction times. Responsibilities, authorities and accountabilities should be driven down to the lowest possible level. Hard and soft skills must be raised significantly to improve the quality of decisions. The smaller groups must be able to reach other relevant groups on a global basis.

Business Enterprise Sustainability (BES)

BES is essentially focused on *all* issues integral to extending the life of the business enterprise for as long as possible. Business enterprise sustainability aims for a comprehensive strategy to maximize the underlying value of companies in the extended long term, while

optimizing company performance and value in the short and medium term — but never to compromise long-term value.

Growth is certainly important to the sustainability of any business, but longer-term sustainability should override any short-term or even medium-term ambitions — especially in turbulent and unpredictable environments where chaos, if not managed well, could cause irreparable harm and even sink a business permanently.

Here are some of the characteristics of those companies that have achieved BES in the long term:

Dual Vision

Companies need to operate with one eye focused on the short term and the other eye focused on the long term. We call this managing with "dual vision." The need is to balance both visions in normal as well as in turbulent periods.

A focus on *today* shapes the business to meet the needs of today's customers — and it does so with excellence and authenticity. A focus on *tomorrow* projects a reshaping of the business to compete more effectively in the future. Often, this demands bold moves away from the present to reorganize and reshape for future challenges.

Triple Planning

Companies need to work at three planning levels: short term, intermediate term (three to five years) and long term. Short term is about *managing the present*. It should include projects related to improving the core business.

Mid-term is about *selectively forgetting the past*. These projects are not about performance improvement as much as filling the opportunity gap. The company needs to exploit nonlinear, discontinuous changes, such as the Internet, new media, customer empowerment and the rise of emerging companies, such as China and India. Long term is *entirely new space*. Projects of this kind are characterized by a high ratio of assumptions to knowledge. But, by working slowly on these concepts and learning more, the ratio of assumptions to knowledge will fall over time.

Company Reputation

What goes into a company's reputation? What factors must a company manage to be viewed favorably by its stakeholders in good times as well as in turbulent times?

The most important factor in a company's reputation is the customers' and stakeholders' perception of the company's *Products and Services*. The second most important factor is *Vision and Leadership*. The third factor in order of importance is the *Workplace Environment*. The fourth most important factor is the company's *Financial Performance*. The fifth factor is *Emotional Appeal*. The sixth factor is the company's *Social Responsibility*. The seventh factor is *Innovation*.

Reputations are built over time. Reputations can easily be damaged and in much less time than it took to build them. A company that wants to live for a long time must manage these factors — and manage them carefully and diligently — in good times and, especially, in bad times.

Customer Enthusiasm and Advocacy

It is easier to sell more to the same customers than to have to search for new customers. Loyal "customer advocates" or "customer evangelists" can be very important in the success of a company. In marketing terms, we say that the company must do better than just satisfying the customers: It needs to *delight* the customers. Some companies succeed in doing this — and doing it well — year after year.

Ethical and Authentic Behavior

Over time, companies acquire different reputations for ethical and authentic behavior. A company's internal and external behavior leaves a legacy that affects the stakeholders' future mindsets and behavior toward the company. Oftentimes this reveals the absence of the company's authenticity, a quality that is becoming increasingly important to consumers.

Because of the shift to the "experience economy," products and services are no longer enough for companies to create and sell; today's consumers and businesses want *experiences* — memorable events that personally engage them.

Business today, especially as everyone and every company is being racked by turbulence, is increasingly becoming all about being real, original, genuine, sincere and authentic. ●

RECOMMENDED READING LIST

If you liked *Chaotics*, you'll also like:

1. ***The Leader of the Future* by Marshall Goldsmith and Frances Hesselbein, editors.** This volume presents 27 practical and insightful essays from some of the world's most recognized leaders.
2. ***The First 90 Days* by Michael Watkins.** If you've been thrown into the ranks of management, this book will give you the road map for your first 90 days. Watkins offers specific and practical steps to secure early wins.
3. ***The Necessary Revolution* by Peter Senge, Bryan Smith, Nina Kruschwitz, Joe Laur and Sara Schley.** This book focuses on sustainability and the challenge for businesses to invest in new solutions to environmental problems, and innovating strategies that will generate both short-term and long-term profitability.

Summary

April 2010

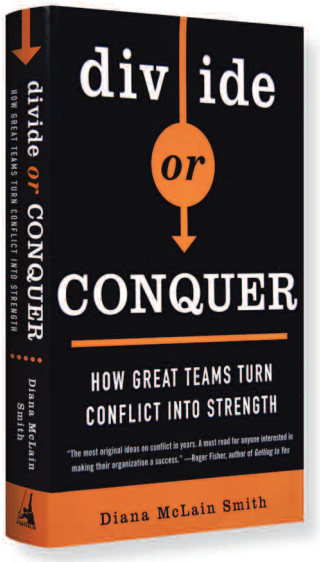
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Management: Team

Divide or Conquer

Bonus Summary

How Great Teams Turn Conflict Into Strength



by Diana McLain Smith

THE SUMMARY IN BRIEF

Conflict is inevitable. But whether it makes or breaks your team depends only on the strength of the relationships within it.

Ever been on a team where people can't get along to save their lives? These relationships are corrosive not just to the people involved but to the entire group — and their results.

This summary offers a new way to think about teams: not as a bunch of individuals, but as the sum of their relationships. Great teams don't assume everyone will get along. They *anticipate* conflict, and use it to strengthen their relationships. In contrast, dysfunctional teams avoid or work around conflicts, which only ends up harming their relationships and their ability to get things done.

Every team is only as strong as its weakest relationship. When teams neglect key relationships, they do so at their own peril.

Relationships are not a matter of personal chemistry too mysterious to decode or too difficult to change. This summary shows that it's possible both to understand how relationships work and to change their course — before it's too late.

IN THIS SUMMARY, YOU WILL LEARN:

- How to use a powerful, step-by-step approach to building a team that's flexible and strong enough to master its toughest challenges.
- How to use practical and profound ideas and tools that have been tested and honed in the real world for years.
- How to inspire your team or a new employee who needs to start building relationships.
- What it takes to succeed together.

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THE COMPLETE SUMMARY: **DIVIDE OR CONQUER**

by Diana McLain Smith

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For additional information on the author, go to http://my.summary.com.

Introduction

Every team is only as strong as its weakest relationships. How well and how quickly teams make decisions, inspire innovation, tackle performance problems or learn from mistakes depends on the strength of relationships within a team. Some relationships give teams the courage to face tough truths and make bold changes.

A team's performance, even a firm's, turns on the quality of its most important relationships.

Relationships

A relationship is the way in which two or more people or organizations regard and behave toward each other.

Relationships are such an integral part of everyday life they're like the air we breathe. Until something unpleasant or unexpected happens, we give them little notice; even then, we're often at a loss as to what to do. We can spot difficulties easily enough and feel their effects even more easily, but few among us can pinpoint their cause and still fewer know what to do about it. Like a firm's culture, relationships are part of the informal side of organizational life — the soft stuff that's hard to see, grasp or change.

Research shows two things: first, that relationships have an informal structure that can be mapped and changed, and second, that relationships may be the single most underutilized lever for transforming the performance of teams and organizations.

Organizational Fault Lines

This is especially true for relationships that operate along *organizational fault lines* — interfaces where coordination is as essential as it is difficult: research and marketing at Merck; manufacturing and design at Herman Miller; the president and the faculty at Harvard; business units competing in the marketplace; executive and legislative branches at the federal and state levels; and top management and middle management everywhere.

At each interface, interests collide and conflicts erupt. Whether people can put these conflicts to work — so they create value rather than destroy it — depends on the nature and the quality of their relationships.

Ideas and Tools

Given the right tools, it's possible to build relationships flexible and strong enough to sustain stellar performance in teams — both over time and under pressure. This summary helps by giving you ideas and tools for *understanding relationships, transforming relationships* and *making change practical*.

Because two-person relationships are the DNA that shapes how a team operates and evolves, the summary's three parts focus on these basic building blocks. The first part explores how relationships work and develop; the second, how you can change them over time; and the third, how to make that change practical.

PART I: UNDERSTANDING RELATIONSHIPS

The Life and Death of a Relationship

More than 20 years have passed since Steve Jobs and John Sculley's much publicized breakup at Apple. Yet it still serves as a cautionary tale. In two short years, their celebrated camaraderie turned into an antagonism so great it escalated hostilities between divisions, put the firm at risk of a takeover and sent Steve Jobs into a 12-year exile, from which the firm has only recently recovered. How these leaders went from soul mates to adversaries in such a short time shows how relationships, even those touted as a perfect match, can self-destruct under pressure, leaving a firm to pay the formidable price of a failed relationship.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

When the Jobs and Sculley relationship fell apart, most people chalked it up to personalities: Jobs was too volatile, Sculley too cautious. Others cited circumstances: Mounting competitive pressures put otherwise kindred spirits at odds. Still others said their chemistry wasn't right: Sculley was way too corporate, Jobs too iconoclastic. While each explanation holds merit, all overlook the most intriguing and instructive aspect of what happened: the way their relationship developed over time.

Only by understanding how relationships form, develop and die can you see *why* people form ill-fated matches, *why* certain personalities clash, and *why* some relationships break down so quickly and completely under pressure. And only by understanding how relationships form, develop and die do you stand a chance of altering the course a relationship takes. By looking closely at how the Jobs-Sculley relationship developed over the course of three stages, we can extract timeless lessons about the life and death of a relationship — and its impact on the firm.

Stage 1: How a Relationship Forms

We all bring to relationships our own characteristic ways of interacting with others, given our *behavioral repertoires*. Built out of experiences, these repertoires are organized around key themes, such as power, conflict, control or success.

When people first meet, their themes intersect to give rise to distinctive patterns of interaction. Acting like DNA, these themes shape the way a relationship's patterns of interaction evolve over time, defining the formal and informal sides of a relationship. One strand of DNA defining the relationship between Sculley and Jobs was a shared preoccupation with power, leading each of them to see in the other a form of power he coveted.

Stage 2: How a Relationship Develops

In the second stage of development, people renegotiate their formal and informal roles, as initial impressions give way to more stable interpretations and people come to know each other for "who they really are."

These more stable interpretations — called *frames* — inform people's negotiations about who should do what and turn early patterns of interaction into more stable informal structures.

Those who pay attention to how the informal side of a relationship develops during this stage understand that what they see is what they'll get, giving them room to maneuver if they don't like what they get. Those who ignore the informal side, as Sculley and Jobs did, believe that what they see is the only way it is, leaving them disillusioned and trapped.

Stage 3: How a Relationship Dies

By the time the Jobs-Sculley relationship broke down, their degrees of freedom were so constrained that they could only imagine one solution: Get rid of the other.

When people ignore the informal side of their relationships, they're more apt to create ones that leave them little choice. By the second stage of their relationship, Jobs and Sculley had created a structure that significantly reduced their degree of freedom; by the third stage, that structure had eliminated their freedom altogether.

Formal and Informal Relationships

All relationships develop at formal and informal levels. At a formal level people define and redefine their formal roles, including responsibilities, decision rights and rewards. At an informal level, people define and redefine their informal roles: the emotional responsibilities they'll assume and assign, the interpersonal rights they'll claim and relinquish, and the psychological rewards they'll want to give and get.

All relationships develop over a series of stages, as people adapt to each other and the circumstances around them. Some adaptations are better than others. Jobs' and Sculley's adaptations generated vicious cycles that gave rise to structures that reduced their degrees of freedom until they had none left. In two action-packed years, they moved from idolizing to demonizing each other, acting in ways that brought out the worst in both of them. By the time they discussed their troubles, their views were so entrenched they were impervious to change, making it impossible for them to create a different future. In the end, they *had* to call it quits.

It need not be this way. With the right tools, it's possible to see, map and change the informal side of a relationship so it grows stronger, not weaker, over time. ●

The Anatomy of a Relationship

Once a relationship gets into trouble, it can be awfully hard to get out. We're so riveted on the other person — on divining his motives or on avoiding his impact — that we don't take a close look at what we ourselves are doing to create a relationship neither of us wants. Unaware, we wait for others to make life easier for us, while we make it harder for them to make it easier for us. In the end, like Sculley and Jobs, we're left with little choice: Either end the relationship or settle for one that doesn't work.

To change the course of a relationship, people need to slow down and look at what they're actually feeling, thinking and doing with each other, so they can see that

they're not nearly as helpless as they think they are.

An Informal Structure

Underlying all relationships is an informal structure. This structure includes four interlocking elements: actions, frames, contexts and repertoires.

If our interlocking frames and actions are the engine that drives a relationship, our social contexts — along with behavioral repertoires — provide the fuel that keeps that engine running. These four elements combine to give a relationship its distinctive character, one we intuitively recognize but have difficulty seeing or changing.

The Anatomy Framework

All relationships have an informal structure made up of four interlocking elements:

1. Actions and Reactions. Actions refer to what someone actually says and does, while reactions refer to what someone actually thinks and feels in response to what the other person says and does, each person's actions making the other person's reactions more explicable.

2. Frames. These are the interpretations embedded in our reactions, making some actions seem obvious, others impractical.

3. Social Contexts. These provide the contextual backdrop — formal roles, time constraints, historical events — against which some triggering event occurs, prompting the need to respond.

4. Behavioral Repertoires. These are the largely unconscious *experiential knowledge* and *interpretive strategies* that define the range of responses people have at their disposal for framing and acting in different social contexts, once triggered by some event. People's behavioral repertoires both shape and are shaped by their *social contexts*. Together the two govern the way people frame situations, leading them to react and act toward each other in some ways and not others. ●

The Key to Resilience

When people focus on relationships, *they assume responsibility not just for themselves but for the relationships they together create and for the impact those relationships have on their firm*. Far from diluting responsibility, then, a relational perspective actually takes excuses off the table. Instead, people together take responsibility for building relationships resilient enough to weather the troubles they'll face.

The best way to avoid waiting games — where each person waits for the other to calm down and see things his way — is for people to *help each other shift perspective, so they can regain their collective cool*. While shifting perspectives won't make feelings go away, it will make it easier for people to use their emotions to think things through together.

Reflect and Reframe

To shift perspective, it helps to reflect and reframe, first alone, then together. Over time these two cooling strategies build a relationship's cool system by adding maps to that system that are tightly connected to the hot buttons triggered by stressful events. Once developed, that system makes it a lot easier to handle even the hottest topics and the most tumultuous troubles.

Taking a relational perspective goes against the grain of an either/or world, in which there are good guys and bad guys, evil empires and mighty kingdoms. ●

PART II: TRANSFORMING RELATIONSHIPS

Disrupt Patterns of Interaction

When a relationship critical to a firm's success could put that success at risk, it may be time for a change. Fifteen years into their relationship, Dan Gavin and Stu Fine suspected their time had come. For two years, the firm's top leadership had been transforming their company from a professional-services firm into a group of businesses that combined these services with innovative new products.

CEO Gavin was now looking to Stu, the firm's marketing expert, to launch the firm's first product business. As one of the firm's most respected thought leaders, Stu had driven much of the firm's innovation, and he welcomed the chance to ensure that those innovations took root. At the same time, Dan and Stu both recognized that this new challenge would put a lot more pressure on their relationship. Dan knew he'd have to rely more heavily on Stu. Whether their relationship was up to these tasks, neither could say for sure.

Three Steps

To find out, they took three steps with the help of an expert:

Step 1: Assess the Relationship. When assessing a relationship, it helps to take stock of a relationship's assets and liabilities relative to the pressures that the relationship is likely to face. This way people not only anticipate what might cause them difficulty under pressure, they also identify the assets they can use to deal with any difficulties that do arise.

Step 2: Map Patterns of Interaction. This second step zeros in on interactions that shed light on the concerns Dan and Stu raised in their assessment. To take this step, use a tool called the Ladder of Reflection to do

Mapping the Pattern

Mapping is a technique that helps you understand patterns of interaction that produce outcomes that neither person in a relationship consciously wants or intends. A map portrays in graphic form *how each person's actions help to elicit reactions that produce the next step in a sequence that makes up the interaction.* This helps people see how their actions and reactions interlock to form an identifiable pattern, allowing them to step outside the pattern, see how it works and imagine how it might work differently.

three things: Capture key interactions, describe them in concrete terms and map the patterns underlying them.

Step 3: Design Action Experiments. To change patterns, you have to throw a monkey wrench into the works by thinking — and then acting — outside the pattern. It's best not to take this step until you've mapped the pattern that concerns you. Go back and look at the interlocking actions and reactions depicted in the map, and ask the question: *What actions can I take to make it hard for the other person to react the way he or she does?* Usually this question will require you to invent actions that are "counterintuitive" — actions that lie outside of your intuitive way of seeing and doing things. The perspective of a skilled third party often helps.

As straightforward as these steps may seem, people face a funny kind of paradox before taking even the first one: *They know each other so well, they no longer know each other at all.* All they see are the caricatures in their heads — he's so sensitive, she's so competitive. The very efficiency these caricatures give, they also take away, because they make a person's underlying complexity — sure to emerge under stress — harder to understand or to handle. That's why, early on, the single most important thing people can do is *slow down and take a closer look at each other and at how their relationship works.* This helps people figure out where their relationship is up to the challenges it will face, and where it's not.

Reframe How You See Each Other

All too often and much to our dismay, frustrating patterns of interaction persist despite our efforts to change them. The reason is simple: We give short shrift to the interpretations that keep them going. Left to their own devices, these interpretations have a nasty habit of getting stuck in one gear. No matter what someone does, we see him or her the same way. Soon, our emotional reactions get caught in a rut, and our interactions start spinning their wheels. From this point on, we're trapped.

Create a New Pattern

As long as Dan sees Stu's blocking as irrational, and Stu sees Dan's lecturing as an effort to impose his will, they'll continue to re-enact the same push-block pattern day in and day out. While new actions might disrupt the pattern briefly, the only way they can create a significantly new pattern is by transforming the way the two see each other. In this second stage, Dan and Stu do just that by taking three steps:

- **Step 1: Freeze Frame.** Bring each person's frames into the foreground. See how, under stress, their frames are pulling them back into old patterns and preventing new ones from emerging.
- **Step 2: Invent New Frames.** Help each other invent frames that will create a new pattern. The best frames are those that make it easier for both of you to be at your best. Come up with things that you can say to yourself in the heat of the moment to bring the new frame to mind.
- **Step 3: Design Frame Experiments.** *Frame experiments* are experiments designed to create experiences that alter their frames, allowing new patterns to emerge.

To complete these steps successfully, Dan and Stu will have to tackle the central paradox of this second stage: *They will have to act as if they believe to be true those interpretations they "know" to be false.* People will shift frames only if they believe it's warranted, and they will believe it's warranted only if they see evidence to that effect. It's not enough, then, simply to imagine a different way of seeing. People must try — through their actions — to *create* experiences that make a new way of seeing come true.

That's why each step in this stage is designed to build just enough confidence for Dan and Stu to *act* — not merely think — outside the box. Only by seeing things differently will they be able to create a new pattern.

Results

By the end of this stage, Dan and Stu's frame experiments have led them to reframe how they see themselves in relation to each other. Stu now sees that when Dan starts debating and lecturing, he's usually feeling helpless and anxious, prompting him to help Dan rather than freeze or block. This leads Dan to revise his view that Stu needs a lot of protection, and it opens up the possibility of getting emotional support from Stu. This relaxes Dan and makes it easier for him to talk about his anxieties directly, which makes them less mystifying and troubling for Stu.

These experiences — experiences they couldn't create within the confines of their old frames — give rise to new ways of seeing and set in motion a more virtuous cycle of interaction.

Revise What You 'Know' to Be True

Dan and Stu came by their quirks honestly: They learned them. Over the years, they converted one experience after another into knowledge about how to handle different people and situations. When they first met, they drew on this experiential knowledge to set the structural foundation of their relationship. Now it is only by restructuring that knowledge that they can reset it.

This brings us to the third and last paradox of change: *To move forward, they must go back and revisit the knowledge they bring to their relationship.* They did this by taking three steps:

Step 1: Revisit Past Events. To revisit past events and capture their experiential knowledge, identify the historical events that most remind you of the relationship. Write down what happened in those earlier moments and what you took or learned from them. Put aside what you wrote for 24 hours. Go back and read what you wrote; then extract from your account any stories, propositions, values and practical strategies you see. Explore how the knowledge you've built out of past experience is affecting your development and your relationships, including this one. If you think your past is jeopardizing your success or the success of key relationships, proceed to Step 2.

Step 2: Restructure Outdated Knowledge. Reset the basis of your relationship by restructuring the experiential knowledge you bring to it. Consider two questions: Where is your experiential knowledge breaking down, and how can you restructure it so that it better fits your current circumstances and abilities?

Step 3: Return to the Future. This step addresses the question of sustainability under pressure by turning our attention back to the future. Here we consolidate the gains we've made, define new objectives, anticipate new challenges and set the terms of a new relationship.

By revisiting historical events in the context of the relationship, each person is able to create new knowledge out of current events. By the end of this stage, you will be able to use this knowledge to accelerate your growth and the growth of the organization.

PART III: MAKING CHANGE PRACTICAL

Focus the Change Effort

Not all relationships within teams require or deserve the same *amount* of effort, or the same *kind*. To help you decide *which* relationships to invest in and *when*, two tools can help: an Investment Matrix that tells you where to focus your investments, and a Sequencing Matrix that tells you when to invest in which ones. Together these tools give you a way to think strategically and practically about developing greater resilience at the top of your organization.

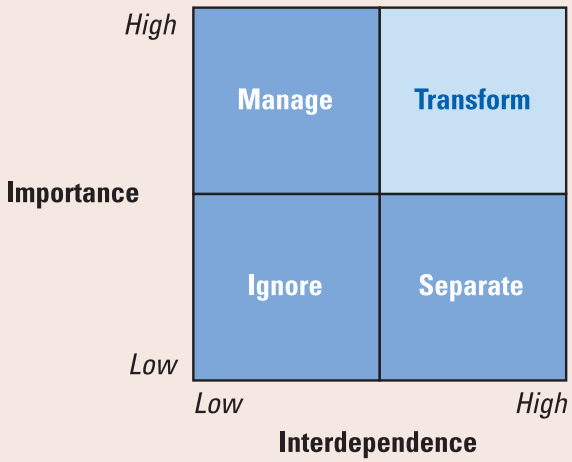
The Investment Matrix

Just as you can reduce the costs associated with outdated formal systems by upgrading them, so can you reduce the costs of relationships by transforming the informal structures underlying them.

In each case, you replace the outdated, inefficient system with a more effective and efficient one. Only, in the case of relationships, you seek to redesign a relationship's informal structure so it's better able to handle even the most difficult of relationship tasks as well — whether it's recouping when things go wrong or reviving a relationship that's dying.

To make change practical, people need a framework that can help them focus their investments. The matrix groups relationships in terms of their relative importance and interdependence, identifying four segments, each one calling for a different approach.

Investment Matrix



Four Approaches

The matrix identifies four different ways of approaching relationships, depending on their degree of importance and interdependence: *ignoring, separating, managing* or *transforming*. Which approach is the most effective and the most efficient depends on the circumstances.

The basic idea behind the Investment Matrix is simple: *Invest in transforming only those relationships that are both highly important and highly interdependent.* All other relationships can be handled through more conventional approaches.

The Sequencing Matrix

Once you've identified those relationships most in need of investment, you can use the Sequencing Matrix to sequence those investments over time. As the Sequencing Matrix implies, it's best to start with the high-impact relationships that stand the best chance of succeeding.

In terms of impact, you can assess any relationship along two dimensions: *impact on people* and *impact on the business*.

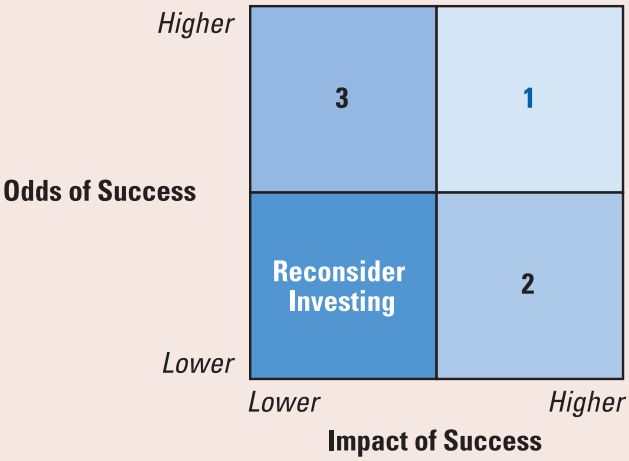
In terms of success, you can assess a relationship along three dimensions: *motivation, readiness* and *difficulty*.

Change the Odds of Success

Keep in mind that odds can and should be changed. So while you're focusing on relationships in the first cell of the matrix, you might turn your attention to increasing the odds of success for those in the second cell — for example, by pointing out the changes that people in the first cell are making. Soon after, you might launch some type of programmatic intervention for people in the third cell.

In theory, no one should show up in the fourth cell. But chances are, when pressed to choose among the chosen, some will show up here. If so, you might reconsider whether these relationships really are worth the investment. ●

Sequencing Matrix



Choose the Right Strategy

The FREE model describes a set of three strategies you can use to intervene when two or more people on your team get caught in a conflict that's jeopardizing the quality of substantive discussions *and* the fate of key relationships:

- **Facilitate:** Shift patterns that slow progress without stopping to discuss them.
- **Reflect and Reframe:** See and interrupt patterns that continue to stall progress.
- **Engage:** Transform patterns that repeatedly prevent progress.

By drawing on these three strategies — facilitating, reflecting and reframing, and engaging — people can make changes in their relationships while attending to business. Each strategy varies in terms of its obtrusiveness and impact. To figure out which strategy to use, you must first stop (to gain perspective), then look (to map patterns in your head) and listen (to explore competing views). Only then can you choose wisely and, having chosen wisely, implement well. ●

Motivate Change

Everyone likes what change promises, but few relish what it demands: the time and effort it takes; the sacrifices we have to make; not knowing whether we'll succeed (or, if we succeed, whether we'll like what we get). Change is hard — so hard that many people give up before they even start. Yet as hard as change is, three common mistakes make it even harder: setting unrealistic expectations, failing to anticipate and to help each other overcome predictable barriers, and micromanaging the pace and direction of change. You can counter these mistakes by following these three principles:

- **Setting your sights using dual vision.** Be ambitious and realistic, and set goals that are practically important and personally meaningful.
- **Building resilience while taking stock.** Build confidence by continually assessing progress, and put setbacks, mistakes and failures to work.
- **Putting the fun back in the dysfunctional.** Laugh at the unlaughable and manufacture hope when there's none to be found.

When you put these principles into practice, you generate the motivation and energy needed to sustain change over time. ●

CODA: RELATIONAL SENSIBILITIES

Sensibilities for a Change

No leader operates alone. Not Jack Welch, the much celebrated former CEO of General Electric Co., as he himself points out. Not the iconic leaders of great movements, as the many friends of Dr. Martin Luther King Jr. have testified. Not even the president of the United States, as historian Doris Kearns Goodwin's account of Abraham Lincoln's wartime Cabinet reveals.

Leading Through Relationships

Every leader, no matter how powerful, leads through relationships. Those leaders who are especially adept at doing so demonstrate a set of highly developed *relational sensibilities*, among them curiosity and courage, humility and hope, appreciation and acknowledgment, nuance and novelty, generosity and generativity, and empathy combined with a sense of accountability. Within these pairs, each sensibility tempers or bolsters the other, serving leaders in much the same way aesthetic sensibilities serve the artist — by significantly enhancing the way they perceive, experience and respond to the world around them.

We can see these sensibilities at work and witness their power in a speech that comes from a very different time and context: Abraham Lincoln's second inaugural address. In this address, delivered as the American Civil War came to a close, Lincoln sought to win the peace by tending to the shattered relationship between North and South. Considered by many to be his finest speech, this seven-minute address illustrates well what Doris Kearns Goodwin observed: "In the hands of a truly great politician the qualities we generally associate with decency and morality ... can also be impressive political resources."

Setting the Stage for Peace

In four paragraphs, Lincoln sets out to recast the war and, in recasting it, set the stage for peace. Far more than rhetorical technique is at work here — far more than a masterful politician attuned to his audience's needs and preferences. Behind Lincoln's mastery is a finely honed set of sensibilities. These sensibilities informed the way he put his rhetorical skill to use and determined the political ends toward which he developed his mastery:

- **Curiosity and Courage.** With enough curiosity to ask tough questions and enough courage to face tough answers, Lincoln distinguished himself from all other politicians — in his day and in our own.
- **Hope and Humility.** These two sensibilities — hope and humility — make for mighty strange bedfellows. While one rests on an abiding belief in our ability to create a better future, the other leans on an equally abiding belief in the limitations of human actions.
- **Appreciation and Acknowledgment.** Lincoln knows that the charity he asks for in the end "might be too much to expect of those who encountered such great losses." Even so, he doesn't seek to reassure or comfort. Rather, he invites his audience to come along with him as he recounts events, explains causes and contemplates the war's deeper meaning.
- **Nuance and Novelty.** Nuance (the ability to pick up on subtleties, not just patterns) and novelty (the ability to construe things in a fundamentally new light, not simply rehash old positions) make it possible for leaders to resolve even the most intractable conflicts.
- **Generosity and Generativity.** "I don't like that man," Lincoln once said, then added, "I must get to know him better." In this comment, Lincoln exemplifies two other sensibilities that informed the way he conducted himself in relationships *and* the way he conducted the war: *generosity* (the ability to see the best in others) and *generativity* (the ability to develop and to bring out the best in others).
- **Empathy Combined With Accountability.** In Lincoln's address, empathy and accountability work hand in hand. One moment, he's empathizing with what everyone's up against or with what they're feeling, thinking and intending. The next, he's confronting everyone with the moral and practical consequences of their collective actions. Had Lincoln's empathy been untempered by accountability, he could not have looked at what both sides did to create consequences they later regretted.

Had Lincoln vilified the South or relished in the North's triumph, he still would have won the war, but he could not have set the stage for peace. The power to create a lasting peace in part resides in the softer sensibilities that Lincoln brought to his leadership. With these sensibilities, Lincoln was able to reach across the divide that separated him from his followers, so they could reach across the divide that separated them from each other. In an age when neither geography nor borders can stop the spread of violence, it may be an idea whose time has come. ●

RECOMMENDED READING LIST

If you liked *Divide or Conquer*, you'll also like:

1. ***Bridging the Culture Gap* by Penny Carte and Chris Fox.** Management training experts Carte and Fox show you how to break through barriers of culture, language and set patterns of thinking.
2. ***The Art of Woo* by G. Richard Shell and Mario Moussa.** Shell and Moussa develop the concept of "woo," the ability to win people over without coercion, using relationship-based emotionally intelligent persuasion.
3. ***The Change Masters* by Rosabeth Moss Kanter.** Have trouble adapting to organizational change? This summary shows how changes are necessary and can be profitable.

Summary

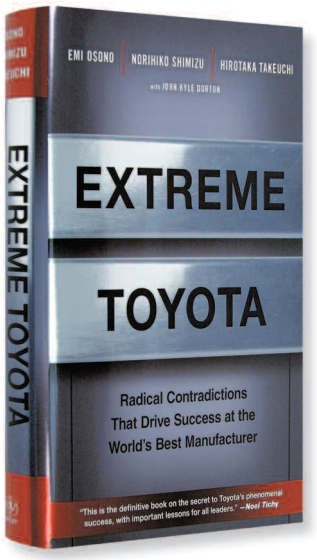
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Management: Team

Extreme Toyota

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



by Emi Osono, Norihiko Shimizu and Hirotaka Takeuchi with John Kyle Dorton

THE SUMMARY IN BRIEF

To the casual observer, Toyota's ascent in the global auto industry reads like a rags-to-riches story, from its early struggles in the 1950s to its status today as one of the world's largest automakers. The company is rightly recognized as a paradigm of superior performance among the world's best-run, most successful manufacturing companies. With its rich history of putting a premium on the human energies that drive industrial production, Toyota stands out in many significant ways.

Industry observers, however, have long pondered the contradictions at the company's core. Toyota, to put it plainly, thrives on paradoxes; it harnesses opposing propositions to energize itself. It balances great advances with long periods of experimentation, resource frugality with extravagance in personnel and project decisions, operational efficiency with human resource redundancy.

In this summary, three business strategy scholars identify six contradictory forces that keep Toyota on the move, enabling the company to realize continuous innovation and constant renewal.

IN THIS SUMMARY, YOU WILL LEARN:

- How Toyota stimulates employees and pursues new opportunities by setting impossible goals.
- Why experimentation is crucial to Toyota's corporate culture.
- How Toyota remains sensitive to the needs and requirements of the countries and regions in which it does business, while maintaining its global position and reach.
- The ways in which Toyota's founders' philosophies still drive the company.
- Why Toyota's nerve system of open communication works.
- How Toyota's overall development and growth are enabled by an "up-and-in" human resource management system.
- How to grow a culture of contradiction and success.

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THE COMPLETE SUMMARY: **EXTREME TOYOTA**

by Emi Osono, Norihiko Shimizu, and Hirotaka Takeuchi with John Kyle Dorton

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Six Opposing Forces

Figuring out what makes Toyota a success is like peeling back the layers of an onion but never reaching the center. The degree of contradiction and paradox is distracting as one looks for the fundamental reasons the company has achieved so much. These paradoxes, however, are central to such an endeavor.

Very quickly, a larger pattern of expansion and integration begins to emerge — a pattern consisting of three expansive and three integrative forces unique to Toyota. The expansive forces lead Toyota toward new challenges and greater diversity and complexity, whereas the integrative forces allow the company to weave together and internalize these experiences and perspectives and make sense of the complicated environment in which it operates.

Expansive Forces

• ***Impossible goals:*** Toyota sets goals for itself that most would consider impossible to achieve, and it does this knowing full well that the means to achieve them may not yet exist.

Impossible goals infuse the organization with the motivation to break free of established routines and try new things. This is usually what starts a cycle of evolution at Toyota.

When Toyota rivaled General Motors as the world's largest carmaker in unit sales in 2007, it was not because Toyota had set for itself the goal of becoming number one. Rather, this was a by-product of its aim for a 15 percent global market share by the year 2010, a goal it had set in 2003 and called the "Global 15." As former Toyota President Fujo Cho explained, the Global 15 was actually a dream goal meant to inspire employees rather than express a commitment to a specific numerical target. Year after year, Toyota's market share crept upward, aided by incremental sales averaging 650,000 units per year since 2002. The inspiring Global 15 dream is expected to become a reality by 2010, demonstrating how effective impossible goals are as a driver of Toyota's expansion.

Other examples of impossible goals at Toyota include meeting the needs of every customer by having a full line of vehicles in every market and ensuring that a Lexus with 50,000 miles on the odometer would not look, feel, sound or perform any differently from one fresh out of the factory.

• ***Experimentation:*** Toyota encourages a high level of experimentation and learning from failure.

The company's eagerness to experiment is an expansive force that has helped it scale the hurdles in achieving its impossible goals. Toyota operates on the premise that every original plan for a project is imperfect and incomplete and will only be completed by the project's successors. If the original plan does not work, they learn from the experience, modify the plan and try again. If it does work, they create a new routine from this successful practice and share it across the organization, aware that even new routines eventually will become obsolete. The organization then turns to chasing another challenging goal.

An example of experimentation can be seen in the development of the Scion in which one of the objectives was to shorten Toyota's product development process. The executive in charge mandated the team to develop the *bB*, later adapted for the U.S. market as the Scion *xB*, at half the development cost of similar cars. This forced the team to eliminate expensive prototyping and make extensive use of computer simulations instead. As a result, the *bB* was developed in just 15 months, rather than the

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Chris Lauer**, Senior Editor; **Christine Wright**, Senior Graphic Designer; **Robert J. Smith**, Contributing Editor

usual 24 months. After experimenting with change to develop the Scion, they were able to transfer whatever improvements this yielded to the rest of the company.

• ***Local customization:*** Toyota customizes products and operations to incorporate the sophistication and diversity of local markets around the world.

Local customization acts as an expansive force on Toyota in ways that are different from other firms because it doesn't just adapt to local needs. Toyota's customization approach concentrates product development and manufacturing preparation processes at its headquarters in Japan, while bringing in a high level of local input to tailor products for each market. This increases the operational complexity of the organization exponentially, while expanding the boundaries of Toyota's knowledge base as it incorporates intelligence gathered from the various markets into the central process.

An example of Toyota's local customization is found in its customization of the IMV (Innovative International Multipurpose Vehicle) which had to meet the diverse needs of consumers in more than 140 countries. Toyota designed a platform that broadly addressed the need for a vehicle that was both smooth to drive and rugged enough to handle difficult driving conditions. It produced five IMV models in the four main assembly countries of Thailand, Indonesia, Argentina and South Africa, while countries such as India, the Philippines and Malaysia manufatured IMV vehicles for their respective local markets. By using a single platform and limiting the number of models, Toyota minimized the design and production costs of the IMV.

A drawback of exponential expansion is that effective communication deteriorates, and it becomes increasingly difficult and costly to efficiently coordinate operations. How does Toyota cope with the hazards of constant expansion and growth?

While the expansive forces extend Toyota's organizational and knowledge boundaries, a set of integrative forces weave the company together and keep it from spinning out of control.

Integrative Forces

• ***Founders' philosophies:*** Historic words of the founders represent core values, shared and practiced by all, that are the foundation of Toyota's unique corporate culture.

• ***Nerve system:*** Toyota's intricately layered network of open communication promotes a cross-pollination of knowledge and practice that ensures "everyone knows everything."

• ***Up-and-in:*** Toyota's human resource management policy guarantees job security while emphasizing continuous development of individual creative potential through learning and improvement. This approach is in stark contrast to the more conventional "up-or-out" management policy where those who fail are shown the door. ●

The Force of Impossible Goals

Like the navigators of early times who grew restless when in port too long, Toyota is restlessly in pursuit of new horizons and conscious of the ship's potential to run aground. This expansive pressure stimulates employees to set goals that seem difficult or even impossible to achieve, pushing them beyond conventional practices and driving Toyota's continuous self-reinvention and growth.

Make no mistake — with continuous improvement as a pillar of the organization, Toyota remains a stickler for detail in day-to-day operations. At the same time, the company is eyeing its next revolutionary step forward. Even when business is successful, senior executives are out exploring for the next source of propulsive force to power evolutionary change.

Setting tough goals to actualize the future may not be unique to Toyota, but how it sets those goals and resolves contradiction to achieve them sets Toyota apart from all other companies. Three examples that illustrate how impossible goals have driven Toyota's evolution include the following: meet every customer need; the finest cars, the finest dealers; and bypassing Japan to make a global car.

Meet Every Customer Need

It is, of course, impossible to meet every customer need in every market. Philosophically, however, Toyota is bent on meeting the needs of every customer, as stated in its internal document *Toyota Values*: "For Toyota to carry out [the policy of] 'customer first' globally, it is essential ... to respond to the needs of every customer quickly and thoroughly." This philosophy extends beyond the customer to include the supply partners; the workers on the assembly line; and the distributors, dealers and service centers.

Toyota publicly declares, in that same document, its impossible goals to raise the social consciousness of its employees, "always optimizing to enhance the happiness of every customer, as well as to build a better future for people, society and the planet we share." The goal of developing new cars for every customer segment in each country or region arises out of this sentiment.

Indeed, Toyota caters to all customer segments, with no trade-offs, especially in its two most developed markets, Japan and the United States. It makes the Corolla for the utility-minded customer, the Sienna for the family-oriented customer, the Prius for the environmentally conscious customer, the Scion for the young customer and

so on. This approach stems from the firm belief that a car helps make people happy.

The Finest Cars, the Finest Dealers

The goals Toyota set for the Lexus not only were difficult, but seemed irrational. The primary goal was to develop "the finest cars ever built." The Lexus required Toyota to move into areas where it lacked knowledge and experience, forcing a re-examination of its basic technologies, from manufacturing and body techniques to procurement, and it did so in the United States — only the most competitive market in the world.

The company established far-fetched targets for the car that pushed the envelope with respect to speed, fuel efficiency, noise level, air resistance and weight. These goals resulted in a number of technical contradictions that had to be resolved, without compromise or trade-off.

Bypassing Japan to Make a Global Car

In 1998, Toyota created the Innovative International Multipurpose Vehicle (IMV), a family of global cars in a production network that bypassed Japan to produce at bases in Thailand, Indonesia, Argentina and South Africa. The IMV would render the concept of "Made in Japan" irrelevant to the Toyota brand. Many Toyota executives thought it was either too risky or impossible. Former Senior Managing Director Zenji Yasuda, one of the originators of the IMV, reminded the naysayers that they would never accomplish anything if they just harped on the risks.

For IMV production to succeed, components had to be procured locally. Toyota embarked on initiatives to reduce cost, such as using the same platform and shared parts where possible and producing at overseas plants rather than in Japan. It developed a logistics network of international parts production, concentrating production of major components in a few key locations to gain economies of scale. When it was time to start production, the company dispatched several hundred members of the Japanese production preparation team to plants in Thailand and Indonesia, who coached workers and local suppliers.

The Six Lexus Compromises

Ichiro Suzuki, chief engineer of the LS400 development project, created a list of six technical contradictions that had to be resolved to build the car:

1. Outstanding high-speed control and stability/excellent riding comfort.
2. Fast and smooth ride/outstanding fuel efficiency.
3. Superb noise reduction/lightweight.
4. Elegant styling/outstanding aerodynamic performance.
5. Warm ambience/functional cabin.
6. Outstanding high-speed stability/excellent air resistance (low coefficient of drag).

Suzuki insisted that all the contradictory elements had to be achieved. Once the team could see that they could resolve contradictions, they were motivated to higher levels of achievement.

Eagerness to Experiment

Toyota's eagerness to experiment is embodied in the problem-solving routines or processes that have become a normal part of everyday business. The company evolved the Plan-Do-Check-Act (PDCA) model, which is a generic, continuous improvement process practiced widely throughout the business world, into the eight-step and A3 reporting processes, which are unique to Toyota. These are both an expression of the culture at Toyota, in which problem solving is considered to be a critical capability that is implanted in all employees early in their careers through rigorous training.

Eight Steps

The eight-step process, referred to as the Toyota Business Practices (TBP), helps employees develop the necessary problem-solving skills. The eight steps are as follows:

1. Clarify the problem.
2. Break down the problem.
3. Set a target.
4. Analyze the root cause.
5. Develop countermeasures.
6. See countermeasures through.
7. Monitor both results and processes.
8. Standardize successful processes.

A3 Reporting

The A3 reporting process is named for the 11x17-inch-size paper known in Japan as the A3. Only the most essential information needed to solve a problem is summarized on this one sheet of paper and communicated throughout the company. A3 paper was the largest size that would fit into a facsimile machine, which was the common method of communication within Toyota until the advent of the personal computer.

A lot of information can be condensed onto a sheet of A3 paper, but simplified into the company's A3 form, the information flows according to the problem-solving process, from problem definition and description to future steps.

Think Deep, Act Small

The eight-step process and A3 reporting process lay out the path for employees who are challenging the status quo, testing a hypothesis, and discovering what works and what doesn't. Toyota has discovered that the most practical way to realize mission impossible is to think deep but act small, taking measured steps and never giving up — the quintessential traits of an experimenter.

What sets Toyota apart from other companies as an experimenter is the way it thinks in this process and organizes it, as follows:

• *Think of the "objective of the objective."* Clarify the ultimate objective in relation to the more immediate aims. Toyota employees are trained to think about the true objective, or the "objective of the objective."

• *Break down the problem.* After identifying the true objective, break down the larger problem into smaller, more concrete issues and pinpoint the specific cause of each.

• *Start small and take incremental steps.* This is a historically proven approach to experimentation. Toyota's launch of its youth-friendly Scion model in the United States reflected this thinking. The launch was executed using a cascade approach — first in California (which tended to be receptive to new things), then in the South, on the East Coast and finally in the Midwest. Along the way, Toyota learned what worked and what didn't and made many incremental improvements.

• *Repeat experiments, even if they fail.* Toyota used earlier experiments in the youth market to learn what not to do with the Scion.

• *Institutionalize successful practices.* Toyota builds benefit from success and failure. When an experiment is successful, it devotes time and effort to institutionalizing the successful process and building it into daily work routines. When an experiment fails, it learns from the experience, modifies the plan and tries again.

• *Continue to raise the standard.* While Toyota institutionalizes what works, it does not assume that those new practices are effective forever. Both the eight-step TBP and the A3 reporting processes emphasize the importance of monitoring the effectiveness of a successful practice.

Experimentation Software: Values

The preceding practices constitute the hardware of experimentation. The values and principles supporting these logical routines are the software, and they can be traced back to the founders of Toyota. Mottos like "Let's give it a try" and "Don't be afraid to make mistakes" are integral to the corporate culture that enables experimentation. There are five values that serve as enablers of experimentation:

• **Value 1: Taking Decisive Action.** The mind-set of experimentation requires a willingness to take decisive action to produce results. Toyota employees are constantly encouraged to get their hands dirty with the motto "If you're 60 percent sure, take action." Taking action and not succeeding is considered OK, because doing nothing is worse.

• **Value 2: Tolerating Failure.** Toyota has a high tolerance for failure. In fact, failure is viewed as an everyday event at the company, a sentiment originating with the founders about learning the hard way. Toyota does not just tolerate failure — it embraces failure as a mechanism for learning, recognizing that you have to fail to progress. When something goes wrong, it is viewed as an opportunity to take corrective action and learn from that experience.

• **Value 3: Being Honest.** Toyota relies on the results of experimentation to learn what works and what doesn't, but this process cannot succeed if employees feel they have to hide bad news or fabricate positive results. A unique feature of Toyota's work culture is the way it encourages all employees to admit that problems exist, to make them visible, to see them as opportunities for improvement, to identify their root causes and to take concrete countermeasures to prevent problems from recurring over the long term.

• **Value 4: Doing Good.** Trying new things and staying ahead of the times form the basic rationale for experimentation. At Toyota, these practices are not only a motivating force, but also the *duty* of employees, enabling the company to be of service to humankind.

• **Value 5: Never Giving Up.** Even though Toyota is highly tolerant of failure, it is still not easy for employees to initiate the experiment, and even more difficult to shut down an experiment that is ridden with setbacks. The key that determines whether worthwhile experiments will have a reasonable chance of any measure of success is the determination and commitment of project leaders, who never give up in the face of adversity.

Local Customization

Despite its global presence, Toyota remains a local company at heart, remaining sensitive to the needs and requirements of the countries and regions in which it does business. This sensitive approach to local operations is a creative contradiction as Toyota strives to be global and local at the same time and exerts an expansive pressure in the organization. The local customization process starts with the way Toyota innovates for individual markets. It then rolls these innovations into a global process that benefits every market, while maintaining local preferences and demands.

By catering to unique sets of local preferences, Toyota is pushed to new customer targets, new business relationships, new ways of marketing, and new supply chain management systems and process technologies. Like the expansive force of impossible goals and experimentation, local customization also drives Toyota to try new things in response to the demands of local markets around the world.

Product Development and Manufacturing

The challenges of local customization are the same for every car manufacturer. Success hinges on proper handling of the economics of product development and manufacturing. The chief hurdle is figuring out how to scale vehicle design and manufacturing to yield cost benefits while satisfying local needs for customization. Toyota achieves both without compromising one or the other.

As challenging as local customization may be, it has benefits in auto manufacturing. For one, it exposes Toyota to the diversity of perspectives it needs to overcome the limitations of its own provincial origins. Learning to understand and accept these differences is the first step in facilitating local customization. Local customization also exposes Toyota to conditions unheard of in its home market that help it to further stretch the envelope in vehicle engineering.

Finally, local customization exposes Toyota to the sophistication of local tastes, as in Europe, where it was a latecomer. Virtually all new European cars introduced after the 1979 Frankfurt Motor Show were FF models: front-engine, front-wheel drive cars offering excellent handling and performance as well as comfort and a sporty look. The wide array of competitive products in Europe put Toyota on the defensive. To survive, it had to develop products that met local market demands on all these fronts.

Disseminating Local Best Practices Throughout the World

Toyota has developed new practices and processes as a result of incorporating the unique demands of customers in specific local markets. Local customization has worked because Toyota recognizes the value that diversity brings to the whole company and therefore entrusts its local operations with significant autonomy.

The challenge for Toyota was how to preserve that diversity and autonomy while encouraging each country to share its best practices for mutual benefit. As the automobile industry became globalized, Toyota pursued both localization and global commonality, through the establishment of its Global Knowledge Center, which disseminated innovation from specific local markets into a global process, to benefit the whole company. ●

The Founders' Philosophies

The power of the founders' philosophies is the glue that binds employees, dealers and suppliers and connects their aims. It acts as an integrative force in concert with Toyota's two other binding forces, the nerve system and up-and-in human resource management. The company's relentless pursuit and dissemination of the values expressed in these philosophies have effectively aligned the core values of Toyota employees, dealers and suppliers.

'Tomorrow Will Be Better Than Today'

The shared belief at Toyota that "tomorrow will be better than today" grows out of institutional memory from the difficult experience of entering the international automobile market about 50 years behind the dominant American producers and 100 years behind the established European manufacturers. Behind this phrase is the attitude that Toyota will make it a better day, as embodied in the routine practice known as *kaizen*, a Japanese word meaning "continuous improvement" that is now part of the vernacular of manufacturing industries around the world.

Kaizen is the habit of wanting to do a little better every day by eliminating waste and continuously becoming more efficient. It is an attitude of never being satisfied with the status quo, which helps explain why Toyota is continuously and persistently conducting experiments.

Everybody Should Win

The second philosophical value that serves as an integrative force within Toyota is the notion that everyone should win. As a guiding principle, it moves everyone forward together. For founder Kiichiro Toyoda, the word *everyone* includes society at large, and this is central to Toyota's mission, "To contribute to society through the manufacturing of automobiles."

On a micro level, Toyota succeeded in getting its factory workers to buy into this aim. What differentiates Toyota from its rivals even today is its view of the factory worker not only as a pair of hands on the assembly line, but as a knowledge worker who accumulates *chie*, the wisdom of experience that can only be gained on the factory floor.

The company also views its dealership network as the "Radar for All of Toyota." This mission gives dealers the responsibility to communicate their knowledge of their specific market and customer needs to the rest of the Toyota group. In contrast to the atomistic view of business relations that builds silos and limits interaction, it is a broadly interactive approach that recognizes interdependency in a business ecosystem. Dealers are partners in Toyota.

'Customer First, Dealers Second and Factory Last'

In Japan and overseas, "customer first" is a popular phrase but Toyota has been practicing it for more than 70 years, ever since the idea was first articulated by the Master of Sales, Shotaro Kamiya.

This concept has shaped the company's unique relationship between distributors and dealers and between dealers and customers globally. This mind-set runs through everything Toyota does, from upstream activities such as research and development to the rank and file on the factory floor.

Genchi Genbutsu

The fourth philosophical value that is ingrained at Toyota is *genchi genbutsu*, which means "go and see things for yourself, firsthand." The inference is that if you have not seen something firsthand, then your view of that thing is not credible. Toyota's top executives are proud to be the *first* ones to ask, "Have you seen it?"

Toyota's Nerve System

Toyota's top executives operate on the assumption that "everybody knows everything" because the culture of communication is open and personal. Communication flows freely up and down the hierarchy and across functional and seniority levels, extending outside the organization to suppliers, customers and dealers.

Toyota's interconnected world in the digital age is primarily analog, based on the belief that e-mail cannot replace real, human communication in the flesh. The result is an accumulation of relationships in an analog web or "nerve system," which, in many ways, outperforms even the most advanced computer. Toyota views its people as its nerve cells that produce and transmit signals or impulses for action.

Five Characteristics of Toyota's Nerve System

As a system, it is never complete because Toyota keeps growing and producing new nerve cells that transmit different impulses in the ever-changing business environment. There are five characteristics of this system:

• **Open and lateral dissemination of know-how.** To facilitate teamwork, employees are encouraged to engage in *yokoten*, short for *yokoni tenkaisuru*, which literally means "unfold or open out sideways." This approach encourages everyone to share their individual know-how and expertise openly with others.

• **Freedom to voice contrary opinions.** The organization should also be open to criticism and contradiction for the nerve system to function properly. This means everyone has to feel free to voice contrary opinions, even to top management and headquarters.

• **Frequent face-to-face interaction.** Rarely do managers at Toyota reach senior positions without acquiring and embracing the skill of listening thoroughly and intently to what employees have to say and continually questioning and probing to find a better way.

• **Making tacit knowledge explicit in the Toyota Way.** Tacit knowledge is converted to explicit knowledge every time someone verbalizes or writes down the knowledge he or she has.

• **Formal and informal organizational support mechanisms.** Formal and informal support mechanisms have been established in the organization to contribute effective functioning of the nerve system. The Toyota Institute, the Global Knowledge Center and the University of Toyota are formal organizational mechanisms supporting the nerve system that enables everyone to know everything.

Capturing *The Toyota Way 2001*

Under the presidency of Fujio Cho, Toyota embarked on an initiative to put into writing the wisdom of its founders that had been passed down verbally through many generations. The result was *The Toyota Way 2001* (known as the "Green Book" within the company), which kicked off a larger effort to disseminate the founders' wisdom throughout the organization.

Up-and-In Human Resource Management

The phrase *up-and-in* is derived from the opposite practice of up-or-out that is common in most professional firms. In the up-or-out system, a professional employee is either successfully promoted up the ladder or gradually forced out of the company. Toyota rarely forces out so-called underperformers, focusing instead on *upgrading* their capabilities *inside* the company through various on-the-job training (OJT) and evaluation schemes.

The up-and-in resource management system is the enabling environment for development and growth, and it is particularly applicable to industries like automobile manufacturing, where learning from experience is important.

Knowledge-Creation Management

There are five key aspects of an up-and-in human resource management system as practiced at Toyota. It is part of a system of knowledge-creation management that can be emulated by other companies in the

How Toyota Reinforces Teamwork Goals

At Toyota, the principle "respect for people" is interpreted as "respect for the individual realizing that power is consolidated in a team."

To actualize this sentiment, everyone above the management level of *kacho,* or section chief, submits a "mission statement" at the beginning of each fiscal year. Managers jot down their personal goals and conduct self-evaluations according to the behavioral requirements of the job. The evaluations are reviewed by supervisors who also serve as coaches in a one-hour session held three times a year.

knowledge-based business environment and has the following characteristics:

• **Stable, long-term employment.** A mutual, long-term commitment between a company and its employee in the form of stable, long-term employment is an essential aspect of up-and-in human resource management and knowledge-creation management in general. It justifies the investment of resources needed to develop organizational capabilities that only show benefits over time. Acquiring experience in several job functions or aspects of business operations equips managers to make better systemwide decisions.

• **Emphasis on training.** To build a multiskilled work force, Toyota institutionalized a number of training programs, both on and off the job, that teach problem-solving skills. During their first 10 years at the company, employees are thoroughly trained in the fundamentals of thinking their way out of problems.

• **Power in teamwork.** Individual self-actualization is emphasized at Toyota as a function of teamwork. The exemplar employees who serve as teachers and mentors are not seen as hotshots separate from the group but as a reflection of the group in which leadership is distributed. Toyota depends on all the workers in the company bringing their strengths into play to demonstrate their power as a team.

• **Action orientation.** The preference for action is a quintessential Toyota trait. The value of taking action is passed on though generations in popular phrases such as "If you're 60 percent sure, take action" or "It's better to fail doing something than doing nothing." What matters more than the results is the "process" of taking action to achieve results.

• **Learning-based evaluation.** Toyota has developed a unique set of criteria for evaluating managers. For top managers, the company bases 100 percent of remuneration on performance related to results as well as process. To evaluate process performance, the company looks at how goals are achieved; how issues are handled and resolved; how organizational skills are fostered; and how people are developed, motivated and empowered.

What Your Organization Can Learn From Toyota

How can other companies emulate Toyota, one of the world's best-run, most successful organizations? Certainly, emulating Toyota is not easy. It takes time. It also requires abundant resources.

For starters, however, an organization can do three things to emulate Toyota's extreme performance model of business management:

1. Embrace contradictions as a way of life. Reaching new customers, new segments and new geographic areas and tackling the challenges posed by competitors, new ideas and new practices trigger the changes and improvements needed to break down rigidities. Companies must embrace these challenges and create their own contradictions to achieve higher levels of performance.

2. Develop routines necessary to resolve those contradictions. Unless companies teach employees how to tackle problems rigorously, they will not be able to harness the power of contradictions.

3. Let all the employees and outside constituents come up with solutions. Leaders must be open to criticism and contradiction if they want to source new ideas from any point in their organization's ecosystem. This requires time, patience and frequent face-to-face interaction.

Conclusion

Toyota's extreme performance model is a very human model of business management where each employee forms a vital part of the organization whole. Being human, it is an incomplete model. Being incomplete, there is room for change and renewal.

Contradictions, opposites and paradoxes are a way of life within Toyota and Toyota relentlessly pits opposing forces against each other to realize continuous innovation and constant renewal.

RECOMMENDED READING LIST

If you liked *Extreme Toyota*, you'll also like:

1. ***The Toyota Way* by Jeffrey Liker.** Learn the 14 foundational management principles behind Toyota's world-famous system of "lean production."
2. ***The Agenda* by Michael Hammer.** The author of *Reengineering the Corporation* presents nine core principles critical to contemporary corporate success.
3. ***Blockbusters* by Gary S. Lynn and Richard R. Reilly.** The authors reveal the five critical practices that all successful new-product teams must follow.

Summary

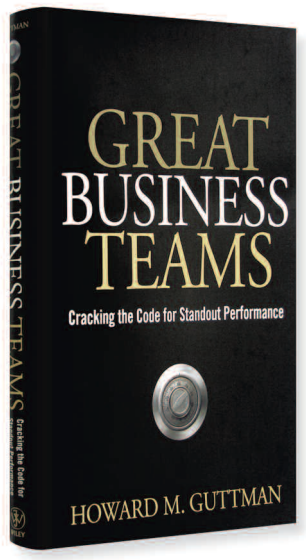
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Management: Team

Great Business Teams

Cracking the Code for Standout Performance



by Howard M. Guttman

THE SUMMARY IN BRIEF

Everybody knows that great organizations start with great teams. But it turns out that there is a code for standout performance within great teams that applies to every organization, regardless of size, type or industry affiliation. Cracking this code does not guarantee a perfect outcome every time companies engage in competitive play, but by changing the game, companies can acquire a sustained competitive advantage and the ability to excel in a very difficult marketplace.

The code is the horizontal organization — an organization in which everyone operates according to a clearly defined set of decision-making protocols, where people understand what they are accountable for and then own the results. In *Great Business Teams*, renowned business consultant Howard M. Guttman draws on his decades of experience inside some of the world's most successful corporations to show how that powerful new high-performance horizontal model has changed the way leaders lead, team members function, challenges are met and decisions are made.

Though "going horizontal" requires leaders to fulfill certain imperatives, behave in certain ways and be responsible for aligning their teams with company goals, it also requires every employee develop the skills and characteristics of a "leader": become more intellectually invested in group performance, embrace accountability and handle conflict well. It's for these reasons that great teams do more than improve a company's performance; they continually raise the bar and redefine what "high performance" means.

IN THIS SUMMARY, YOU WILL LEARN:

- The five key characteristics of great business teams.
- How leaders of high-performing teams behave.
- How members of high-performing teams behave.
- What teams and leaders need to do to align themselves around a goal.
- How great teams make decisions and overcome challenges.

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THE COMPLETE SUMMARY: **GREAT BUSINESS TEAMS**

by Howard M. Guttman

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For additional information on the author, go to http://my.summary.com.

Cracking the High-Performance Code

Whether it's a CEO and top-management team charged with setting strategy; a plant manager and shop-floor personnel committed to getting a defect-free product out the door; or a cross-functional, global project team dedicated to a worldwide product launch, teams are today's locus of power, responsibility and action.

Great business teams share five characteristics:

1. Great business teams are led by high-performance leaders who:

- *Create a "burning platform" — an energizing principle — for fundamental change.*
- *Are visionaries and architects.*
- *Know they cannot do it alone.*
- *Build authentic relationships.*
- *Model the behaviors they expect from their team.*
- *Redefine the fundamentals of leadership.*

2. Members of great business teams are *us*-directed leaders. On a great business team, no one's performance — not even the leader's — is exempt from scrutiny and feedback.

3. Great business teams play by protocols. Ambiguity kills effective decision making. It also wastes precious time. Great businesses are specific about what decisions they need to make, who will make them, and how.

4. Great business teams continually raise the performance bar. No matter how much it achieves, a great business team is never satisfied. On a great business team, self-monitoring, self-evaluation, continuous improvement, and raising the performance bar are the norm.

5. Great business teams have a supportive performance management system. Whether your aim is to create a single great business team or an organization made up of great teams on every level, the shift is not merely structural but profoundly cultural. In order to effect permanent behavior change, a team's performance management system must support the new expectations. Team and individual goals have to be crystal clear; the necessary technical and interpersonal skills have to be provided; performance has to be monitored; and feedback has to be timely and well thought out. ●

The New High-Performance Leader

Leadership Imperative: Develop and Drive the Horizontal Vision

Within Australia's fast-moving, competitive dairy industry, consumers have become more and more sophisticated, with ever-increasing wants and needs. In 2004 the industry was also witnessing dairy production declining, international farm gate milk prices skyrocketing to historic highs and at record global fuel costs.

That same year, Robert Gordon took over as CEO and managing director of Dairy Farmers, an Australia-based milk and value-added dairy company. Financially the company was not performing at capacity. There was unnecessary product proliferation and too much complexity. Organizationally, the company was largely siloed. Each function operated independently and was run by a general manager, sometimes competing with other functions for resources. It was time for a radical change.

Gordon was convinced that the only bet was to go horizontal, which to him meant moving to an organization in which everyone operates according to a clearly defined set of decision-making protocols, where people

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Chris Lauer**, Senior Editor; **Christine Wright**, Senior Graphic Designer; **Tina Orem**, Contributing Editor

understand what they are accountable for and they own the results. "It means moving to an action- and results-driven workforce at every level — not one that waits around for instruction or trips over functional boundaries. It means giving employees the opportunity and skills to decide who needs to be involved in solving problems and making decisions, dividing responsibilities, then stepping aside to allow people to implement."

Three years later, Dairy Farmers saw a dramatic turnaround. It became significantly leaner: reducing its product portfolio by more than one-third, closing four of 15 sites and 17 distribution depots and divesting noncore businesses. The new, lean, horizontal organization chalked up a number of significant successes, including significantly reducing time to market for new products. Dairy Farmers closed out 2007 leading the growth rate in every retail market in which it participates, improving market share in every category.

For an organization to raise its level of performance, every team, on every level, must be a great team. It must be aligned, or in sync, in five key areas:

1. ***Business strategy.***
2. ***Business deliverables coming from the strategy.***
3. ***Roles and responsibilities at individual and business unit or functional levels.***
4. ***Protocols, or ground rules, for decision making and conflict resolution.***
5. ***Business/interpersonal relationships and interdependencies.***

Leadership Imperative: Create the Right Mindset

On a great business team, candor is king. Candor requires leaders to walk the talk. They do this most convincingly by listening to critiques of their own performance and acting on them, and by changing behavior that the team tells them is unacceptable, by not cutting off dissenters or denigrating their opinions, by not pulling rank when it is time to make a decision. High-performance leaders have an up-or-out approach: Those who cannot adapt and thrive should take their game elsewhere.

Leadership Imperative: Provide the Right Skills

Working horizontally is something of an unnatural act, given most people's experience in working hierarchically. This creates another leadership imperative: Ensure that everyone in the organization not only wants to contribute but can contribute. Great leaders immediately develop an action plan to close skill gaps through formal skill-development workshops, an ongoing search for opportunities to apply the skills and individual coaching as needed.

Leadership Imperative: Keep the Game and Guard the Ground Rules

One of the most important tasks of a team leader is to serve as keeper of the high-performance game. It is up to him or her to make sure the team remains on track. "On track" means that everyone is clear about and committed to the business strategy and the operational goals that flow from it; understands his or her roles and responsibilities; and adheres to the agreed-upon protocols, or ground rules, for decision making and for interpersonal behavior, especially those relating to conflict management.

Ultimately, when the leader is keeper of the game and guardian of the ground rules, he or she is looking at the team and asking important questions. Are the members of my team playing for real, or are they just going through the motions? What's the best way for me to hold up a mirror to members of my team to accurately reflect their behavior? How do we change?

Leadership Imperative: Raise the Bar

One of the characteristics of all great business teams is that they continually raise the performance bar. But the performance-improvement attitude is an acquired one, which often requires not-so-gentle prodding from the leader.

When Helen McClusky joined Warnaco as president of its Intimate Apparel group in 2004, revenue had fallen by 50 percent and profits had declined over the previous five years. McClusky began the turnaround by stripping the team's priorities down to one: Intimate Apparel must reach the company's average profitability. If the company generated an average 10 percent operating margin/profitability, the Intimate Apparel division had to do the same.

She began holding regular monthly staff meetings with agendas. They started on time, with or without laggards. She also role-modeled meeting behavior, showing up on time and remaining throughout the meeting. She worked with the team to establish protocols for meetings, and disseminated them broadly. Line-management approval processes were put in place. Specific margin targets, which had to be hit during the product-development cycle to make sure profitable business was being delivered to the bottom line, were identified.

Leadership Imperative: Be Player Centered

High-performance leaders seek to *leverage* power, not to monopolize it but to put it to use to drive up their team's or organization's performance. As a means to driving up results, high-performance leaders favor *"distributive power"*

Let's Follow a Leader

Believing that a picture can be worth a thousand words, here is a brief "snapshot" of one high-performing leader, Grant Reid, in action. Before he became global president of Mars Drinks, Reid was executive vice president of sales and customer care for Mars Inc., Snack. When he assumed full responsibility for snack sales, he faced a significant leadership challenge. Sales had not met expectations in this key strategic unit, and a quick turnaround was needed. His experience can be distilled into six principles that guided him during this plight.

1. *Don't bury the past; build on it.* They were going to put the past behind them, but not before they had learned all they could from it.
2. *It's all about relationships.* Reid learned that people wanted reassurance that their futures were secure.
3. *Don't just lead your team — be a part of it.* Reid also believes that leaders should not ask others to do things they would not do themselves.
4. *Help everyone become a high performer.* Everyone was encouraged to hold one another — and Reid — responsible for achieving snack results.
5. *Show how it's done.* In front of his team, he is comfortable challenging his boss when he feels things are moving too slowly, role-modeling the upward confrontation that he expects from the players on his team.
6. *Park your ego.* Effective leaders in a high-performance environment possess a special kind of self-confidence — the ability to admit to not having all the answers.

— putting power and authority in the hands of teams and their members, provided the conditions are right, the protocols in place and the players sufficiently evolved to deliver maximum payoff. ●

The New High-Performance Player

As organizations evolve horizontally, the traditional leader-follower paradigm is no longer a fruitful construct. On great business teams, "followers" assume many of the same behaviors and traits previously ascribed only to leaders.

On any team, players require three types of skills: technical, strategic and leadership. But, as a member of a team of leaders, every player on every great team needs the same degree of proficiency in leadership skills, including the ability to influence others.

Assessing Where Others Stand

Look around you, both at members of your team and at others in your organization with whom you interact. Following is a short description of each type of individual, along with some tips for influencing them:

Double Dealers agree with you at the business-concept level, but have for some reason decided to withhold their support. Focus on listening to their concerns, encouraging them to speak candidly and working to build trust between you.

Foes neither agree with your goal, nor are they among your supporters. Encourage candor, "story" sharing and the forging of new agreements for moving ahead.

Members of the Loyal Opposition support you while disagreeing with your point of view. Present a strong business case as objectively as possible to turn your colleagues around.

Partners and Middle-of-the-Roaders present opportunities. The former group supports and agrees with you. Partners can have a positive influence on others, especially the Middle-of-the-Roaders.

As a player, the skills you need will vary according to the circumstances. For example:

- When another player's needs are pressing, you need *active listening skills*: the ability to clarify, understand and acknowledge another's point of view.
- When your needs are pressing, you need *assertion skills*: the ability to state your case from a position of strength rather than being passive or running over others.
- When both players' needs are pressing, you need *conflict-management skills*: the ability to manage each party's perceptions to defuse emotions, create a common understanding of the real issues at hand and work toward a collaborative solution in which everyone "wins."

The Player as Coach

One of the hallmarks of a great business team is the willingness of team members to assume accountability for the success of their colleagues. This can take many forms, from tough questioning to providing resources to coaching.

While leaders are ultimately responsible for making the call on the coachability of their players, every team member has an obligation to turn the table on him- or herself by asking, "Am I up to the task of continually

reinventing myself to meet ever-more-demanding performance standards?"

The thorniest coaching issue is how to deal with team members who are nearly or fully uncoachable. Players resist change for many reasons. Some do not see what's in it for them; others disagree on the need for change; still others are distrustful and suspect a hidden agenda. The challenge is to part the curtain to see what is behind the resistance to change. *Intention* is paramount. Is a team member's intention to change stronger than the lure of remaining comfortable with past ways of operating?

When it comes to dealing with the uncoachable, timeliness is crucial. When do you press the "eject" button? Once you determine that a player is *unwilling to change*, there is little else that can be done. ●

Aligning for High Performance

When a team is clearly committed to a common direction, when it focuses on business deliverables that evolve from that direction, when it is clear about its roles and responsibilities, when decision-making protocols are in place, and when business relationships are open and avoid siloism, then it acquires new performance muscle and the will to win. This is what is meant by "getting aligned." The alignment process is made up of two phases: *making the diagnosis* and *gaining agreement*.

Phase 1: Making the Diagnosis

Whether the team leader is the CEO, a division president, a general manager, or a functional head, here is the basic question that he or she must address at the outset: *What would the team look like if it could be taken to the next level of performance?* It is here that the leader communicates with his or her team members, allays their fears, secures buy-in, and generates excitement for the new world of significantly higher performance. Finally, there needs to be a segue to data collection, the next phase of alignment and team transformation.

Phase 2: Gaining Agreement

During this phase an alignment session is held during which new patterns of behavior in the five key areas — business strategy, business deliverables, roles and responsibilities, protocols for decision making and conflict resolution, and business/interpersonal relationships/interdependencies — are agreed on.

The end result of alignment in the first three areas is agreement among the players and their leader about *what* the team as a whole is going to accomplish and *what* each individual will contribute to those results. Alignment in the fourth and fifth areas deals with agreement about *how* the group is going to carry out its tasks and *how* the players and leaders are going to interact with one another. ●

Accelerating to High Performance

Whether the team coach is employed by the organization or is an outsider, he or she needs to be alert to common red flags that indicate that the team is veering off course:

- Team leaders who retreat to Grand Inquisitor or Solomon mode.
- Too many "grey beard" issues that hang around forever.
- Sidestepping delicate issues.
- Protocols that fall by the wayside.
- Failure to hold one another accountable for underperformance.
- More "me" than "we" in the air.

Skilled team coaches are masters at giving feedback. First, they depersonalize feedback, presenting the facts without judging them. Second, effective team coaches carefully formulate their comments. Third, effective team coaches present the facts and then ask the individual or team to confirm or refute them, keeping the coach from being perceived as judgmental. ●

Following the Protocols at Chico's

CEO Scott Edmonds describes the toughest struggle that he had as the leader of Chico's top team during the move to the high-performing team model:

"The hardest part of the transition was following the model all the way up to the point of terminating those who refused to abide by the new rules. One of the senior vice presidents on my team wasn't being honest with me and kept going underground. In the prealignment interviews, the other players made it clear that they believed she had to go. I realized that I had to terminate her immediately or I wouldn't be playing it straight, and the day after the alignment, I asked her to leave. As a leader you must say, 'Okay, these are the new rules of the game.' To use a baseball analogy, it's like saying, 'Three strikes you're out is no longer the rule. It's now only two strikes.' If I allow someone three strikes, I'm not playing by the rules and neither are they."

Whether or not you institute a "two strikes" policy is situational and beside the point. What is important is having in place — and sticking to — agreed-upon rules of behavior for handling contentious situations.

How Great Teams Make Decisions

Keep in mind three overarching points that help to explain why great teams are well primed for decision making. First, great teams are strategically focused. Second, the high-performing model counteracts the social pressure on group members to conform to the majority view. The third point about great decision-making teams: The high-performance decision-making model is built for speed, quality, maximum accountability, and engagement.

The Challenges

In observations of leaders and teams who have gone through the process of distributing decision-making authority, there are a number of traps into which teams typically fall:

- Team members accustomed to working in a hierarchical organization will tend to defer to the leader. Team leaders must refuse to play Solomon or Monkey in the Middle.
- When assigning members to subteams, remember that *value added* is the key criterion.
- Technical knowledge or a certain position in the organization does not automatically qualify a person to be the decision maker.
- Do not permit a subteam to try to lobby other players; do make sure that everyone on the team makes a public commitment to abide by the decision once it is made. ●

How Great Teams Manage Meetings

Great business teams set basic protocols for meetings:

- How often will the team meet, and how long will meetings last?
- Where will the team meet?
- Who will lead meetings?
- How and by whom will the agenda be set?

Here are several behavior-related protocols that great teams insist on:

- The meeting starts on time, with or without you.
- If you can't make a meeting, send a substitute.
- Cell phones are off; laptops and hand-helds are out.
- There are no digressions from the agenda; if someone raises a new issue, it is "parked" for later discussion.
- There are no side conversations.
- Everyone participates.
- Everyone follows the agreed-upon protocols for conflict resolution.
- All players hold all others — and the leader — accountable for promised deliverables and results.

Issue Management

There are many ways to go about managing key issues. The method outlined here — using issue definition, issue identification, clarifying issues, priority setting and action planning — has been adopted by many great business teams.

The most efficient way to keep track of issues is to create and maintain an issues log, or list of action items. Designating a point person or issue owner for each issue ensures that the job will get done. ●

How Great Teams Communicate

Great teams cannot be bothered with pseudocommunication. Here are the 10 common elements that make up the pattern of high-performance communication:

1. Clarity
2. Authenticity
3. Accuracy
4. Efficiency
5. Completeness
6. Timeliness
7. Focus
8. Openness
9. Action orientation
10. Depersonalization

Traits of High-Performing Communicators

Communication involves implicit and explicit messages. High-performing speakers make it easy for listeners; they do not play games or encode their messages. Whenever possible, they back up their statements with facts. They refrain from using emotionally charged language. They do not resort to euphemisms or doublespeak.

Here are 10 rules of thumb that great teams follow in whole or in part to help them manage virtual communications.

1. *Use the right medium for the message.* It is unacceptable to use e-mail to either raise an issue of concern/conflict or to engage in negotiations.
2. *Substitute active-reading for active-listening skills.* First ask, "Is the content of this message clear?" Then ask, "What are the underlying feelings being conveyed or implied?"
3. *Practice the Golden Rule.* In other words, think before you send.
4. *Respect confidentiality.* High-performing players never pass along a confidential e-mail to anyone not authorized to read it.
5. *Know when — and when not — to "cc."* Teams should agree on protocols for keeping others in

the "cc" loop.

6. *Do not retain a rescuer.* Just as great teams do not permit face-to-face triangulation or recruitment of supporters, they frown on anyone circulating e-mails to third parties.
7. *Acknowledge the recipient.* High-performance players look for opportunities to congratulate or thank one another whenever possible, and e-mail can be a very effective medium for delivering positive feedback.
8. *Get to know your e-mail correspondents.* Electronic communications with team members you have never met in person are often easier when you build your relationship by sharing a personal detail or two.
9. *When in doubt, do not send.* Waiting 24 hours, then opening and rereading the message can prevent embarrassment and regret.
10. *Pack a parachute.* Great players are not afraid to bail out of e-mail, especially when they sense the undertow of strong emotion. ●

From Great Teams to a Great Organization

As you think about moving to a new leadership and operating model for your organization, consider the following five requirements for success:

1. *Keep it simple, stupid!* In our experience, organizations that have succeeded in going horizontal take a direct, straightforward path.
2. *Leaders must lead.* If the change to a high-performance, horizontal organization does not begin with the top leader and his or her leadership team, there is no point in continuing the process.
3. *Talk it up — and down — and every which way.* Any team within arm's length of a newly aligned team must be brought into the circle.
4. *Do what works.* The organization's needs should dictate the sequence in which high-performing teams are replicated.
5. *Create a high-performing culture.* Take stock of your values. Be a role model. Continue to communicate. Celebrate and reward success. And make it visible. ●

Great Leaders and Teams: Challenges, Responses and Remaining Issues

Overcoming Resistance to Change: One way to keep future shock from undermining your efforts to go horizontal is to make sure that people have sufficient time to understand and absorb the change — and plenty of opportunities to ask questions.

When the Leader Gets a New Team: A word of caution for high-performing individuals attacking new roles: Do not try to conquer the world; start in your immediate area. Following are four practical tips taken from great leaders who have successfully met the onboarding challenge:

1. *Start at the beginning.* Great leaders play it straight right from the start by letting candidates know what to expect.
2. *Stay close.* One way to do this is by putting in place a weekly feedback session to answer questions and address needs and concerns.
3. *Role-model.*
4. *Provide mentors.*

Measuring Results: Revenue, profitability and return — the *what* of results — are important indicators of the value of the high-performance, horizontal model. But so is the *how* by which you achieve them, which is why great leaders are attentive to both the hard and soft factors and insist on measuring both.

Sustaining Momentum: The need to sustain high performance is a significant challenge, given all the forces at work in an organization — from strategic change to turnover — that can slow or even reverse momentum. Soul-searching and gathering like-minded souls represent an effective one-two combination for keeping energy up and momentum going. ●

Player-Centered Leadership

Great leaders know that there is no one "right way" to lead. Here is a brief description of each of the four leadership behaviors:

1. Prescribing/Directing. In horizontal, matrix organizations, where managers often need to get results from those over whom they have no direct authority, the ability to influence — to persuade others to change their points of view and behaviors so they are aligned with yours — is a critical skill.
2. Coaching/Instructing. By coaching players through tough issues, leaders help them develop the skills they will need to operate effectively on their own.
3. Collaborating/Partnering. While collaborating in a problem-solving or decision-making session, the leader can take the opportunity to do some additional coaching, increasing the skills and

Building a Great Organization the Redken Way

When L'Oréal bought Redken USA in 1993, the brand had slipped from number one in hair-color sales to number three or four. Four years later, despite a flurry of effort, not much had changed in terms of Redken's overall market position and bottom line. It decided to make a radical shift to the high-performance, horizontal model.

As a result, the senior team and the directors began to work together more seamlessly. By 2007, Redken had achieved 10 years of double-digit sales and profit growth — a record no other hair care company matched. Roles and responsibilities have become clearly delineated, eliminating interdepartmental tugs of war. People no longer hesitate to admit a mistake. Communication to customers has become more focused and on point. Customers view Redken as an organization that knows what it is doing.

confidence of those involved.

4. Inspiring/Empowering. Once again, it is the responsibility of the leader to make sure that those who will be held accountable for results are set up for success and not failure. ●

The Skills of a Great Team Member

When another person's needs are pressing, you need active listening skills. When your needs are pressing, you need assertion skills. When both people's needs are pressing, you need conflict management skills.

Using Active Listening Skills

Not focusing on those who come to us with a concern can bruise egos, but we add insult to injury by continually interrupting. In our desire to help someone — or cut short the conversation — we may come in too rapidly with our own opinion. Withdrawing is another deadly response. Body position, facial expression, and gestures such as head nodding and hand movements provide cues that you are tuned in — or out. "Say more" responses are phrases that encourage the speaker to tell you more about his or her ideas and feelings.

Using Assertion Skills

There are four skills that enable people to move toward the mid-point of assertion:

1. Persistence. It works best with salespeople, contribution seekers, telemarketers — people with whom you are not trying to cultivate lasting relationships,
2. Sidestepping. When you sidestep, you acknowledge that the other person may have a good point.
3. Straight talk. Put your statement into the following format: I want/need _____ because _____ .
4. The three-part "I" response. When you deliver the message, it is most effective if you use the following formulation: When you _____ I feel _____ because _____ .

Using Conflict-Management Skills

In every conflict situation, there are four options available:

1. Play the victim: say nothing, act powerless and complain.
2. Leave: physically remove yourself from involvement.
3. Change yourself: move from your position, and shift to the other party's view; "let it go."
4. Confront: address the issue openly, candidly and objectively; communicate with the other party.

Use an overall strategy — the Four C's approach — for confrontation:

1. Connect: Establish a rapport with the other party by addressing the issue between you openly and candidly and asserting yourself.
2. Clarify: Seek to understand by active listening and exploring all points of view.
3. Confirm: Reach mutual agreement as to what each party wants and needs and establish your willingness to collaborate.
4. Contract: Negotiate agreements for future interaction. ●

RECOMMENDED READING LIST

If you liked *Great Business Teams*, you'll also like:

1. ***People Styles at Work*** **by Robert Bolton and Dorothy Bolton.** Everyone fits into one of four personality groups. Know which one you are in and how to deal with others.
2. ***Mastering Business Negotiation*** **by Roy J. Lewicki and Alexander Hiam.** Learn the skills of and techniques of the "master negotiator" that are essential for resolving conflict and handling difficult conversations.
3. ***The 360 Degree Leader*** **by John Maxwell.** Become a 360 degree leader and learn to develop your influence from wherever you are in the organization.

Summary

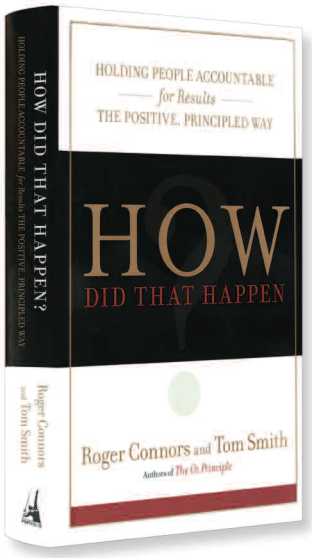
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How Did That Happen?®

Holding People Accountable for Results the Positive, Principled Way



by Roger Connors and Tom Smith

THE SUMMARY IN BRIEF

Accountability? Everybody talks about it, shareholders demand it, taxpayers want it and stakeholders insist on it. But exactly what is accountability and how do you get people to take it? Roger Connors and Tom Smith have spent more than 20 years studying and teaching accountability because they believe that no other attribute of individual or organizational life contributes more to the success of individuals, teams and organizations.

In *How Did That Happen?,* Connors and Smith examine how to hold people accountable for results in a method that conquers all the damaging behaviors that permeate so many organizations today. The authors show you how to hold others accountable for delivering on expectations in the positive, principled way that produces results.

By following the steps in the Accountability Sequence,® you will learn how to avoid the unpleasant surprises that plague almost every project and discover the key to getting things done through others. Accountable cultures produce results. The positive, principled approach to holding others accountable guarantees results.

IN THIS SUMMARY, YOU WILL LEARN:

- How to establish clear expectations and manage the unmet ones.
- How people at every level can enjoy greater productivity, profitability and job satisfaction.
- How to define accountability and how to get people to embrace it.
- How to hold people accountable the positive, principled way.
- How to avoid ever again wondering "How did that happen?"

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THE COMPLETE SUMMARY: **HOW DID THAT HAPPEN?®**

by Roger Connors and Tom Smith

The authors: Roger Connors and Tom Smith are co-presidents and founders of Partners In Leadership®, a leadership training and management consulting company recognized around the world for its Accountability Training® services. They are also the authors of *The Oz Principle:® Getting Results Through Individual and Organizational Accountability* and *Journey to the Emerald City: Achieve a Competitive Edge by Creating a Culture of Accountability.*

How Did That Happen? Holding People Accountable for Results the Positive, Principled Way by Roger Connors and Tom Smith.
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For additional information on the authors, go to http://www.summary.com.

Introduction

What do you hold people accountable for? At the end of the day, you hold people accountable for one thing: the expectations you have of them. Whether the expectation is for someone to turn in a report on time, make a sale this quarter, build a product according to certain specifications or ship a part by a certain time of the day, they are all expectations and they are all things you need other people to do for you. The very process of managing those expectations is the act of holding them accountable.

The positive, principled way to hold others accountable is by using a simple set of steps called the Accountability Sequence, which is divided into two parts: the Outer Ring and the Inner Ring. In the Outer Ring, you form, communicate, align and inspect expectations. In the Inner Ring, you engage in an Accountability Conversation® to determine the best way to deal with unmet expectations. ●

The Outer Ring®

The definition that drives the Outer Ring of the Accountability Sequence empowers people in a practical and powerful way to influence results *before* things go wrong. To hold someone accountable means "to effectively form, communicate, align and inspect the fulfillment of an expectation in the positive, principled way that enables people to achieve results now and in the future."

The steps in the Outer Ring, as well as the methodologies within each step, provide a basic pattern you can tailor to each person in a way that works for him or her.

The Three Axioms of the Outer Ring

Three axioms form the foundation for holding others accountable the positive, principled way and set the stage for taking the steps in the Outer Ring:

The Accountability Fallacy. The Accountability Fallacy captures a common mistake people make when they assume that others fail to follow through because there is something wrong with them. When leaders fall prey to the Accountability Fallacy, they not only assume that their people are flawed, but that they themselves can do little or nothing to change those flaws except punish people for having them.

The Accountability Assumption. The Accountability Assumption dictates that you should always begin with the assumption that, in any given circumstance, people are doing their very best to fulfill your expectations. It allows you to begin with the view that people want things to work just as much as you do and that they are doing all they can to make that happen.

The Accountability Truth. The Accountability Truth provides a more effective way of looking at the problem when people fail to follow through and deliver on expectations. "Truth" means that when things go wrong, there is usually something wrong with what "I" am doing. When you embrace this principle, you take control of future outcomes and internalize the continual need to improve your effectiveness with respect to holding others accountable. When you see yourself as part of the problem, you empower yourself to join the team that will do whatever it takes to solve the problem.

The Accountability Connection™

As you experience holding people accountable, you

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer

form a unique connection with each person in your Accountability Connection. If someone feels that you have dealt unfairly with them, they will undoubtedly see the connection as negative. If they think you have treated them fairly and in a supportive manner, they will most likely view it as positive.

Most people intuitively know whether the accountability connection is positive or negative, but few pay much attention to managing it effectively. The more positive your connections, the more successful your efforts will be to hold them accountable for achieving results.

Seven Clues for Detecting a Negative Connection

1. You visibly detect the other person's frustration during your conversations.
2. You note that they tend to offer excuses even before you get into the subject.
3. You hear virtually no positive feedback about their working relationship with you.
4. You recognize that they talk freely when things are going well and clam up when things are going poorly.
5. You can tell they are avoiding you.
6. You wait in vain for a proactive report on their progress.
7. You find that your conversations with them usually focus on what's not working.

If you detect three or more of these clues, then, no matter how positively someone may claim they feel about their connection with you, it more than likely hinders your ability to hold them accountable.

Accountability Styles®

Your own Accountability Style will reflect a natural preference for one of two different sides of a continuum. The continuum describes the extremes of two common styles: Coerce & Compel and Wait & See.

Leaders on the extreme left operate with the traditional "Command & Control" style of management, acting like generals directing an army toward victory. To get results, they think they need to use the force of rank to make good things happen.

In sharp contrast, those on the extreme right will sometimes bend over backward to do the work themselves and fail to involve others sufficiently to get the job done.

Everyone, to one degree or another, has an Accountability Style and leans toward one of these two categories. Neither style is right or wrong, and both have strengths and weaknesses. However, it is important to understand that you will not improve your ability to hold others accountable if you do not understand your particular style and how it affects the way you work with the steps in the Outer Ring. ●

The Top Five Reasons People Don't Hold Others Accountable

Interestingly, it is not uncommon for people to have misgivings about holding others accountable. The top five reasons why people don't hold others accountable are:

1. A fear of offending someone or jeopardizing a personal relationship.
2. A feeling that they lack the time to follow up effectively.
3. A lack of faith that the effort will make enough of a difference.
4. A worry that, by holding someone else accountable, they may expose their own failure.
5. A reluctance to spark any potential retaliation.

Form Expectations

You cannot effectively hold someone accountable if you have not first formed clear expectations. Forming "best" expectations is what the first step in the Outer Ring is all about. Individuals and companies who fail to think through their expectations clearly, often pay an enormous price.

For a good example, take a look at the large modern office building with a strikingly different design that stands on the outskirts of London just beyond Heathrow Airport. The impressive "Ark" building, fashioned after an architect's idea of Noah's biblical ship, is constructed of glass and modern materials. It has won numerous architectural awards. However, at the time of this writing, no tenants occupy the building. Why? Because the inside of the building fell short of the expectations created by its unique and engaging outer shell. Its exterior captivated the eye, but its interior lacked the user-friendly features tenants demand. A disconnect occurred somewhere in the planning process of the "Ark Project." At the outset, the Ark's owners surely must have expected that this unique design would draw tenants like a magnet. As it turned out, prospective tenants just couldn't imagine themselves working there.

When it comes to forming key expectations that must

be fulfilled, you simply cannot afford to settle for anything less than "best." The "best" expectation in this case, if properly formed, would have empowered everyone involved, from the design team to the leasing office, to deliver an office building that would attract tenants and turn a profit.

Managers can form expectations all on their own, but they will always get better results when they form "best" expectations with the input and collaboration of those involved in making it happen.

The Expectations Chain™

The Expectations Chain consists of all the people who are connected to each other to fulfill your expectations and deliver the results you want. As you form expectations of others (at least if you want to form the kind of expectations that help ensure the result), you must consider everyone up and down the chain.

Everyone is part of a chain of expectations in the business world. We all have a boss — someone who has expectations of us, usually high expectations that we wish to fulfill. That boss can be a supervisor or manager, a parent company, headquarters, the customer or the shareholders. Whatever the case, someone defines what is expected of us. We, in turn, form links in the chain by defining expectations for others based on what is expected of us. All of these links form a chain of expectations upon which everyone involved depends for success. Understanding how we are connected and linked together in this chain is critical to forming expectations that help people deliver what we need.

When you form your expectations, you must carefully weigh the specifics of what you want to have happen, as well as the specific people who will be required to take accountability to make it happen.

When you set about establishing best expectations, apply the FORM Checklist™, which includes four characteristics that are fundamental to forming effective expectations:

Is it Framable? To ensure the expectation is consistent with the current vision, strategy and business priorities.

Is it Obtainable? To ensure that the expectation is achievable in terms of current resource and capacity constraints all the way through the Expectations Chain.

Is it Repeatable? To ensure that the expectation is portable and can be clearly communicated through the Expectations Chain.

Is it Measurable? To ensure that progress toward achieving the expectation can be tracked and that ultimate fulfillment of the expectation can be measured. ●

Communicate Expectations

The Why-What-When® approach to communicating your well-formed expectations provides a powerful tool for taking the next step in the Outer Ring of the Accountability Sequence.

Making the "Why" Compelling

To be most effective, the "Why" needs to speak to people as individuals and convince them that accomplishing the "What" and "When" matters to them on a personal level.

First, tailor the "Why" to your specific audience. The more personal you can make the "Why," the more compelling it will be. Second, make it short, simple and clear. Third, be candid, honest and forthcoming. Fourth, make it a dialogue, not a monologue. Fifth, create the hook that catches people's attention and persuades them to buy in. Sixth, frame it in a strategic context.

When you craft a compelling "Why," you create a dialogue that draws people into the cause. They become motivated and can't wait to start making it happen.

Making the "What" Clear

Once you have communicated the "Why," you can prepare to talk about the "What."

Making the "What" clear involves three discussions: communicating the expectation you have formed, clarifying the boundaries and establishing available support.

Understanding the boundaries up front can help everyone avoid unpleasant surprises and costly mistakes. Making sure that people are not inhibited by boundaries that don't really exist may be as important as spelling out those that do. Defining boundaries builds and sustains trust by clarifying important aspects of the "how," removing imagined boundaries that can serve as obstacles, and giving people a greater sense of freedom. The boundaries conversation also allows you to manage the natural human tendency to allow "scope creep," an expansion of a task that can cause people to lose focus on delivering what you really want.

The next discussion speaks to the support available to those who must deliver on the expectation. The support discussion should clarify exactly what support people can count on.

When people know about available support, including your encouragement to seek input on what more they can do to overcome obstacles, they can save you time and money in the long run by more easily and quickly fulfilling your expectations.

Making the "When" Concrete

With the "Why" and the "What" clarified, you can set about framing your expectations in terms of time. You should attach a "by-when" to every key expectation. Never assume that people grasp the urgency of a particular expectation.

Creating an environment in your team, your department, your entire organization and even with outside stakeholders, where concrete deadlines really matter, greatly facilitates everyone's ability to deliver on expectations.

Implemented effectively, Why-What-When puts in your hands a powerful tool that sets the stage for getting people aligned with what you want to accomplish. Alignment is essential to the fulfillment of key expectation and getting results. ●

Align Expectations

There are different levels of alignment. The highest level, the level that brings full ownership and personal investment is "Complete Alignment." All other levels, with their lower levels of buy-in, fall into the category of "Complyment."

Complyment occurs when people decide to move together toward a destination, not because they agree with the course of direction, but because they have determined that moving forward and complying with what you want them to do will satisfy their own best interests.

In contrast, Complete Alignment brings people to a level of agreement where they believe in and completely commit themselves to fulfilling expectations. Not only does Complete Alignment energize people in a way that engages their hearts and minds to deliver on expectations, it ignites a chain reaction, because the presence of completely aligned people improves everyone else's alignment.

Complyment may "get it done," but Complete Alignment gets it done better.

The Alignment Dialogue™

The Alignment Dialogue eliminates the danger mere Complyment poses to key expectations. Consisting of three simple steps, this dialogue helps you determine the current level of alignment (or Complyment) and what else you can do to gain Complete Alignment.

Step One: Score It. Restate the expectation, agree to use the Alignment Dialogue and then have people rate their alignment with this key expectation on a scale of 1-10.

Step Two: Evaluate It. Determine what else is needed by asking: Is it clear? Is it achievable? Is it needed? Is it linked?

Step Three: Resolve It. Resolve concerns and confirm the original expectation or revise using Why-What-When.

You will find the power of persuasion especially valuable in situations where you are trying to create Complete Alignment around key expectations. Certainly, you could just "require" everyone to fall into line and, most likely, they would. But you can't require them to get excited, to buy in enthusiastically, to bring their utmost creativity to the undertaking. You must earn that and the best way is through the power of persuasion.

Alignment with challenging expectations often requires a discussion of the "How." This does not mean telling people exactly what to do. It simply means hearing their concerns about "How" they will get it done and helping them see that they can figure it out for themselves.

People's ability to get aligned with a specific expectation depends, to a large extent, on how overloaded with work they feel. You should routinely explore how well people are "keeping up" with the work.

If you want to ensure Complete Alignment all along the Expectations Chain, you must consider the weakest links in the chain and engage in Alignment Dialogues at all crucial points in the path. ●

Inspect Expectations

The last crucial step in the Outer Ring of the Accountability Sequence is: Inspect What You Expect.™

During the inspection step, people clearly begin to see accountability at work. As you begin to inspect how closely expectations are being fulfilled, people begin to validate that you are entirely serious about holding them accountable. At the same time, you manifest your own accountability and your personal dedication to doing everything you can to get the result.

Forming an expectation around how you will inspect, communicating that expectation using Why-What-When and ensuring you have alignment about doing it will help get everyone invested in the inspection process.

You can maintain alignment best through an ongoing series of checks — and not just a onetime dialogue — through Alignment Meetings.™ The inspection process affords opportunities to check for that alignment and make sure everyone remains on the same page, thus allowing you to correct any misalignment before things

get too far off track.

Rather than a "test" to see if people are doing what you asked and will deliver what you need on time, the inspection should function as a "check-in" to discuss progress, problems and solutions.

Facilitating solutions means providing coaching, mentoring, training and resources that can help move things along and make people successful. Ultimately, your people are accountable for figuring it out and succeeding, but your ability to help that process along can often make the difference between success and failure.

While good managers keep their eyes open for weaknesses, threats or potential risks, the best ones do so within the context of observing and reinforcing progress. Smart managers know that every time they hold someone accountable they are, in essence, holding the entire organization or team accountable. ●

The Inner Ring®

Sometimes even the most painstaking efforts to Form, Communicate, Align and Inspect your expectations cannot prevent disappointment. That's when you move into the Inner Ring of the Accountability Sequence and implement its strategies for dealing with any surprises.

Skillfully managing unmet expectations is a characteristic of any organization that enjoys or aspires to greatness. The idea that a business can improve performance, and even achieve greatness, by eliminating nonperformers who may require too much effort to turn around may tempt frustrated and busy managers, but it does not always make sense. Sometimes it makes much more sense to invest a similar amount of time and energy in helping people become successful, thus rendering it unnecessary to let them go.

The Reality Window®

When it comes to holding people accountable and managing unmet expectations, accurately diagnosing the problem so that you can do something about it requires a clear sense of reality; it requires you *to see things as they really are*.

But what is reality? The *Phantom Reality*™ is an inaccurate description of how things really are. The *Reality* is an accurate description of the way things really are. The *Desired Reality* is what you want to have happen.

Perform a Reality Check by asking yourself some simple questions aimed at determining whether you are seeing reality or laboring under the influence of a Phantom Reality. These questions might include: "Am I ignoring or discounting the obvious?" or "Have I made a false assumption that may come back to hurt us later on?"

Asking these questions from time to time to test the validity of your assumptions, and getting everyone else to do it as well, will help you recalibrate your activities in order to keep from wasting valuable time, energy and resources.

Solving Unmet Expectations

To manage unmet expectations and get people back on the right track, you must provide more training and/or more motivation.

Often, organizations are populated by talented people who are anxious to succeed and want to be a part of an enterprise that makes a difference in the world, but who, for some unknown reason, just do not deliver the results. They are willing and they are able, but they either lack accountability or are operating in a culture ("the way we do things around here") that hurts their chances of succeeding.

The four variables of motivation, training, culture and accountability, provide direction and clarification to those who hold others accountable. They make up the Inner Ring Solutions and are fundamental to the Accountability Conversation that allows you to deal effectively with people who are falling short on expectations, whether they report to you or not.

When you deal with unmet expectations, you can choose one of three courses of action: One, you can lower the expectation to accommodate people who are not delivering; two, you can replace those people; or three, you can engage them in the Accountability Conversation with an eye toward helping them produce the results you want through the Expectations Chain.

Key to solving unmet expectations in the Inner Ring are the three steps of the conversation: Make sure the problem is not on the Outer Ring; select an Inner Ring Solution and use the Outer Ring to implement the plan. ●

Examine Motivation

While there are times when it may prove difficult to isolate the one variable that has led to the disappointment, in certain cases you may quickly spot lack of motivation as the primary culprit.

Consciously and deliberately enrolling people in the cause can greatly influence their motivation to rise up and meet expectations.

What more can you do? To capture the hearts and minds of people in your Expectations Chain you can

master four simple steps: Define It, Sell It, Advocate It and Celebrate It.

Define It means crafting a compelling story that captures people's imaginations and inspires them to achieve the objective. A compelling story creates context and gives people a vehicle they can use to readily pass the information on to others in a powerful and persuasive way.

Sell It means becoming a storyteller with the objective of persuading people to buy into the cause. Selling it means answering the "why" questions. You need to address the "whys" behind the task in a way that speaks to your particular audience. (Why is it important? Why me — and not someone else? Why now? Why do it this way? Why would I want to do this?)

Advocate It means continuing to support the cause publicly, reinforcing the story with additional supporting evidence, and telling and retelling the story over time.

Celebrate It means publicly acknowledging success. You should not only praise people for achieving the ultimate goal, but you should also reinforce all the progress made along the way. ●

Evaluate Training

The second of the Inner Ring's four solutions is targeted training. If you suspect that people are failing to meet expectations because of a deficiency in training, then, ideally, you will want to provide training that not only addresses the current problem, but also increases the capability of everyone in the Expectations Chain to deliver over the long term.

Most organizations struggle to recruit and retain the right amount of talent. Even if they succeed in doing so, they still must equip that talent with the direction and development required for focusing their efforts in a way that produces desired results.

Whether you have recruited the right talent or not, you should make developing capability and skill throughout your Expectations Chain a top priority. Countless organizations have infused their own Expectations Chains with targeted training that has turned around performance and reversed downward trends.

Training Triggers

If you decide that you can best solve unmet expectations with a training solution, you will first want to identify the level of intervention needed to help others succeed. There are four levels of training intervention, each dependent on two factors: how much effort it will take to improve the performance of those who need training and how often they fail to deliver results.

Level One requires coaching to the Problem. The person generally performs well and only occasionally fails to deliver. Such a situation triggers a training intervention you can implement quickly.

Level Two requires coaching to the Pattern. You detect a more consistent pattern of missed deliveries; you need to invest more time and effort in the training.

Level Three requires coaching to the Performance. A serious pattern of problems persists, making it clear that the person will never succeed without developing much greater capability. Applying training at this interim level can produce a payoff, albeit not always an immediate one. A person at this level may need off-site formal schooling, training courses offered by professional groups and a lot of after-hours studying.

Level Four requires coaching to the Placement. This includes those who have not responded at all to your attempts to develop and train them. Their continued missed delivery triggers the only solution left: coaching to placement. You can place them in another job better suited to their abilities or you can counsel them out of the organization.

The training triggers enable you to think through what it will take to help others succeed, and they stimulate others to identify their own developmental needs. ●

Assess Accountability

Accountability is not something that happens to you when things go wrong, but something that you should continually embrace with every new task. The truly accountable person doesn't ask "Who can I blame for this problem?" but "What else can I do to achieve the result?" The principle of positive accountability enables people to rise above their circumstances and overcome the obstacles they face.

The Oz Principle (also written by Connors and Smith) defines accountability as "a personal choice to rise above one's circumstances and demonstrate the ownership necessary for achieving desired results — to See It®, Own It®, Solve It® and Do It.®"

Managing the Accountability Current

An Accountability Current flows in every organization and through every Expectations Chain. The current is the directional flow of accountability and identifies where the accountability originates and the direction it moves.

Top-down accountability keeps everyone at the top of

the Expectations Chain busy trying to regulate all the important activity in the organization. What is the problem with a top-down flow? Everyone below the top may feel as if they must obey orders or suffer the consequences.

While the bottom-up approach requires a greater investment of time up front, it pays off handsomely in the long run because when people invest themselves in accountability, those at the top of the chain will expend far less energy and effort sustaining a results-producing effort throughout the organization.

When an Accountability Current flows in a bottom-up direction, people take accountability and proactively report to their boss, their teammates and their peers. Follow-up becomes a natural, ingrained habit.

With a bottom-up flow, people at all levels in the Expectations Chain hold everyone upon whom they depend accountable. This includes the people to whom they report, the people who report to them, peers, customers, vendors, suppliers and all other stakeholders. This is 360° Accountability.® ●

Consider Culture

Sometimes you can attribute unmet expectations to problems with an organization's culture.

Since an organization's culture can either help or hinder people as they work to fulfill expectations, learning to recognize the symptoms of a cultural malady will set you on a path toward curing it.

The first step toward strengthening your company's culture requires an accurate appraisal of just how and why people have come to think and act in unproductive ways.

The Results Pyramid®

The Results Pyramid model identifies how and why people draw conclusions about what to do and what not to do in their daily work.

Results. At the top of the pyramid are "Results." Accountability begins by clearly defining the results you want. With specific results in mind, you can ask yourself, "What are the actions people must take to produce those results?"

Actions. The next level, "Actions," might include a list of considerations like taking more initiative, searching for innovation, cutting costs, reducing cycle time, hiring and training the needed sales staff, thoughtfully planning the product launch or learning how to work in a dedicated team environment filled with highly skilled and trained colleagues.

Beliefs. The next level of the pyramid prompts you to ask: "What are the beliefs people must hold to drive those actions?"

Experience. Finally, there's the foundation of the pyramid and the key question, "What are the experiences people must have to form those new beliefs?" While it is often hard to do it well, nothing helps shift a culture more swiftly than providing new experiences that reinforce new beliefs.

A Culture of Accountability®

A Culture of Accountability is "a place where people think and act, on a daily basis, in the manner necessary to develop successful solutions, find answers, overcome obstacles, triumph over any trouble that might come along and deliver results."

People in a Culture of Accountability follow through to make sure they do what they say they will do, commit themselves to getting to the truth, no matter what, and feel free to say what needs to be said. ●

Conclusion

People at every level of an organization, in every sector of the economy and in every type of business imaginable struggle with the same fundamental question: "How do I effectively hold other people accountable for results?" Experience shows that it's not an easy question to answer. However, when you get accountability right, people respond. When you get it wrong, they rebel.

The positive, principled way paves a simple, rational and fair path to getting it right, a path you can take time and time again to hold people accountable in a way that builds morale and gets results. When that happens, people willingly invest their hearts and minds to meet and exceed expectations and deliver extraordinary results, the kinds of results that never leave you wondering, "How did that happen?" ●

RECOMMENDED READING LIST

If you liked *How Did That Happen?*, you'll also like:

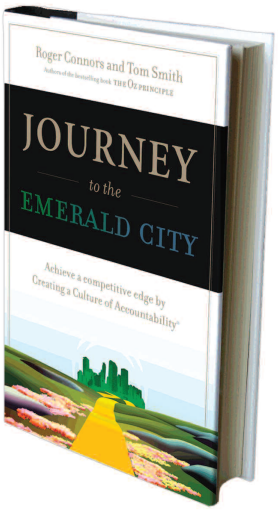
1. ***The Oz Principle*** **by Roger Connors, Tom Smith and Craig Hickman.** The groundbreaking work that demonstrated the vital role of accountability in the achievement of business results and performance improvement.
2. ***Journey to the Emerald City*** **by Roger Connors and Tom Smith.** This book takes over from ***The Oz Principle*** and describes a simple, powerful framework for understanding and changing company culture.
3. ***The Accountable Leader*** **by Brian Dive.** Centered around three themes — leadership, accountability and organizational structure — this book explores what it means for managers to be held accountable at every level.

Summary

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Journey to the Emerald City

Achieve a Competitive Edge by Creating a Culture of Accountability®



by Roger Connors and Tom Smith

THE SUMMARY IN BRIEF

An organization will perform at its highest potential if, and only if, each of its members assumes personal accountability and ownership for achieving the organization's results. When people assume personal accountability for achieving the results, powerful transformations occur: A goal becomes an *organizing principle*, a job becomes a *mission*, a task becomes a *challenge*, a company becomes a *team*, and a manager becomes a *leader*. Nothing can benefit an organization more than creating a culture imbued with this kind of ownership and accountability.

To create a Culture of Accountability you must lead people in a way that fundamentally impacts the way they think and act. Introducing The Results Pyramid® Model as the key culture management tool, co-authors Roger Connors and Tom Smith build on the foundation laid in their bestselling book, *The Oz Principle*,® by documenting exactly how leaders dedicated to needed culture change have reaped the rewards of record sales and their largest gains ever in market share, profits and stock prices.

Journey to the Emerald City, describes the process for Creating a Culture of Accountability® that energizes every level of the organization, from the senior management team to the front-line worker, and, most importantly, it outlines the best and fastest way to create that culture so that you can quickly begin enjoying the results of a greater competitive advantage.

IN THIS SUMMARY, YOU WILL LEARN:

- How to manage the cultural environment of your organization more actively.
- How to accelerate the transition to a new, more effective culture.
- Practical methods for gaining people's wholehearted commitment to achieving organizational results.
- A powerful framework for understanding and changing a company culture.

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THE COMPLETE SUMMARY: **JOURNEY TO THE EMERALD CITY**

by Roger Connors and Tom Smith

The authors: Roger Connors and Tom Smith authored the best-selling book, *The Oz Principle®: Getting Results Through Individual and Organizational Accountability*, 10th Anniversary Edition and their most recent book, *How Did That Happen? ® Holding People Accountable for Results the Positive, Principled Way*. They are also the principals and founders of the widely respected international leadership and management consulting firm Partners In Leadership, Inc. Connors and Smith both hold MBAs from Brigham Young University.

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PART ONE: UNDERSTANDING COMPANY CULTURE

Before you can change something as interwoven as organizational culture, you must first understand its components and how they work together. Effective leaders, consciously or unconsciously, manage the beliefs and actions of their people so they will produce the results that the organization must achieve. The Results Pyramid, a practical model of organizational culture, will help you accelerate desired and needed shifts in your culture.

Accelerating the Journey

Continuing the metaphor of Frank Baum's story, *The Wonderful Wizard of Oz*, used in *The Oz Principle*, the journey that every successful organization must take includes laying out a clear and simple path that accelerates any needed change in the culture of a team or organization, one that will produce the right organizational results.

Anyone who wants to work in an effective organization needs to understand that consistently achieving results — usually more and more difficult results to achieve — requires an organizational journey that channels individual and group efforts, energy, actions and thought in a targeted, precise manner.

Creating a culture that achieves an ideal level of precision is not only **obtainable**; it is **mandatory** in today's difficult economic environment.

A Company's Culture

Four central principles drive the cultural transformation from the wrongheaded ways that reinforce all the wrong messages about how someone should think and act to the ways that empower people to achieve great results:

- An organization's leader must create its culture.
- The organization's culture will create its results.
- A Culture of Accountability is the most effective culture and is defined as people at every level of the organization who feel accountable to think and act in the manner necessary to achieve organizational results.
- Accelerating the transition to a Culture of Accountability creates competitive and organizational advantage.

Culture Creates Results

An organization's culture determines the results it achieves. Since leaders should build their company's culture around targeted results, they may need to change their culture as business conditions change and they define new results for the organization.

Recognizing the link between desired results and needed culture is the first step in the journey along the path to achieving and sustaining success.

Management must accept creating the right culture as one of its most serious responsibilities. That best culture, a Culture of Accountability, requires a heightened sense of personal accountability shared by everyone at every level of the organization.

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Many managers misunderstand accountability when they rely on the Webster's dictionary definition of the term: "the state of having to report, explain or justify." But that definition only motivates *blamestorming*, an all-too-frequent corporate behavior.

A better definition of accountability is "proactively seeing the reality of a situation, personally owning the existing circumstances, relentlessly looking for ways to solve the problem and consistently following-through to make things happen before it's too late."

When that kind of accountability drives a Culture of Accountability, it greatly influences the way people think and act in order to achieve desired organizational results, and it quickly begins to propel progress and increased profits.

In a Culture of Accountability, everyone in the organization assumes a high level of personal ownership to change what needs to be changed and to do what needs to be done, even if that means a dramatic departure from past practices and behavior that once served the organization well but no longer do so.

Every organization creates its own unique Culture of Accountability, depending on the results and actions it needs to achieve its current objective and long-term mission. Knowing how to identify and accelerate the shift to that culture, is embodied in the simple and powerful Results Pyramid model.

The Results Pyramid®

The Results Pyramid model spells out the key elements and workings of organizational culture. It consists of three simple interrelated components that form the culture of any organization: ***Actions***, ***Beliefs*** and ***Experiences***, all of which work together to produce the company's culture, which, in turn, produce the company's results, the fourth and final element of the model.

Results are the outcome of the actions we take — and our actions always produce results, whether they are the results we want or not. These results appear at the very top, or point, of the pyramid.

Our actions stem from our beliefs about what we should and should not do in the organization, and our experiences, both inside and outside the organization, shape our beliefs. These experiences form the broad base of the pyramid, with beliefs, then actions, stacked above.

Hypothetically, suppose R^1 describes the results your organization is currently achieving. According to the Results Pyramid, your current Culture (C^1) produces R^1. C^1 includes the Actions (A^1) people currently take; the Beliefs (B^1) people currently hold about how to think about their work and what to do and not do in the organization; and the Experiences (E^1) that form the basis of those beliefs — real occurrences that people experience either directly or indirectly, ones that have happened years ago or just yesterday, that form their impressions about everything from how to handle a disgruntled customer to whether or not to ship a product on time.

One president of a major pharmaceutical firm liked to say to his team, "Every one of us is creating the culture of this company every day. As a manager, everything you do, everything you say, everywhere you go in the organization leaves a footprint on the culture of this place."

Each person's passage through a company will affect people in it for better or worse, every single day.

Results and Culture Change

The following four criteria will help you determine if you have a significant culture change effort in the making:

- Difficulty. If R^2 (future results) will require a lot more effort to achieve than past results, then you will probably need to make significant shifts in some aspects of your culture.
- Direction. If R^2 signals a change in direction for the organization, then this may also require significant cultural change.
- Deployment. If R^2 demands a large-scale redeployment of people or other resources, then a significant change in at least part of the culture may be necessary.
- Development. If R^2 suggests developing a new capability, then then you are likely to face a significant culture shift.

PART TWO: SHIFTING TO A NEW CULTURE

There are practical steps you can take to identify and implement the shifts that must occur in your organization. Before you can get people to embrace new culture, you must shift the four major culture components — Results, Actions, Beliefs, and Experiences.

Defining Results That Lead to Success

When managers effectively lead an organization to a new culture, they move people through a series of sig-

nificant shifts driven by the need to stop doing certain things and to start doing other things. Most management teams are working to achieve some set of future results (R^2), which represent a change from the *status quo* (R^1). Seldom can an existing Culture (C^1) achieve R^2 without changing the ways people think and act (i.e. shifting to a new Culture (C^2).

If R^2 involves an ambitious increase in revenue and margins and/or major cost reductions, you must ask yourself, "Will the C^1, produce R^2?" If not, then you must ask another crucial question, "What shifts need to occur in E^1, B^1 and A^1?"

By defining E^2, B^2, and A^2, you define the new culture, C^2, which will produce R^2.

Quite simply, a culture shift changes the way people think and act in order to achieve a new result. Once you define the new result, you can then identify and create the actions that will produce those results, the beliefs that will motivate those actions and the experiences that will foster those beliefs.

Results That Create Alignment

When beginning the shift from C^1 to C^2, you specify results that create and maintain alignment at every level of the organization. Keeping a culture aligned around results involves three steps:

Step 1: Clearly define the targeted result. Clear goals create focus. People know what they're working for, and they know when and if they succeed. They also develop a sense of what they need to do and a willingness to do what it takes to achieve a clearly defined result. Unclear goals promote cynicism. People are not fooled by managers who avoid setting clear, meaningful goals due to incompetence or a desire to dodge accountability.

Step 2: Drive the result throughout the organization. At times, management has a clear result in mind but fails to communicate it effectively or completely to everyone in the organization. For an organization to get and stay aligned around a result, everyone must recognize and understand it. They must understand what the result is and see clearly how their own work will contribute to the achievement of that result.

Step 3: Hold people accountable for achieving results, rather than for doing their jobs. Organization charts and job descriptions push people into boxes. They give people the idea that they are getting paid and using their skills to perform a defined function or set of tasks. This can lead people to believe that if they perform their functons they've done what they're supposed to do, whether or not the result was achieved. Effective leaders manage their people so that their "job" is to achieve results. The daily activities that comprise people's jobs must align consistently with the targeted results.

If you take these three steps and actively foster a sense of personal accountability for the results you want to achieve, you will have taken a major stride in the journey toward Creating a Culture of Accountability, where everyone holds everyone accountable for results. ●

What About Backsliding?

Behaviors do not change overnight. Some people will comprehend and act on the new set of beliefs more quickly and effectively than others. Yet even those people may backslide from time to time.

Clear and constant feedback will go a long way toward curbing any tendency to revert to old behaviors, while at the same time helping people a maintain a high level of buy-in and follow-through with respect to the new behaviors. That's the only way you can confidently change the way people think.

And changing the way people think is what culture shifts are all about. If you want to shift your culture quickly and effectively, work with the bottom of the pyramid — Beliefs and Experiences!

Generating Action That Gets Results

Accelerating a shift in the way people act requires a clear understanding of what you need to stop doing, what you need to start doing, and what you need to keep doing. Determining these actions will help you identify what you need in C^2. When doing so, you should ask yourself, "How will your ability to achieve R^2 results be compromised if we do not generate the stops and starts on our list?" The answer to that question will enhance your motivation to make the right things happen.

If you think this sounds easy, think again. It is tempting to think that management can list everything that people need to stop doing, start doing, and continue doing and feel that they have achieved a level of definition necessary to enact a culture change. It may be a good start, but it is not enough to generate action that gets results and will accelerate the culture change.

Figuring out and staying focused on what to start,

what to stop, and what to keep doing requires vigilance and hard work.

Management must create an environment in which people at all levels continually ask themselves, "Given the results we are seeking, what should I stop, start and continue doing?" This approach will create the necessary ownership not only for determining the right answers, but also for buying-into and following-through on doing whatever it takes to achieve the results. ●

Identifying Beliefs That Produce Action

Organizational culture is comprised of a system of beliefs. You can't come up with just one belief, promulgate that belief and expect it to motivate the right actions. Rather, you need a set of beliefs that work together as a system.

Every company must go through its own journey of self-discovery in order to understand its current beliefs and to develop new, needed beliefs. One useful product of that process is a Beliefs Statement, which every company should develop before undertaking a culture shift.

Shifting Beliefs

Every organization operates with a set of commonly shared beliefs about how the organization functions, what people should and should not do, and how they should and should not do it. Shifting those beliefs boils down to changing how people would describe "the way things are done around here." If you can accelerate the transition from B^1 to B^2, you will more quickly shift the accompanying actions people will take all across the organization and obtain the competitive edge you seek. In a nutshell, successful cultural transition hinges on shifting beliefs.

Creating the Road Map: A Cultural Beliefs® Statement

Consider the last new hire in your organization and imagine that you could script what people would say to this newcomer during a get-together at lunch on their first day. The recruit asks, "How do things really work around here?"

What would you want your veterans to say to this new employee? What are they saying? Do they offer views that describe behavior you need people to stop demonstrating all throughout the organization, or do they state shared beliefs that describe the actions you need people to start taking today?

Management teams dedicated to accelerating a needed cultural shift capture the beliefs they need people to hold, the beliefs they need people to share with every "new hire." A clear, concise and compelling Cultural Beliefs® Statement can make that happen — a cultural road map for how you need people to think and act in order to get the desired R^2 results.

No one person crafts a good Cultural Belief Statement. Rather, it is the product of group interactions in which the management team describes the key B^2 beliefs that the organization needs to create. The statement may also include any key beliefs that already exist in the organization that must remain in place to perpetuate your success. It must, however, capture what will propel your organization, department, group, or team to progress toward R^2 results. ●

Creating Experiences That Instill the Right Beliefs

Of course, culture change involves much more than merely crafting and distributing a Belief Statement. Real change requires that leaders (and eventually everyone in the organization) create experiences aimed at shifting, creating or maintaining desired beliefs. Experiences, more than anything else, convince people of the power and validity of beliefs.

Effective leaders create useful, consistent, powerful experiences for people at all levels in the organization. Managers who cannot do so invariably find themselves at the mercy of their culture, particularly when the going gets rough. *Manage your culture, or it will manage you.*

Four Types of Experiences

To transform an organizational culture or to add new elements to a fairly solid one, you need to start creating new experiences consistent with desired beliefs.

Not all experiences are equal. Many leaders attempting major culture shifts have found that, at first, the experiences they created did not change people's beliefs. With a little coaching, however, they learn to appreciate the four basic types of experiences, each of which impacts results differently:

- **Type 1:** A meaningful event leading to immediate insight. Type-1 Experiences are so clear they need no interpretation in order to foster desired beliefs.
- **Type 2:** An experience that needs to be interpreted in order to form the desired beliefs.
- **Type 3:** Experiences that will not have an impact on prevailing beliefs because people perceive them as insignificant.

- **Type 4:** Experiences that people will always misinterpret, regardless of the quality of the explanation that is given.

To help people shift their thinking and adopt new B^2 beliefs, you must generate Type-1 and Type-2 experiences.

Type-1 Experiences establish beliefs powerfully and unmistakably. Most cultural shifts require several of these. In reality, you will undoubtedly create quite a few Type-2 Experiences, which require careful interpretation. If you provide accurate and convincing interpretations, your people will learn what they need to learn from those lessons.

PART THREE: ACCELERATING CULTURE CHANGE

There are some proven tools and practices that can enable you as a leader to consciously accelerate the cultural transition and focus effort to speed the journey. Leadership is the act of managing the culture and accelerating the change. Leaders can successfully make the shift happen when they use the right tools.

Using Focused Feedback® to Accelerate Change

Focused, ongoing feedback is a tool that can speed your organization to a new, more effective culture, provided you relay the right kind of feedback and use it well. To accelerate culture change, you must give frequent, focused and unfiltered feedback.

Frequent means daily, continual and ongoing.

Focused means concentrating on the beliefs the organization has agreed to adopt and the results it has committed to achieve.

Unfiltered means adopting an inviting posture to help people remain open to feedback.

You must take great care to give and ask for feedback the right way. When you ask for and offer reinforcing and constructive feedback, people will willingly and are even eager to correct any shortcomings. Such feedback emphasizes both what is working and what could be working better.

Ask for feedback by saying, "What feedback do you have for me?" and when you receive some say, "Thanks for the feedback!".

Evaluating Feedback

When evaluating the feedback you receive, always ask yourself, "Is this a belief I want people to hold?" and "If people do hold that belief, how will it affect their actions and our results?" Seek input from others objectively.

Feedback is simply the belief someone is holding — it's input, information, a point of view, and someone's honest opinion about what they believe. If that belief motivates the behavior and actions the organization needs, great. If it doesn't, then you need to work to change the belief that person holds, rather than deny its existence or punish the person who holds it.

Feedback is a tool for accelerating culture change only when people act on it. By employing feedback within the context of the Cultural Beliefs, you can help people gain a clearer sense of how they are demonstrating those beliefs and what they can do to further demonstrate them. In this way, they can adjust the experiences they create in a way that accelerates the transition to a Culture of Accountability.

Aligning a Culture for Rapid Progress

Organizational success depends a lot on creating and maintaining alignment during any organizational effort, especially when you are trying to effect a cultural transition. Because so many forces conspire to push the organization out of alignment, leaders must continually pay attention to alignment.

Effective leaders consider four levels of ownership and alignment:

- **Buy-In/Invest.** This top level represents a high degree of ownership; they are intellectually and emotionally committed.
- **Comply/Concede.** People intellectually disagree with or are uncertain about the endeavor, but they are emotionally invested enough to take action.
- **Exempt/Excuse.** People agree intellectually but do not involve themselves emotionally.
- **Resist/Resent.** People disagree intellectually and remain emotionally uninvolved with the course of action or desired result.

The strongest alignment occurs when people operate at the highest Level of Ownership, buy-in/invest. While a large percentage will reside in comply/concede, and that may be sufficient to get some things done, leaders should help all the people move to one of the top two Levels of Ownership. This will make the difficult task of culture change achievable by helping them understand the change

and getting them involved in it.

When people buy-in and invest, they engage their hearts and minds in the change effort and actively promote it. Their efforts will range from supporting or advocating the change to championing or even sponsoring it.

The Alignment Process

A reliable alignment process incorporates five key elements:

1. **Participation.** The appropriate people are involved. You need the right people engaged. You must help them to understand their roles.
2. **Discussion.** All participants are heard prior to reaching or implementing a decision. The participants need to understand that they are there to offer counsel, their advice, input, views and the benefit of their experience.
3. **Ownership.** All participants actively promote the decision.
4. **Communication.** The "message" regarding the decision is consistently communicated to all appropriate individuals.
5. **Follow-Up.** All participants follow-up to ensure alignment is maintained.

When cultural transitions or other major business initiatives do not succeed, you will often find that lack of alignment often contributed greatly to the failures. At some point, most often at the ownership or communication stages, a breakdown occurred. On the other hand, when management properly applies all five elements, the chances of accomplishing a shift to C^2 increase dramatically. ●

Employing Leadership to Move the Change Forward

The philosopher Georgi Ivanovitch Gurdjieff observed that most of us "sleepwalk" through life. When it comes to creating culture, many managers look like "sleepwalkers," and, for that matter, "sleeptalkers" as well.

If leaders move unconsciously through the organization, not paying attention to the experiences they create with both their words and actions, then they most likely will not create experiences that fuel a robust and effective corporate culture; but will create experiences interpreted by the organization in ways that actually undermine their goals and objectives for the organization.

Leaders, consciously or not, create experiences every

One Company's Belief Statement

DECISION MAKING	I step up to the plate and make decisions I should make and I take accountability for the results.
PEOPLE ORIENTATION	I treat customers, employees and suppliers as I want to be treated — with honesty, courtesy and respect.
COACHING AND FEEDBACK	I invest time seeking, understanding and giving honest feedback to people I work or associate with.
PURPOSE AND DIRECTION	My daily activities are aligned with the purpose and direction of our organization.
INVOLVE AND SHARE	I look everywhere to involve the right people, inside or outside my unit, in developing and implementing the best ideas and solutions.
CUSTOMER FOCUS	I seek to understand and to meet or exceed customer expectations 100 percent of the time.
COMMUNICATION	I communicate what's going on and why within my area of responsibility so that all people hear the same message.
OWNERSHIP	I own my budget. I focus my priorities to exceed my budget regardless of the obstacles that come up.
ACCOUNTABILITY	I operate Above the Line® by seeking opportunities to accept challenges and solve problems, realizing that I own the responsibility for the outcome.

(figure 5-7, from page 116, Journey to the Emerald City)

day, and these experiences can propel or derail their effort to establish a culture of high-achievement by either reinforcing the desired culture or not. Will you unconsciously create the wrong ones and court failure, or will you consciously create the right ones and enjoy unprecedented success?

A Methodology for Creating Experiences

Leaders take on a real challenge when they set about to create experiences that will facilitate a change to C^2: demonstrating the new beliefs in a way that fully enrolls people in the new culture who are steeped in C^1. Fortunately, they can do it relatively quickly with a proven methodology that opens up just the right kind of dialogue. That dialogue leads to the E^2 Experiences needed to reinforce B^2 Beliefs.

Modeling beliefs, that is, practicing what you preach and creating experiences that promote C^2 Culture, will come more easily to some managers than it will to others. Leaders who openly work on shifting the experiences they create, turn themselves into accelerators of change.

People find it powerful when leaders themselves shift. Leaders who do this well position themselves to help others make even the most difficult shifts and live the Cultural Beliefs. ●

Enrolling the Entire Organization in the Transition

Few culture change tasks prove more daunting than enrolling the whole organization in the change in a way that speeds up the transition, particularly for a company with multiple functions, locations, divisions and, perhaps, multinational operations.

Nine rules for accomplishing large-scale culture change and accelerating the transition will serve such organizations well:

1. Use an integrated process.
2. Start a dialogue with the organization.
3. Allow for subcultures.
4. Start at the relative top.
5. Work with intact teams.
6. Create a process control.
7. Apply the change globally.
8. Assist the walking wounded.
9. Align organizational systems.

In any large-scale change the challenge is to get everyone on board. When you have strong subcultures, foreign operations, or low morale, that challenge becomes even greater. Using at least several of these practices will accelerate your company's transition to the new culture.

No one in business today, or in any other endeavor, believes that organizations will be able to stop changing. In fact, the need for change can only increase.

Culture change happens one person at a time. You accelerate a change in the culture when you engage the hearts and minds of everyone in the endeavor and they begin to ask themselves: What are the results that are most important to achieve? How must I think and act in order to produce them? What do I want those around me to believe about how they need to think and act? How can I create experiences that foster those beliefs? Of course the process begins with you.

Managers get results through others. Yet they cannot simply ask or order people to take the actions they should. Instead, they must lead people to do them. Leading people, in the true sense of the team, means creating experiences that reinforce a Culture of Accountability. There is no power like the power of people who assume personal accountability for achieving a collective goal.

The process of creating and accelerating the shift to a Culture of Accountability is not an ambiguous or magical process that defies explanation. It results from taking the steps that engage everyone in the organization to live the beliefs, create the experiences and perform the actions that will produce results.

Creating this level of ownership and participation will certainly speed you on your way to a destination abundant with the results you now seek. ●

Methodology for Creating Experiences

Use these five steps to accelerate a shift in beliefs:

Step One: Identify the belief you need to change.

Step Two: Tell people the belief you want them to hold.

Step Three: Describe the experiences you're going to create for them.

Step Four: Ask for feedback on the planned experience.

Step Five: Enroll others in giving you feed back on your progress.

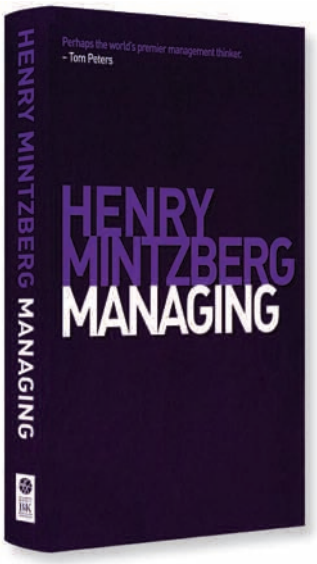
Summary

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Management: Hands-on

Managing



by Henry Mintzberg

THE SUMMARY IN BRIEF

Managers are idolized like few others in society. Newspapers are filled with stories about their exploits and the shelves of bookstores are teeming with books for their edification. We try hard to train huge numbers of students in MBA programs to become managers. Yet we know surprisingly little about what management means and what it means to be a manager.

In *Managing*, management expert Henry Mintzberg sets out to recover the essence of managing. Mintzberg observed 29 different managers at work in vastly divergent fields and settings, ranging from a refugee camp to a symphony orchestra. What he saw — the unrelenting pace of the job, the frequent interruptions, the dizzying variety of activity and the fact that e-mail now makes it all worse — led Mintzberg to develop a new model, one grounded in the fact that management is neither a profession or a science, but a *practice*.

Managing is vintage Mintzberg: iconoclastic, irreverent, carefully researched and mythbreaking. He considers the intense dynamics and untold variety of the job of managing, as well as its inescapable conundrums, and how managers become more effective. His objective is straightforward. Managing is important for anyone affected by its practice, which in our world of organizations means all of us. We need to understand it better, in order for it to be practiced better.

IN THIS SUMMARY, YOU WILL LEARN:

- Are leaders really more important than managers?
- Where has all the judgment gone?
- Has management style been over-rated?
- Is e-mail destroying management practice?
- How are managers supposed to connect when the very nature of their jobs disconnects them from what they are managing?

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THE COMPLETE SUMMARY: **MANAGING**

by Henry Mintzberg

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Managing Ahead

Konosuke Matsushita, who founded the company that carries his name, claimed, "Big things and little things are my job. Middle level arrangements can be delegated." In other words, leadership cannot simply delegate management; instead of distinguishing managers from leaders, we should be seeing managers as leaders, and leadership as management practiced well.

By putting leadership on a pedestal separated from management, we turn a social process into a personal one. No matter how much lip service is paid to the leader empowering the group, leadership still focuses on the individual. Whenever we promote leadership, we demote others, as followers. Slighted, too, is the sense of community that is important for cooperative effort in all organizations. What we should be promoting instead of leadership alone are communities of actors who get on with things naturally, leadership together with management being an intrinsic part of that.

Managing as a Practice

It is time to recognize that managing is neither a science nor a profession; it is a practice, learned primarily through experience and rooted in context.

Science is about the development of systematic knowledge through research. That is hardly the purpose of management, which is about helping to get things done in organizations. Management is not even an applied science, because that is still a science. Management certainly *applies* science: managers have to use all the knowledge they can get. And they certainly use analysis, rooted in the scientific method (meaning here scientific proof more than scientific discovery).

But effective managing is more dependent on art and is especially rooted in craft. Art produces the "insights" and "vision" based on intuition. And craft is about learning from experience — working things out as the manager goes along.

Thus, managing can be seen to take place within a triangle when art, craft and the use of science meet. Art brings in the ideas and the integration; craft makes the connections, building on tangible experiences; and science provides the order, through systematic analysis of knowledge.

Most of the work that can be programmed in an organization need not concern its managers directly; specialists can do it. That leaves the managers with much of the messy stuff — the intractable problems, the complicated connections. This is what makes the practice of managing so fundamentally "soft," and why labels such as experience, intuition, judgment and wisdom are so commonly needed to describe it. Put together a good deal of craft with the right touch of art alongside some use of science, and you end up with a job that is above all a *practice*. There is no "one best way" to manage; it depends on the situation.

Not a Profession

Little of management practice has been reliably codified, let alone certified as to its effectiveness.

Because of their codified knowledge, engineering and medicine must be learned formally. And so the trained expert can almost always outperform the layperson. Not so in management. Few of us would trust the intuitive engineer or physician, with no formal training, yet we trust all kinds of managers who have never spent a day in a management classroom.

The patient does not argue with the surgeon or, for

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

that matter, the surgeon with the molecular biologist. In their own domain, each knows better. But managers who believe they know better get in the way of their practice, because it has to be largely one of facilitation. The manager, by the definition used here, is someone responsible for a whole organization or some identifiable part of it (which, for want of a better term, shall be called a *unit*).

Bringing Out the Best in Other People

To use that old saying, attributed to Mary Parker Follett in the 1920s, managers get things done largely through other people — those in the unit who formally report to them as well as others around it who do not. Managers have to know a lot, especially about their specific contexts, and they have to make decisions based on that knowledge. But especially in large organizations and those concerned with "knowledge work," the manager has to help bring out the best in other people so that *they* can know better, decide better and act better.

Is there something professional about the manager who treats his or her practice nobly, responsibly? Something important, yes, but let's not mix up acting responsibly with practicing a profession. Instead, let's recognize management as a *calling*, and appreciate that efforts to professionalize it and turn it into a science undermine that calling. ●

The Dynamics of Managing

If we wish to make significant headway in improving the practice of managing, we need to bring the covert reality in line with the overt image.

Folklore: *The manager is a reflective, systematic planner.*

Facts: Study after study has shown that (a) managers work at an unrelenting pace; (b) their activities are typically characterized by brevity, variety, fragmentation and discontinuity; and (c) they are strongly oriented to action.

No matter what they are doing, managers are plagued by what they might do and what they must do. To be superficial is an occupational hazard of managerial work, certainly compared with the specialized work most managers did before they went into this job. To succeed, managers have to become proficient at their superficiality.

Folklore: *The manager depends on aggregated information, best supplied by a formal system.*

Fact: Managers tend to favor informal media of communication, especially the oral ones of telephone calls and meetings, also the electronic one of e-mail.

Unlike other workers, the manager does not leave the telephone, the meeting or the e-mail to get back to work. These contacts are the work. The ordinary work of the unit or organization — producing a product, selling it, even conducting a study or writing a report — is not usually undertaken by its manager. The manager's productive output has to be gauged largely in terms of the information he or she transmits orally or by e-mail.

Folklore: *Managing is mostly about hierarchical relationships between a "superior" and "subordinates."*

Fact: Managing is as much about lateral relationships among colleagues and associates as it is about hierarchical relationships.

We might characterize the manager's position as the neck of an hourglass, sitting between a network of outside contacts and the internal unit being managed. The manager receives all kinds of information and requests from insiders and outsiders, which are scanned, absorbed and passed on to others, again both inside and outside the unit.

Folklore: *Managers maintain tight control — of their time, their activities, their units.*

Fact: The manager is neither conductor nor puppet: Control to the extent possible tends to be covert more than overt, by establishing some obligations to which the manager must later attend and by turning other obligations to the manager's advantage.

The effective managers seem to be not those with the greatest degrees of freedom but the ones who use to advantage whatever degrees of freedom they can find. In other words, these people do not just *do* the job; they *make* the job.

The Impact of the Internet

The advantages of the Internet are evident and quite astonishing. Managers can keep in current touch with people all over the world in ways that used to be unthinkable. They can also share large amounts of information with a great many people. These advantages enable them to greatly extend their informational networks and rather easily conduct their affairs across the globe.

It is important to note that this new medium remains thin. Like conventional mail, e-mail is restricted by the poverty of words alone: There is no tone of voice to hear, no gestures to see, no presence to feel — even images can be a nuisance to create. E-mail may simply limit the user's "ability to support emotional, nuanced and complex interactions." Managing is as much about all these things as it is about the factual content of the messages.

The danger of e-mail is that it may give a manager the impression of being in touch while the only thing actually being touched is the keyboard.

The Internet may be enhancing networks while weakening communities, within organizations as well as across them.

E-mail increases the pace and pressure of managing, and likely the interruptions as well.

The Lateral Nature of the Job

People who report to a manager are few and fixed, in contrast to the network of people outside the unit that is far larger and potentially unlimited. So this new medium that makes it so easy to establish new contacts, and to keep "in touch" with the ones already established, likely encourages the extension of managers' external networks at the expense of their internal communication.

The Internet may be driving much management practice over the edge, making it so frenetic that it has become dysfunctional: too superficial, too disconnected, too conformist. Perhaps the ultimately connected manager has become disconnected from what matters, while this overactivity is destroying the practice of managing itself.

A Model of Managing

A new model of managing puts the manager in the center, between the unit for which he or she has formal responsibility (by definition) and its surroundings, of two kinds: the rest of the organization (unless the manager is chief executive, responsible for the entire organization), and the outside world relevant to the unit (customers, partners, etc.).

The overriding purpose of managing is to ensure that the unit serves *its* basic purpose, whether that be to sell products in a retail chain or care for the elderly in a nursing home. This, of course, requires the taking of effective *actions*. Mostly other people in the unit do that, each a specialist in his or her own right. But sometimes a manager gets close to this *action*, as when Jacques Benz, Director-General of GSI, joined the meeting of a project team that was developing a new system for a customer.

One or Two Steps Back

More commonly, however, the manager takes one or two steps back from the action. One step back, he or she encourages other *people* to take action — the manager gets things done through other people by coaching, motivating, building teams, strengthening culture and so forth. Two steps back, the manager gets things done by using information to drive other people to take action. He or she imposes a target on a sales team or carries a comment from a government official to a staff specialist. Managing takes place on three *planes*, from the conceptual to the concrete: *with information, through people and to action directly*.

Two roles are being performed on each plane. On the information plane, managers *communicate* (all around) and *control* (inside). On the people plane, they *lead* (inside) and *link* (to the outside). And on the action plane, they *do (*inside*)* and *deal* (outside). Also, within their own heads, managers *frame* (conceive strategies, establish priorities, etc.) and *schedule* (their own time).

The Person in the Job

Positioned in the center of the model is the manager, who personally carries out two roles in particular: framing and scheduling.

- **Framing the Job.** Managers frame their work by making particular decisions, focusing on particular issues, developing particular strategies and so forth to establish the context for everyone else working in the unit.
- **Scheduling the Work.** Scheduling is important because it brings the frame to life, determines much of what the manager seeks to do and enables him or her to use whatever degrees of freedom are available.

Managing Through Information

We now turn to the three planes on which managing is manifested, beginning with that of information. To manage through information means to sit two steps removed from the ultimate purpose of managing: Information is processed by the manager to encourage other people to take the necessary actions.

Two main roles describe managing on the information plane: one labeled *communicating*, to promote the flow of information all around the manager; and the other labeled *controlling*, to use information to drive behavior mainly within the managed unit.

Managing With People

To manage *with* people, instead of *through* information, is to move one step closer to action but still to remain removed from it.

On this plane, the manager helps other people make things happen: *They* are the doers.There are two managerial roles on the people plane: *leading* people within the unit and *linking* to people outside it.

Managing Action Directly

If managers manage through information — concep-

tually, from a distance — and with people — closer, personally, with affect — then on a third plane they manage action directly: more actively and concretely. What does it mean for a manager to be a doer? Doing in the context of managing usually means *almost* doing — that is, getting close to the taking of action: managing it directly, rather than indirectly by encouraging people or processing information. So the manager as "doer" is really the person who "gets it done."

Key here is that the manager's involvement is not passive. This is not about sitting in an office and giving orders or making judgment on those actions. Nor is it about designing strategies, structures and systems to drive other people. All of that is controlling. In the doing role, the manager gets personally involved in those actions, "hands-on": he or she becomes part of the designing of actions that change the unit's output.

Well-Rounded Managing

We don't need people-oriented, information-oriented or action-oriented managers; we need managers who operate on all three planes. Only together do all these roles on all three planes provide the balance that is essential to the practice of managing.

Effective managers do not exhibit perfect balance among the roles; they tilt toward certain ones, even if they cannot neglect the others. Over time, managing has to function in a *dynamic* balance.

The Untold Varieties of Managing

Spend a few hours with a variety of managers and you will likely be struck by how varied this job can be. Managing is almost as varied as life itself, because it is about so much that happens in life itself.

The External Context

Every managerial job is situated in some external context, which can be taken to mean its cultural milieu, its sector in general and its "industry" in particular.

Industry influences managing most where it gets close to the production of products and the delivery of services. At any level, however, tacit knowledge of the industry remains critical.

The Organizational Context

Next we look at the organization in which the managing is embedded. Examples include:

- *The Entrepreneurial Organization:* centralized around a single leader who engages in considerable *doing* and *dealing* as well as strategic visioning.

Getting in Deep Under Pressure

It has been said of great athletes, such as a Wayne Gretzky in hockey, that they see the game just a bit slower than the other players, and so they are able to make that last-second maneuver. Perhaps this is also characteristic of effective managers: Faced with great pressure, they can cool it, sometimes just for a moment, in order to act thoughtfully.

- *The Machine Organization:* formally structured, with simple repetitive operating tasks (classic bureaucracy), its managers functioning in clearly delineated hierarchies of authority and engaging in a considerable amount of *controlling*.
- *The Professional Organization:* comprising professionals who do the operating work largely on their own, while their managers focus more externally, on *linking* and *dealing*, to support and protect the professionals.

Although aspects of these and other forms can be found in most organizations, many tilt toward one form or another. For example, hospitals favor the professional form, with the physicians more as colleagues of the managers than as subordinates, while much of retailing is entrepreneurial, especially in its early stages.

The Job Context

When we think of managing, beyond the style of the person in the job, our inclination has been to focus on the job itself — specifically, its level and function.

Level refers to the location of the job in the formal hierarchy of authority — typically "top," "middle" and first-line supervision at the base ("bottom").

Basically, to be a top manager means to have everyone else in the organization reporting to you, which means to have formal responsibility for the activities of the entire place. To be a bottom manager, in contrast, means to have only operating workers — no other managers — reporting to you. So to be in middle management should mean that you have managers above and below you — some reporting to you and you reporting to others — although greater liberties are often taken with this term.

The Temporal Context

Next we come to the conditions of the moment, the situation at hand. These are difficult to categorize, because

they can relate to so many happenings: a strike, a merger, a lawsuit, a sudden competitive attack and so forth.

The appropriate conclusion from research seems to be that the pressures of managing are often not temporary but perpetual. The pace can be unrelenting.

The Personal Context

By far the greatest attention among all the factors has been accorded to managers' "style" — namely, how they approach their work, beyond the demands of the environment, the job, the organization and the situation at hand. Style, in other words, is about how the incumbent *make*s the job, as opposed to just *doing* the job. Put two people in the same job under the same circumstances, and the differences in their behavior can be attributed to their respective style.

Author M. Dalton, for example, described President Truman as having "loved to make decisions," which he did quickly, while President Eisenhower was "disposed" to keep away from them. But there is more to personal context than style. Background and tenure count too.

Personal Style of Managing

Now we turn to personal style, the predisposition of the person in the job, whether or not influenced by background and tenure.

In the academic literature, "task versus people orientation" has received the greatest attention, much of it under the unfortunate labels of "initiating structure" versus "consideration."

In the practitioner literature, the prize for the most popular dimension probably goes to "change and innovation versus status quo orientation," as in Miles and Snow's popular categorizing of managers as Prospectors, Defenders, Analyzers and Reactors.

The Many Styles of Managing

Effective managing requires some blend of art, craft and science, whether in the person of the manager alone, or else in a management team that works together. In other words, management may not be a science, but it does need some of the order of science, while being rooted in the practicality of craft, with some of the zest of art.

What you do as a manager is mostly determined by what you face as a manager. The effective manager is usually the one whose natural style fits the context, rather than the one who changes style to fit context or context to fit style.

So while every manager has to *make* the job, he or she also has to *do* the job. That is why managerial style cannot be considered out of context, independent of where it is practiced. ●

The Inescapable Conundrums of Managing

Managing is rife with conundrums. Managers need a better understanding of how to cope with what they cannot escape. Here are 13 conundrums of managing:

Thinking Conundrums

The Syndrome of Superficiality. *How to get in deep when there is so much pressure to get it done.*

Given the dynamic nature of their job, managers have to find time to step back and out; this has to become intrinsic to their work. Reflection without action may be passive, but action without reflection is thoughtless.

The Predicament of Planning. *How to plan, strategize, just plain think, let alone think ahead, in such a hectic job.*

Managers who deal best with the Predicament of Planning exhibit an engaging style by letting a thousand strategic flowers bloom in their organizations, and an insightful style to detect the patterns of success in these gardens of strategic flowers, rather than a cerebral style that favors analytical techniques to develop strategies in a hothouse.

The Labyrinth of Decomposition. *Where to find synthesis in a world so decomposed by analysis.*

The big picture has to be painted stroke by stroke, experience by experience. The painter may start with an overall perspective in his or her head, but from there the picture has to emerge from a host of little actions — just as a big strategy does. Few companies these days have a bigger or better strategy than IKEA, the furniture chain. *That* is one big corporate picture. It reportedly took 15 years to paint.

Information Conundrums

The Quandary of Connecting. *How to keep informed when managing by its own nature removes the manager from the very things being managed.*

The big problem today is macroleading: Managers who are disconnected don't know what's going on. "Hands off" too often amounts to "brains off."

The Dilemma of Delegating. *How to delegate when so much of the relevant information is personal, oral and often privileged.*

One way for managers to alleviate this conundrum: as regularly and comprehensively as possible, share the

privileged information with some other people in the unit. Brief them regularly and have them brief each other. And have a No. 2 who is as fully informed as possible. Then, when it comes time to delegate, at least half the problem is solved.

The Mysteries of Measuring. *How to manage it when you can't rely on measuring it.*

We have to cease being mesmerized by the numbers and stop letting the hard information drive out the soft, instead combining both whenever possible. Every manager has to find his or her own balance, not least by ensuring enough of each kind of information to check out the other.

People Conundrums

The Enigma of Order. *How to bring order to the work of others when the work of managing is itself so disorderly.*

So how is a manager to deal with this conundrum? Like all the others: by nuancing its two sides. He or she has to weave back and forth between letting the chaos reign and reining in the chaos.

The Paradox of Control. *How to maintain the necessary state of controlled disorder when one's own manager is imposing order.*

Sophisticated managers can turn the tables and promote change up the hierarchy. And managers at more senior levels can help by appreciating the consequences of passing down problems that are essentially theirs to resolve.

The Clutch of Confidence. *How to maintain a sufficient level of confidence without crossing over into arrogance.*

Honest friends and advisers can help a manager avoid the Clutch of Confidence. Perhaps the key to dealing with this conundrum is to ensure that more people who are confidently modest end up in management positions in the first place.

Action Conundrums

The Ambiguity of Acting. *How to act decisively in a complicated, nuanced world.*

The trick is to know when to wait despite the costs of delay, and when to act despite unforeseeable consequences. And for that there is no manual, no course, not even any convenient five easy steps — just good, informed judgment.

The Riddle of Change. *How to manage change when there is the need to maintain continuity.*

The trick is to get the balance right.

Author Chester Barnard said that "executive work is not that *of* the organization, but the specialized work of *maintaining* the organization in operation."

This means keeping the organization on track and getting it back on track when it goes off, alongside improving the track when necessary and sometimes building a new track to a different place.

Overall Conundrums

The Ultimate Conundrum. *How can any manager possibly cope with all these conundrums concurrently?*

These paradoxes and predicaments, labyrinths and riddles, are built into managerial work — they *are* managing — and there they shall remain. They can be alleviated but never eliminated, reconciled but never resolved. To try and escape them is to fall into the managerial dogma of which we have had more than enough already. Managers have to face them, understand them, reflect on them, play with them.

My Own Conundrum. *How do I reconcile the fact that, while all of these conundrums can be stated apart, they all seem to be the same?*

Maybe these are all just one great big jumbled management conundrum. In that case, you needn't be bothered by the previous, ultimate conundrum — just all the ones that preceded it.

Management Can't Be Taught

Management is a practice. Some of the best managers/leaders have never spent a day in an MBA classroom, while no shortage of the worst managers sat there obediently for two years.

Managing Effectively

So how should managers be developed? In 1996, some of the professors at McGill University in Montreal had serious reservations about MBA programs.

They teamed up with colleagues from around the world to create the International Master's in Practicing Management. This set the groundwork for a series of initiatives that followed. All of this can be thought of as *natural development:*

1. Managers, let alone leaders, cannot be created in a classroom. If management is a practice, then it cannot be taught as a science or a profession.

2. Managing is learned on the job, enhanced by a variety of experiences and challenges. No one practices surgery or accounting without prior training in a classroom. In management, it has to be the opposite.

3. Development programs come in to help managers make meaning of their experience, by reflecting on it personally and with their colleagues. Management development has to be about commitment: to the job, the people and the purpose, to be sure, but also to the organization, and beyond that, in a responsible way, to related communities in society.

4. Intrinsic to this development should be the carrying of the learning back to the workplace, for impact on the organization. Management development should also be about organization development: teams of managers should be expected to drive change in their organization.

5. All of this needs to be organized according to the nature of managing itself — for example, in terms of the managerial mindsets. Most management education and much management development is organized around the business functions. This is fine for learning about business, but marketing + finance + accounting, etc., does not = management. We have more than enough calculating managers already. We need ones who can deal with the calculated chaos of managing — its art and craft — which highlights the importance of reflection, worldliness, collaboration and action.

Managers have to learn primarily through their own efforts. We have seen how this can be facilitated in a classroom, but we have also learned how much more powerful this can be when it happens spontaneously at work, as managers reflect on their experience, learn from each other and together drive improvements in their organizations and societies.

The message is that nothing is quite so powerful, or so natural, as engaged managers who are committed to developing themselves, their institutions and their communities.

People Jams, Not Bear Jams

If management development can become more natural, then surely there is hope for management itself.

We are the species out of control. In the Banff National Park, Gord Irwin describes a "bear jam: a traffic jam caused by a bear." One ambles down to the highway and the tourists stop — some even get out of their cars to take pictures — while the truckers fume. In the parks, they refer to "managing the natural setting." But surely this is an oxymoron: That setting managed itself just fine for millennia without our "management." Now it has "bear management plans"!

If you really want to understand management, then you would do well to get down on the ground, where the elk graze in the towns and the truckers battle the tourists. Then maybe you can work "up" from there, to the abstractions of management that so mesmerize us — where people earn larger incomes ostensibly because their work is more important but perhaps really because they have to cope with more nonsense, no small measure of it imposed by their own formalized systems.

Supposedly developed to deal with the complexities, perhaps all of this is really a conceptual smokescreen for a species out of control, alien to its own natural environment. The bears know full well that the real problem is "people jams."

Managing Naturally

What could be more natural than to see our organizations not as mystical hierarchies of authority so much as communities of engagement, where every member is respected and so returns that respect? Sure, we need people to coordinate some of our efforts, provide some sense of direction in complex social systems and support those who just want to get useful work done. But these are managers who work with us, not rule us.

Managing is a perfectly natural act that we make unnatural by disconnecting it from its natural context and then not seeing it for what it is.

To be a successful manager, let alone a great leader, maybe you don't have to be wonderful so much as more or less emotionally healthy and clearheaded.

By the excessive promotion of leadership, we demote everyone else. We create clusters of followers who have to be driven to perform, instead of leveraging the natural propensity of people to cooperate in communities. In this light, effective managing can be seen as engaging and engaged, connecting and connected, supporting and supported.

We need to rethink management and organization, as well as leadership and communityship, by realizing how simple, natural and healthy they all can be. ●

RECOMMENDED READING LIST

If you liked *Managing*, you'll also like:

1. ***Leaders at All Levels* by Ram Charan.** Ram Charan takes aim at the current crisis in leadership. He offers a solution that outlines a new model for succession and leadership development.
2. ***Judgment* by Noel M. Tichy and Warren G. Bennis.** Regardless of industry, leaders are remembered for their best and worst judgment calls. It is a leader's judgment that can determine the fate of the entire organization.
3. ***First, Break All the Rules* by Marcus Buckingham and Curt Coffman.** Great managers know that conventional wisdom about human nature doesn't hold up. Learn what great managers do differently. Great for executives looking to hire powerful managers.

Summary

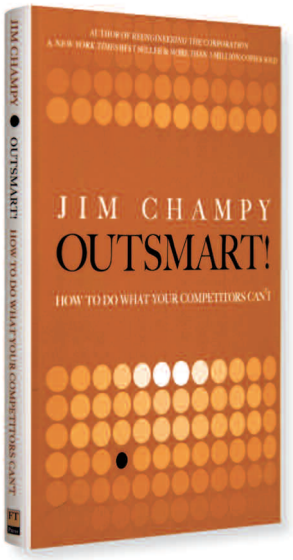
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Management: Strategies

Outsmart!

How to Do What Your Competitors Can't



by Jim Champy

THE SUMMARY IN BRIEF

One day, while giving a speech in Monterey, Mexico, business author Jim Champy encountered a gentleman sitting in the front row. The man interrupted Champy to ask how the philosophy of Mexico's 19th-century ruler, Gen. Antonio Santa Anna, could be applied to management. The answer, which his interlocutor duly shared with all present, was a gem of pragmatism. Santa Anna, he told everyone, firmly believed that whatever worked was the right thing to do.

In *Outsmart!* Champy describes the very real and practical strategies that are working for today's most successful businesses, strategies that can sustain their success into the future. Because the primary goal of all good strategy is growth, the companies analyzed are among the world's fastest-growing enterprises.

Champy reveals the surprising, counterintuitive lessons learned by companies that have demonstrated super-high growth for at least three straight years. Drawing on the strategies of some of today's best "high velocity" companies, he identifies eight powerful ways to compete in even the roughest marketplace. You'll discover how to find distinctive market positions and sustainable advantages in products, services, delivery methods and unexpected customers with unexpected needs.

Champy provides an inside look at the success factors associated with numerous companies that outsmart their competition. He shares his insights into how these companies attained their successes, offers advice for ways to apply their experiences to your own situation and poses provocative questions as a springboard to action.

IN THIS SUMMARY, YOU WILL LEARN:

- How to compete by seeing what others don't.
- What it takes to turn around an established but moribund company.
- How changing your frame of reference can lead to a competitive advantage.
- Why doing everything yourself instead of outsourcing can sometimes lead to even greater success in the marketplace.
- How chaos can present great opportunity for business success.
- How to outsmart competitors by building a business that simplifies complexity.

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THE COMPLETE SUMMARY: **OUTSMART!**

by Jim Champy

The author: Jim Champy is one of the leading management and business thinkers of our time. His first best-seller, *Reengineering the Corporation*, remains the bible for executing process change. His second book, *Reengineering Management*, another best seller, was recognized by *BusinessWeek* as one of the most important books of its time. Champy is also an experienced manager and adviser. He is the chairman of Perot Systems' consulting practice and the company's head of strategy.

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For additional information on the author, go to http://my.summary.com.

It's a Smart, Smart, Smart, Smart World

What you are about to read is about real business life — namely, outsmarting the competition. As eminent scientist Charles Darwin might put it, businesses breed beyond available customers; companies with successful strategies have a better chance of survival; and successful enterprises force out weaker ones, creating whole new business models. In other words, the businesses that succeed not only survive but grow, gaining more of the supply of customers and forcing their rivals to adapt or die.

"Chaos Is an Opportunity"

Change is the very essence of business, of course — hence, its Darwinian imperatives. We live in a time of innovation and expansion — a world of smart and smarter strategic options. The catch is that the prize will go to the smartest competitor: In whatever field you're playing, you must outsmart your rivals. Shrewd competitors can stake out new territory, define the boundaries and even set new rules for the game.

Peter Drucker, the late, great management thinker, was famous for declaring in the fairly peaceful 1980s, "Chaos is an opportunity, not a threat."

Winners in the Growth Race

Businesses with exceptional growth rates are a fascinating lot, creative companies with unusual strategies that combine an irresistible promise to customers with an enviable record for delivering it.

Outsmarting the competition requires more than intelligence, experience and business sense; you also have to be quick, flexible and ready to adapt to the transforming world. The penalty for failure is Darwinian extinction, but the prize for success is survival, growth and the rich rewards of a life spent in the brave new world of business.

Taken together, the following companies represent what is really working in business today. ●

Compete by Seeing What Others Don't

Panos Panay is a guitarist who never made it but a talent agent who did — and he has never forgotten how tough it is for hungry musicians to connect with the promoters who might hire them.

Panay founded Sonicbids in Boston. The business ranks 88th on *Inc.* magazine's list of the top 5,000 privately owned businesses in the United States. Launched in 2001, Sonicbids had revenue of $248,000 in 2003, $3 million in 2005 and $8 million in 2007.

Making use of technology, Panay figured out how to connect thousands of aspiring musicians and small bands with promoters who needed their talents. Sonicbids is akin to a musical matchmaker. Some 10,000 promoters use the site to connect with Sonicbids' 120,000 musician members, a quarter of whom are from abroad.

In the process, Panay offers both the promoters and the musicians a proactive customer-service operation, which is, in effect, the character and personality of the business.

An Expanding Vision

Panay has proved both his capacity for difficult work and his ability to see what others don't. And his vision does not stop with the music business. He has only begun to tap what he sees as another neglected market.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Chris Lauer**, Senior Editor; **Chris Bienick**, Graphic Designer; **Barry Silverstein**, Contributing Editor

Jugglers and magicians have already signed up as members of Sonicbids, and Panay has had inquiries from actors, supermodels and freelance writers. He suspects that speakers might be interested too.

Lessons From Sonicbids

Here are six ideas that spring from Panos Panay's success with Sonicbids:

• *Connect the dots.* Opportunities lurk in neglected fields everywhere, especially where people take dysfunction as the expected way of life. You can look within your own industry for the same kind of opportunity Panay discovered.

• *Think global.* Sonicbids has one office, but it is quickly becoming a global giant. Because of technology, your customers, business partners and competitors are everywhere.

• *Scale quickly.* Scale is important when you are building any kind of community-based business. But achieving scale is not just about signing up people. Your service has to offer value to all participants.

• *Keep checking your intuition.* Particularly in today's business climate, with its smarter, plugged-in consumers, you can't afford to take a chance with a major change. Check it out so that you can spot the pitfalls and profit thereby.

• *Pay attention to service.* High-tech businesses still require much human interaction. Panay points out that a little human touch can help define the character and feel of your business.

• *Don't stop thinking about tomorrow.* Panay's plans for expansion and his visionary notion of how large his neglected field might be are both bold and sensible. ●

Compete by Thinking Outside the Bubble

MinuteClinic gives patients — and insurance companies — an alternative to the emergency room. It is a classic example of a company whose founders recognized a significant unmet consumer need and seized the opportunity by borrowing an idea from a seemingly unrelated industry.

What began as a notion for a few partners in Minneapolis eight years ago has blossomed into a coast-to-coast operation serving more than 500,000 customers a year. And when CVS Caremark Corp. bought the company in 2007, the all-cash payoff for the founders was $170 million.

Why do some people easily spot opportunities where others see only obstacles, if they see anything? The answer begins with the human penchant for living in a bubble — an airtight cocoon of assumptions, beliefs or worldviews.

Inventive Minds

The good thing about business bubbles is that they invite inventive minds to stick pins in them. MinuteClinic's founders are bubble bursters, creative guerrillas who thrive on outsmarting complacent companies in industries that run on tired ideas. The MinuteClinic story is a lesson in outsmarting competitors by trying ideas that they think have nothing to do with their industry.

Jiffy Lube had the insight that you don't need a fully trained mechanic to change the oil in your car. Until MinuteClinic's founders came along, no one in the health care field would have dreamed that they could learn anything from the grubby business of auto maintenance.

Here's how MinuteClinic works: The company's kiosks are open seven days a week for a total of at least 72 hours. The kiosks clearly post the ailments that can be treated there, along with the fees. Generally, one nurse practitioner staffs each kiosk. Only verifiable, quickly identifiable illnesses are treated.

What MinuteClinic saw that others either didn't see or simply ignored were the fault lines in the health care delivery system. MinuteClinic addresses some of the system's dysfunctions by biting off the easiest, least complex chunk of the health care market.

Lessons From MinuteClinic

Here are some lessons MinuteClinic's founders learned along the way:

• *Widen your lens.* Retailing offered an obvious alternative to physicians' offices and hospital emergency rooms: Miniclinics could give shots, treat sore throats and prescribe flu medicine without a doctor on the premises.

• *Make friends.* MinuteClinic has gone to great pains to reach out to physicians and hospitals to explain its operations and earn their trust. MinuteClinic is reaping thousands of referrals from overworked full-service clinics and hospital emergency rooms.

• *Execute on the change.* For MinuteClinic, execution means building a company that delivers both high-quality health care and a high standard of service, and changes have to be made in people, processes and technology to get the job done.

• *Redefine the culture.* MinuteClinic's Michael C. Howe recognized that nurse practitioners are, by nature, caring, empathetic individuals, but they are not in the retail business. His understanding of the distinction led him to create a customer-centric culture that is exemplified by a program to teach MinuteClinic nurses to welcome complaints as a way of improving their service. ●

Compete by Using All You Know

In 2004, Michael Golden presided over the Kohler Co.'s cabinetry division. He knew nothing about the arms industry. When he was invited to become president and chief executive of Smith & Wesson (S&W), a 150-year-old firearms manufacturer that was in dire straits at the time, he took the job.

After Golden had been running S&W for less than three years, he had already achieved extraordinary results. The company's revenues had soared from $100 million in 2003 to $237 million in 2007. From its nadir of $1 a share, the stock had soared to about $23.

How did Golden bring about the turnaround? By leveraging everything he'd learned from more than two decades in business. In one way or another, all the strategies he employed at S&W — the new processes he put in place, the thinking that led to an acquisition and a leap into new markets — were an outgrowth of events encountered and actions taken in his previous corporate life. His achievement shows how using everything you know can help you outsmart your rivals.

Grander Goals

Smith & Wesson was both venerable and storied — but one of its problems was that it had forgotten or simply ignored the lessons of its own history. The strategy of Golden's predecessors had been to dominate a niche market, focusing entirely on handguns in the United States. Golden had much grander goals. Overall, he wanted to push the brand to ever-greater heights of recognition and approval so that it would support and advance all the company's projects.

At nearly every turn, Golden applied lessons learned at previous jobs. In January 2007, Golden announced the purchase of Thompson/Center Arms, a $65 million gun maker. Now, he's looking into businesses such as home security and law-enforcement products such as body armor.

Golden is intent on making the most of S&W's powerful brand. "I think we would be cheating shareholders and the employees if we didn't enhance the brand," he says. "But my number-one responsibility is to protect it." So far, he's done amazingly well on both counts.

Lessons From Smith & Wesson

Here are four lessons that can be taken away from Golden's experiences at S&W:

• *Hunt (the right) heads.* Golden had the perfect set of experiences — in both manufacturing and turnarounds — to prepare for the challenges at S&W.

• *Find what's truly valuable.* Golden knew that S&W was a much-respected name in the gun world. He insisted on extensive research to uncover what he perceived to be S&W's most valuable asset — its brand. What he found helped him to make a sharp turn in S&W's course.

• *Squeeze nickels.* Golden introduced new manufacturing techniques to reduce expenses and raise productivity. But he combined his understanding of dollars and cents with a skill for demand creation. The combination produced simultaneous high productivity and job creation.

• *Walk and talk.* Golden had the intelligence and business training to make the right moves in terms of reorganizing the sales force, hiring talented aides and leveraging the brand. He was both a no-nonsense, results-oriented boss and an empathic, open-minded leader — a walk-around guy. ●

How to Think Outside Your Industry's Bubble

Here are some questions that can help you think outside the bubble:

• Do you know where the breakdowns occur in your industry? Can you turn these breakdowns into a major business opportunity?

• Are you looking beyond your industry to discern how to deliver more value to your customers?

• If your business is not performing well, where are the breakdowns occurring and what management disciplines must you apply to fix your systemic problems?

• Can you see an opportunity to meet a neglected need by widening your company's frame of reference?

• Is the focus of your business narrow enough to enable you to target markets and build the capabilities needed to serve those markets?

Compete by Changing Your Frame of Reference

Jeffrey Housenbold, an eBay vice president with an MBA from Harvard, became CEO of Shutterfly, based in Redwood City, Calif., in January 2005. At the time, the company billed itself as just an online photo finisher. But within two years, Housenbold had turned Shutterfly into something much bigger and smarter — an Internet-based social-expression and personal-publishing service.

Housenbold had found one of the prime secrets of business growth: changing his business's frame of reference to expand its identity and compete on a new and much larger field.

Housenbold's insight called for a complete makeover of Shutterfly, which led to a sales explosion. In 2007

alone, revenues were projected to increase 45 to 50 percent, to more than $138 million. The company was on track to reach 7 million orders in 2007, a 37 percent jump from 5.1 million in 2006 and nearly double the 3.6 million orders received in 2005.

Building a Solid Community

Housenbold discovered the makings of a solid community at Shutterfly. Its clients are amazingly loyal — 77 percent of the company's revenue comes from active customers, who currently number more than 2 million. Housenbold reimagined the company's frame of reference, expanding it from photo finishing to a full range of products and services.

Housenbold envisioned Shutterfly as the premium lifestyle brand in the online photo-finishing business. But even as he widened his lens, Housenbold stayed focused on his primary business.

Many of the company's innovations have sprung directly from Housenbold's finely tuned sense of community. That sense of community extends to his employees, whom he views as fellow innovators.

Housenbold's performance was not a one-man show, of course. Others contributed their ideas. But it was Housenbold's ability to view the company in a broader context that encompassed societal trends and provided the springboard for Shutterfly's hugely successful reincarnation.

Lessons From Shutterfly

Here are a few things that can be learned from Shutterfly's success:

• *Look at the bigger picture.* How is the industry changing, and how can you change your frame of reference to compete on a wider field where you could develop an edge?

• *Build a community, but tend to business.* Much supposedly smart venture money is flowing into community-based Internet businesses, which derive their profits solely from advertising. A less risky business model includes marketing some of the thousands of products and services that can be sold to Internet communities. Shutterfly has achieved success through a fully integrated vertical operation.

• *Widen your lens, but narrow your focus.* Web sites that focus on a single market do better than those that spread themselves around, no matter how big they are.

• *Organize for ideas.* The ability to view your company in a new frame of reference is not limited to the executive ranks. Shutterfly has created a culture that puts a high value on employee suggestions.

• *Persist in your quest.* It takes courage to move out of your familiar boundaries and play a bigger game on a new field. But success belongs only to those with the courage to stand by their convictions and risk failure all the way. ●

Compete by Doing Everything Yourself

Engineer Dan Johnson started a company in 1992 in Loveland, Colo., called Special Application Robotics, which made tools that could substitute for humans in the dismantling of nuclear reactors. By spring 2003, Johnson's company had outgrown his Loveland garage and was now a 12-person operation. But with revenues having topped out at $12 million in 2001, S.A. Robotics was deeply in debt. Forced to seek help, Johnson found it in his old friend Mike Cappello, another engineer.

Cappello became co-owner and chief executive of S.A. Robotics. Within four years, revenues had skyrocketed 2000 percent to greater than $17 million a year, the work force had expanded to 140 and the company was fighting off venture capital investors.

Combining Visions

The company's success has been a joint effort. It was Johnson who had the initial vision and Cappello who had the new vision. Together they saw the opportunity others overlooked in the design and manufacture of customized robots for the decommissioning of nuclear plants and for similarly dangerous work in other settings. Virtually from the moment he arrived, Cappello insisted on bringing every aspect of the operation back into the company.

Admittedly, in this era of outsourcing, the one-stop shop business model seems old-fashioned. For a company to do it all, a great deal of internal discipline and substantial capital investment in labor-saving machinery and software is needed. It also requires a full measure of ingenuity and courage.

S.A. Robotics designs and manufactures its own technology. In this way, the company can be sure that everything that goes into its products is up to the stringent demands of the hard and perilous work they are made to do.

The company's success would have been impossible if it hadn't been able to hire and retain talented, highly motivated employees. Cappello keeps his people happy by encouraging them to speak their mind, giving them a chance to work on challenging projects from start to finish and making them feel like important parts of a proud, can-do culture.

Alluding to the fact that S.A. Robotics has just two shareholders (Johnson and Cappello), Cappello is proud

to note, "What we have here is a very capital-intensive business going through an exponential growth with absolutely no injection capital. All the growth was funded out of operating revenues."

Lessons From S.A. Robotics

Here are three lessons others can learn from the leaders at S.A. Robotics:

• *Control what matters.* If you manufacture a complex, customized product, the need for control is clear. The key is to know what you are really good at, what makes you distinctive, and therefore, what you need to keep in-house.

• *Hire the best and keep them.* That S.A. Robotics has managed to achieve near zero attrition is a tribute to the culture Cappello and Johnson have put in place and to the high-quality work they provide to their people.

• *Don't build to sell.* A business with a life and purpose of its own will have a better shot at success over the long term. Some investors would never buy a company that was built just to be sold.

Compete by Tapping the Success of Others

Eager to protect his new iPod's shiny white surface and scratchable screen, Jeff Grady tried to buy a carrying case, but no such item existed. So Grady made his own case out of plastic. Other iPod owners admired his case and wanted their own.

Grady obliged: He refined the design of his case, found a manufacturer, started the company Digital Lifestyle Outfitters (DLI), launched a Web site and, within weeks, mastered a new specialty — supplying iPod owners with accessories that Apple itself had either overlooked or dismissed as unworthy of its techie brains. In 2006, selling 100 ancillary products, DLI grossed $84 million. In three years, Grady's company has grown by an astonishing 4,385 percent. That growth attracted the attention of Philips Electronics, which acquired DLI in 2007.

Every so often, a new product or old brand is so novel or exciting that it creates a groundswell, a mystique, a whole subcult of loyal customers avid to buy anything related to the sacred brand.

People who identify with hot brands create secondary markets for businesspeople agile enough to piggyback on the original company's success. Piggybackers almost certainly benefit their target companies (and themselves) far more often than not.

Jibbitz Jewels

Jibbitz is another company that has mastered this accelerated strategy. Sheri and Rich Schmelzer outsmarted the competition because they had vision. Sheri looked down at her daughters' Croc-shod feet and saw an unmet need.

Sheri Schmelzer, a stay-at-home mom in Boulder, Colo., was crazy about Crocs, the soft-resin clogs that mold to the wearer's feet.

On a whim, Sheri stuck a silk flower through a hole in one of the clogs. She liked the effect and so did her daughters. By the time her husband Rich arrived home that evening, his whole family was wearing Crocs decorated with all sorts of baubles. He wasted no time in patenting the idea, organizing a company and coming up with a name for his wife's whimsy. Their company and decorations would be called Jibbitz, a homage to Sheri's nickname, Flibbertyjibbet.

Sheri and Rich set up a production line in the basement, charging $2.50 per Jibbitz. But as news of the decorations spread through Boulder, the multiplying orders forced them to move the operation to an office and hire some help. The Schmelzers took Jibbitz online. Then stores took notice of the market that was developing under their noses and began placing their own orders. The office gave way to a huge warehouse, and the manufacturing process was farmed out to a Chinese company.

Creating a Phenomenon

The Jibbitz phenomenon, of course, was riding the bow wave of the giant Crocs fad, and more Crocs wearers were clamoring to decorate their shoes. Sheri cranked out designs and Rich rode herd on the company's expansion. Rich knew full well that piggybacking on a fad could last only as long as the fad itself. So even amid the mushrooming demand for Jibbitz-enhanced Crocs, he and Sheri were developing a new line of products. Eventually, the Schmelzers moved beyond products with holes to introduce a line of charms for cell phones and bracelets.

By summer 2006, the company had 40 employees. Jibbitz were being offered in 3,300 stores in the United States and hundreds more in Europe and the Middle East. More than 6 million pieces had been sold. On October 3rd, Crocs announced the purchase of Jibbitz for $10 million in cash.

Jibbitz has since become a subsidiary of Crocs. It all came about because of Sheri's imagination and Rich's opportunistic eye for tapping the success of others and riding the Crocs' groundswell to fame and fortune.

Lessons From Jibbitz

Here are five lessons companies can learn from the founders of Jibbitz:

• *You can have too much of a good thing.* Rich Schmelzer understood that without the infrastructure to handle potential demand efficiently, he had to limit his commitments to customers.

• *Think big.* From the beginning, Jibbitz's growth potential was limited only by the soaring growth of Crocs itself, but not all new ventures are so lucky.

• *Don't neglect your infrastructure.* Jibbitz held its payroll to just 40 employees even as it grew in overseas markets and outsourced production to China. Keep your organization's structure simple; that way, if you do need to add people, you can do it easily.

• *Think targeted marketing.* One way Rich Schmelzer kept operations under control was by relying on word-of-mouth marketing and Jibbitz.com; he avoided spending on traditional advertising.

• *Take the long view.* Even as Sheri and Rich Schmelzer were trying to cope with the runaway success of their Crocs decorations, they were planning Jibbitz product extensions into anklets, wristbands and cell phone charms. ●

Compete by Creating Order Out of Chaos

Dean Summers managed a chain of retail electronics stores. Glenn Laumeister was a specialist in applying technology to solve complex business problems. Together they created an enterprise that would bring order and sanity to the chaos that was the parts business. They called it Partsearch Technologies.

From day one, Partsearch was dedicated to helping retailers, repairmen and consumers thread through a maze containing literally millions of parts. It was a market that had never bothered to organize itself; every manufacturer's parts list was configured differently. So Partsearch developed a catalog in which each model of home appliances and electronic goods was presented with a list of all it parts. Obvious, right? Yet it had never been done before.

Opportunities in a Chaotic Market

Today, the Partsearch catalog is not limited to retailers: Individual consumers, manufacturers and service shops turn to Partsearch for help. In 2006, the company had revenues of $63.7 million — plus an astounding compound annual growth rate since 2001 of 85 percent. And it all happened because two guys recognized the opportunity presented by a chaotic market.

Laumeister had a hard time convincing manufacturers that helping to create an efficient, consumer-friendly parts supply chain was worth their time. Finally, he sold a few retailers on the notion, and they, in turn, pressured manufacturers to get onboard.

Now that Best Buy and other major retailers have signed on and Partsearch has built a substantial customer base, only a few manufacturers continue to withhold their parts lists from Partsearch.

Partsearch has applied advanced information technology to reinvent the process of ordering and fulfillment, thus making sense of a market that had been running badly on automatic. Laumeister's overarching vision for his company is nothing less than to become "the glue that holds the whole parts business together."

Lessons From Partsearch

Here are a few lessons that can be learned from the founders of Partsearch:

• *Choose the right chaos to tame.* Laumeister's background was in creating and operating high-tech companies, and he knew how to use information technology to solve complex problems. Fixing the dysfunctional, disorganized parts market was a challenge suited to his skills.

• *Look for fragmentation.* Fragmented industries — those in which there are many operating parts that do not work well together — provide some of the best opportunities for high-growth strategies.

• *Go for scale.* If you can achieve scale early in the development of your business, you can become the resource of choice. The combination of ease of access, almost unlimited choice and competitive pricing is hard to beat.

• *Overcome inertia.* Manufacturers wouldn't cooperate with Partsearch until retailers pressured them, so Laumeister found a way to begin his catalog without the manufacturers and let Best Buy take the lead in converting them.

• *Expect and look for more complexity.* When Laumeister started out with Partsearch, his goal was to make it easier for customers to find a part. Things got more complicated when he realized that some customers were ordering the wrong parts for the job they wanted to do. He trained his call-center representatives to be on the lookout for such callers and to help them order correctly.

• *Pair value with values.* There is something liberating and inspiring about a business that makes a real contribution to society, not just for the owners and leaders, but for employees and customers as well. ●

The Smartest Companies

There are certainly differences between the smartest companies and the "incumbents" that operate in traditional ways. Here are a few of them:

- ***Ambition matters.*** Companies that outsmart the competition look for dramatic growth, while incumbent businesses are content with incremental growth.
- ***Intuition reigns.*** Companies that outsmart the competition make strategic choices based largely on intuition, whereas incumbent businesses often get bogged down in research and analysis.
- ***Focus prevails.*** Businesses that outsmart their competitors stay focused on what they do best.
- ***Customers rule.*** Companies that outsmart their competitors focus on how they can better serve customers; incumbent companies focus on their competitors.

Compete by Simplifying Complexity

Together, Becky Minard and Paal Gisholt have built SmartPak, a business dedicated to horses, health and simplicity. By creating preselected, premeasured and prepackaged medications and supplements for individual horses, and shipping them out in daily dosing packets, the pair has removed all the complexity that used to prevent animals from regaining or maintaining health.

Knowing that day-of-the-week pill containers help people track their drugs and dosages, Minard set out to design something similar for horses. What resulted was an easy-to-open plastic container with multiple wells, each containing the correct quantity of powders or pills and labeled with the horse's name.

Launching a Business

When Minard talked with Gisholt about launching a business based on her invention, he was enthusiastic. Using her skills as a marketer and his as a venture capitalist, they got to work. They further honed the packaging concept, came up with a name for their invention (SmartPak) and began raising the money needed to start production.

SmartPak.com was launched in June 2000. Today the couple presides over a nationwide $40 million business that encompasses nutritional supplements and gear for dogs as well as horses. The company's volume is soaring — up 46 percent in 2006 alone.

Minard and Gisholt have achieved outstanding business success by finding an ingenious way to simplify complexity.

SmartPak has found ways to stay competitive with the companies that supply supplements the old-fashioned way, in buckets. How have they managed to do it?

Simplification Proposition

Gisholt went to UPS with a simplification proposition that the shipping company couldn't refuse. With SmartPak's help, the UPS truck making 20 different delivery stops a month to hand over 30 separate packages of supplements is now able to make the same deliveries in just two stops. UPS gave SmartPak the break on shipping rates it needed to hold down prices.

Gisholt went to the manufacturers of their products as well. "We convinced the suppliers there would be a substantial amount of incremental income for them because of our autoship mode," Gisholt says, "and they have shared some of those gains with us."

Gisholt and Minard have paid close attention to customer service too. Three out of four orders are handled online. Gisholt and Minard established a call center manned by extremely well-qualified people.

"We use information technology for every single thing we can," Gisholt says, "not just to improve productivity, but to lift our quality and prevent error."

Lessons From SmartPak

Here are three lessons learned by the leaders at SmartPak:

- *Don't just cut your own costs.* Do the same for your suppliers.
- *Beef up your culture.* Gisholt and Minard first choose horse-smart call-center people; then they train them and give them a chance to make decisions on their own and learn from their mistakes.
- *Develop an appetite for technology.* If ever there was a company committed to leveraging technology in the service of simplicity, it is SmartPak.

Businesses that outsmart competitors stay focused on what they do best, while incumbent companies are often searching for new ideas and end up losing their sense of purpose in the process. Can incumbent businesses adapt and learn to behave as smart companies do? The answer is yes.

RECOMMENDED READING LIST

If you liked *Outsmart!*, you'll also like:

1. ***Outside Innovation*** **by Patricia B. Seybold.** Involve passionate customers in every aspect of your company's product and service design.
2. ***Citizen Marketers*** **by Ben McConnell and Jackie Huba.** Communities of enthusiasts are getting the word out about what products they love or hate.
3. ***Break from the Pack*** **by Oren Harari.** Products are being commoditized, services are imitated and traditional barriers to market entry are collapsing. Break from the pack by resisting the traditional compulsions that keep you mired there.

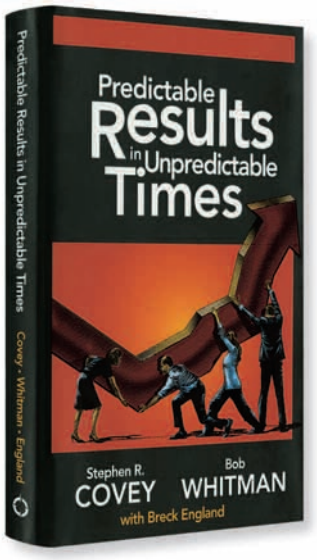
Summary

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Management: Strategies

Predictable Results in Unpredictable Times



by Stephen R. Covey and Bob Whitman, with Breck England

THE SUMMARY IN BRIEF

If there's one thing that's certain in business, it's uncertainty. Still, there are great organizations that perform consistently and with excellence, regardless of the conditions. *Predictable Results in Unpredictable Times* discusses how to achieve predictable results in good times and bad by applying four key principles.

Unpredictable times create fear, stress and worry. These are all fatal distractions when you need total focus. Winning organizations entrust people with a mission they can believe in, channeling their anxiety into results.

Drawing on decades of experience working with thousands of private and public entities worldwide, authors Stephen R. Covey and Bob Whitman, with Breck England, suggest that there are a few basic principles that will never let you down — principles that help companies win, regardless of the turbulence of the ride or the shock of overwhelming change.

Great teams perform consistently and with excellence, regardless of the conditions. Great leaders anchor themselves in principles that are certain and solid, even in an uncertain and fluid environment. They know the world is unpredictable. Still, they get predictable results.

IN THIS SUMMARY, YOU WILL LEARN:

- Winning companies have "simple goals repeatedly revisited, together with clear targets and strong follow-through, including the measurement of results."
- Winning companies are capable of quick action "with the agility to respond ahead of, or at least stay even with, rapid changes in the new economic environment."
- Winning companies focus totally on value — they are not just cutting back, they are simplifying, reducing complexities that customers and employees don't value.

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THE COMPLETE SUMMARY: **PREDICTABLE RESULTS IN UNPREDICTABLE TIMES**

by Stephen R. Covey, Bob Whitman, with Breck England

The authors: Stephen R. Covey is author of the historic bestseller *The 7 Habits of Highly Effective People*, and is co-chairman of FranklinCovey. He has worked for decades with presidents, corporate leaders and nonprofit leaders around the world.

Bob Whitman is president and CEO of FranklinCovey and a successful private-equity investor.

Breck England has 20 years experience consulting with major corporations on their strategic planning and communication challenges.

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Predictable Results in Unpredictable Times

Every summer a colorful crowd of cyclists race each other in what is billed as the greatest human endurance test of all time — the Tour de France. On the flat, sunny terrain, they bunch up in a peloton, or platoon, some jockeying for the front, some coasting along in the slipstream of a rider inches ahead. But they mostly stay together. When the going is relatively easy, the peloton speeds along at a predictable pace. Then comes the severe test of the mountains. Uncertain weather hits. As the cyclists climb thousands of meters, the peloton strings out. Riders tire and drop away. Teams fall inexorably behind. It's in these extreme conditions that the great teams take the lead.

At times, your team or your company or your organization will face extreme conditions, with steep terrain and dramatic changes in climate. No one can see beyond the next hill.

Even in a turnaround, there's no likelihood of an easy ride — we've moved into a world where the measured risks of the past seem tame compared to what we face today.

Future crises might be more severe than anything we've experienced. From here on, everyone agrees, we may be "in the mountains."

Four Hazards of Unpredictable Times

Like the Tour de France cycling teams, companies trying to navigate in unpredictable times face four key hazards:

1. Failure to execute
2. Crisis of trust
3. Loss of focus
4. Pervasive fear

To succeed "in the mountains," like the great cyclists, you must anticipate these hazards. You can dodge the hazards and win if you:

1. Execute priorities with excellence.
2. Move with the speed of trust.
3. Achieve more with less.
4. Reduce fear.

You can rely on these four principles. They don't change. And they will never let you down. ●

Execute Priorities With Excellence

The landscape of your industry may be changing beyond recognition. Your resources may be stretched to the limit. What will you do now? You're thinking, "We've got our plan. Everybody knows what to do." But you should be asking yourself, "Does everyone understand and buy in to the goal? Does every team member know his or her role? Are they executing with precision?"

Today most business leaders are privately worried about execution. When about 150,000 workers were asked to name the top goals of their organizations, only about 15 percent could. Of that 15 percent, only 40 percent knew what to do about the goals. About 9 per-

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Paula Ezop**, Contributing Editor

cent felt a high level of commitment.

If yours is like most other organizations, only a small percentage of the people are actively working on the strategy for getting through the mountains. The others don't understand the strategy, nor do they know how to carry it out, just when it's more crucial than ever.

In a crisis, narrowing the focus is critical. The research shows that companies who win in tough times have "simple goals repeatedly revisited, together with clear targets and strong follow-through, including the measurement of results."

If you lead by these same principles, you'll dramatically raise your chances of getting predictable results, even in a radically changing environment.

Elements of a Good Execution System

Great organizations, like great racing teams, have an execution system that ensures the predictability of results. Here are four tips to help your organization move ahead with excellence in execution:

1. Focus on the top goals.
2. Make sure everyone knows the specific job to be done to achieve these goals.
3. Keep score.
4. Set up a regular cycle of follow-through.

Great teams meet regularly and frequently — weekly at least, often daily — to review progress on their goals. These meetings are simple. Team members start by looking at the scoreboard to see where they are. They report on commitments made. They discuss lessons learned. They plan what to do next and make new commitments. These are not ordinary "staff meetings." The meetings focus entirely on moving forward the key measures of success. When team members can count on being asked repeatedly about progress, they know their leaders care and they want to contribute.

Are You 'Moving the Middle?'

Your strategy and goals are in place, the team knows what to do and what the score is, and you're following through. You've done everything you can to ensure a predictable result. But then you look at performance across the organization and you inevitably see variations.

It's a fact of life. Some people and teams perform well, some don't perform well at all — and then there's the vast middle. There's a big bulge in the middle — these are people who could contribute much more if only they knew how. Now, think of the huge impact if that middle 60 percent performed more like the top 20 percent! What would it mean to your performance?

Winning Performance Depends on Precise Execution

For the Tour de France, the mountains are the toughest challenge. This is the hardest part of the race where so much gets decided. Here the advantage goes not necessarily to the physically strongest team, but to the team that executes with the greatest precision.

Think about Lance Armstrong's famous U.S. Postal Service and Discovery Channel teams that won the Tour de France seven times. In the mountains, the team became a "ruthlessly efficient machine." Day after day they consistently paced themselves at the front of the pack through the punishing Alps and Pyrenees. According to one observer:

- George Hincapie, once a weak climber, now powered the peloton up the middle climbs of each stage.
- Floyd Landis would take the lead at the foot of the final mountain, setting a pace that splintered the field.
- Landis then handed off to Jose Azevedo, whose climbing pace was so fierce that only the top few riders in the world could keep up.
- By the time Armstrong rode to the front, he could focus on defeating the handful of rivals who remained.

Obviously, each team member knew his role and carried it out exactly. The sevenfold achievement of Armstrong's Tour de France teams might never be surpassed. An observer called them "one of the greatest sporting teams of all time, and an example of what a brilliantly planned and flawlessly executing organization can achieve."

As a leader, your biggest opportunity might be to move the middle "right and tight" on the performance curve. You don't want to stay "left and loose," that means you get strung out in the mountain passes and lose your advantage.

How to 'Move the Middle'

To "move the middle" — to move your performance "righter and tighter" — you'll want to do two things:

1. **Identify islands of excellence**. Where in your organization are people already performing in exceptional ways? What can the "right and tight" ones teach the rest of the organization?
2. **Ask the team how to improve performance**. No one knows better than the team members what could be done better, faster and at less cost. ●

Move With the Speed of Trust

Great Ormond Street Hospital in London has earned a reputation 150 years in the making at the forefront of children's services in all aspects of care, especially critical surgeries.

But at one point some years ago, seven infants died in quick succession following heart surgery. The surgical teams involved were devastated. Clearly, something was wrong somewhere. Not only was the crisis causing the public to lose confidence in them, they were also losing confidence in themselves.

A great deal of researching — and soul-searching — went into the investigation of these failures. Soon they learned that the most dangerous time in the surgical procedure wasn't in the operation or the intensive-care unit, but in the journey between the two. After one discouraging day, the surgical team collapsed exhausted in the physicians' lounge. A Formula One auto race was on television when the surgeons noticed something remarkable on the screen. They became fascinated — not by the race itself, but by what was going on in the pit.

When champion driver Michael Schumacher roared into the pit, the team that serviced the Ferrari racer went to work as if they were one person.

"I got in touch with them," Dr. Goldman says. "And we then went to Italy and showed them videos of our processes." The Ferrari people were stunned at how chaotic it was — no one in charge, lots of conversation, lots of people in each other's way, unclear systems.

"This is fundamentally opposed to the way in which the Formula One pit crew works. They know their job. Each one does. Silently they do it, and they get out of the way. They trust each other."

A Crisis of Trust

Trust always affects two measurable outcomes: speed and cost. When trust goes down, speed goes down and costs go up. Distrust slows everything. Sales decelerate, customers grow cold, and team members get discouraged or drop out entirely. Distrust has hard costs. If you're distrusted, people will actively refuse to do business with you, your pipeline of revenue freezes and, in extreme cases, you shut down.

Distrust has grown to global proportions. A crisis of confidence has overwhelmed the economy. The World Economic Forum cites a "crisis of trust and confidence" as the number-one challenge facing organizations in this decade.

Business confidence is one of the top concerns of CEOs in the latest Conference Board Report of 2009 — earlier in the decade, it didn't even show up.

Just as distrust slows everything down and raises costs, the opposite is also true. Trust speeds everything up and lowers costs. You can do business in minutes on a handshake with a person you really trust.

Trust Taxes and Trust Dividends

When things get intense, there are enormous parallels between a Formula One pit stop and your own teamwork. You have to make complex decisions fast among team members doing different jobs under time pressure. And you've got to be absolutely trustworthy or people quickly lose confidence in you.

An authority on the subject of trust, Stephen M. R. Covey, puts it this way in his book *The Speed of Trust*:

The serious, practical impact of the economics of trust is that in many relationships, in many interactions, we are paying a hidden low-trust tax … Mistrust doubles the cost of doing business.

Covey also suggests that, just as the tax created by low trust is real, measurable and extremely high so the dividends of high trust are also real, quantifiable and incredibly high. When trust is high, the dividend you receive is like a performance multiplier, elevating and improving every dimension of your organization.

Here are four key points to help your organization understand the importance of trust:

1. The evidence shows that when the economy slows down, the companies that succeed actually get faster.
2. Breakthrough companies confront crises by actively and deliberately building trust, showing more transparency than ever before. Also, they act swiftly.
3. They are able to leap hurdles that impede less trusted companies.
4. During the market plunge of 2008, the stock of a group of such companies appreciated in value 24 percent!

Rebuilding Trust

The Formula One team that inspired the doctors of Great Ormond Street Hospital was a team of unbelievable speed and precision. But it didn't used to be that way. In the mid-1990s, Ferrari was a losing team. They had not won a Formula One title in nearly 20 years. Often criticized by the press for "notorious backstabbing," no one trusted anyone else on the team. At the same time the team was known for its "unfounded optimism"; carrying the noble name Ferrari, they believed themselves to be the best in the world, despite their mediocre record and against all evidence: "The perfor-

mance of the Ferrari pit crews was considered a running joke."

Then, in 1996, everything changed. New CEO Lucadi Montezemolo decided to revive the once-great Ferrari racing tradition. Some of the best people in the sport were lured to Ferrari to accomplish this miracle, and they made it happen. What turned this once-struggling team into the most successful in Formula One history?

The first thing they did was eliminate infighting and posturing by facing realities: a poor track record, outdated technology and a culture of complacency.

Soon they succeeded at building "a cohesive structure devoid of the polemics which were so rife." Champion driver Michael Schumacher then took the team to six straight world titles, an unprecedented achievement.

Building trust requires high levels of both character and competence. The Ferrari CEO knew he could only achieve predictably good results with predictably capable people.

In a crisis, you need your best performers around you and they need your trust. Montezemolo turned Ferrari's auto sports division over to the best performers he could find, and trusted them to keep their commitment to get back on top of the racing world.

The "cohesive structure" of the new team meant careful alignment of their systems and processes with the job to be done.

Three Trust-Building Behaviors

Asked what companies should do in difficult times to build trust, Stephen M.R. Covey suggests three trust-building behaviors:

1. **Create transparency** — "This is telling the truth in a way that people can verify and validate for themselves."
2. **Keep your commitments** — Failing to keep a commitment depletes trust — fast.
3. **Extend trust to your team** — Great performers want to be trusted, and they will deliver.

A Trusted Character

These and other trust-building behaviors — such as demonstrating respect, listening and continuously improving your operations — are essential when you're facing a crisis of trust. But even more fundamental to your trustworthiness is your own character. Your capabilities might even fail you from time to time, but good character never fails. There are times when you might not know what to do, but you will still know what is right.

No one leads without followers, and just as your team trusts your competence, they must also be able to trust your character — or they won't follow.

You're probably in your leadership position because of your skills, and your team will defer to your positional authority up to a point. They will not, however, trust you unless you also have moral authority. The economic breakdown is about a breakdown in moral authority.

Moral authority comes from two commitments: to act with unshakable integrity and honorable intent.

One of the most respected leaders in business is Bill George, former CEO of Medtronic. Under his guidance, the firm's value rose from $1.6 billion to $60 billion between 1989 and his retirement in 2001. About today's crisis of trust in leadership, he says:

I think we've had way too many leaders who are in it for themselves. They're more focused on charisma, style and image than they are on character, substance and integrity. We need leaders of genuine integrity who are committed to building the organization and will inspire others to step up and lead. There's no doubt that failed leadership is at the heart of the crisis on Wall Street.

Achieve More With Less

In the mountains, it's not enough to do more with less — you need to do more of what matters. Imagine what it takes to climb the highest peak on each of the seven continents, including Mount Everest. Now try doing all of that blind. Erik Weihenmayer has done it. The first blind man to reach the seven peaks, he knows perhaps more than anyone living what is required to succeed in extreme conditions.

What do you really need to have with you when the going gets nearly impossible? Here's his advice:

Talk about packing for a mountain, you're carrying your house on your back, and you can't carry everything you want. So you pack light.

As you get higher up the mountain and it gets harder, you have to become more strategic and focused and drop a lot of the extraneous stuff that weighs you down and becomes a distraction, all those obligations that you thought defined you.

You have to strip yourself down and become more nimble so you can achieve the thing you really want. And when you're on the side of Mount Vinson in Antarctica and it's 50 below, you might have to drop your pack altogether.

Everyone knows that in a crisis, you have to do more with less. We all have to "pack light." But the important thing is to pack strategically. And the more challenging the times, the more "strategic and focused" we need to be.

Building Customer and Employee Loyalty

When you're trying to do more with less, the real question is "more of what?" Shouldn't it be more of what customers value and will pay for? Shouldn't it be more of what employees value and will stay for?

A crisis tempts us to take the focus off customers and employees and onto the finances. Getting buried in budgets and balance sheets can lead to mindless cutting rather than focusing on value. Companies that succeed in unpredictable times focus totally on value. They don't just cut fat; they simplify and reduce complexities that customers don't value or even understand.

There's a difference between customer satisfaction and customer loyalty. Merely satisfied customers find no reason to complain. Loyal customers, on the other hand are emotionally connected to you. They represent the biggest share of your business because they repurchase. They would miss you if you were gone.

The principle here is to focus on the job customers really want you to do for them — and that doesn't necessarily mean more of what you've done before.

Of course, companies that put the emphasis on the customer enjoy higher levels of customer loyalty. Intriguingly, they also enjoy higher levels of employee loyalty. When times are bad, employees will stay with you, but this doesn't mean they want to.

The research shows that when companies "align the customer experience with the employee experience, they create employees who are passionate about what the company stands for. Passion and engagement go hand in hand."

Research at FranklinCovey shows that people, on average, are less motivated by money than by the feeling that their contribution is valued.

Knowledge workers — the new majority — want meaningful work.

Even in tough times (perhaps especially in tough times), people want to contribute, they want to help, they want to make a difference

The leader's task in a crisis is to create a "contribution-focused" workplace.

Pushing the 'Reset' Button: Aligning the Organization to Customer Value

The steeper the climb, the lighter the pack needs to be. Doing more with less does not mean saying yes to more things. It means saying no to more things and yes to only the most important things.

As we've seen, in a crisis, it's essential to focus the organization more on customer value — the job the customer wants done. Once you have narrowed down the job to be done, your task is to realign the organization to provide that value.

Unfortunately, many companies simply cut people and resources without rethinking the job to be done. According to Watson-Wyatt research, a weak economy "forces companies to do more with less. Supervisors and managers often turn to their top performers, pressuring them to carry more of the productivity burden. The additional stress can cause burnout, disillusionment and disengagement."

Besides the stress of more work, even top performers suffer when their focus is divided. Research shows that high-engagement employees rate "unclear job definition" as their top stressor. Faced with several jobs to do, they can't excel at any of them and soon "crash and burn."

Now is the time to reset your culture from "slow and heavy" to "lean and mean." FranklinCovey research shows there's plenty of room for a reset. Here are some key statistics about streamlining your organization:

- Only 9 percent of workers feel a very high level of commitment to organizational goals.
- Only 22 percent agree that there is a clear line of sight between their own work and the organization's top priorities.
- Workers spend 23 percent of their time on "urgent but irrelevant activities."
- Workers spend 17 percent of their time on "counter-productive activities."

A crisis is an opportunity to push the reset button and start dong more of those things that really matter. Listen once more to Erik Weihenmayer, the champion mountain climber, who knows something about adversity:

It's a great time to examine your priorities and ask yourself what life you really want to create. It's time to make those hard choices, to scale down your distractions, to take a hard look at your losses and see if there's a nugget that can propel you forward and make a change in your life that you've wanted to do anyway and been too scared or too slow to do it. ●

Reduce Fear

"In the mountains," fear is the great enemy. Threatened jobs, disintegrating retirement, mortgage problems, high prices, eroding health care — it's all "piling on" people. Economic recession produces a debilitating psychological recession. What *The Economist* calls "an endless series of hobgoblins" takes its toll.

Your valued people are not immune to this perfect storm of fear.

Actually, any major change produces fear, such as new strategies, industry fragmentation or disruptive technologies. So here are a few provocative questions:

- What does the psychological recession cost you?
- Is your organization fatally distracted by fear? Are people paralyzed by uncertainty?
- Have you figured out how to redirect all this anxiety into productive energy?

What Does the Psychological Recession Cost You?

The costs of fear are heavy. Even in normal times, "distractions consume as much as 28 percent of the average U.S. worker's day … and sap productivity to the tune of $650 billion a year." In these confusing times, people are more mentally sidetracked than ever. When their homes, their families, their jobs, and their health are threatened, it's just harder for people to focus.

Of course, if we take the long view, there are no predictable times. Within recent memory, we have seen huge surges in global stock markets and huge collapses. The collapse of the Asian markets, the Dotcom Bubble, the Enron/Worldcom debacle, near total paralysis of world financial markets — obviously, we do not live in a smooth predictable world. As Nassim Taleb, author of *The Black Swan: The Impact of the Highly Improbable* says, "History does not crawl, it jumps."

"Fear wears us out, and it undermines our health and well-being. When that happens, we're less able to hope," says Shane Lopez, a researcher into the psychology of hope. "Managing this fear has to happen in a big way at the beginning of a crisis, and then it needs to be mini-managed every day."

Is Your Organization Fatally Distracted by Fear? Are people paralyzed by uncertainty?

So how do you manage fear? Olivier Blanchard, chief economist of the International Monetary Fund, advises leaders to give absolutely clear direction. "First and foremost, reduce uncertainty … Above all, adopt clear policies and act decisively."

With a clear, unmistakable mission, people can transform anxiety into action and productivity. Even if they're not sure what to do, leaders can defuse a lot of fear just by communicating clearly about the situation. In crisis time, "communication carries more significance and requires greater transparency." And yet only 13 percent of leaders have talked to their people about the turbulent times we live in. Nearly half of respondents say that their "leaders have taken no actions to respond to the economic anxiety in the workplace."

Be transparent and simply tell the story. Don't assume everybody already knows how the turbulence is affecting the organization. Talk about what's next. If you have a strategy, lay it out in clear terms.

Have You Figured Out How to Redirect All This Anxiety Into Productive Energy?

Clear direction can go a long way toward reducing fear. But the roots of fear still remain. Like a weedy vine, fear comes up from under the surface and saps emotional energy that could be used productively. It's not enough to ignore it or tell ourselves to snap out of it. An effective leader uproots it.

To do that, you have to recognize that fear is an emotional response. As a leader, you're now in the business of managing other people's emotions.

You successfully uproot debilitating fear by changing the paradigms that produce fear. You don't do it by exhorting people to get over it or to walk straight into the storm. It will crush them — privately, silently perhaps, but inevitably. If you really want to help people, don't work on their behavior, work on their paradigms.

The Root of Fear

The paradigm at the root of the psychological recession is the widespread belief that people have no control over what happens to them. The forces of change are so crushing that people simply wilt. What Martin Seligman calls "learned helplessness" is a psychological condition in which people act helpless, even when they have the power to change an unpleasant or even harmful circumstance.

A feeling of futility causes people to disengage from their work. They see themselves as victims of the economy, of the company, of their co-workers, of an unfair boss or of the "system." Judith Bardwick describes it this way:

A psychological recession is an emotional state in which people feel extremely vulnerable to economic hardship, leading to a dour view of the present and an even bleaker view of the future, which often is not based on current reality.

Your task as a leader is to help people uproot this mindset, and the only way to do that is to replace it with another mindset. Seligman says, "Habits of thinking need not be forever … individuals can choose the way they think."

Work within your Circle of Influence, not your

Circle of Concern. Everybody has worries ranging all over the place — job, family, the national debt, the possibility of a comet hitting the earth. We call this range of worries the "Circle of Concern."

So the trick is to shift your mindset from the Circle of Concern to the Circle of Influence. By doing so, you become proactive — taking charge of your own future, exercising your own resourcefulness and initiative.

Within the Circle of Influence are those measures you can take to tame unpredictability.

By focusing your time and energy on the Circle of Influence, your power to control your future increases.

Adopt a 'Knowledge Age' Paradigm of Leadership

Many leaders still hold an "Industrial Age" paradigm of leadership. To the Industrial Age leader, people are like machines to be efficiently controlled. Supervisors stand over them to ensure closer and closer compliance with orders from the top down. It's a work environment where the consequences of stepping out of line are fearful.

Why does this kind of environment generate fear in people? What kinds of fears? Fear of loss, primarily — loss of job, personal dignity, security, status or self-esteem. Perhaps even more deeply, they fear the meaninglessness that comes from being treated as a mindless cog in a machine rather than as a creative, thinking, purposeful human being.

A far more effective paradigm is "Knowledge Age" leadership. In the Knowledge Age, people are valued for their unique contribution — their ability to learn, to adapt, to innovate, to capture opportunities entrepreneurially. They are no longer just machines to be switched on and off and discarded on schedule.

To lead in the Knowledge Age, you need a paradigm of releasing, unleashing, valuing the different (even disruptive) viewpoint. You motivate people with zeal for the mission. ●

Closing Thoughts

In the Tour de France, the race is won in the mountains. In the same way, whether in business, education or government, the successful organization is the one that gets predictably good results in uncertain times.

Consider the case of two camera makers. Both Polaroid and Canon were giants in consumer photography. And a few years ago, they both hit "the mountains" — the disruptive technology of digital cameras.

In the 1990s, Polaroid looked like a big winner. Their time-honored instant camera was the razor, the film the razor blades. A flood of new models boosted sales — a Barbie camera for girls, a Business Pro camera for the office and the I-one for teens, among others. The old business model of virtually giving away inexpensive cameras to make big profits on expensive film never looked better.

By 2001, Polaroid was bankrupt. Share price had fallen nearly 100 percent, from $60 in 1997 to 28 cents. All remaining assets were sold off.

By contrast, Canon moved systematically into digital photography in the late 1990s and thrived. In 2001, Canon issued its first mass-market digital cameras — inexpensive, reliable and independent of the film business. The cameras were a hit. Share values rose predictably as Canon shares had pretty much always done since the day Goro Yoshida sold his first "Kwannon" camera in Japan in 1933.

In the midst of the 2008-09 recession, a Canon share was worth twice what it was in 1997 at the height of the technology boom. Even while suffering a drastic slowdown in sales, Canon's profit margins far exceeded those of its competitors.

Principles That Will Never Let You Down

The times are, by their nature, unpredictable. You can't begin to compute all the uncertainties of the future into a set of certainties. But there are certain principles you can rely on even in volatile times:

- You can pack only a few things in the mountains — so they'd better be important things.
- You'll be trusted only as far as you are worthy of trust.
- If customers really must have what you sell, they'll find a way to pay for it.
- The only thing stronger than fear is purpose — so make your purpose strong.

These principles will never let you down. ●

RECOMMENDED READING LIST

If you liked *Predictable Results in Unpredictable Times*, consider:

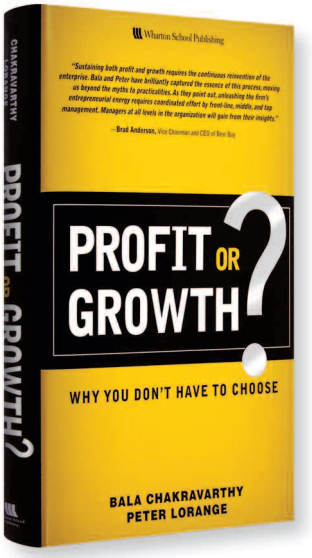
1. ***Crisis Leadership Now*** **by Laurence Barton.** Barton applies his insider's insight to numerous case studies, demonstrating how catastrophes happen to real companies. A key strategy for your management toolbox.
2. ***Chaotics*** **by Philip Kotler and John A. Caslione.** The authors teach readers the necessity of learning to manage in the "new" normality, one of turbulence and unpredictable circumstances.
3. ***The Accountable Leader*** **by Brian Dive.** This book explores what it means for managers to be held accountable at every level and argues that most leadership-related problems arise from the lack of accountability.

Summary

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Profit or Growth?

Why You Don't Have to Choose



by Bala Chakravarthy and Peter Lorange

THE SUMMARY IN BRIEF

Conventional wisdom dictates that a firm cannot have both sustained growth *and* strong profitability — it must choose one or the other. Conventional wisdom is wrong. In *Profit or Growth?*, Bala Chakravarthy and Peter Lorange share their extensive experience and research in identifying the core strategy required to achieve both growth and profitability — continuous renewal — and the efforts needed to put this strategy into action.

Top management carries a large burden in these efforts. The roles that senior executives — business, regional and functional heads — play in making the vision of continuous renewal a reality are critical. They are the ones who identify the right blend of efforts centered on organic growth, alliances and acquisitions. The firm's organizational context is also set by them. Finally, the firm's entrepreneur-managers are the prime drivers of renewal efforts.

Drawing on extensive research with world-class companies, *Profit or Growth?* introduces four proven strategies for continuous renewal. You'll discover powerful ways to protect and extend your core businesses, capture new opportunities distant from them, and "bridge" these two strategies with two others to evolve towards profitable diversification. By following these strategies and properly executing them, you will learn how to achieve both superior growth and profitability in any business environment.

IN THIS SUMMARY, YOU WILL LEARN:

- What performance dilemmas are and how to manage them.
- How to find and nurture managers who are renewal-minded.
- The four essential renewal strategies: protect and extend your core business, leverage the core, build the core, and transform the core.
- How to use the complementary means of organic growth, acquisitions and alliances to achieve the goal of continuous renewal.
- How a firm's leadership — including executives and entrepreneur-managers — can foster, sponsor and direct renewal.

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THE COMPLETE SUMMARY: **PROFIT OR GROWTH?**

by Bala Chakravarthy and Peter Lorange

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The Performance Dilemmas

Many believe profitability and growth to be mutually supportive, the two elements of the holy grail of business success. Research, however, has since uncovered discomforting tension between the two. Of the firms surveyed, more than 40 percent that achieved sustained profitability or growth failed to achieve the other. Instead of being mutually supportive, many organizations find that growth and profitability are rival challenges. Indeed, sustaining growth can actually work *against* sustaining profitability, and vice versa. The odd thing about such a business dilemma is that both alternatives are equally valued; the unpleasantness lies in not giving one of the goals the attention it deserves.

Managing Performance Dilemmas

Enhancing value for a firm's shareholders is not as straightforward as it might first appear. It requires management of twin dilemmas — driving growth and profitability and seeking short- and long-term performance. No magic formula yields all four of these performance goals simultaneously. Tensions exist between them and must be continuously balanced.

A popular way to address the performance dilemmas is to tolerate periodic imbalances and try to correct them over time. For example, a company may focus on profitability for a period, and then focus on growth after it has accumulated a fair surplus. One often hears the expression, "We first have to earn the right to grow," to euphemistically describe a "first-profitability and then-growth" approach to managing performance dilemmas.

While such a sequential approach might be unavoidable for some organizations, research has found that a singular pursuit of either profitability or growth makes it difficult to subsequently balance the two. Pursuing growth requires exploring for new opportunities and competencies, taking risks, and entrepreneurship, while profitability is helped by exploiting existing opportunities and competencies already present at the firm. Systems and processes fine-tuned to maximize profitability cannot nurture entrepreneurship.

The Simultaneous Pursuit

Conversely, firms that focus on growth alone have trouble gearing their systems for operational excellence and improved profitability. Also, the talent pool required to develop each is often deemed incompatible. Under normal conditions, firms should strive simultaneously for both profitability and growth. The idea is never to lose the momentum for either growth or profitability, but always to balance the two.

Firms that have sustained both growth and profitability have, on average, achieved higher profitability and higher growth rates than firms that focused on one goal at the expense of the other. Paying balanced attention to both profitability and growth can actually enhance both.

A Question of Strategy

A persistent dilemma for leaders is to offer a strategy architecture that allows the firm to exploit its existing opportunities while simultaneously pushing it to explore new opportunities and capabilities that will be needed to compete successfully in the future.

Winning today's competitive battles calls for investments that strengthen the firm's current capabilities. Invisible assets such as customer relations, or the network of resources and information that a firm commands, might not often make the list of a firm's core capabilities, but they should — they are important growth platforms. Resources must also be allocated to initiatives that

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exploit these capabilities in geographies, products, value chains and customers that are adjacent to the firm's current opportunities. The question is whether such a strategy will serve the firm well in the future.

What the firm needs is a process that brings the discipline of external financial markets inside the firm and forces it to adapt speedily and radically to the changes in its environment. Leaders should be ready to cannibalize the firm's products, make its core competencies obsolete, and retire physical capabilities and resources that are not needed. The firm should launch creative new products and services that can disrupt the market position of competitors, even if this means disruptions inside the firm, too.

A firm can engage in a dramatic transformation through an evolutionary process. The present does not have to be discarded; it can be morphed into the future. This is the preferred way to transform the firm without taking undue risks — it is called *continuous* renewal.

Renewal-Oriented Managers

Managers who have become good at optimizing performance under today's business model might be reluctant to try anything new. One way to address this problem is to insulate new renewal initiatives from a firm's core businesses, and staff these with new hires who can connect more easily with new customers and build new capabilities. This essentially creates two classes of management — one for generating near-term profitability and growth through the current business model, and one for sustaining profitable growth into the future by nurturing new opportunities and building new capabilities.

This segregation makes sense in extremely turbulent business contexts, but not all industries face discontinuous change. Even when they do, there are always pockets of continuity within them. In these situations what the firm needs are *entrepreneur-managers*, managers committed to changing the core by building onto and leveraging useful elements within the core. ●

Renewal Strategies

Opportunities and capabilities can erode over time. Commitment to profitable growth is also a commitment to continuous renewal.

Seeking sustained profitability triggers the reengineering of a firm's business processes and the trimming of its business portfolio. Moreover, sustained profitability is possible only if the firm has distinctive capabilities that remain superior to that of its competitors. Its managers must strengthen/complement the firm's failing competencies with new ones. A focus on sustained growth, on the other hand, helps the firm to look beyond current opportunities and to explore new markets. Continuous renewal is about renovation, innovation and more.

Renovation and Innovation

Renovation is about protecting and extending a firm's existing market share. It is achieved through continuous improvements in operating performance. It also calls for new product introductions, new approaches to servicing the customer and new ways of segmenting the existing market, all without diversifying the competence base of the firm or the markets in which it competes. Renovation provides profitability and growth in the short run.

Innovation is about entering new markets and serving them using competencies that are also new to the firm. It stakes out a new business domain for the firm to grow profitably in the future.

The Strategies for Profitable Growth

A well-managed firm should pursue the following four renewal strategies to sustain profitable growth, albeit with differing emphases as appropriate to its business context. Renewal is not only a matter of exploiting available markets and distinctive competencies, but also about exploring for new ones.

Strategy 1: Protect and Extend the Core. Protect and extend is a base strategy that ensures that a firm's core businesses remain strong. It is in part a defensive strategy. Improving operational efficiency is a key element of this strategy. At Nestle, for example, under the auspices of a company-wide initiative called GLOBE (Global Business Excellence), the company has launched a number of efficiency initiatives. GLOBE is also aimed at sharing best practices quickly across the many countries in which Nestle operates.

Continuous improvements in operational efficiency are a must for renewal. Protect and extend is also a proactive strategy aimed at keeping the firm's competencies distinct from those of its competitors and at continuously improving the firm's market share both through product innovations and market repositioning.

It is also necessary to keep competencies distinctive. A competence is distinctive in a firm only if it is hard for its competitors to easily procure, imitate or substitute that competence. In time, a firm's competencies will be matched by its competitors.

It is a useful practice for corporate leaders to ask the following during each strategy review for a business:

- What competencies are required for competitive success?
- What is the business leader doing to keep these distinctly superior to that of the firm's competitors?

Obvious as these questions might appear, often they are

not asked. Another set of questions worth asking has to do with fully exploiting all available opportunities in the market:

- Is the business cross-selling and bundling the products that it offers to increase its market presence?
- What is the track record of product innovations? Is the business able to hold on to loyal customers?
- Is there a way to further segment the market? Are there microsegments that offer opportunities for profitable growth?

Strategy 2: Transform the Core. In sharp contrast to the protect and extend strategy, a transform strategy does not seek to strengthen the core, but to move away from it. This strategy can be pursued in two different ways.

If the goal is to abandon the current core and seek something entirely new, it is best to pursue transformation through mergers, acquisition, and divestitures, or by "buying" a new identity. Firms can also pursue a less ambitious transformation by developing separate ventures with distinctive business models to deliver new products or services to a different market or market segment than their typical core.

Between the two extremes of protecting and extending the core and transforming it, there are two other renewal strategies, leverage and build, that bridge these two.

Strategy 3: Leverage the Core. For a leveraging strategy to succeed, the firm must add new competencies in product design and in distribution appropriate to this diverse range of markets. Leveraging is typically followed by the build strategy and vice versa.

Geographic diversification is an obvious leverage opportunity. The firm seeks to take its strengths in its home market to adjacent geographies, both nationally and internationally.

Entering new markets is not enough. The distinctive competencies that help a firm's superior performance in its home market might not suffice to give it sustained competitive advantage in host countries. Joint ventures give the company a distinctive local presence and help build a professional foundation of local employees in each major country, contributing new skills and competencies to the firm and positioning it as a strong marketer in these countries, not only for its own products, but also those of other global companies.

A healthy growth opportunity also lies in adjacent market segments that can be served at least initially with many of the distinctive competencies that the firm already has.

Strategy 4: Build the Core. Unless the firm builds complementary distinctive competencies to defend its new leverage initiatives, it will have merely introduced a new opportunity for other companies to copyright and make money. Research suggests that this is a common failure. Build is a strategy through which the firm adds new competencies both for defending its existing market franchise and growing into new markets. Unlike the protect and extend strategy, the intent here is not to strengthen a competence that already exists but rather to build a new distinctive competence.

Investments in building the core are hard for any single business unit to justify given the long time delay between these investments and financial results. Sharing the investment with other potential business users makes it possible to build. They all share the risk. Corporate funding and oversight might also be needed to supplement these build projects.

Another advantage of sharing in a build strategy is that there are multiple users of the competence who are waiting and will visit as soon as it is built. Leverage follows naturally from build. ●

Dell Entering New Market Segments

Dell Computers grew impressively by initially focusing on the business customer and selling direct. It eventually ventured into selling through discount retailers and wholesale clubs, but retail sales never grew beyond 10 percent and became a major loss for the company. Dell quickly withdrew from this segment temporarily. As part of its direct-selling strategy, the company embraced the Internet early, leveraging it later to reenter the home-user segment. By 2006, the company's revenue had grown to $56 billion.

For additional information on the risks of the protect and extend strategy, go to http://my.summary.com

Continuous Renewal

In continuous renewal, the firm is transformed over time but through a sustained sequence of leverage (leading to build) and build (leading to leverage) strategies.

Best Buy provides an interesting example of continuous renewal. It has transformed itself from relative obscurity and has become the unquestioned industry leader in retailing consumer electronics in North America, with an eye on replicating that success in China. It has done so over four decades through six distinct renewal initiatives, each called a concept.

Finding a Niche: Concept I (1983–1988)

This was a leverage strategy, seeking to launch a chain of superstores offering discount consumer electronics and relying on competencies that Best Buy had built in its Sound of Music stores. Concept I sought to expand the company's

geographic reach to cover the entire state of Minnesota. In implementing Concept I, Best Buy learned how to service a chain of stores spread across hundreds of miles and acquired new competencies in managing quick inventory terms.

Becoming a Cost Leader: Concept II (1989-1994)

Although Concept I had helped to build skills in managing inventories, Concept II required a lot more. It was primarily a build strategy. Under this new strategy, all available merchandise was on display in the store. The company used a self-service, discount-style format with everyday low prices. There were no more commissions for the sales force. Sales people were put on straight salary and were there only to help or advise customers when approached. The aim was to create a "no-pressure" shopping experience for the customer and grow revenue. Despite improved operational efficiency, profitability continued to get squeezed.

Attempting a Hybrid Approach: Concept III (1995-1998)

With Concept III, Best Buy sought to provide under a single roof both low-end commodity merchandise, such as video recorders, and higher-end products that still retained a lot of "myth," such as big-screen TVs and car stereos. The idea was to launch a hybrid store that, in addition to traditional commodity products, would carry high-end merchandise with their better margins. Margins would also be helped by the sale of extended warranties for these high-priced products.

Even though Concept III was largely a build strategy, it also had elements of leverage. It helped the company expand its geographic reach and start serving the needs of an entire family.

Moving Beyond Discrete Products: Concept IV (1998-2000)

With Concept IV, Best Buy sought to be the place where people could learn about the latest digital products and decide what would best suit their specific needs. Digital products were displayed creatively in a new "digital imagining area." The company also developed a Web-based distribution channel to provide a seamless connection between the physical stores and the virtual one.

Best Buy had become a company that had unique competencies in bundling consumer electronics products with associated services and in seamlessly blending the online experiences of customers with their in-store experiences.

Selling Solutions: Concept V (2001-2003)

This was both a build and leverage initiative. In-store consultants handled complicated transactions and sold packages (product, services, warranty). The stores were made more modular, enabling quick reconfiguration. This flexibility was considered necessary both for adapting to the changing needs of the customer and for matching the latest retailing innovations offered by competitors. A modular store gave Best Buy the ability to shrink or expand its different departments at will.

The company also leveraged its retailing competencies to open smaller and multistoried inner-city stores in large cities on both coasts and in Canada.

Getting Closer to the Customer: Concept VI (2004-Present)

Best Buy aimed to quantify the profitability of each of its customers. Using insights from analyses generated by its marketing team, the firm came up with five potentially profitable segments for the company, defined in terms of consumer needs and behaviors.

The next challenge was to find ways to reengineer the customer experience and address the specific needs within each segment and its subsegments. New value propositions were formulated for each subsegment, each with a well-planned store strategy. A store-operating model was then designed to help implement the selected strategy.

The Result

Each concept has helped the company expand its market scope or grow its distinctive competencies. In addition, the momentum for each concept has come from the previous one, with a steadily accelerating pace. The various renewal strategies have reinforced each other. The company has sustained profitable growth over the past decade. ●

A Blended Approach

When the exploitation and expansion of a firm's market opportunities and distinctive competencies happen primarily through efforts internal to the firm, these are said to be *organic*. The firm can also *acquire* the market access and distinctive competencies that it needs instead of developing them on its own, or form a *strategic alliance* or partnership with another firm to gain access to its markets and distinctive competencies instead of purchasing those elements outright.

Organic growth, acquisitions and alliances are not strategies; they are complementary means for implementing the four renewal strategies.

Impacts on Performance

The impact of acquisitions on firm performance has been studied extensively. The predominant finding is that in more than two-thirds of the cases, mergers and acquisitions do not create value for the acquiring company's shareholders (there are, however, a few studies that support the role of acquisitions in value creation).

The impact of strategic alliances on firm performance has been less well studied, but has shown similar poor performance. Of the strategic alliances struck worldwide between 1988 and 2004, only about a third were winners, generating a positive announcement effect in the share prices of the participating companies of four percent or better.

The story associated with organic growth is more positive. Investments in organic growth are typically measured by looking at research and development (R&D) expenses and capital expenditures — two primary internal vehicles for driving growth. One annual British survey indicates that companies that make major acquisitions have the propensity for underperformance, while those that make investments in R&D have a more positive effect on shareholder returns.

Taking a Blended Approach

Acquisitions and alliances can complement organic growth in supporting a firm's renewal strategies. How these are managed depends on the strategy being supported.

Acquisitions can support all four renewal strategies, but are particularly useful in support of a transformation strategy. Acquisitions are very helpful in supporting a build or leverage strategy as well, though success depends on having a well-planned organic growth effort to follow. Acquisitions can also help a protect and extend strategy, consolidating a firm's presence in its industry. Acquisitions cannot be implemented strictly as a financial exercise.

Alliances are useful in support of a leverage or build strategy, but are also used more routinely to protect and extend a core business. If a firm is seeking to move away from its legacy (in a transformational move), however, partnering with another company offers no particular advantage. If it is the partner who brings both access to the new market that is being sought and the missing competencies, the firm has no influence in this relationship.

When the motive is to leverage or build, there must be a deep commitment. What the firm needs is more durable access to the complementary strengths, either in new market access or in new distinctive competencies that the partner has.

Acquisitions, alliances and organic growth are not contending but complementary means of realizing a firm's renewal agenda. It is the job of the corporate leader to ensure that there is a broad template for coordinating the three, using each appropriately and coordinating them for maximum effect.

The Entrepreneur-Manager

Senior executives, with the help of staff experts, must define the renewal agenda for their organizational units, specifying the relative emphasis on protect and extend, leverage, build, and transform goals (and whether acquisitions and alliances will be used to serve these goals). For the goals targeted for organic growth, the firm's business and functional managers are invited to propose strategies. They shape these strategies in conjunction with senior management and take responsibility for their implementation.

A dedicated and special kind of manager is needed to execute the leverage, build and transform strategies. The entrepreneur-manager, a hybrid between an external entrepreneur and a good operating manager, must have the external focus and risk-taking ability of the former and the discipline around delivery of the latter.

Skills

The entrepreneur-manager must possess a specific set of skills and personality traits to be most successful:

- **See the big picture and shape strategy.** Entrepreneur-managers are always loyal to the company's vision. Unlike external entrepreneurs, they do not march to their own drum. Within this guiding vision, however, the entrepreneur-manager finds the freedom to develop strategies that can help in the firm's renewal. Entrepreneur-managers also manage their ventures by anchoring them either in a firm's distinctive competencies or in a market opportunity that the firm dominates.
- **Communicate and market the strategy.** A difficult challenge for the entrepreneur-manager is to communicate the value proposition of his venture to key stakeholders.
- **Manage stakeholders, gain support and mobilize resources.** Selling a build/leverage/transform project to key internal stakeholders is difficult. Even though we would expect the business and functional heads whose units are affected to take an enterprise-wide view, parochial considerations do exist. The entrepreneur-manager must have the ability to deal with these competing interests.

An Entrepreneur-Manager in Action at Dow Chemical

Ian Telford, a director in the epoxy products division of Dow Chemical, developed the idea for an Internet site devoted solely to purchasing epoxy products from Dow at low price points. After recognizing the seeds of resistance to his project, Telford started an e-mail rumor claiming a major announcement about a similar Web-based business from two competitors was imminent. He even arranged to have a spoof newscast about the faux venture videotaped and distributed to internal stakeholders. By visually alerting these stakeholders of external competition in the Web sphere, Telford was able to get buy-in and move forward.

• **Assemble and motivate a team of experts.** The entrepreneur-manager has to be a skilled manager of human talent, even more so than his peers in operations. This is because he does not have any special carrots to offer his team in exchange for the risk that they must take in working for him, in negative career consequences and/or salary or bonuses risked should the project fail. Also, most corporate reward systems insist on a forced ranking of employee performance. In a small, high-performing team, this will cause several talented individuals to be rated as par or even subpar. This is the risk that an employee takes in joining a renewal project.

Personality Traits

The entrepreneur-manager must also possess certain personality traits to be most successful.

• **Propensity to take risks.** Entrepreneur-managers usually display an appetite for risk both in their personal and professional lives. A prior record of adventure travel, working for voluntary organizations in difficult conditions or any such experience in one's personal life is a good predictor of an appetite for risk in a corporate context. Those special entrepreneur-managers are much more likely to take career risks in the pursuit of projects that they are passionate about.

• **Passion and inner fire.** Entrepreneur-managers will only sign on to projects that they care about, and after they commit, they invest themselves fully and emotionally in the project's goals. They own their projects and act out of an inner conviction in all aspects of their work.

• **Action orientation.** Entrepreneur-managers are not big on planning, but they will take whatever action is required to get funded. Executing the venture is more important to entrepreneur-managers than researching or talking about it. When confronted with obstacles, entrepreneur-managers are also not averse to challenging the bureaucratic ways of large corporations.

• **Self-confidence.** Entrepreneurial projects are risky and they can fail, but entrepreneur-managers learn from their mistakes and come back with immense self-confidence in their own abilities. ●

For additional information on professional traits of entrepreneur-managers, go to http://my.summary.com

Sponsoring Renewal

Behind every successful entrepreneur-manager is a strong sponsor. Sponsors are senior executives — usually heads of business divisions or regions, or heads of functions. Good sponsors are well-respected senior executives with an excellent track record at delivering results. Sponsors are also distinguished by the skills that they display in performing five critical roles: 1) defining the scope of a renewal project, 2) finding the entrepreneur-manager to run it, 3) locating a suitable organizational home for the project, 4) tailoring the firm's control and incentives systems to help with its implementation, and 5) coaching and supporting the entrepreneur-manager.

Defining the Renewal Agenda

Although entrepreneur-managers must be given the freedom to be creative, it is equally important to ensure that this creativity is properly channeled. A good sponsor understands the corporate purpose and strategy of the firm and translates these into a renewal agenda for the businesses that he manages.

Interactions in the planning process refer to the communication between the sponsor and the entrepreneur-manager in shaping the firm's renewal strategies. The greater the interaction, the richer the alternatives that are considered, and the better the alignment with the corporate vision. The more risky the project, the greater the need for repeated and rich interactions between the sponsor and the entrepreneur-manager.

Staffing the Project

Sponsors face two distinct challenges in staffing a renewal project:

• **Finding budding entrepreneur-managers.** Budding entrepreneur-managers announce themselves; they are self-confident and are always looking for new experiences. Senior managers must spot these individuals and help in their development.

• **Managing established entrepreneur-managers.** Finding the right project for an established entrepreneur-manager is not easy. The entrepreneur-manager need not be a subject-matter expert or technical authority for a given renewal project. The sponsor should determine whether the project will satisfy the learning and ego needs of the entrepreneur-manager, and/or whether the project will present new learning opportunities.

Locating the Proper Organizational Home

There are three types of homes for renewal projects, homes that provide varying balance between autonomy and connectedness:

• **Standalone subsidiaries.** These are established outside the mainstream businesses, primarily to give the renewal initiatives autonomy.

• **New venture organizations.** Sponsors must look at growth opportunities that are beyond the normal scope of a firm's core businesses.

• **Corporate projects.** Corporate project teams typically have four distinct characteristics: full-time members, face to face (nonvirtual) teams, diverse teams and corporate funding.

Tailoring the Context for Implementation

Detailing and implementing a renewal project is the responsibility of the entrepreneur-manager. The sponsor has an important role to play as well: setting a context that enforces the right discipline and providing the right rewards and recognition as is appropriate to the risk profile of the project.

Coaching and Support

Coaching is a role that is much celebrated but not often practiced, for one simple reason. Coaching takes time, and senior leaders don't have much of it. It's not necessary to draw up a long list of things that the leader should do as a coach, but it is necessary to look to sponsors not only to document the idea failures and ineffective behaviors of the entrepreneur-manager but also to offer counseling on how the manager can improve his skills.

Sponsors must also identify with the renewal project that they are sponsoring and be willing to cover for the entrepreneur-manager in dealings with top management and other business heads. This helps build trust.

Sponsors have to use the goodwill and personal credibility that they have built in the organization to support the entrepreneur-manager.

Ultimately, the important roles that strong sponsors play are mutually reinforcing. Through these, an effective sponsor helps develop both the entrepreneur-manager and his business and enhances the commitment that the entrepreneur-manager has to the firm. ●

Directing Renewal

The entrepreneur-manager and his sponsor shape and implement the firm's renewal strategies that must advance the firm's corporate vision; setting this vision is the responsibility of top management.

Although a new vision represents change, it is also the responsibility of top management to celebrate the thread of continuity that a firm has built through its core purpose and core values. Managing the tension between continuity and change is the first challenge for top management.

Core Purpose and Values

Companies that achieve sustained superior performance are guided by their core purpose and core values in their renewal. Core purpose demarcates a firm's renewal efforts, pointing both to the direction in which it should seek growth and to domains that it should not pursue. Core values define the approved behaviors for the firm's employees as they strive to serve its core purpose. Core values, like core purpose, are important elements of a firm's employee value proposition. An engaging core purpose and an appealing set of core values attracts voluntary contributions and superior firm performance.

Reinventing the Company

Just as important as core purpose and core values is the continuous reinterpretation of the core purpose into meaningful visions.

Corporate leaders recognize that balance begets balance and that their firms must start on this positive spiral toward sustaining both profitability and growth. However, their task is not easy. Demanding balanced performance has to be backed by a credible energizing vision. Whether it is for transforming the company or in its continuous renewal, periodic re-visioning of the company is important.

Visions that energize are simple and short. They have to evoke an imminent threat or highly desirable end state. They are appealing — the way is clear. The goals are tangible and can be broken down into credible milestones. Above all, they invite personal contribution from employees.

Jumping to a new vision prematurely can be just as detrimental to the firm's success as holding on to an existing vision that is getting stale. Timing should be based on a realistic assessment of the extent to which existing markets and competencies are losing their attractiveness and new ones are emerging. But visioning is not just an analytic exercise. It is also driven by the intuition of top management.

Providing a Strategy Architecture

Top management must also provide the strategic architecture for driving its vision, outlining the broad emphasis that it desires across the four renewal strategies of protect and extend, leverage, build, and transform. These strategies, in turn, can be executed through organic growth, acquisitions or alliances. It is the role of top management to ensure that the right blend of means is deployed. Top management has to be the chief change champion when advocating a new vision. ●

RECOMMENDED READING LIST

If you liked *Profit or Growth?*, you'll also like:

1. ***The Starfish and the Spider*** **by Ori Brafman and Rod A. Beckstrom.** The authors provide a look at the decentralized companies that are taking the business world by storm.
2. ***Firms of Endearment*** **by Jagdish Sheth, Rajendra Sisodia and David B. Wolfe.** From Costco to Wegmans, today's best companies are becoming the ultimate value creators, generating every form of value that matters: emotional, experiential, social and financial.
3. ***Corporate Agility*** **by Charles E. Grantham, James P. Ware and Cory Williamson.** In order to compete in the flat world — where the rules are constantly changing — businesses must be willing to embrace a new strategic model. This model needs to allow for the understanding of the evolving work force, the inception of new technologies, and the re-examination of workplace structure.

Summary

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Rethink

A Business Manifesto for Cutting Costs and Boosting Innovation



by Ric Merrifield

THE SUMMARY IN BRIEF

In *Rethink*, consultant and business architect Ric Merrifield challenges business leaders to open their eyes and view the operation of their companies in a whole new way, free from the "how" trap of concentrating on *how* things are accomplished. Delving deep into every aspect of business activities, Merrifield shows readers how to escape this trap by looking past the "how" toward the "what." He also illustrates how successfully rethinking business goals and the methods used to reach them can lead to revolutionary new ways to cut costs and optimize the corporate structure.

Never has there been a more important time for company leaders to re-evaluate and reorganize their operations to maximize efficiency and productivity. Merrifield explains how successful changes to a company's business processes can only come from learning to predict potential behaviors, identify and categorize the important "whats" by value.

Merrifield also warns that before making any modifications, even to a seemingly low-value process, each factor must be carefully examined to find its connection to high-value "whats." These connections are often overlooked because they can be hidden in personal, emotional or technological relationships and, if severed, can bring disaster.

By using the tools of analysis illustrated by Merrifield, businesses will be able to anticipate the unexpected discoveries that will result from rethinking and will be able to rethink, find innovative new ways to achieve their "whats," best their competition and increase profitability.

IN THIS SUMMARY, YOU WILL LEARN:

- What the "how" trap is and how to avoid it.
- How to step back and identify what really matters to the organization.
- Why predictability can help a business successfully make changes.
- How to identify hidden connections that might be affecting a company.
- Why it's more than OK to outsource.
- How to unlock hidden sources of value from within your company.

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THE COMPLETE SUMMARY: **RETHINK**

by Ric Merrifield

The author: For nearly 15 years Ric Merrifield has helped various organizations define and achieve their goals. Since joining Microsoft, he has spent more than 10,000 hours as a business architect and has filed 12 patent applications all with the goal of helping companies rethink their operating models and get out of the "how" trap. He is also the co-author of "The Next Revolution in Productivity," a June 2008 *Harvard Business Review* article.

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For additional information on the author, go to http://www.summary.com.

How the 'How' Is Trapping You

In 2000, after a decade of growth, Home Depot's revenues were showing signs of wear so the board of directors hired a high-powered fixer-upper, Robert L. Nardelli, who had proven his mettle as a senior executive at General Electric. The new chairman and CEO thought he knew just what the company needed, a jolt of new-found efficiency. He simplified processes, slashed costs and invested $1 billion in new technology while doubling the number of stores. He promised investors that the company would reach new heights of sales and profitability, and he delivered. Between 2000 and 2006, annual revenues soared from $45 billion to nearly $80 billion and profits doubled. But amid that success, he also came close to destroying the single, most-important advantage the company possessed — its friendly, helpful store environment.

In pursuit of savings, Nardelli slashed employees' hours to the point that many seasoned people quit; they were replaced by less-knowledgeable and less committed part-timers. He also stripped store managers of their traditional autonomy. Before long, Home Depot had devolved into a generic big-box outlet run by nervous functionaries micromanaging unhelpful, uninterested salespeople. Meanwhile, Home Depot's chief rival, Lowe's, was staffing its stores with just the kind of outgoing, caring men and women who had originally given Home Depot its edge.

Value Is in More Than the Profits

In 2001, Home Depot and Lowe's held identical rankings among specialty retailers on the University of Michigan's American Customer Satisfaction Index (ACSI). By 2005, Lowe's was second and Home Depot was at the bottom of the list. Although revenues increased during Nardelli's reign (largely because of store expansion), customer satisfaction took a nosedive. From 2000-2006, Home Depot's ACSI score was a mere 1.7 out of a possible 100, and from 2000 to 2007 Home Depot's stock remained stagnant while Lowe's shares jumped more than 200 percent.

In January 2007, the board of directors handed Nardelli his walking papers. By conventional standards, he had done everything right: cutting costs, improving processes, and increasing efficiency and productivity. His mistake? Falling victim to the "how" trap. He had focused almost entirely on improving the efficiency (read: cost) of the work being done, the "how," rather than on the "what."

Nardelli's error is all too common. Leaders tend to devote their energies to thinking about the details, thereby missing the big picture. Management theory in recent years has pointed us toward a focus on process, on how efficiently a job is done as opposed to what the job is supposed to accomplish. Most of us haven't rethought which of our activities are most important to our companies, which are succeeding, and which are borderline or even redundant. Indeed, until now, there has been no way to accurately and efficiently rethink and measure these "whats" because we have been caught in the "how" trap, a pervasive and perverse human condition that allows us to sidestep blame for failing to reach our organization's potential.

Escaping the 'How' Trap

The activities of every business can and should be reduced to a fundamental, objective view of the totality of the work the company does. In any given company

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Toni Cannon**, Contributing Editor

the "whats" comprise 80 percent of its outcomes, no matter the industry.

When you rethink — forgetting about the "hows" to concentrate on the "whats" — you are creating an easily understood table of your company's essential components. And when you see them laid out in their logical sequence, you can determine the organizational value of each "what." Your rethought list of "whats" opens your eyes to the deep-down workings of your company presented in orderly fashion.

It makes you indifferent to how these elements have been traditionally arranged within the organization, freeing you to concentrate on what really matters: outcomes. After your "whats" have been defined, you can step back and determine whether and to what degree each of them contributes to your enterprise's success. Then, depending on your findings, you can eliminate some, outsource others and reorder ones that remain, just like those plug-and-play monitors and printers that arrive ready to use. You have escaped from the "how" trap. That's the beauty of rethinking.

Focus on Outcomes

Consider what happens when an insurance agent phones headquarters to assess a new customer's policy application and get a premium quote. A manager at the home offices, using some sort of actuarial algorithm in a spreadsheet, comes up with a quote and then sends it to the agent via e-mail. Ask the agent "what" he does, chances are he'll say he makes a phone call, waits and receives an e-mail. He's caught in the "how" trap. If that agent were to rethink and focus on his "whats," he'd see that the transaction in question breaks down into these desired outcomes:

- Request Customer Premium
- Calculate Customer Premium
- Prepare Customer Quote
- Customer Quote Communication

If the insurance firm's rivals are stealing market share, and if its managers cannot rethink what they do — that is, if they are caught in the "how" trap — they typically search for an explanation and a solution in such minutiae as the length of time an agent spends calling the home office or the efficiency of the company's e-mail system. Their tunnel vision can lead their organization to undertake expensive, disruptive process "improvements" — changing telephone providers or implementing new email stems that might or might not succeed.

If the company's leaders can rethink and examine the "whats," they can have the advantage of seeing the operation in its entirety, thus illuminating a pathway for getting to the root issues. They might ask: Should the agent be empowered to come up with the premium quote him- or herself? Or should the task be turned over to a vendor? ●

The Thinking Behind Rethinking

The information technology revolution of the early 1990s dramatically lowered the cost of computers and communications, making the flow of voluminous information across departments economically feasible.

A new wave of operational improvement theorists, such as James Champy and Michael Hammer, realized that this new capability allowed work to be reorganized across departments or functions. Thus, the cross-functional process became the unit of analysis for operational improvement. Champy and Hammer called their operations-improvement method *re-engineering*, and it sparked a revolution in productivity. Another revolution, this time in software known as *enterprise resource planning* (ERP), followed shortly thereafter.

Many companies continue to use re-engineering to achieve productivity gain. But over the last decade, the confluence of three major advances in information technology has set the stage for a new, more powerful *unit of analysis* or element of focus — not the tasks performed by a worker or a department, the "hows," but the desired outcome of those tasks. Today, the key to increased productivity is rethinking the "whats."

The Cloud

The rapid rise of the Web in the second half of the s, combined with the dot-com era's proliferation of cheap bandwidth — powerful communications networks for transmitting a tidal wave of digital information around the world — has made it inexpensive for the departments of a global company to be plugged into the same information anywhere in the world. Yet another key technological advance has been the rapid growth in the number of business activities that are now software-based, particularly those aimed at gathering, manipulating and processing information.

Given these developments, achieving major productivity improvement now depends in part on reducing the cost of the new software and the computers that run it.

The Internet offers a solution. It allows corporate divisions to share the same software inexpensively across great distances by using applications that reside on the Web, referred to as *the cloud*, and corporate networks rather than on individual computers. But for a sharing

solution to work properly, the software must be based upon a common set of design principles.

Another requirement must also be met for Web-based software to achieve its potential: The various and varied operating divisions within a company need to define their business operations in a common way. If five divisions of a company are to plug into one accounts receivable software application on a corporate intranet, each division must define the way in the same way.

Rethinking an organization and considering its "whats" fills that need. Now managers in each division of a company can agree on how to define the word of, say, collecting customers' payments in terms of the outcome — the "what" — that the employees are trying to achieve rather than in terms of "how" they perform the tasks that produce that outcome.

Companies that adopt the rethought "what" approach not just as a way to adapt to the demands of Web-based sharing, but also to achieve greater productivity and efficiency will succeed because it gives company leaders a detailed, actionable view of the workings of their organization — the activities that need to be streamlined, improved, outsourced or dropped altogether. ●

First — Identify the 'Whats' That Are Truly Valuable

To begin the process of identifying and examining the desired outcomes of your "whats" and judging how to improve their performance, you need to determine which "whats" are truly generating high value for your company. To be clear, a given "what" that is described as having a high value contributes to overall performance or differentiates your company from its rivals in some significant way. For example, Ship Product may be a high-value "what" in your company because its outstanding performance sets your company apart from its competitors. Even if its performance is nothing special, it still might provide high value simply because it satisfies customers — and customer satisfaction helps keep costs constant.

Determining High-Value 'Whats'

To identify a high-value "what," look for the answers to three basic questions:

- Does it directly correlate with any of your company's key business goals? (It can be helpful to use a scale of 1 to 5, where 1 is low or no correlation and 5 is high correlation; the numerical quantities come in handy when prioritizing your "whats.")
- Does it have a strong connection to your company's brand or corporate identity? Is it one of the reasons why customers feel comfortable with your brand or why your employees and partners might decide to work with you?
- Is an effort to increase the performance of the "what" likely to cause it to become high(er) value?

After you've rethought your enterprise and completed your search for high-value "whats," another series of questions arises: If a given "what" passes muster, how is it performing today? Why is it performing at that level? How can you enhance its performance? Should you? Or, if the "what" in question does not generate value, how can you trim its associated costs? Would automation or outsourcing do the job? Does the "what" duplicate work done elsewhere in the company, in which case could it be eliminated? ●

Second — Know What You Are (and Aren't) Good At

Michael Jordan is one of the best basketball players in the history of the game. No argument. But back in 1994, he made a serious mistake. He assumed he could be one of the best at another sport as well — major league baseball. After an underwhelming spring training season with the White Sox, he was sent to the minors. That summer he batted a modest .202 with the Class AA Birmingham Barons that rose to a .250 during the fall season with the Scottsdale Scorpions. Clearly, Jordan was not headed for baseball stardom. The following year, he entered an ego-restoration program by rejoining the Chicago Bulls and leading them to three more NBA championships.

Some critics saw Jordan's baseball humiliation as a simple matter of hubris run wild. Viewed through a "what" lens, though, it takes on an extra dimension. Jordan assumed his high-performing "what" was Play Sports when, in reality it was simply (albeit phenomenally) Play Basketball. Both his basketball and baseball "whats" could be measured by clear performance statistics — scoring and assist averages for one, batting average for the other.

For business leaders tackling the second step of the rethinking work, the task of measuring the performance of their "whats" is, as you might expect, a bit more complicated. You need to discover which "whats" operate at peak levels and if not, what you should do about it. And while it is important to forget the "hows" and focus on the "whats," you do need to have a clear sense

of the "how" behind every "what" before you begin rethinking your organization.

Analyzing Performance

In analyzing the performance of your "whats" and planning improvements, you need to know just how much value each "what" contributes. Essentially, there are four combinations to work through:

- **High value/low performance:** Pay serious attention.
- **High value/high performance:** Monitor.
- **Low value/low performance:** Consider automating, outsourcing or even eliminating it.
- **Low value/high performance:** Same advice; could be a major waste of resources.

As to the actual process of judging performance, use a scale of 1 to 5, with 1 being the lowest level. So your first task is to give the "what" under consideration a numerical grade. First, ask how it is currently performing. Then, ask three further questions:

- How is it currently performing today?
- Do we know and understand what causes performance today?
- Do we know and understand what it would take to improve performance?

If the performance level is under 3, and the answer to one of the last two questions is negative, you can safely put that "what" aside for future consideration to concentrate on improving those "whats" that are high in value and low in performance.

Third — Make (and Break) Connections

Companies are immensely complex organisms, intrinsically difficult to comprehend in their entirety and it's important to rethink the linkages of every "what," no matter its value or level of performance, before you start plugging and playing because connections between "whats" can take diverse and often unexpected forms. Interpersonal relationships, for example, might create a tightly woven, far-from-obvious web among several "whats." Such linkages might improve performance or impede it. Enterprise-wide software programs are, in and of themselves, a web of connections, linking virtually every "what" within an organization and the people and technologies that are part of it.

Not all "whats" are "connected" equally and it's much easier to manage and move them effectively if you understand precisely how they connect and how those connections affect their performance and the enterprise as a whole. If a particular low-value "what" is not tightly interconnected, for example, it might be a good candidate for automation, outsourcing or elimination. If a high value "what" is tightly interconnected it might be wise to change it only slowly, if at all. By the same token, "whats" that seem tangential and better performed by a vendor might nevertheless have to be kept in-house because their disappearance would hinder the workings of the more valuable "whats" to which they closely link.

Interconnectedness

Interconnectedness is a powerful and necessary aspect of a successful organization. These relationships are often ignored when companies set about making operation improvements because leaders become so intent on the immediate details of a job, the "hows," that they overlook the connections as well as the "whats." That can lead to disaster.

When considering a plug-and-play approach with any given "what," you need to get a fix on its interconnectedness. Is it intimately, somewhat or lightly involved with other in-house "whats" or with the "whats" of partners, suppliers, regulators or even customers? If the "what" you've targeted for improvement or automation is highly interconnected, that extra complexity is likely to add to the project's cost and risk.

The Manufacture Product "what," for example, requires a large number of inputs from various sources, and its outputs go in many directions. All those human and mechanical connections need to be factored into the improvement or automation equation.

A highly connected "what," even if it has been previously defined as low-value and low-performing, might be difficult to outsource because it breaks virtually all the relationships that have been built up over the years. On the other hand, a "what" such as Pay Employees has a low level of connectedness to other "whats." It's an important activity, of course, but it doesn't, in and of itself, contribute high value. So if you plan to improve its operation, there will be relatively few complications because of links to other "whats." In fact, its limited connectedness and low value make it a popular candidate for outsourcing.

Don't underestimate the importance of the personal factor. If there are family ties between the head of payroll and a high-level executive, any move to outsource the pay-employees "what" is likely to encounter static.

And you should think twice about any improvement plan that would negatively affect a supplier whose CEO is best friends with your major customer.

Fourth — Understand What Can (and Can't) Be Predicted

The next step is to train the lens of predictability on your stakeholders — customers, suppliers and partners — to anticipate their responses to the plug-and-play changes you want to make.

Predictability is one of the most treasured business qualities. Uncertainty is anathema because it's risky; it doesn't make sense to gamble when you don't know the odds. So in the course of rethinking, the ability to predict how your key "whats" will behave under the different circumstances becomes critical to your planning.

Before you embark on a rethinking initiative to alter your "whats," especially those that generate substantial value for your company, you'd better have a clear sense of what the effects will be. Those predictions should help you decide whether to pursue the changes or, if your do go ahead, how to prepare for negative impact. Leaders who fail to predict and prepare for worst-case scenarios of their "whats" are inviting disaster.

Predictability

You need to determine how predictable your target "whats" are. How sure are you that these "whats" will actually achieve their desired outcomes?

To the degree that you're unsure, you need to ask why. Is the unpredictability attached to a particular "what" caused by some common, well recognized factors that you can control or easily make allowance for? Or is it caused by unknown factors or those beyond your control? If the latter, you would be well advised to back off, at least until your understanding and control improves.

Not every twist and turn can be predicted with ironclad certainty. That's unrealistic. But you can become much more aware of the possible reactions, good and bad, of various "whats" as they undergo change, removal or automation. Beyond that, there is enormous value in knowing what you cannot predict. Just like knowing the odds in gambling, understanding what you are getting into and the predictability of the outcome can inform your appetite for that risk/gamble.

The greater complexity of the "what" (intricacy adds variation), the more unpredictability and longer timeframe.

Limiting Risk

To limit risk and maximize benefit, you should look first to "whats" that have high business value (so they're worth improving), poor performance (so there's room for improvement) and high predictability (so the risk of failure is slight).

The greater your ability to control the variables in the operation of your company's "whats," the better you can predict how they will react to improvement, outsourcing or automation. Some elements of any business, though, are virtually control-proof.

Fifth — Unravel (and Follow) The Rules

The laws and rules set forth by the various government branches have long loomed large in every company's business plan and daily operation. Companies are sometimes stung by a new action of a duly constituted government agency or legislative body. Auto manufacturers are intermittently slammed by new state or federal emission rules. Unexpected changes in labeling rules have caused havoc in the food industry and, of course, many of us have experienced the impact of added security regulations in airports.

For people in every industry, the message should be clear: Be prepared. A thorough understanding of your company's existing or potential compliance issues is essential. And before you rethink and perhaps make major changes to one of your company's "whats," you had better be aware of how they might alter its compliance with relevant laws. In today's world, virtually all "whats" of any consequence are subject to one or another regulation.

Global Compliance Difficulties

Compliance has been made even more complex and difficult by globalization. For example, after Congress passed the Internet gambling law, the World Trade Organization (WTO) ruled the measure illegal under the 1994 General Agreement on Trade in Services. The European Union filed a protest. Critics charged that the new law, promoted as an effort to reduce the social damage caused by gambling addiction, was actually intended to protect traditional American betting interests from competition by new online operations. As of late 2008, the conflict remained unresolved.

Categorizing Compliance

To cope with government rules and laws, start by dividing your "whats" into three categories: those that

have compliance issues, those that don't, and those that you're uncertain about and require further study. Simply recognizing which category a "what" belongs in is an important step, because it can reinforce or upset tentative decisions you've reach based on the lenses of value, performance, interconnectedness and predictability.

It would be wise not to proceed with a change after discovering that the target "whats" have existing or potential compliance problems. The existing issues have to be eliminated and the potential issues clarified. When there remains some uncertainty as to compliance, the predictability lens of the "whats" should come into play. If a "what" is also unpredictable, the risk of an unpleasant surprise that might move it out of compliance might be too high to proceed.

Note: In analyzing the legal status of your "whats," do not limit the examination to high-value ones alone. Being noncompliant in a low-value "what" can inflict major damage on your business.

Rethinking at ING Direct

Based in Wilmington, Del., ING Direct USA is a division of the Dutch conglomerate ING Groep NV, an insurance and banking colossus. Launched in September 2000 by its chairman, president and CEO Arkadi Kuhlmann, ING Direct was envisioned as the fast-food version of banking: high volume, low margin. There would be no branches — all business would be conducted by phone or Internet — and the only product at first was a savings account with an annual interest rate of 6.5 percent, far higher than a customer could finagle at a more traditional "branched" institution.

Beyond that, there were no fees, no required minimum balances, no ATMs, no perks for big depositors and definitely no handholding for difficult customers. Those who complained too much or stayed on the phone too long were invited to take their business elsewhere. As Kuhlmann explained it: "The business is not based on relationships; it's based on a commodity product. We need to keep expenses down, which doesn't work when customers want a lot of empathic contact." That policy initially saved the bank an estimated $1 million a year.

Banking — Redefined

At the time, branch banks were falling all over themselves to offer customers a dizzying array of products and frills, ranging from gaudily personalized checks to extended lobby hours. But Kuhlmann took the opposite track. Given that prior to the emergence of the ATM, location had been one thing that differentiated players in the commodity banking business. Kuhlmann saw the Internet as making location totally irrelevant to retail banking.

Seeing opportunity, he looked at how retail banking was done and ditched formerly important "hows" in favor of focusing on more important "whats." He slashed costs by forgoing brick-and-mortar branches, lowering customer-support performance measures and revolutionizing operations through the introduction of easy online customer transactions.

By rethinking the lackluster model of traditional retail banking and its accompanying "whats" and "hows," ING Direct's parent company hoped to expand globally without a huge investment in a bank network, using a unique stripped-down business model — and the required "whats" and "hows." That meant no "whats" involving paper checks (ordering, printing, processing and so on) and no "whats" related to branches (locations, construction, employees and such). Nor did it invest in extensive customer support; instead, the focus was on giving customers the highest savings rates, the best online experience and protection from annoying overdraft fees.

Focused on the "What"

In short, the only "whats" that mattered were those that helped the company make money and its customers save it. Kuhlmann increased targeted investments in innovation to nurture the specific type of relationship he sought to have with customers. For instance, to guarantee the fastest and smoothest experience possible, the company paid special attention to buying and leasing state-of-the-art technology, regularly updating it, and keeping its people well versed on its use.

The company's constant monitoring of the performance of its "whats" — in particular, Fulfill Demand — gradually led Kuhlmann to modify the business model. Customers wanted more products. So Kuhlmann added mortgages then checking accounts — in each case finding ways to make the most of ING Direct's existing "whats" while developing new ones only as needed.

The ability to add and remove "whats" easily gives companies a degree of agility that was all but nonexistent just a decade ago.

Despite all the changes, Kuhlmann still insists that ING Direct's basic strategy remains the same: "Our mission is to lead Americans back to savings."

Morph Again and Again

When Shakespeare wrote Hamlet's great soliloquy, "To be or not to be," he not only defined the human ambiguity, he also foreshadowed the uncertain future of the play. No other drama has been more often recycled, re-imagined, reinterpreted or rethought by successive generations of critics and dramaturges.

When it comes to business, the unprecedented uncertainty and volatility facing leaders today create turbulence as great as any that buffeted Hamlet.

Companies must constantly monitor and massage how they do what they do to adjust to new technologies, new competitive threats and ever-changing market conditions. They must continually rethink, discover new ways to expand their trove of "whats" and further exploit those they already possess. Otherwise, they will fall victim to more flexible, proactive rivals demanding "your money and your life."

P&G Soars by Morphing

In 1999, when A.G. Lafley was named CEO of the Procter & Gamble Company (P&G), sales and earnings were shrinking. After supplying consumers with a seemingly endless supply of new products and services for 162 years, the company was running out of ideas. New technologies and new competitors had sped up the pace of business while globalization had fragmented its processes and procedures. To stay in the race, P&G had to churn out innovations much faster but without jeopardizing profitability — it had to rethink. Success in managing its Innovate Product "what" would be central to the company's very survival.

At the time, P&G was getting barely 10 percent of its product ideas from outsiders. But Lafley knew that his company could no longer go it alone. "We don't care where the ideas come from," said Lafley, decreeing that, henceforth, P&G would work to source 50 percent of its Create New Product from outside the company.

Refocusing Their Strategy

Nabil Y. Sakkab, senior vice president for corporate research and development, says experience shows that 1,000 ideas must be filtered to find one "big idea," the kind that will return, say $100 million of new business. To create $4 billion in new business, the goal Lafley laid out, the company would have to access and vet 40,000 ideas.

To get things started, Lafley rethought P&G's Research and Develop Product "whats" by reframing them as "connect and develop," or C&D. That seemingly small change in terminology set product developers and marketing people to think about their jobs in a new way. No longer were they researching and creating in solitude, the new mind-set was outward-looking, and it encompassed an estimated 1.5 million innovators around the world who could help P&G solve problems and think up ideas for new products. Alliances were no longer part of the company's strategy; they were its strategy, making a previously unimportant "what," Manage Partner Relationships, crucial to P&G.

Five years after Lafley's groundbreaking directive, innovating innovation had notably increased the efficiency of the company's R&D investments. In fact, P&G's innovation success rate had doubled, and when translated to an income statement, the newfound efficiency looked like this: a 19 percent jump in 2004 sales and a 25 percent rise in earnings, a remarkable achievement for a company P&G's size.

Success Through Rethinking

Today, P&G has regained its cherished spot as the most innovative packaged-goods marketer.

Thanks largely to rethinking and ideas generated from outside its walls, the company has won some 27,000 patents, while 23 of its quality leadership brands have met its benchmark for success by reaching or exceeding $1 billion in annual sales. C&D is up by 60 percent, and innovation success rates, as measured by projects meeting financial criteria, hover around 70 percent.

All of this is a testament to Procter and Gamble's mastery of Manage Talent "whats" and to A.G. Lafley's innovative idea for innovating innovation.

If you succeed in identifying, analyzing and understanding your "whats" as your rethink and go forth to best your competition, you'll discover a whole new way of looking at your own business and at business in general. You will be liberated from the blinder-like tunnel vision of a narrow focus on cost, procedure, sequencing and all the other "hows" of the game. ●

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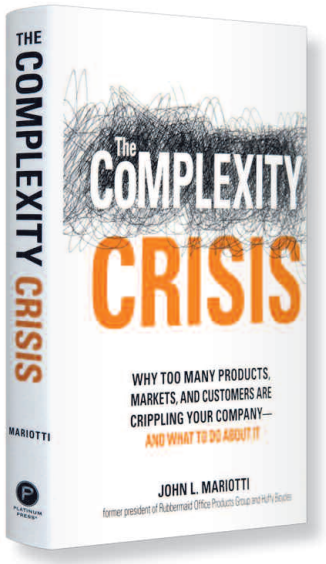
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Summary

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The Complexity Crisis

Why Too Many Products, Markets and Customers Are Crippling Your Company — And What To Do About It



by John L. Mariotti

THE SUMMARY IN BRIEF

In their quest for double-digit growth in single-digit markets, many companies are finding themselves in a crisis — one that they often don't realize is of their own making. They have created more products, customers, markets, suppliers, services and locations, but increasing complexity has destroyed the fruits of their labors.

Make no mistake, companies need new products to compete, but how many, and how they are developed, introduced and managed, makes a huge difference in how complex they should be. After all, in most organizations, people feel the need to create new products, processes, facilities and systems, *but no one is designated to kill off the obsolete or unproductive ones!*

The Complexity Crisis demonstrates how new metrics and deliberate, disciplined managerial control can reduce profit-sucking complexity — or turn complexity into a competitive advantage. Author and management veteran John Mariotti shows how to contain the slow, almost invisible creep of complexity into organizations and how companies can create profitable growth without creating and then having to manage new complexity. He also explains why innovation, while essential, should be "managed innovation" rather than rampant proliferation.

John Mariotti covers these topics and more as he reflects on his personal battles with complexity at the helm of Rubbermaid and Huffy, and he illustrates how other prominent companies have fought and won their own wars on complexity.

IN THIS SUMMARY, YOU WILL LEARN:

- Why complexity can be the kiss of death.
- How to measure the overall complexity of your company.
- How to detect needless complexity in different areas of your business.
- How several major companies have rooted out and eliminated complexity.
- How several major companies have used complexity to their advantage.

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THE COMPLETE SUMMARY: **THE COMPLEXITY CRISIS**

by John L. Mariotti

The author: John L. Mariotti is the president/CEO and founder of the Enterprise Group, a coalition of time-shared executive advisors, which he founded in 1994. Prior to this, he was president of Rubbermaid Office Products Group.

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What Is the Complexity Crisis?

Companies all over the world are struggling with a crisis and most don't realize that it is a crisis of their own making. This crisis — the Complexity Crisis — is crippling them, destroying their profits and draining their resources. In the quest for high growth in low- or no-growth markets, companies have proliferated nearly everything: products, customers, markets, suppliers, facilities, locations, etc. Some of the time, the proliferation actually does lead to top-line revenue growth, but as the top line goes up, the bottom line — profit — doesn't. This is worsened by the fact that none of today's pervasive accounting systems identify complexity costs until it is too late because the causes are obscured, buried in variance, special charges, increased overhead and other "catch-all" categories.

What can you do about it? Take this occasion to go on a company "diet" of sorts. Prune low-profit, low-volume and unnecessary products. Lose unprofitable customers. Eliminate the outdated reports, unused screen formats and obsolete software. Finally, institute new metrics and modifications to existing management cost-control systems to know when to drive complexity out and when to capitalize on it. Last, and most important: Keep the management of complexity as simple as possible, so whether you "use it or lose it" you solve the problem and keep it solved.

Peter Drucker wrote about concepts related to the Complexity Crisis in his classic 1963 *Harvard Business Review* article "Managing for Business Effectiveness." In essence, Drucker said that clarity of focus is critical in allocating resources, which is the essential job of management. A company that tries to chase too many ideas will only encounter another form of the Complexity Crisis and drown in work, but not in profits. The hard part of innovation is sorting out which ideas should make the cut and then undertaking the job of successfully commercializing them.

For information on how Apple Computer eliminated its complexity in the PDA market, go to: http//my.summary.com

The Bottom Line — Where Complexity Hurts

As companies struggle for growth in sales revenue, they try to drive the "top line," which is where sales revenue shows on the income statement. Many companies succeed in gaining top-line growth but introduce costly complexity along with the growth. When the results are compiled at the end of a month or quarter, only then do they discover that the top line may have indeed gone up nicely, but the bottom line went down — often dramatically.

How could this have happened? Typically, nobody considered the economic impact of the complexity on new customers, new products, new distribution, new suppliers, working from new specs, doing business in new states and countries with different regulations and legal practices, and added costs of relocation, special commissions, freight, etc. And all this was made worse by trying to do it all too fast.

Unintended Consequences of Complexity

The goal of consistently good quality is dependent on the reduction of variability. In naturally occurring events, and especially in the processing of materials by machinery, natural variation in dimensions and characteristics will occur. As long as the items produced fall within

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acceptable tolerance range, they are in conformance — and usable. But when the process varies more, some items produced fall outside the acceptable tolerance range and are considered nonconforming or defective. These items usually must be sorted out.

One process is easier to improve than several. One process is easier to keep in control than several, too. When a company uses multiple processes and/or multiple suppliers — even with each of them aiming at the same targets for dimensions — each process introduces new variability, and complexity's role in creating crises, by undermining quality, becomes painfully evident.

Service is impacted by complexity, too. Forecasts are predictions. The more items a forecast must predict, the more chances to make errors. The more locations where the demand originates, the more chances for error. The more people involved in the forecasting process, the more accurate it is — not. The more customers for whom demand must be forecast, the greater chance of error. This is why complexity adds to forecast error, and forecast error undermines customer service. In order to service a volatile demand by a customer, the best solution is to have more, flexible production capacity — in order to respond to forecast errors and changes in demand as rapidly as possible.

Globalization also increases vulnerability to the Complexity Crisis. Problems don't go away when they are moved far away to a new home. The longer a supply chain extends, and the more complex it is in makeup, the slower it will react to changes.

For information on how Titleist handles the complexity of "acceptable variation," go to: http//my.summary.com

Two Essential Steps

The two steps to solving any problem are: define the problem first, solve it second. The problem is relatively simple to state. Companies are adding complexity faster than they are improving their ability to recognize it, measure it or manage it. This problem also presents a great opportunity. The opportunity is to understand what we are doing and devise ways to make complex things simpler or make that complexity create competitive advantage.

If you suspect that complexity is a problem and not an advantage, then it is time to find that complexity and "fix it," which means drive it out of the business. On the other hand, if a high-variety, complexity-rich solution appears to yield competitive advantage, it is time to determine how the structure, processes and culture/relationships of the company must be altered to execute such a strategy profitably.

In its "War on Complexity," Motorola addressed both its portfolio complexity and its product complexity. To control the process and monitor complexity in new designs, Motorola created a "Complexity Index" (CI).

CI is a company- and product-specific (or service-specific) matter. Different aspects of product/service designs add complexity and others add value. This CI concept sets an impersonal but agreed-upon criteria for a design to meet.

How to use a CI: Create a test metric, one that rolls multiple design factors into one measurement. Use it as a gatekeeper to disqualify overly complex designs and send them back to the drawing board.

How Motorola Did It

The story about Theresa Metty coming to Motorola from IBM as head of its supply chain management and finding a mess is one that could be retold many times over, at many other companies. And while many of the solutions adopted by Motorola in its War on Complexity were not new, the combination used to defeat complexity was a new solution set. Most of these time-proven disciplines had been forgotten or overlooked in the scramble to chase new products and regain lost market position.

- Create "platforms" around which products can be built with variations, making it unnecessary to completely redesign the product to meet different market segment needs.
- Have standard component lists. Having standard spare parts is also crucial.
- Use fewer suppliers to automatically reduce variability.
- Long-term agreements can be negotiated, creating greater stability and lessening complexity in supply chain relationships.
- By holding components in a semi-finished condition, much of the complexity otherwise introduced by model-to-model variations can be reduced.
- Mass customization allows companies to use mass-production techniques until the product reaches a nearly finished state and the differentiators that "customize" the product are added at the latest possible time.
- A Complexity Index can use weighting to denote the relative importance of the various factors in its makeup and arrive at a single numerical index.

How to Recognize It, Measure It and Begin to Fix It

The problem of complexity that plagues today's businesses, managers and executives is an insidious result of their own actions. It lurks in many parts of the business, unmeasured, while draining resources, focus and energy. Now it is time to expose it, learn to both measure and control it, and then decide whether to lose it or use it — specifically, reduce it by driving out complexity or develop a strategy to compete based on complexity, with structure and processes to do just that.

There are only five ways to grow faster than the market is growing. First and most obvious is to try to take market share from competitors, as it involves participation in the same markets, competing with familiar competitors, products, etc. Choosing this path to growth usually doesn't add complexity unless the share you go after is a different kind of product, customer, distribution, etc. This approach is also one of the most difficult from the perspective of profitability and likely competitive retaliation.

The second choice, expanding the market through innovation, sounds great. It's just much easier to say than to do. Innovations are not too predictable and are subject to copying, knockoffs or product life-cycle limitations.

The third option, changing the mix to sell higher-priced products, is a very effective way to impact profitability and would be a great solution for growth if everyone else wasn't also trying to do the same thing. This is also a strategy that is less likely to cause more complexity and might actually lead to simpler product and customer combinations.

The fourth choice, entering new markets, has appeal because "the grass is always greener on the other side of the fence." Remember, however, that while new markets may be new to you, they are some incumbent's current market, and that incumbent will defend its market position.

Finally, the fifth option, creating an entirely new product and market, is a wonderful one. It is also the most difficult and uncertain, and contains elements of the prior four. ●

A New Metric for Tracking Complexity

A useful management tool to understand where a company makes money and where it loses money is the *descending-order list*. Rank customers by annual sales from highest to lowest. Calculate the percentage each customer contributes to total sales and then create a cumulative percentage column. Then rank those same customers in descending order by annual profit contribution. Next, rank these same customers in descending order by percentage of gross margin. The names at the top of the first two lists should be similar.

Next go to the top and bottom of the sales and margin lists and find the 20 percent cumulative and 80 percent cumulative points and draw lines across the list. You have now identified the most valuable and least valuable customers from a sales and profit contribution perspective. Among these lowest volume and least profitable customers is where complexity usually hides.

Do the descending-order ranking on suppliers and annual purchase dollars too. Complexity exists on both the sell side and the buy side. Finally, repeat this ranking process for finished products by annual sales volume, gross-margin dollar and gross-margin percentage contributions in descending order. The customers and products that occupy the bottom of these lists are those that add complexity without the redeeming feature of adding profitability.

The last of the more common metrics, but still only used sparingly, is to compute sales (revenue) per employee and profit per employee. Complexity requires added staff to manage, and this shows up in higher head count without a correspondingly higher level of sales.

There is another metric, the Complexity Factor (CF), which is more complex to compile but quite revealing in its relative simplicity:

CF = Number of Finished Products (SKUs) x Number of Different Markets Serviced x Number of Company Legal Entities x Number of Significant Facilities x (Number of Employees + Number of Suppliers + Number of Customers) ÷ Sales Revenues.

The CF is not an absolute measure — it is an indicator that provides information about the likelihood of a company suffering from complexity or benefiting from the lack of it. Drive down the CF; drive up the profitability of the company. ●

The Examples

Complexity is everywhere. Make no mistake, companies need new products to compete, but how many, and how they are developed, introduced and managed, makes a huge difference in how complex they should be.

Subs and Sundaes

In its small, make-to-order, deli-style restaurants, **Subway** uses a limited number of basic ingredients and

can produce a nearly infinite variety of sandwiches. This is a perfectly simple and familiar example of the principles of adapting the structure and processes to the "use it" strategy of competing on intentionally created complexity. Complexity that is driven by consumer choice at the time of demand is a competitive advantage.

The **Dairy Queen** franchise was built around the custard-dispensing machine, which took the liquid custard and froze it into a semisolid and then dispensed it through a nozzle into cones, sundae dishes and milkshake cups. From a small array of sweets and the platform of the frozen custard machine, a wide variety of confections could be created. Although frozen yogurt stores like TCBY and regional ice cream chains have taken market share from DQ, its original principle of competing on complexity remains virtually unchanged. Competing using complexity works well if the structure and processes are designed for it.

Cars: How Many Models Is Just Enough?

There are few places in the history of industrial development where one could find a better example of complexity's impact than the past century in the U.S. auto industry. Complexity evolved, became a competitive advantage, reversed itself and is now beginning to rise again.

For example, **Henry Ford** invented the equivalent of the modern-day assembly line. Then he decided to abandon the common industry practice of producing many different models and instead make just one model, and to make it in just one color. Ford proved three things. First, a strategic, systematic lowering of prices could boost volume and increase profits. Second, the elimination of complexity had a wonderful effect on efficiency and productivity. Third, the elimination of complexity in jobs allowed workers to remain stationary and perform repetitive tasks faster and faster, as the chain-driven assembly line speeded up the production pace.

Alfred Sloan's strategy at General Motors was to use the purposeful addition of complexity as a competitive weapon against Ford's concentration on a single model. Sloan wisely decided to create a reason for people to replace their cars before they wore out. It was called the "annual model changeover." This added considerable complexity in parts, production, dealer inventories and more, but it also shot GM to the top of the U.S. auto industry.

Planes, Computers and Credit Cards

In their zeal to charge as much as possible yet fill the plane as full as possible, most airlines don't have any (quantifiable) idea how much complexity costs in lost productivity, systems complexity, confusion and customer ill will. Air travel is an inherently complex business in the first place, and this is complicated by the fact that it is weather dependent. The marketing departments add to the complexity — with the best of intentions — by devising new promotions to drive traffic into particular markets, each of which gets layered atop all the others.

A few airlines, most notably **Southwest,** seem to have "broken the code" by simplifying how they operate to thwart the worst effects of complexity. What Southwest must avoid are the mistakes that killed the first "simple" airline, People's Express, a couple of decades ago — adding complexity to an inherently simple business model.

When **Dell** did it differently, using postponement and mass customizations along with the interactive power of the Internet to build a myriad of computers to match individual customers' wishes, it revolutionized the selling and building of personal computers, and it did so more cost effectively than anyone else. This was a "use it" complexity strategy superbly executed.

Capital One realized that people don't all want the same kind of credit card. Thus a nearly infinite menu of credit cards — for every use and every situation — was born. The key insight is the importance of designing the structure and processes such that many variations can be added with little or no systemic or transaction cost.

Fast Food

McDonald's was the Henry Ford of fast food. All regular hamburgers and cheeseburgers were made the same: ketchup, mustard, pickle and onion, done on an assembly-line process next to the grill. The temptation to add more choices was irresistible, so along came the Big Mac. McDonald's felt compelled to at least match Burger King with a bigger burger, and the Quarter Pounder was introduced.

Japanese Carmakers Defeat Complexity

From the teachings of American quality gurus J. M. Juran and W. Edwards Deming, the Japanese realized that complexity undermines quality, which led to Japan's quality strategy. Japanese carmakers realized that offering only a few variations — perhaps four exterior colors and two interior colors — and equipping all cars with the most popular options made it easier and more economical to build cars, which led to higher build quality. This is the essence of eliminating the Complexity Factor — the "lose it" version.

Suffice it to say that everything else it added to the menu to combat competitors' offerings added more complexity than profit. This caused McDonald's serious problems, the most vexing of which was that the food no longer came out fast. At the heart of the matter was the fact that over the years McDonald's had layered complexity after complexity on its restaurants but had not changed the structure, process, culture and relationships in a comparable manner. ●

Too Many of Everything?

A simple trip to the grocery store, home center, electronics store or supercenter will tell you all you need to know about how complexity is creating huge inefficiencies in all walks of life. About 10 percent of the items do about 90 percent of the sales. There will be about 30,000 items, give or take a few, in a supermarket these days. Each year some 10,000 to 20,000 new ones will appear. Complexity runs rampant in dozens of brands. But does it pay to line-extend so extensively until every niche of every segment is covered? No! You are just dividing up the business and multiplying the costs — and that is bad math — with or without the Complexity Factor.

Industries may vary but the Complexity Crisis hits them all. The principles of the Complexity Factor and the "use it or lose it" strategy are equally applicable to hotels, restaurants, service businesses and so on. The primary variable is how to define a "product SKU" and how to define a "served market." Once that is resolved, similar companies can readily benchmark their progress using their own calculated CF and the other metrics discussed. ●

Strategies and Solutions

The purpose of any company should not be to stifle growth through innovation. It should be to make growth productive and profitable. The key objective is to find complexity if it exists and decide whether to keep it and use it as a competitive weapon, or to eliminate it and the hidden costs it is creating. If a company is to contain the growth of complexity without stifling innovation, it must have a crystal-clear focus on how it wishes to compete and what it must do to succeed in that approach.

The best framework for thinking about complexity follows a sequence through five distinct, but related, dimensions of a business: purpose, structure, processes, relationships and culture.

Purpose

In a business's infancy, someone decided that there was a need that could be fulfilled, and thus a business was created to serve a customer. The wise founder took the time to decide, "Just what is the purpose of this business?" If it was recorded, tested, communicated and sustained, then the purpose fulfilled the first dimension of the business. Once the purpose is set, it should remain largely unchanged until or unless there is a formidable need to alter it.

Structure

To create value, which is the key to creating and keeping customers, a business must have a structure that is consistent with its strategy and vice versa. The structure is how it is set up, organized and configured. Structure decisions are usually longer-term considerations and are harder to change quickly such as closing facilities, firing people, liquidating assets, etc. Structural decisions must be made with strategic intent. The problem, however, is that few managers or executives connect the need for such structural parts to the causes of complexity — products, customers, suppliers, markets and services — each of which made sense by itself, but now conspire to create a tangled web of problems and costs that spin out of control.

Processes

As the company grows, the structure grows/evolves and the processes spread like the tendrils of a vine. Process mapping exposes waste, delay and inefficiency, and sometimes it exposes the imminent risk of total breakdown as well.

Relationships and Culture

To conquer complexity — or to use it for competitive advantage — one of the key ingredients to use is organizational trust and openness. If people inside the company don't trust one another, they won't work together effectively, and that adds unproductive complexity and gets in the way of planned strategic complexity. The same goes for relationships with the outside organizations of customers, suppliers, consultants, etc.

Contrasting strategies of "lose it" and "use it" take two different approaches. In the former, complexity is driven out, and simplification and efficiency are used to reduce hidden costs. This requires one sort of culture — one of simplicity. In the "use it" approach to embracing complexity, the systems, structure, processes, technology and culture are intended to consciously capture customers through variety, customization and intentional proliferation. ●

Complexity's Impact on Organizations

Industry is full of examples of how complexity has impacted organizations. One of the most devastating effects is that the workload goes up dramatically, but the results do not improve (or they actually get worse). These interactions, combined with the workload, lead to organizational stress, discontent and errors. A common attempt to fix the problem is not to remove the complexity or stop its causes, but to reorganize, restructure or rearrange the way work is done and the people doing it.

How do you know how far to push innovation versus controlling complexity? The only way to know that answer is to understand what complexity costs, where to find its impact and what effect it has on quality, service, profit and growth. Fortunately, most of the raw data needed is already available somewhere in those corporate computer systems we all know and love and rely on. The challenge is in knowing what to look for in those computer systems.

Just as standard cost accounting ignored activities that necessitated the development of activity-based accounting, there must be a new set of entries that capture and assign the costs of complexity where they belong. To start any such process of change, it is useful to identify the likely causes and the places to look:

• **Transactions.** Accumulate the annual department expenses for order entry and order management and divide by the number of orders processed in a year. Do the same thing for the department that processes invoices and applies the cash. It will be surprising how much it costs to process and complete an order from beginning to end.

• **Customers.** Whereas in the last metric we divided by the number of transactions, in this one we will divide by the number of customers. Once again, go to the departmental budgets for sales and gather the expenses that are incurred by sales (don't forget commissions). The challenge is to identify which customers caused those big expenses to be incurred.

• **Suppliers.** First, do the transaction analysis for purchase orders and payments just like the one for processing customer orders. Next, repeat the process of identifying what it costs to set up, buy from and maintain a supplier, just as you did for a customer.

• **Competition.** Someone must have the job of accumulating and tracking competitive intelligence, and that person's cost and support costs can be tracked as complexity-related costs too.

• **Obsolescence.** An important analysis is to see if a large proportion of obsolescence is attributable to specific customers or product lines, distribution channels, etc.

• **Forecasting.** The more complexity there is in the business, the more likely the forecasts will be wrong. In addition, the less familiar the areas are where complexity has grown, the less accurate those forecasts will be.

• **Shipment.** More interactions and more transactions involving more locations inevitably lead to more opportunities for error and more administrative costs. Analyze errors by the destinations, routes, type of material, mode of work required, and so forth.

• **Staffing Costs, Learning Curve and Training Costs.** Express the staffing level of each meaningful division of the business in full-time equivalents (FTEs) and track the trend over the past two to three years. Divide the sales revenue and the profit revenue by the head count to come up with sales per head count and profit per head count.

• **Information Systems.** Measures of information system costs are best done on a large (macro) basis, such as a percent of net sales for the division or enterprise, and then at a closer (micro) level, for utility costs and maintenance (hardware and software) costs, to see how the percentage of net sales for the individual user locations vary.

• **Currency Rates.** The more places you do business, the more chances there are for currency fluctuations alone to cause unexpected economic impacts that were not planned, and in many cases these are largely uncontrollable.

• **Tax Returns.** The greater the number of states and countries, the higher the cost to manage tax matters. The need to know banking and financial regulations and requirements adds complexity for financial officers.

• **Regulations.** The more-developed countries tend to have more regulatory compliance, while less-developed countries tend to have more cultural or local custom issues to understand and with which you will have to comply.

• **Intellectual Property.** Today's global business environment and rapid product life cycles require careful management of the few legal intellectual property protections that exist for new and innovative products and services.

• **Human Resources.** If you have too many people, you fire some, or lay them off to be called back later. This is not nearly so simple in many other countries. These costs, of course, are buried among many other unrelated ones in the overall administrative expenses of the company.

The Big Picture

There are six major topics that must be understood to compete and succeed in spite of complexity in this competitive, global 21st-century business environment.

1. The Current Environment

Even if there is not an alternate competitive source now, there could be one, and very quickly. All it takes is a large market opportunity — or a large customer like Wal-Mart — to motivate a new producer to enter the market. What's more, given a little time, companies around the globe can learn how to make almost anything (or provide almost any service).

2. The Curse of Complexity

It is a devilish choice: Go after markets where the money is, but where intrinsic growth is low or zero; or go after huge potential markets where there is precious little money to pay for the goods, thus stifling growth a different way. The solution for too many companies is to sell everything, everywhere, every way they can, and in doing so, these companies drown in complexity.

3. Strategic Outsourcing — Boon or Bane?

Companies often err by giving away what is core during outsourcing. For example, companies choose to move a problem to a faraway supplier in hopes that the supplier will fix the problem. Another misguided reason to add complexity via outsourcing is to gain competitive advantage.

4. The Value Network

The term "supply chain" is both a misnomer and an obsolete characterization of what it tries to describe. The right term for the configuration is a "network." Next, realize that "supply" isn't the end goal, "value" is. Wherever and however the value network consistently creates and delivers the best value, you will find the global winners.

5. Partnerships in an Era of Growing Complexity

Find the best people — those with talent, experience, expertise, skills and imagination — and bring them together with strong leaders who will infuse them with passion. The four powerful partnership types in the value network can be easily recalled by the acronym CAST: Customers, Associates, Suppliers and Truth-Tellers.

6. Leadership — Creating a Path to the Future

Even with the strongest of partners, the right leadership is critical to success. The leader's role has three parts:

- To create a clear understanding of, and healthy dissatisfaction with, the current reality
- To build a shared vision of a new, better reality as a goal
- To create an environment in which people are motivated to move from the former to the latter.

There are four key responsibilities of a leader in this role:

- To provide and/or ensure that the necessary resources are available
- To clear obstacles, maintain progress, develop metrics to measure progress and stay on track
- To go along on the journey
- To celebrate wins, mourn losses and never give up striving for the shared vision of the goal.

When complexity afflicts an organization, it is easy for people to lose their bearings. To manage that complexity, a leader's toughest decisions involve setting priorities.

What Will You Do Differently, and Better?

Sometimes the hardest thing to do is to get started. Think big, but try small, then adjust based on what you learn, and get going. Don't let complexity slow you down. Complexity tends to make prioritization difficult. A specific framework for thinking helps clarify what is important. The five elements any business needs to consider carefully are: purpose, structure, processes, culture and relationships.

As you try to manage complexity, there is another essential concept you must take into account: value. Value is the ultimate metric of the 21st century, and whoever can create and deliver the best value wins. If we accept that value can be defined by just five attributes (quality, service, speed, cost, innovation), it can become the basis for part of the shared vision that all leaders must create.

RECOMMENDED READING LIST

If you liked *The Complexity Crisis*, you'll also like:

1. ***Green to Gold*** **by Daniel C. Esty and Andrew S. Winston.** Based on the authors' years of experience and hundreds of interviews with corporate leaders around the world, the book shows how companies generate lasting value by building environmental thinking into their business strategies.
2. ***The Starfish and the Spider*** **by Ori Brafman and Rod A. Beckstrom.** A spider has legs, a central body and a tiny head. Chop off the spider's head and it dies. That's what happens in a centralized organization with a clear leader in charge. A decentralized organization is more like a starfish — no head, only a decentralized network of cells. This book addresses the differences between the two organizational styles and why a smart business model contains parts of both.
3. ***The Age of Speed*** **by Vincent Poscente.** In a time-starved era, you need to stop listening to everyone who tells you to slow down and begin paying attention to authors like Poscente who give you the necessary tools to get ahead of the rush once and for all.

Summary

December 2011

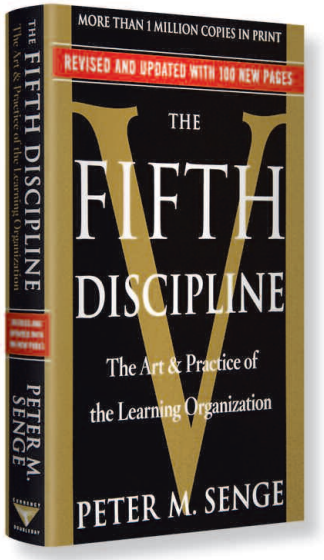
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Management

The Fifth Discipline

The Art & Practice of the Learning Organization

Bonus Summary



by Peter M. Senge

THE SUMMARY IN BRIEF

There are ways of working together that are vastly more satisfying and more productive than the prevailing system of management. Organizations work the way they do because of how we work, how we think and how we interact; the changes required ahead are not only in our organizations but in ourselves as well. In building learning organizations there is no ultimate destination or end state — there is only a lifelong journey.

In the long run the only sustainable competitive advantage is your organization's ability to learn faster than the competition. The leadership lessons demonstrate the many ways that the core ideas in *The Fifth Discipline* — many of which seemed radical when the book was first published in 1990 — have become deeply integrated into people's ways of seeing the world and their managerial practices.

In this summary of the revised and updated edition of *The Fifth Discipline*, author Peter M. Senge describes how companies can rid themselves of the learning "disabilities" that threaten their productivity and success by adopting the strategies of learning organizations — ones in which new and expansive patterns of thinking are nurtured, collective aspiration is set free and people are continually learning how to create results they truly desire.

IN THIS SUMMARY, YOU WILL LEARN:

- How to reignite the spark of genuine learning driven by people focused on what truly matters to them.
- Ways to bridge teamwork into macro-creativity.
- How to free yourself of confining assumptions and mindsets.
- How to determine if your organization has a "learning disability."
- What the 11 laws of the fifth discipline are.
- How to identify the patterns that control events.

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THE COMPLETE SUMMARY: **THE FIFTH DISCIPLINE**

by Peter M. Senge

The author: Peter M. Senge is a senior lecturer at the MIT Sloan School of Management and the founder of the Society for Organizational Learning (SoL). In addition to *The Fifth Discipline*, he is the co-author of *The Fifth Discipline Fieldbook*, *The Dance of Change*, *Schools That Learn* and *Presence*. Senge is widely known as one of the most innovative thinkers about management and leadership in the world. He received a B.S. in engineering from Stanford University, as well as an M.S. in social systems modeling and a Ph.D. in management from MIT.

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How Our Actions Create Our Reality … and How We Can Change It

As the world becomes more interconnected and business becomes more complex and dynamic, work must become more "learningful." It is no longer sufficient to have one person learning for the organization, a Ford or a Sloan or a Watson or a Gates. It's just not possible any longer to figure it out from the top and have everyone else following the orders of the "grand strategist." The organizations that will truly excel in the future will be the organizations that discover how to tap people's commitment and capacity to learn at all levels in an organization.

Learning organizations are possible because, deep down, we are all learners. Learning organizations are possible because not only is it our nature to learn, but we love to learn.

Perhaps the most salient reason for building learning organizations is that we are only now starting to understand the capabilities that such organizations must possess. What fundamentally will distinguish learning organizations from traditional authoritarian "controlling organizations" will be the mastery of certain basic disciplines. That is why the "disciplines of the learning organization" are vital.

Disciplines of the Learning Organization

Today, five new component technologies are gradually converging to innovate learning organizations. Each provides a vital dimension in building organizations that can truly "learn," that can continually enhance their capacity to realize their highest aspirations.

- **Systems Thinking.** You can only understand the system of a rainstorm by contemplating the whole rather than any individual part of the pattern. Business and other human endeavors are also systems. They, too, are bound by invisible fabrics of interrelated actions, which often take years to fully play out their effects on each other. Systems thinking also fuses the other four disciplines into a coherent whole that keeps them from turning into fads or gimmicks, and that is why it's the all-important "fifth discipline."
- **Personal Mastery.** Personal mastery is the discipline of continually clarifying and deepening our personal vision, of focusing our energies, of developing patience and of seeing reality objectively.
- **Mental Models.** Mental models are deeply ingrained assumptions, generalizations or even pictures or images that influence how we understand the world and how we take action. Very often, we are not consciously aware of our mental models or the effects they have on our behavior.
- **Building Shared Vision.** If any one idea about leadership has inspired organizations for thousands of years, it's the capacity to hold a shared picture of the future we seek to create. When there is genuine vision (as opposed to the all-too-familiar "vision statement"), people excel and learn, not because they are told to, but because they want to.
- **Team Learning.** When teams are truly learning, not only are they producing extraordinary results, but the individual members are growing more rapidly than they otherwise would have.

The Fifth Discipline

It is vital that the five disciplines develop as an ensem-

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

ble. This is challenging because it is much harder to integrate new tools than to simply apply them separately. But the payoffs are immense.

This is why systems thinking is the fifth discipline. It is the discipline that integrates the disciplines, fusing them into a coherent body of theory and practice. It keeps them from being separate gimmicks or the latest organization fads. Without a systemic orientation, there is no motivation to look at how the disciplines interrelate. By enhancing each of the other disciplines, it continually reminds us that the whole can exceed the sum of its parts.

Does Your Organization Have a Learning Disability?

In most organizations that fail, there is abundant evidence in advance that the firm is in trouble. This evidence goes unheeded, however, even when individual managers are aware of it. The organization as a whole cannot recognize impending threats, understand the implications of those threats or come up with alternatives.

It is no accident that most organizations learn poorly. The way they are designed and managed, the way people's jobs are defined, and most importantly, the way we have all been taught to think and interact, creates fundamental learning disabilities.

Structure Influences Behavior

Here is the first principle of systems thinking: *When placed in the same system, people, however different, tend to produce similar results.*

The systems perspective tells us that we must look beyond individual mistakes or bad luck to understand important problems. We must look beyond personalities and events. We must look into the underlying structures that shape individual actions and create conditions under which types of events become likely.

The Fifth Discipline: The Cornerstone of the Learning Organization

The fifth discipline — systems thinking — is the cornerstone of the learning organization. Here are the laws of the fifth discipline:

1. Today's problems come from yesterday's "solutions." Solutions that merely shift problems from one part of a system to another often go undetected because those who "solved" the first problem are different from those who inherit the new problem.

Multiple Levels of Explanation

The systems perspective shows that there are multiple levels of explanation in any complex situation. In some sense, all are equally "true." But their usefulness is quite different.

"Event" explanations — who did what to whom — doom their holders to a reactive stance.

"Pattern of behavior" explanations focus on seeing longer-term trends and assessing their implications. Pattern of behavior explanations begin to break the grip of short-term reactiveness.

"Structural" explanations, the least common and most powerful, focus on answering the question, "What causes the patterns of behavior?" They address the underlying causes of behavior at a level which patterns of behavior can be changed.

2. The harder you push, the harder the system pushes back. Systems thinking has a name for this phenomenon: "compensating feedback" — when well-intentioned interventions call forth responses from the system that offset the benefits of the intervention. The more effort you expend trying to improve matters, the more effort seems to be required.

3. Behavior grows better before it grows worse. Low-leverage interventions would be much less alluring if it were not for the fact that many actually work, in the short term. In complex human systems there are always many ways to make things look better in the short run. Only eventually does the compensating feedback come back to haunt you.

4. The easy way out usually leads back in. Pushing harder and harder on familiar solutions, while fundamental problems persist or worsen, is a reliable indicator of nonsystemic thinking — what is often called the "what we need here is a bigger hammer" syndrome.

5. The cure can be worse than the disease. Sometimes the easy or familiar solution is not only ineffective but addictive and dangerous. The long-term, most insidious consequence of applying nonsystemic solutions is increased need for more and more of the solution.

6. Faster is slower. Virtually all natural systems, from ecosystems to animals to organizations, have intrinsically optimal rates of growth. The optimal rate is far less than the fastest possible growth. When growth becomes excessive the system itself will seek to compensate by slowing down, perhaps putting the organization's survival at risk in the process.

7. Cause and effect are not closely related in

time and space. There is a fundamental mismatch between the nature of reality in complex systems and our predominant ways of thinking about that reality. The first step in correcting that mismatch is to let go of the notion that cause and effect are close in time and space.

8. Small changes can produce big results — but the areas of highest leverage are often the least obvious. There are no simple rules for finding high-leverage changes, but there are ways of thinking that make finding them more likely. Learning to see underlying structures rather than events is a starting point. Thinking in terms of processes of change rather than snapshots is another.

9. You *can* have your cake and eat it too — but not both at once. Sometimes the knottiest dilemmas, when seen from the systems point of view, aren't dilemmas at all. They are artifacts of "snapshot" rather than "process" thinking, and appear in a whole new light once you think consciously of change over time.

10. Dividing an elephant in half does not produce two small elephants. Living systems have integrity. Their character depends on the whole. The same is true for organizations; understanding of the most challenging managerial issues requires seeing the whole system that generates the issues.

11. There is no blame. We all tend to blame someone else for our problems. Systems thinking shows us that there is no separate "other"; that you and the someone else are part of a single system. The cure lies in your relationship with your "enemy."

A Shift of Mind

Systems thinking is a discipline for seeing wholes. It is a framework for seeing interrelationships rather than things, for seeing patterns rather than static "snapshots." It is a set of general principles — distilled over the course of the 20th century, spanning fields as diverse as the physical and social sciences, engineering and management. It is also a set of specific tools and techniques, originating in two threads: "feedback" concepts of cybernetics and "servo-mechanism" engineering theory dating back to the 19th century. And systems thinking is a sensibility — for the subtle interconnectedness that gives living systems their unique character.

Systems thinking is the fifth discipline because it is the conceptual cornerstone that underlies all of the five learning disciplines. All are concerned with a shift of mind from seeing parts to seeing wholes, from seeing people as helpless reactors to seeing them as active participants in shaping their reality, from reacting to the present to creating the future. Without systems thinking, there is neither the incentive nor the means to integrate the learning disciplines once they have come into practice. As the fifth discipline, systems thinking is the cornerstone of how learning organizations think about their world.

Reinforcing and Balancing Feedback and Delays

There are two distinct types of feedback processes: reinforcing and balancing. *Reinforcing* (or amplifying) feedback processes are the engines of growth. Whenever you are in a situation in which things are growing, you can be sure that reinforcing feedback is at work. Reinforcing feedback can also generate accelerating decline — a pattern of decline in which small drops amplify themselves into larger and larger drops, such as the decline in bank assets when there is a financial panic.

Balancing (or stabilizing) feedback operates whenever there is a goal-oriented behavior. A goal can be an explicit target, as when a firm seeks a desired market share, or it can be implicit — such as a bad habit — which, despite disavowing, we stick to nevertheless. In addition, many feedback processes contain *delays*, interruptions in the flow of influence that make the consequences of actions occur gradually.

Identifying the Patterns That Control Events

Structures of which we are unaware hold us prisoner. Conversely, learning to see the structures within which we operate begins a process of freeing ourselves from previously unseen forces and ultimately mastering the ability to work with them and change them.

One of the most important, and potentially most empowering, insights to come from the young field of systems thinking is that certain patterns of structure recur again and again. These "systems archetypes" or "generic structures" embody the key to learning to see structures in our personal and organizational lives. The systems archetypes — of which there are only a relatively small number — suggest that not all management problems are unique, something that experienced managers know intuitively.

The systems archetypes reveal an incredibly elegant simplicity underlying the complexity of management issues. As we learn how to recognize more and more of these kinds of archetypes, it becomes possible for us to see more and more places where there is leverage in facing difficult challenges, and to explain these opportunities to others.

Mastering the systems archetype starts an organization on the path of putting the systems perspective into practice. For learning organizations, only when managers

start thinking in terms of the systems archetype does systems thinking become an active daily agent, continually revealing how we create our reality.

Self-Limiting or Self-Sustaining Growth

It's hard to disagree with the *principle* of leverage. But the leverage in most real-life systems is not obvious to most of the actors in those systems. The purpose of the systems archetypes, such as limits to growth and shifting the burden, is to help people see those structures and thus find the leverage, especially amid the pressures and crosscurrents of real-life business situations.

We all know the metaphor of being unable to "see the forest for the trees." Unfortunately, when most of us "step back" we just see lots of trees. We pick our favorite one or two and focus all our attention and change effort on those.

In effect, the art of systems thinking lies in seeing through the detail complexity to the underlying structures generating change. Systems thinking does not mean ignoring detail complexity. Rather, it means organizing detail complexity into a coherent story that illuminates the causes of problems and how they can be remedied in enduring ways.

Mastering such basic archetypes as growth and underinvestment is the first step in developing the capability of seeing the forest *and* the trees — of seeing information in terms of broad and detailed patterns. Only by seeing both can you respond powerfully to the challenge of complexity and change.

The Core Disciplines: Building the Learning Organization

A small number of organizational leaders are recognizing the radical rethinking of corporate philosophy that a commitment to individual learning requires. Kazuo Inamori, founder and president of Kyocera (a world leader in fine ceramics technology and electronics) until his retirement in 1995, says: "Whether it is research and development, company management, or any other aspect of business, the active force is 'people.' And people have their own will, their own mind, and their own way of thinking. If the employees themselves are not sufficiently motivated to challenge the goals of growth and technological development … there will simply be no growth, no pain in productivity and no technological development."

Personal Mastery

"Personal mastery" is the phrase we use for the discipline of personal growth and learning. People with high levels of personal mastery are continually expanding their ability to create the results in life they truly seek. From their quest for continual learning comes the spirit of the learning organization.

The way to begin developing a sense of personal mastery is to approach it as a discipline, as a series of practices and principles that must be applied to be useful. These include:

- **Personal vision.** The ability to focus on ultimate intrinsic desires, not only on secondary goals, is a cornerstone of personal mastery.
- **Holding creative tension.** Creative tension is the force that comes into play at the moment when we acknowledge a vision that is at odds with current reality. An accurate, insightful view of current reality is as important as a clear vision.
- **"Structural Conflict": the power of your powerlessness.** If structural conflict arises from deep underlying beliefs, then it can be changed only by changing the beliefs.
- **Commitment to the truth.** Commitment to the truth means a relentless willingness to root out the ways we limit or deceive ourselves from seeing what is, and to continually challenge our theories of why things are the way they are.

In addition to clarifying the structures that characterize personal mastery as a discipline (such as creative tension, emotional tension and structural conflict), the systems perspective also illuminates subtler aspects of personal mastery such as integrating reason and intuition, continually seeing more of our connectedness to the world, compassion and commitment to the whole.

Mental Models

New insights fail to get put into practice because they conflict with deeply held internal images of how the world works, images that limit us to familiar ways of thinking and acting. That is why the discipline of managing mental models — surfacing, testing and improving our internal pictures of how the world works — promises to be a major breakthrough for building learning organizations.

Case studies suggest three facets to developing an organization's capacity to surface and test mental models: tools that promote personal awareness and reflective skills, "infrastructures" that try to institutionalize regular practice with mental models, and a culture that promotes inquiry and challenges our thinking. It is the connections among them that matter most.

Skills of reflection involve slowing down our thinking

processes so that we can become more aware of how we form our mental models and the ways they influence our actions. Inquiry skills concern how we operate in face-to-face interactions with others, especially in dealing with complex and conflicting issues. Together with the tools and methods used to develop these skills, these constitute the core of the discipline of mental models:

- Facing up to distinctions between espoused theories (what we say) and theories-in-use (the implied theory in what we do)
- Recognizing "leaps of abstraction" (noticing our jumps from observation to generalization)
- Exposing the "left-hand column" (articulating what we normally do not say)
- Balancing inquiry and advocacy (skills for effective collaborative learning).

Just as "linear thinking" dominates most mental models used for critical decisions today, the learning organizations of the future will make key decisions based on shared understandings of interrelationships and patterns of change.

Shared Vision

Shared visions emerge from personal visions. This is how they derive their energy and how they foster commitment. Caring is rooted in an individual's own set of values, concerns and aspirations. This is why genuine caring about a shared vision is rooted in personal visions. Organizations intent on building shared visions continually encourage members to develop their personal visions.

Personal mastery is the bedrock of shared visions. This means not only personal vision, but commitment to the truth and creative tension — the hallmarks of personal mastery. Shared vision can generate levels of creative tension that go far beyond individuals' comfort levels. Those who will contribute most toward realizing a lofty vision will be those who can "hold" this creative tension: those who can remain clear on the vision and continue to inquire into current reality. They will be the ones who believe deeply in their ability to create their futures, because that is what they experience personally.

Team Learning

Within organizations, team learning has three critical dimensions. First, there is the need to think insightfully about complex issues. Here, teams must learn how to tap the potential for many minds to be more intelligent than one mind. While that's easy to say, there are powerful forces at work in organizations that tend to make the intelligence of the team less than, not greater than, the intelligence of individual team members. Many of these forces are within the direct control of the team members.

Second, there is the need for innovative, coordinated action. The championship sports teams and great jazz ensembles provide metaphors for acting in spontaneous yet coordinated ways. Outstanding teams in organizations develop the same sort of relationship — an "operational trust" in which each team member remains conscious of the other team members and can be counted on to act in ways that complement the others' actions.

Third, there is the role of team members on other teams. For example, most of the actions of senior teams are actually carried out through other teams. Thus, a learning team continually fosters other learning teams through inculcating the practices and skills of team learning more broadly. ●

Collective Discipline

The discipline of team learning involves mastering the practices of dialogue and discussion, the two distinct ways that teams converse.

In dialogue, there is the free and creative exploration of complex and subtle issues, a deep "listening" to one another and suspending of one's own views.

By contrast, in discussion, different views are presented and defended and there is a search for the best view to support decisions that must be made at this time.

Reflections From Practice

Reflective openness is the cornerstone of the discipline of mental models. None of us has a company in our heads, or a family, or a country. But our life experience shapes a rich mix of assumptions, feelings and at best some well-formed hypotheses about these systems.

Foundations

The nurturing of reflective openness leads to a willingness to continually test these views. It is characterized by true open-mindedness, the first step toward deeper listening and real conversation. This is easy to say but not so easy to do — because, as master practitioners know, building an environment of reflectiveness starts with our own willingness to open ourselves, to be vulnerable, to be "exposed." This is unlikely to happen in any organizational environment that does not have a deep commitment to helping people grow, and to creating the trust

and spirit of mutuality this requires.

Creating an environment where people can grow starts with "having a purpose worthy of people's commitment," says Goran Carstedt, former president of Volvo Sweden and Ikea North America. "Business leaders often ask their people to be committed to the organization's goals," says Carstedt, "but the real question is what is the organization committed to, and is that worthy of my time?"

Ironically, equating a business's purpose with the economic bottom line dooms the enterprise to financial mediocrity, as countless studies of long-term business performance have shown. In a world where more people have more choices about where and how they work, it matters that an organization stands for something.

Impetus

There seem to be three overlapping but distinctive motivations that compel people to take on the difficult work of building learning organizations. Some seek a better model for how to manage and lead change. Some are trying to build an organization's overall capacity for continual adaptation to change. All seem to believe that there is a way of managing and organizing work that is superior in both pragmatic and human terms, that significantly improves performance and creates the types of workplaces in which most of us would truly like to work.

When people become more engaged in and committed to their work, they are usually willing to confront more difficult issues. They are willing to risk doing things beyond their comfort zone. They are even willing to fail in pursuit of goals that really matter to them rather than be trapped like "those cold and timid souls who know neither victory nor defeat," as Theodore Roosevelt put it.

If we live our lives in pursuit of what matters most to us, and we do our work with people whose friendship we value, we will have all the happiness we need. In this sense, happiness is simply a byproduct of a life well lived. This is what motivates practitioners of organizational learning.

Strategies

The eight strategies and examples that follow should give a sense of the state of practical know-how today:

1. Integrating learning and working. A culture that integrates action and reflection arrives at better decisions to which people can genuinely commit, and its people are mentally more prepared.

2. Starting where you are with whomever is there. It is easy to think that the deep learning strategic framework only applies to top management. But in fact, thinking strategically is imperative for leaders at all levels.

3. Becoming bicultural. A subtle area of attitude and skill involves never losing touch with the larger organizational environment — something called "becoming bicultural." Management's and employees' failure to consider the greater environment has proven to be the undoing of many otherwise successful learning initiatives.

4. Creating practice fields. The idea of practice fields comes from a simple fact: It is very difficult to learn anything new without the opportunity for practice.

5. Connecting with the core of the business. For radical new ideas and practices to take root within an organization there must be fertile soil. Successful learning practitioners intent upon having a large-scale impact learn how to connect with the core of the organization — at the deepest levels of individual and collective identity — and how the organization most naturally creates value.

6. Building learning communities. When our own deep questions and aspirations connect with an organization's essence, community develops. Attunement to new learning communities, and networks of relationships based on common aims and shared meaning, becomes both a strategy and an outcome for leaders.

7. Working with "The Other." Diversity becomes a key guiding idea for leaders, beyond political correctness or mere sentiment.

8. Developing learning infrastructures. Learning infrastructures are often a key element of effective learning strategies. Learning infrastructures do not leave learning to chance.

The Leader's New Work

If people imagine their organization as an ocean liner and themselves as the leader, what is their role? For years, the most common answer received when posing this question to groups of managers was "the captain." Others might say, "the navigator, setting the direction." A few would say "the helmsman, actually controlling the direction." While these are legitimate leadership roles, there is another that, in many ways, eclipses them all in importance.

The neglected leadership role is that of the designer of the ship. No one has a more sweeping influence on the ship than the designer. Leaders who appreciate organizations as living systems realize that they can create organizational artifacts like new metrics, or formal roles and processes, or intranet Web sites, or innovative meetings — but it is what happens when people use the artifacts or processes or participate in the meetings that matters.

How do leaders help people see reality as a medium

for creating their vision rather than as a source of limitation? One way is to help people see problems in terms of underlying systemic structures and mental models rather than just short-term events. This can help in appreciating the forces shaping reality, and how we are part of those forces and can affect them.

Systems Citizens

Systems citizenship starts with seeing the systems that we have shaped and that in turn shape us. Being stuck in a system that is not working invariably leads us to feel frustrated and trapped — until we see the larger patterns and our own part in creating these patterns. Once we do, new alternatives become evident.

There are two fundamental aspects to seeing systems: seeing patterns of interdependency and seeing into the future. The ability to see interdependencies can be aided by tools like systems diagrams, but can also arise from stories, pictures and songs. Seeing into the future starts with knowing how to interpret signs that are present today but go unrecognized by those without a systems perspective.

It is easy to get lost when thinking about global issues like climate change, to feel that there is nothing you can do, and maybe even that there is nothing anyone can do. But global systems are not just global. They are also right here.

Herein lies a secret of the systems worldview. The system is not only out there, it is in here. We are the seed carriers of the whole in the sense that we carry the mental models that pervade the larger system. We are all actors in the global energy system, the global food system and the global industrialization process. We can either think and act in ways that reinforce the system as it currently operates, or think and act in ways that lead in different directions. Because the systems that shape our lives manifest themselves at multiple levels, we can work at multiple levels.

Supply Networks: The System Seeing Itself

In 2004, Unilever and Oxfam were joined by more than 30 multinational food companies, global and local non-governmental organizations (NGOs), major foundations and government representatives from around the world in a novel experiment called the Sustainable Food Lab. The aim was to bring "sustainable food supply chains into the mainstream," using a new process to foster collaborative learning across the supply chain.

The members of the Sustainable Food Lab understand that no economic system can remain viable that systematically destroys the social and ecological systems upon which it depends. How we organize the production and distribution of food could be considered humankind's first system. So it is fitting that it should also be the first of our global systems that we bring back into harmony with social and ecological reality.

This spirit of learning as discovery and embodying nature's patterns subtly infuses all the other innovations. When managers are committed to growing people in order to grow the enterprise or committed to utilizing conversation as the core process for change, their practices reflect insights into human nature — our innate desire to grow as human beings and to be in relationships with one another.

Consistent With Nature

The first principle underlying our work on organizational learning is simply to develop a system of management consistent with nature — human nature and the nature of the larger social and natural systems in which we always operate. Anthropologist Edward Hall calls the drive to learn the "most basic drive in the human species." What is this drive to learn other than our own innate personal quest to discover and embody nature's patterns in all aspects of our lives?

Many of the most important leaders in the coming decades will not be those whom we expect. A new order of things must be brought forward by a new order of leaders. It is no surprise that, wherever we see a new system of management starting to take root, we see leaders emerging from the periphery — people who do not come from the traditional centers of power but from the cultural, economic and demographic periphery: women, the poor and the young.

There are as many ways to characterize the essence of work as there are people doing it: It is a system of management consistent with nature, human nature and the nature of larger living systems; it is working together in ways that realize our highest aspirations; it is being the change we seek to create. Or, as Marianne Knuth so beautifully says, it is staying connected to the being that never stopped being connected. ●

RECOMMENDED READING LIST

If you liked *The Fifth Discipline*, you'll also like:

1. ***The Complexity Crisis* by John L. Mariotti.** As you seek to expand profits, a number of new products, procedures and systems are created that, unexpectedly, stifle your bottom line. Mariotti describes the solution: simplify.
2. ***The Definitive Drucker* by Elizabeth Haas Edersheim.** Peter Drucker spent the last 16 months of his life speaking about the world of business with Edersheim, a respected management thinker in her own right.
3. ***Know-How* by Ram Charan.** Legendary executive adviser Ram Charan has identified the skills that are required by today's business leaders, the personal traits that can help or interfere with these skills, and the cognitive traits that can improve them.

Summary

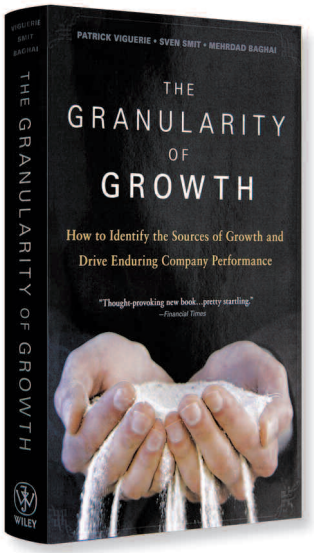
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Management: Strategies

The Granularity of Growth

How to Identify the Sources of Growth and Drive Enduring Company Performance



by Patrick Viguerie, Sven Smit and Mehrdad Baghai

THE SUMMARY IN BRIEF

While growth is a top priority for companies of all sizes, it can be extremely difficult to create and maintain — especially in today's competitive business environment and the overall economic climate. In order to achieve this goal, you need to think through the growth challenges your organization faces and follow a detailed approach that will allow you to uncover, understand and capture potential growth opportunities.

In this summary, top experts in the field of growth show readers how to do that and more. Based on an extensive quantitative study of corporate growth, this reliable resource offers powerful new insights on how companies can excel in this essential endeavor. It skillfully demonstrates the problem with the broad-brush way that many modern companies describe their business opportunities and discusses how real growth can be found at a much more granular level within all industries.

This summary is devoted to the key decisions you'll need to make in order to drive and sustain granular growth at scale: your growth ambition, your growth direction and your growth architecture.

IN THIS SUMMARY, YOU WILL LEARN:

- How to sustain superior value creation in the long run by choosing either to grow or to go.
- How taking on a more granular perspective allows you to gain real insight into the sources of competitive advantage and growth.
- How to ensure your organizational model is architected to deliver this granularity without giving away the benefits of scale.
- How to ensure that growth comes from multiple sources as you take both a broad and a granular view of your markets.

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THE COMPLETE SUMMARY: **THE GRANULARITY OF GROWTH**

by Patrick Viguerie, Sven Smit and Mehrdad Baghai

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Introduction: Grow or Go

"Grow or go" dynamics represent an unforgiving environment for large companies. The odds of sustaining performance and growth over the long term are indeed long ones: high-growth companies tend to have 5-6 times higher survival rates than low-growth companies.

Growth is a tricky topic, so it's important that your company should have a view on the best way to think about it. We all know intuitively that growth is good. It creates healthy companies, opens up opportunities, excites talent and rewards shareholders. But do we know how to achieve it?

Granular Performance

Performance is *granular,* which means it is **driven by growth in the sub-segments and categories of industries** in which a company competes as well as by the **revenues that it acquires through mergers and acquisitions (M&A) activity.** These drivers are generally **much more important than market-share gains** in determining how fast you grow.

This seeming counterintuitive finding has important implications. A typical management team needs to change the way it thinks about company resources, not least its own time. It needs to pay more attention to which businesses the company is in, and particularly the sub-segments in which it competes.

PART I: YOUR GROWTH AMBITION

A Granular World

Granularity isn't a term traditionally used in business. In the world of science and engineering, it is used to refer to the size of the components within a larger system. If we take what we might call a non-granular (or "course-grained") view of the system, what we might see is the system as a whole or perhaps the larger sub-systems within it. In a granular (or "fine-grained") view of the system, on the other hand, we might see more of the individual small components that go to make it up.

Why Granularity Matters

Granularity conveys two important and related ideas: first externally, a fine-grained understanding of markets and growth opportunities and, second internally, a sharply focused, precise and detailed way to manage discrete initiatives and activities across the corporation. Applying both these ideas greatly increases a company's chance of success in identifying and pursuing growth opportunities.

A company formulating its growth strategy needs to develop insights into trends, future growth rates, and market structures at much greater depth than the aggregate industry level. Insights into sub-industries, segments, categories and micro-markets are the building blocks of portfolio choices. They are indispensable for companies seeking to make the right decisions about where to compete.

Six Levels of Granularity

All of which poses a practical question: When you make these decisions, what level should you be looking at to get the insights you need? How deep should you go? A framework can help you find an answer. Here are the six levels of granularity:

- **Granularity level G0: *World Market*.** The global marketplace is the highest level of aggregation with the least granularity: the ultimate segment of one. The world economy is growing by roughly 6.2 percent a year in nominal terms.
- **Granularity level G1: *Sectors.*** If we want to investigate why some companies grow at a rate that is faster or slower than about 6 percent, the first step is to divide up the economy. The Global Industry Classification Standard (GICS) carves it up into 24 broad industry groups ranging from telecommunications services to energy to biotech.
- **Granularity level G2: *Industries.*** To get to a deeper level of granularity, we can break down the 24 groups into

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Christine Wright**, Senior Graphic Designer; **Chris Lauer**, Contributing Editor

151 industries by using other readily available GICS statistics. For instance, the "food, beverages and tobacco" group breaks down into the component industries "food," "beverages" and "tobacco." The resulting G2 segments have an average size of roughly $500 billion — much more granular than the G1 sectors, but still fairly large.

• **Granularity level G3: *Sub-Industries by Region.*** Each industry can then be divided up again both by sub-industry and by market (country or region). Within the food industry, for instance, two examples of sub-industries might include frozen foods or savories, oils and dressings. At the G3 level, market selection becomes more important than a company's ability to beat the market, and portfolio composition is the chief factor determining why some companies grow and others don't.

• **Granularity level G4: *Categories by Region.*** The definition of the G4 level of granularity varies slightly from industry to industry, but, in essence, it's the level of categories within sub-industries (such as ice cream within frozen foods) or customer segments within a broad product or service category (such as weight-conscious snackers). The G4 level is important: It represents the minimum level of granularity at which companies need to operate when setting growth priorities and making decisions about resource allocation.

• **Granularity level G5: *Individuals.*** This is a view of the world at the level of individual customers and transactions — the ultimate segment of one, numbering many billions. Although some companies have developed systems that permit highly personalized interactions with individual customers, few, if any, are able to allocate resources at this level of granularity. For most companies, most of the time, G5 will be a level too far.

Setting your growth direction requires you to move freely between the different levels of granularity while keeping your overall destination in view. Companies often describe their growth direction to the market at the G2 or G3 level, but specific granular strategies need to be put into action at the G4 and G5 level. ●

Understanding Your Company's Performance

A granular growth decomposition is a method of splitting a company's growth into three main components, or growth "cylinders": M&A, portfolio momentum and share gain.

Granular Growth Decomposition

M&A is the net inorganic growth a company achieves when it purchases or sells revenues via acquisition or divestment.

Portfolio momentum is the organic revenue growth a company achieves through the market growth of the segments represented in its portfolio. It includes the impact of acquisitions and divestments that affect the company's exposure to underlying market growth after the first year of each transaction. Portfolio momentum is, in a sense, a measure of strategic performance.

Share gain is the organic growth a company achieves through gaining or losing market share from its competitors. We define market share by the company's weighted average share of the segments in which it competes.

One other factor needs to be taken into account in the decomp: the **effects of currency fluctuation.** These can significantly distort growth measurements and, hence, perceptions of performance. A translation from one currency to another can allow companies to benefit from currency appreciation in overseas markets. To keep things simple, currency fluctuation is included in portfolio momentum. ●

Firing on Multiple Cylinders

It turns out that average performance on all three cylinders does not translate to shareholder value creation. Instead, what matters is distinctive performance on at least one.

When a company is described as "firing" on a particular cylinder, it is attaining a growth rate in the *top quartile* of the sample for that cylinder over a given time period. To give you a sense of what this involves for the companies in the author's granular growth decomposition database, you should know that:

• A company would need to achieve annual growth of **8.5 percent** or more from **portfolio momentum** over the period measured to qualify as firing on that cylinder.

• Similarly, to fire on the **M&A** cylinder, a company would need to grow its revenues inorganically by an average

Tailwinds or Headwinds?

It's abundantly clear from analysis of favorable markets — or what are called "tailwinds" — that a company's granular growth performance depends heavily on the markets in which it operates. So the next time a company announces stellar performance, it's worth taking a closer look to see how much of its growth came from better steering, and how much came from a favorable tailwind. What is driving performance: execution or strategic choices?

In much the same way, it's a good idea to ask questions about your own company's performance. Do you know your numbers on growth, and your peers', both by segment and overall? Do you use them in your planning, performance appraisals and external presentations? Are your plans consistent with your real sources of growth? Or are they based on possibly unrealistic hopes of gaining market share?

of at least **4.5 percent** a year.

• And to count as firing on the **share-gain** cylinder, it would need to grow the top line by at least **2.3 percent** a year from organic gains in market share.

Naturally these benchmarks refer to current threshold performance and will vary by industry and time period. Regular industry and peer comparisons ensure they are kept accurate and up to date.

Why Is Firing Important?

The idea of firing is important in two respects. First, it can help you articulate your company's growth ambition more precisely, as an intention to fire on certain cylinders over a certain period of time. Second, it's a compelling way to benchmark your company's track record on growth, and that of your competitors.

If we classify companies by the way they fire or misfire on their three cylinders, we can derive four categories of performance: exceptional, great, good and poor. The minimum standard for good performance is firing on one cylinder and misfiring on more than another. Only a handful of companies achieve exceptional performance by firing on all three cylinders. ●

A Granular Company

The cylinder-firing approach can be used to benchmark your growth both at the corporate level and at the granular level. In order to get a real sense of your growth performance, you need to judge how well you are firing on cylinders at a granular *segment* level, not just the overall corporate level.

The finer the granularity of analysis, the better the insights for informing the growth direction will be. To see why, consider a practical example.

Let's take a high-end European clothing retailer with a successful product line and store format for the mass-affluent segment. It is beginning to saturate the relevant parts of the European market (up-market commercial districts in major cities) and needs to find new ways to grow. It could set about this in several different ways:

• It could expand along the **geographic** dimension of starting to think of itself as a high-end *global* clothing retailer and trying to grow its existing business by **entering new markets.**

• It could expand along the **product** dimension by defining itself simply as a high-end European retailer and attempting to grow by **targeting other buying needs of the mass-affluent customer** through existing stores or new formats.

• It could expand along the **customer segment** dimension by defining itself as a European clothing retailer and **seeking to attract other customer segments** beyond its mass-affluent core market. Alternatively, it could stick with its high-end customers but segment this market more finely to find new opportunities for growth.

An Informed Choice

If it had the management resources and the luxury of time, it could experiment on a small scale with all three options, trying out different combinations and scaling up the ideas that work best. But if it can only focus on one big push at a time, the company will need to evaluate each growth path at a granular level to make an informed choice.

So what is the right choice for our retailer? Only it can tell — but exploring each of these three growth paths at a granular level will give it a much better chance to pinpoint the most fertile ground for growth, avoid the temptation to opt for the "usual suspects" and find the option that fits its capabilities and organization best. ●

PART II: YOUR GROWTH DIRECTION

Firing on Momentum

Making the right decision about where to compete is critical. Portfolio momentum accounts for almost half (46 percent) of an average large company's growth performance, and differences in momentum are large even within industries, often because of the heritage of different business segments. Catching a growth "tailwind" by participating in a fast-growing market segment is obviously an enormous help in achieving high growth.

Influencing Portfolio Momentum

In principle, a company can influence the momentum of its portfolio over time in three ways: by allocating resources internally to pockets of high growth (either within or beyond existing business boundaries); by selecting acquisitions and divestments that affect its exposure to underlying market growth; and by stimulating market growth, for instance, by introducing a new product category.

The biggest driver of momentum is the composition of your initial portfolio. Shifting your momentum is a marathon, not a sprint, and takes years, not months. Even so, the top momentum improvers manage to boost their annual momentum growth rates by mid-single-digit percentage point increases over five years. Nevertheless, it is truly helpful for long-term advantage. ●

Firing on M&A

The average large company gets 31 percent of its revenue growth from mergers and acquisitions (M&A). More than 50 percent of acquirers are rewarded in the long term even after paying a premium to the seller. M&A needs to be matched by judicious and timely divestments, especially of

How Nokia Caught a Growth Tailwind

For a good example of a growth tailwind, consider Nokia. If we break down the sources of Nokia's growth, we see that almost all of it is driven by portfolio momentum, although the company is also gaining some market share. It's clear that it is benefiting from a substantial tailwind: the growth of the mobile phone and mobile equipment markets.

Maintaining market momentum may sound effortless, but it is not an easy thing to do. In the past few years, Nokia has had its ups and downs in holding on to market share. It took real energy to build a business in an emerging market ahead of other players, and to introduce a huge range of successful phones.

businesses showing early signs of demise.

Both M&A and divestment are important tools for shaping the portfolio to facilitate more substantial growth. There is evidence that active and balanced M&A strategies create value. Yet surprisingly few companies make full use of divestment. The real question though is not whether or not doing M&A is good but whether you are good at doing M&A.

Private-Equity Firms

Companies can learn a lot from private-equity firms, which now account for almost 30 percent of buy-outs. Private-equity firms throw down a gauntlet for corporations: They have a highly aggressive, highly diversified model of both acquisition and divestment, and yet they still produce a decent return after paying substantial premiums. The success of their ventures suggests that corporations could create a lot more value through M&A than they might imagine. ●

Firing on Share Gain

Market-share gain is not the main driver of growth and differential growth performance, but it is still important.

Before a company can fire on share gain, it obviously needs some kind of edge over those companies from which it takes share because it will need to gain share across the board in most of its segments. When the top 15 share gainers are analyzed, one thing stands out: They've all made big choices — strong on the basis of insights or distinctive advantages. Not all big choices are rewarded by share gain, of course. However, it does seem that fortune favors the brave.

Dell took its direct model into new markets and new products. Valero capitalized on its carefully constructed advantage in complex refineries. Toyota pushed its lean manufacturing system into new segments and countries. Centrica used its knowledge as a gas supplier to expand into electricity. Samsung exploited its ability to take new products to market at unprecedented speed.

If you're hoping to drive growth through substantial and sustained share gain, you'd better have some source of advantage that sets your company apart from the pack, whether it derives from truly superior insight or truly distinctive capabilities. If you don't, you'll find your competitors' execution soon matches yours; your market-share performance takes a dive; and your shareholders lower their expectations, stalling your growth program. ●

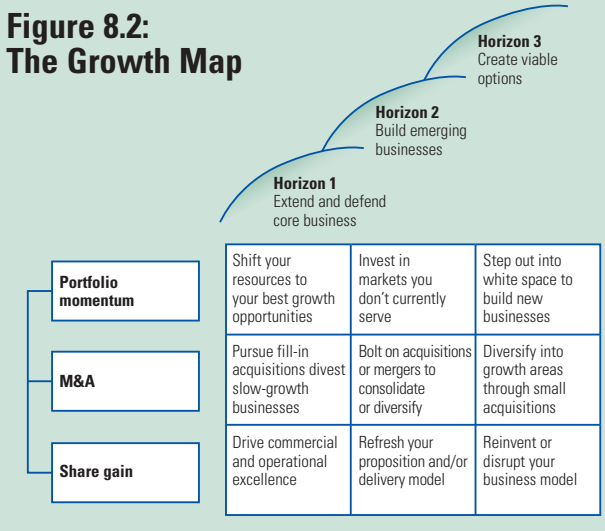
Mapping Your Growth Direction

The "three horizons" framework helps business leaders look 10 or more years ahead when they are formulating and articulating their growth direction. Companies seeking sustained and profitable growth need a pipeline of business creation that comprises actions across all three horizons at once, and the horizons could be cascaded down to leaders at all levels in an organization. These three horizons ascend over time and represent rising levels of profit:

- **Horizon 1.** Extend and defend core businesses.
- **Horizon 2.** Build emerging businesses.
- **Horizon 3.** Create viable options.

The three horizons encourage and assist executives to evolve their portfolios by acting on different time horizons at the same time. Companies need to assess how their sources of advantage in each of the three cylinders match the granular opportunities in the marketplace. How do you figure it all out? A new tool, the growth map, helps with this task. It provides a much more disciplined way of approaching the three horizons framework.

Figure 8.2: The Growth Map



The Growth Map

Each of the three cylinders can be used to drive growth in a company. If we combine the three cylinders with the three horizons framework, we arrive at the growth map: a tool for ensuring that we apply the necessary rigor when we set our growth direction and for charting the actions we must take to pursue it.

The growth map helps you to compare different options for improving your cylinder firing on the basis of your source of advantage, and to assess how effectively these options will derive revenue growth in each horizon. Here is how the growth map can help you set your growth direction horizon by horizon:

- **What will drive your growth in Horizon 1?** *Portfolio momentum:* Shift your resources to your best growth opportunities. *M&A:* Pursue fill-in acquisitions and divest slow-growth businesses. *Share gain:* Drive commercial and operational excellence.
- **What will drive your growth in Horizon 2?** *Portfolio momentum:* Invest in markets you don't currently serve. *M&A:* Bolt on acquisitions or mergers to consolidate or diversify. *Share gain:* Refresh your proposition and/or delivery model.
- **What will drive your growth in Horizon 3?** *Portfolio momentum:* Step out into white space to build new businesses. *M&A:* Diversify into growth areas through small acquisitions. *Share gain:* Reinvent or disrupt your business model. ●

To Move or Not to Move?

All growth strategies involve choices about moving — or where, when and how to evolve the portfolio mix over time. Whether you should move depends on whether you have low- or high-momentum growth.

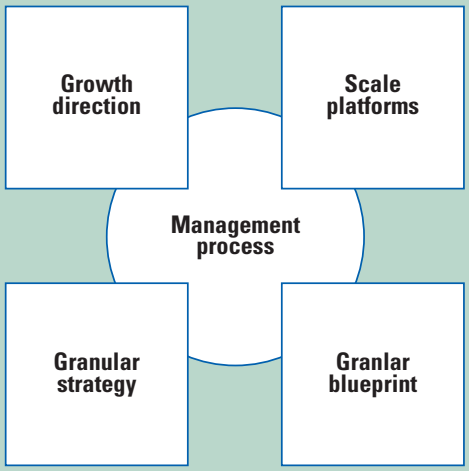
Economic downturns create great opportunities for portfolio moves, yet few companies seize them. Adjacencies alone don't determine whether a move will succeed or fail; leveraging a distinctive advantage is what really matters.

Look at Momentum

In terms of where you grow, moving either within or beyond your core portfolio tends to pay if you happen to be a low-momentum company. On the other hand, if you're lucky enough to have a portfolio with high momentum, set a high bar for moving outside your core.

When you are evaluating potential moves, don't let yourself be seduced by high-growth segments in which you have no particular advantages. Ensure that your search process is sophisticated enough to consider the real power of your advantage, and not just the distance from the core. And don't let a downturn deter you; it offers a great opportunity to put a clear distance between your company and the rest of the pack that slow things down when times get rough. ●

Figure 10.1: The Architecture Framework



PART III: YOUR GROWTH ARCHITECTURE

The Architecture of Growth

To deliver both granularity and scale, a company must design its strategy and organization model to create an architecture for growth.

Architecture is the integration between design objectives (strategy) and design execution (organization). The term "growth architecture" describes a simple framework for ensuring that your strategy and your organization model are both designed to deliver granularity and scale. Most CEOs see themselves at the "architects" of their organization, working to develop the right strategies for their businesses and to design the organization they believe will best deliver them.

Architecture can be represented in terms of a simple two-by-two matrix, with strategy and direction on one side and scale and granularity on the other. To these four elements we add a fifth, disproportionately important element, management processes, which is represented as a circle to reflect the need for alignment and linkage between the other elements.

- The **growth direction** reflects the company's aspirations to fire on multiple cylinders across all three time horizons.
- The **granular strategy** describes "staircases" of moves, designed to capture granular growth opportunities and build real advantage.
- **Scale platforms** enable a large company to exploit the advantages of its size and distinct capabilities.
- The **granular blueprint** aims to create an organization that matches the texture of the market.
- **Management processes** such as strategic planning, resource allocation and performance management are used to link the other elements together.

A key element in any company's growth journey is the design of its architecture. Like the growth strategy, the organization model must deliver both granularity and scale.

Looking in the Mirror

CEOs intending to drive growth will benefit from a solid, fact-based understanding of their companies' current architecture. It's especially important to test how well the growth direction has been reflected in the other architectural elements. By "looking in the mirror," you can make a full and frank appraisal of each element, uncover any gaps and reflect on what you need to do to produce a unified and consistent design that will stimulate growth.

Three Common Patterns of Architecture

There are several common patterns of architecture that apply to companies at different stages in their growth journey. Here are three:

- **Out of Synch.** The elements of this architecture pattern are not aligned with its growth direction or with one another. The company may once have had an architecture designed for growth, but not any more. The top priority for a company with this pattern is to set a new growth direction based on granular market insights.
- **Ivory Tower.** This company has made thoughtful plans for its growth journey. It has used superior insights about the future of its industry to chart a compelling direction and has probably communicated it internally and externally. However, the direction has not yet been translated into the rest of the architecture, so that granular business strategies and an appropriate organization structure is lacking. The challenge for the ivory tower company is to identify leaders who can focus attention on translating the growth direction into granular strategies.
- **Top Down.** This pattern occurs when leaders have managed to commit the top level of their company to a compelling growth path and have even managed to builda set of central scale advantages, but haven't yet managed to push the growth agenda through to the operating levels. It is advisable for leaders to avoid making announcements that raise people's expectations too far, since fulfilling them may take a long time.

By looking in the mirror and making a full and frank appraisal of your architecture pattern, you can assess your own starting point more reliably.

A Blueprint for Granularity

How can you go more granular without drowning in complexity? It may seem downright impractical to try to manage everything at a G4 or G5 level. Aggregation is often needed to ensure that a unit has the critical mass for managing such things as its talent and its cost structure, as well as for controlling its resources so that it can justifiably be held accountable for its performance. Working through this tradeoff is the key challenge in designing an organization blueprint. Fortunately, you can use several organizational levers to help you.

Structure

Structure is the most obvious and often the most effective of these levers. Your organization blueprint will need to show how business units are grouped; how many layers of management are needed; and which functions are to be shared or centralized and which developed into the business units. The test here is whether the benefits of sharing and centralization genuinely outweigh the benefits of focus and unambiguous accountability.

There are various other ways of managing an organization at a granular level that don't involve breaking it up into ever smaller pieces. In some cases executives can be highly effective at making granular decisions within an organization that isn't granular in structure at all. They adopt nonstructural mechanisms such as incentives, management processes and cultural norms to support or complement the organization design and make the model work as a whole.

Talent

Another crucial nonstructural level is people. CEOs pursuing growth need to take a fresh look at their talent management. Because growth initiatives take time to deliver real impact, the managers chosen to lead them may need to stay in post for three to five years instead of the usual 18 months or so. Looking further ahead, companies need to create a leadership pipeline that will generate a sufficient number of growth leaders at the right level of granularity.

When you design the blueprint for your organization, your experience, judgment and insight into the texture of the market and the nature of your company are critical in making the right decisions.

Building Scale Platforms

CEOs frequently object that increasing granularity would undermine the advantages of scale. But it is possible for large companies to retain the benefits of scale while operating in a more granular fashion. They can do so by developing scale platforms that enable granular units to fire on more cylinders over time.

The role of the granular blueprint is to unleash the entrepreneurial energy and accountability of an army of small communities to pursue granular growth opportunities in the marketplace. The role of the scale platform is to ensure that a large company realizes the advantage that derives from its size by building systematic capacity across multiple business units to manage greater granularity.

Rethinking Scale

Designing your architecture for granular growth demands that you transcend traditional notions of scale. It's not simply a matter of lowering costs (though a low-cost position can, of course, be a critical driver of growth). Sometimes scale platforms are based on distinctive operating capabilities such as an outstanding supply chain. However, there are a few new types of scale advantage that are very important.

Insight into potential sources of growth is essential when companies are constructing and managing a portfolio of granular strategies. Without insight into future growth, companies will follow the growth trend rather than ride it from the start.

- **An insight engine.** Building an insight engine that systematically identifies opportunities ahead of your competition will help you fire on the portfolio momentum cylinder.
- **An M&A engine.** Building an M&A engine for systematically making and integrating acquisitions will boost your performance on the inorganic cylinder.
- **A scaling engine.** Cisco and a few other companies have managed to create a core competence in moving businesses systematically through the horizons; this is called a scaling engine.
- **A talent engine.** Talent is the fuel that powers most growth strategies. A talent engine is a systematic scale advantage in recruiting, developing and exciting top talent. ●

Cluster-Based Growth

All CEOs need breadth of vision, but they also need a clear view down through their organization.

What CEOs need is a design that adapts current practices so that their control screen shows a larger number of units in sharper focus rather than a fuzzy mass of complexity. This greater clarity will help business units focus on how to fire on more cylinders over time.

The Cluster-Based Growth Model

While there is no sure-fire recipe for success, some companies have found effective ways of redesigning their business processes to reinforce the elements of their growth architecture. Experts have had success with a new approach that they call the cluster-based growth model, which is based on four simple principles:

- **Segmenting the company into a larger number of more granular clusters which feel like purpose-driven communities.**
- **Articulating strategies for these clusters that provide the scaffolding for the profitable path to growth.**
- **Hardwiring performance management through progressive key performance indicators (KPIs) so that each cluster knows its most important priority at any given time based on its stage of development instead of a long balanced scorecard.**
- **Actively managing the portfolio at the cluster level to reallocate resources to the most appropriate clusters.**

The cluster-based growth model enables you to increase the granularity at which you manage your business without drowning in a sea of reports. In one case study, it generated a profit growth rate at over 8 times the industry average for four years. ●

Choosing to Lead Growth

Whether you are an incumbent leader with a few years of tenure still to run or a newcomer to your leadership role, by now you are reflecting on the big choices described in this summary: your growth ambition, your growth direction, and your growth architecture. All are decisions that leaders need to make for their companies. But there is a fourth big choice: your own personal decision to lead the growth journey.

Leading successful growth brings excitement and satisfaction. But other emotions can all too easily crowd them out. You may feel apprehensive about the hurdles you will face; worried about those quarterly results that lie just around the corner; anxious about the multitude of initiatives already clamoring for your attention.

Ignore Growth at Your Own Peril

For most executives, the commitment to lead a growth journey is not to be undertaken lightly. It's often tempting to postpone growth until your second term, or even leave it to your successor. Let's face it, you're bound to encounter opposition, the journey will take a long time and you'll probably have to make many personal sacrifices. These are all realities that you need to prepare for — and reasons not to undertake your growth journey without long and hard thought.

But try looking at your choice another way: What will happen if you don't take action? You ignore growth at your peril. Companies that don't grow run the risk of being toppled before long. On the other hand, if your company succeeds in mapping out a path of profitable growth, the rewards will be great.

Every company faces an inescapable strategic choice: to grow or go. In the same way, every CEO faces an inescapable personal choice: Should I embark on a growth journey, and do I have the resources to see it through? It's a choice that can be made only after deep reflection. ●

RECOMMENDED READING LIST

If you liked *The Granularity of Growth*, you'll also like:

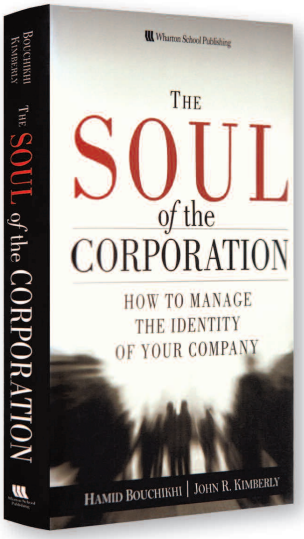
1. ***Silos, Politics and Turf Wars* by Patrick Lencioni.** Lencioni helps managers to overcome "silos," the vertical structures within an organization that can turn colleagues into competitors and kill productivity.
2. ***The Soul of the Corporation* by Hamid Bouchikhi and John R. Kimberly.** Discover how your firm's identity is related to and different from its organizational culture, brand positioning and reputation.
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Summary

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THE SOUL OF THE CORPORATION

How to Manage the Identity of Your Company



by Hamid Bouchikhi and John R. Kimberly

THE SUMMARY IN BRIEF

We live in a new Age of Identity in which your employees, customers, investors and stakeholders care about what your company *really* is. More than ever, your company's identity will shape the results it can achieve. Hamid Bouchikhi and John R. Kimberly will help you clearly understand your company's unique identity and how to leverage it for long-term adaptation and success.

Drawing on real-life stories from the world's most prominent companies, *The Soul of the Corporation* shows how identity can be an extraordinarily valuable asset — and how, if not managed properly, it can become a huge liability. Discover how your firm's identity is related to — *and different from* — its organizational culture, brand positioning and reputation. Learn how to manage the unconscious shared beliefs that give your organization coherence.

This summary will show you how to face the enormous identity challenges that arise in mergers, alliances, spin-offs and the creation of new brands, and above all how to lead and inspire in this new Age of Identity.

IN THIS SUMMARY, YOU WILL LEARN:

- How to master your company's "I*Dimension" using new tools for transforming identity into competitive advantage.
- Ways to manage the contradictory tensions that shape your company's identity.
- How masters of the I*Dimension are able to leverage their understanding of their company in order to achieve outstanding results.
- How to deal with narcissism, conflict, drift and fragmentation.
- How to protect what's precious to your company and change what needs to change.
- How to manage your company's identity through mergers, acquisitions, spin-offs, alliances and change.

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THE COMPLETE SUMMARY: **THE SOUL OF THE CORPORATION**

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Leadership Challenges in the Age of Identity

Welcome to the Age of Identity. We are in the midst of a transition on a global scale from an era in which the vast majority of individuals and human groups lived with a sense of clarity, continuity and consistency about their identity — their notion of who they were and how others viewed them — to an era in which identity is increasingly problematic across all levels of human organization, from the individual person to entire nations and civilizations. This shift has profound implications for leaders in all walks of life, particularly in business.

Using Identity as a Competitive Advantage

If you are tempted to use the identity of your firm as a basis for competitive advantage, you need to be aware of some common risks and pitfalls:

1. Be sure that the organizational identity projected through branding efforts is real. If it is mere sloganeering, your competitors, or other unfriendly stakeholders, may turn these branding efforts against you.
2. Ensure the consistency of corporate branding efforts targeted at various stakeholders. The risk in adapting each message to its recipients is that multiple, and sometimes conflicting, images may be projected, leading to confusion in the marketplace.
3. Carefully align your own behavior and decisions with the organizational identity claims you make inside and outside the firm.
4. Strive to realize synergies between handling identity at the level of the organization as a whole and at the level of the individual brands under which your firm's products and services are marketed.

Facing Identity Issues

In the Age of Identity, businesses of all kinds are facing identity issues that they do not fully understand and are often ill-equipped to deal with.

There are a number of trends that together constitute significant challenges for firms doing business in the Age of Identity — challenges that confront leaders of these firms with tough questions about the essence of the organizations for which they have responsibility. These trends include: globalization; mergers and acquisitions; spin-offs; disruptive innovation; deregulation; strategic alliances, organizational networks and boundaryless organizations; a society of organizations; reputation and accountability; the advent of alternative social identities in the workplace; a self-aware, empowered consumer; and the pervasiveness of branding.

Although these trends represent different phenomena, they have one thing in common: They are about changes in the business environment that leaders cannot respond to by merely adjusting business strategies or operating systems and routines.

To respond effectively to these changes, leaders have to reach much deeper into the firm's identity and determine whether it is an asset they can leverage to bring change or a liability they must address to avoid being obliterated by new competitors. To assess how much of an asset or a liability your firm's identity might be, you first need to know precisely what identity is. ●

The I*Dimension

The visible elements of a firm are held together by a set of shared beliefs — sometimes implicit, sometimes explicit — that define its essence. This set of shared beliefs — the ***I*Dimension*** — gives the visible elements

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Melissa Ward**, Managing Editor; **Athena Nicolaides**, Graphic Designer; **Chris Lauer**, Contributing Editor

of the firm coherence and puts boundaries around how much change is possible without altering its essence.

The I*Dimension typically lies in the collective unconsciousness of stakeholders because organizations, like most individuals, have a natural tendency to take their identity for granted and to go on with their daily business without wondering who they are, if they are satisfied with who they are, or who they should or want to be.

When identity becomes problematic, leaders need to understand that they are confronting issues beyond strategy and that invariably involve struggles over the soul of their organization. When these issues arise, leaders need to understand how the identity of their organization is anchored and what the implications may be.

Identity Anchors

Just as an individual's identity can be anchored in gender, nationality, social group, educational credentials or particular skills, an organization's identity — its I*Dimension, — resides in multiple anchors, such as core business, knowledge base, nationality, operating philosophy, a legendary founder, a governance structure or a combination of these.

Any aspect that key stakeholders (employees, owners, suppliers, customers, bankers or shareholders) view as central, enduring and distinctive about an organization is part of its identity. The weighting and salience of different identity anchors may vary considerably from one organization to another. For example, technological innovation is more central to Apple's identity than it is to McDonald's.

Balancing Contradictory Tensions in Identity

The identity of an organization is intrinsically and inevitably subject to multiple and conflicting tensions: external identity and inner identity, uniqueness and sameness, convergence and divergence, and aggregation and fragmentation. These tensions are inevitable because identity is open-ended and can never be considered as an aspect that is set for an organization.

The tensions are contradictory because they push the firm in opposing directions. Instead of seeking to suppress contradictory tensions, managers must balance them and ensure that the identity of their firm is not pushed too far, and for too long, on any of the dimensions. A firm whose identity is insulated from the outside world is set dangerously for detachment. Conversely, a firm whose identity is defined from the outside never develops a distinctive personality.

Too much emphasis on uniqueness can harm a firm's legitimacy, as outsiders cannot see where, or to which category, it belongs. Conversely, too much eagerness to look like other legitimate members in a given category leads to loss of character. Too much convergence does not allow healthy appraisal of a firm's identity in light of evolving circumstances, but too much divergence leads to paralysis.

Finally, too much fragmentation threatens internal cohesion and identification with a collective self, while too much emphasis on aggregation favors cloning and turns away the individuals and groups who do not accept seeing their self-identities melded into an overly homogeneous organizational identity mold. ●

For additional information on the weight of identity anchors, go to: http://my.summary.com

The Bright Side of the I*Dimension

Think of companies as diverse as IKEA, The Body Shop, Harley-Davidson, Southwest Airlines, Starbucks, Ben & Jerry's and Toyota. All operate in intensely competitive markets by offering increasingly commoditized products or services. Yet all are enduring global leaders in their respective industries.

These companies have remained out of the reach of their competitors because, during several decades of consistent behavior vis-à-vis their internal and external constituencies, they each have acquired a unique and enduring identity that sets them apart from their competitors and makes them difficult to imitate.

As technologies and industries mature, and as products and services become increasingly comparable, sustainable competitive advantage cannot be built on easy-to-imitate business strategies or operating systems. The more comparable products and services are, the more managers will have to build competitive advantage on inimitable attributes of a firm or its identity.

Internal and External Benefits of Strong Identity

Here are the internal benefits of clear, consistent and valued identities:

- **Identification**
- **Loyalty and commitment**
- **Cooperation**
- **A guide for problem solving and decision making**
- **Legitimacy.**

The external benefits of identity are not fundamentally different from those that are primarily internal, and the two are mutually reinforcing. Here are the external benefits of clear, consistent and socially valued identities:

- **Recognition**
- **Attractiveness and loyalty**
- **Trust and predictability.**

The Virtuous Cycle

The companies mentioned earlier have all achieved a high level of clarity and consistency between their internal and external identities. These companies are taken in a virtuous cycle in which external reputation fuels internal pride and vice versa. The question now is whether managers can proactively shape the identity of their firm and create the kind of virtuous cycle enjoyed by the likes of Starbucks and Southwest Airlines.

The Dark Side of the I*Dimension

The multiple benefits of a consistent, distinctive and enduring identity — its bright side — can become liabilities if top management is unwilling or unable to see beyond issues of strategy and operations and appreciate its potential dark side. There are a number of common dysfunctions, such as narcissism, identity conflict, drift and fragmentation, and ways to address them.

Narcissism

Organizations are prone to narcissism when their owners, employees and key stakeholders converge around a clear and consistent identity of the organization, draw pride from belonging to or dealing with the organization, and remain committed to their definition of the organization despite signals, weak or strong, that the organization's identity may no longer be adequate or viable.

Managers can help their firms avoid chronic narcissism by maintaining feedback channels and forcing internal and external stakeholders to acknowledge dissonant information from the environment. IBM CEO Louis Gerstner will be long remembered for forcing IBM to admit that it was no longer the sole rainmaker in the information technology sector and broadening its self-concept beyond mainframes.

Identity Conflict

Identity conflict occurs when influential stakeholders have and are committed to equally clear but mutually exclusive views of the soul of the organization. As a result, the firm is continuously torn between conflicting objectives, business strategies and operating principles.

Managers can cope with identity conflict either by maintaining a workable balance between the forces in presence or by weighing clearly in favor of one view of the firm. Conflict is not necessarily a bad thing. It is common for different parties to hold somewhat different views of the same organization. The presence within the same organization of different views of identity can enable it to present itself in different ways at different times to different constituencies.

Drift

Drift occurs when an organization with a clear and consistent identity progressively loses focus and its original sense of self. It usually happens when managers develop new activities, enter new markets, acquire other firms and involuntarily blur the clarity and consistency of the firm's identity.

Managers can cope with drift by working to clarify the firm's identity. They can, for example, put an end to drift by reaffirming the organization's historical identity. Steve Jobs' comeback at the helm of Apple has reconciled the company with its historical identity, anchored in innovation and design.

The opposite strategy for treating drift is to articulate clearly a new identity for the firm and to pursue its implementation forcefully and consistently.

Fragmentation

Organizations experience identity fragmentation when individuals and groups come to identify more with subunits than with the organization as a whole. When this occurs, the bonds between employees and the organization as a whole are weakened. The typical consequences of high levels of fragmentation are a loss of common purpose and mutual support across units and the inability of the firm to deal with being recognized by its environment as a single organization.

Managers should understand and accept that some level of fragmentation is inevitable and corresponds with the universal tendency of human beings to identify with their immediate work or social groups. To enable multiple identities to thrive within the same organization, leaders must ensure that the different identity layers present in their firm complement and fit well with each other so that the same employee can identify with a professional community, with a business unit and with the overall company, yet experience these identities as mutually supportive.

Casualties of the I*Dimension

What do Hewlett-Packard's Carly Fiorina, Vivendi's Jean-Marie Messier, Bertelsmann AG's Thomas Middelhoff and Dean Witter's Philip Purcell have in common? All four had outstanding credentials as business leaders. All four were highly visible and widely acclaimed in their roles as chief executive officer (CEO). The firms they led were seriously challenged in the business and technological environment of the 1990s. All articulated compelling strategic visions for their firms, and their strategies were initially hailed as sound, bold and necessary. All four, however, lost their jobs in astonishingly

public fashion for failing to deliver, in one way or another, the change they promised.

Failure to Understand the Significance of a Firm's Identity

The leaders had something else in common as well. They were all casualties of the I*Dimension, of a failure to understand and appreciate the significance of their firms' identities. Each became entangled in, and overwhelmed by, identity issues they did not intend to trigger. Their efforts were perceived, internally and externally, as detrimental to the soul of their firms and were openly resisted. As a result, the four executives found themselves at odds with the organizations and people they were supposed to lead. As their change initiatives stalled and became, in all four cases, a matter of public controversy, the performance of their firms suffered and much of the shareholder value evaporated.

Although the four leaders were abruptly removed from office by their boards of directors, their dismissals were seen in the press as logical and long awaited. Their fate shows that when the heart and soul of a firm are put at risk in the eyes of key stakeholders, it is not enough for the CEO to articulate a strategic vision and align the organizational structure and systems. Success in this context requires another set of senses and skills — those in identifying, understanding and managing a firm's identity. ●

Identity Integration in Mergers and Acquisitions

Addressing post-merger integration at the level of identity requires that managers think through and decide what to do with the legacies of merged organizations and how to build a common identity for the future.

There are four generic models of identity integration that correspond to a particular treatment of the co-existence between the past and the future of merged firms. Research suggests that there really is no "one best way" when it comes to identity integration.

• **Colonial Integration.** Colonial integration occurs when the identity of an acquired company is dissolved deliberately within the identity of the new parent.

• **Confederate Integration.** This is the opposite extreme of colonial integration. Here the merged organizations are allowed to preserve their historical identities and are not expected to meld into a new common identity.

• **Federalist Integration.** The key difference between federalist and confederate integration lies in preserving the identities of merged organizations while simultaneously developing an umbrella or overarching identity that each member organization can relate to, identify with and thrive within. The federalist approach seeks to develop a new layer of identity and identification on top of the existing layer.

• **Symbiotic Integration.** Symbiotic integration is the process by which the identities of merged firms are dissolved and fused into a new identity that did not exist before the merger. The key benefit of symbiotic integration is the avoidance of uncertainties and anxieties by people on all sides about who are the winners and losers in a merger.

The Four Models in Perspective

The four identity integration models offer alternative approaches to making one organization out of many. Each model represents particular trade-offs in how to deal with historical identities in building a common future.

There are two common mistakes in post-merger organizational design and management structure. The first mistake is the frequent involuntary ignorance of identity in the formulation of a post-merger organizational design and management structures. Leaders who focus exclusively on strategic and operational alignment of merged companies cannot anticipate what implications their decisions will have on the identities of the organizations involved in the merger.

Using language from one model and pursuing integration with a different one is another managerial mistake. Many CEOs, sincerely or cynically, use symbiotic or federalist language to cover the reality of a takeover of the colonial type.

To avoid sending conflicting signals, managers should keep in mind that, contrary to strategic and operational alignment, identity alignment is not a "one-off" task but a process that can take several years. Managers should be willing and able, under certain circumstances, to view identity integration as a gradual process. ●

Managing Identity in Spin-offs

When can a spin-off be considered successful? Although it may be relatively easy to enhance shareholder value in the short term through a financially driven spin-off, sustainable value creation is possible only when a spun-off firm has established itself as viable and distinct, with its own identity. Framed with reference to the often-used DNA metaphor, this means that a spin-off is successful when it works well for both parties — when the spun-off entity has successfully acquired its own DNA and when the former parent's DNA has been successfully recombined to support life without the spun-off entity.

How to Ensure Spin-off Success

To ensure smooth adjustment of identities, managers need to prepare the two organizations for life after the separation and ensure, through careful communication, that neither party to the spin-off feels that it is being punished or set up to lose in the process.

Second, managers should pay careful attention to the symbolic management of the spin-off. If they really mean to cut the umbilical cord definitively, managers should be careful about how they name the new company and about branding issues. A name that contains or evokes the former parent's name does not help the spun-off organization establish itself as an independent entity, and neither does the continuing exploitation of the parent's brand on the marketplace.

Ownership, Governance and Management

Special attention must be paid to the ownership, governance and management structure of the spun-off firm. When genuine separation is sought, the former parent should neither retain significant ownership in the spun-off firm nor keep a significant role in its governance. A successful spin-off requires a new leader brought in from the outside and a profoundly reshaped management team.

When managers are not under time pressure to perform a spin-off, traumatic consequences for both organizations can be significantly reduced if internal and external stakeholders are prepared for the spin-off several months before its actual implementation. In a successful spin-off, stakeholders on both sides come to see it as a natural and logical outcome. More importantly, they see the development of separate identities as a precondition for a healthy future for both. ●

Identity in Strategic Alliances and Joint Ventures

Managers can benefit from explicit consideration of the I*Dimension as they assess the rationale for, or design of, collaborative arrangements with other firms. Addressing the I*Dimension in the context of alliances means answering the following three questions:

1. How consistent or identity-threatening is a potential alliance for each partner?

2. Does the potential alliance require the creation of a separate organization (with its own employees, resources, customers, suppliers and so forth)?

3. How much of their own identities do the partners want to be visible in the alliance?

Joint Ventures

If the alliance requires a separate organization, managers can create a joint venture. They must be prepared to cope with the need for the new organization to develop a clear identity. This can be achieved by bestowing on the joint venture the identity of one of the parents, the identity of both parents, or an identity entirely of its own.

If an alliance does not require the creation of a joint venture, the partners can opt for collaborative agreements or consortia and must decide how much of their own identities they want to be visible through the alliance. Here the range of options extends from giving the identities of all the partners a prominent role in the identity of the alliance, to letting the identity of one partner only be visible in the alliance, or de-emphasizing the identities of all partners in the alliance.

Strategic Alliances

When the partners in an alliance are keen on preserving their respective identities, they must be clear about it and either promote the alliance through their own identities or give the alliance a low profile and leave their own identities backstage. On the other hand, when an alliance requires the establishment of a separate organization with its own resources and assets, the partners should be prepared to let it grow an identity of its own, give it the identity of one of the parents or give it the identity of both parents.

Of particular importance is the understanding that a strategic alliance sometimes needs to establish its own identity to realize its potential in the marketplace. In this case, managers and employees of parent organizations must accept a backseat and let the joint venture grow its own identity, internally and externally.

Stressful Conditions

Another lesson seems to be that joint ventures cannot develop viable identities and thrive if they are born under stressful conditions. When there is too much pressure on the people involved in a joint venture, the "us versus them" syndrome and tendency to blame each other impede the development of a collective self-concept. As a strategic alliance unfolds, the circumstances of the partners may evolve in ways that can make their collaboration problematic for one or both. When this occurs, it's important that the partners make the necessary adjustments. ●

Managing the I*Dimension at Organizational and Brand Levels

Managers who are I*Dimension-sensitive think deeply about the right amount of coupling between an organiza-

tion's identity and the identities of its brands. In weighing the options, they first need to know when customers care about the identities of the firm as a whole, when they care about the identity of its product brands, and when they care about both.

When customers only see and care about brands, investing time and money on corporate branding efforts to promote the identity of the firm can be pointless. Conversely, when customers need or want to know who stands behind a particular brand, efforts to conceal the identity of the firm may be counterproductive, especially when the firm's products may have negative health, ethical or environmental implications.

Managing Organizational and Brand Identities After Mergers and Acquisitions

Should managers retain all the brands previously operated by the merged companies? Should managers preserve the identities of the merged organizations? The answer to the first question depends on actual overlaps, or synergies, between the brands and on the ease with which a brand can be terminated or sold without losing the corresponding sales and profits.

The answer to the second question goes back to the four models of identity integration. Building on the identity integration framework, managers must consider two questions as they ponder the opportunity to preserve or delete organizational identities in the aftermath of a merger or an acquisition. First, how much do the retained brands depend on unique organizations for their future growth? Second, what are the potential benefits of organizational integration after the merger?

When potential gains from organizational integration are high, and the brands can thrive independently of the organizations where they were located before the merger, it is safe for managers to consider full-fledged identity integration, either of the colonial or of the symbiotic kind, depending on the balance of power between the merged organizations. For example, Volkswagen was right to use the colonialist model in the integration of Seat and Skoda (Spanish and Czech automakers, respectively), because the two acquired organizations were relatively weak performers and could not support the development of brands.

When potential gains from organizational integration are high but the brands need continued support from unique organizations, the federalist integration model offers a good compromise between the equally necessary imperatives of coordination and autonomy of merged organizations.

Finally, when the potential gains from organizational integration are moderate, and the brands are dependent on the organizations where they grew, confederate integration is advised. ●

Masters of the I*Dimension

Steve Jobs was called back to rescue Apple after the company faltered badly under two previous CEOs. Peter Saunders took the reins at The Body Shop after the company experienced serious performance problems for several years. Louis Gerstner was brought back from outside after his predecessor nearly grounded IBM. Carlos Ghosn took the driver's seat at Nissan after Renault took control of a virtually bankrupt company. These four have led remarkable turnarounds at their companies and have delivered impressive increases in shareholder value.

The Essence of a Company

All four CEOs are masters of the I*Dimension. Each in his own way understood something fundamental about the essence of his company, and each leveraged this understanding effectively to achieve outstanding results.

Steve Jobs *reconciled* Apple with its historical identity by re-emphasizing innovation and design. Peter Saunders *leveraged* the unique identity of The Body Shop and used it as a platform for revitalizing the firm and repositioning its brand. Louis Gerstner *broadened* IBM's identity as an information technology company where mainframes, once synonymous with IBM, became just one part of a much broader technology and solutions portfolio. Finally, Carlos Ghosn administered shock therapy to Nissan and sought, at the same time, to *preserve* its identity. ●

Diagnosing Your Firm's Identity

Identity can be an extraordinary asset for a firm; however, identity can also become a serious liability. Furthermore, although there can be convergence internally and externally of a given firm's identity, there can also be divergence.

To avoid becoming a casualty of the I*Dimension, you need to have some idea where your firm is located along these dimensions. Discovering or pinpointing a firm's identity is a real challenge, best met through conducting and *identity audit*.

A Methodological Guide for Conducting an Identity Audit

Uncovering the identity of an organization requires conducting a methodical search for the more or less clear, shared and consistent answers to the following questions:

- What is our identity?
- What is the degree of internal convergence on, and

commitment to, this identity?

• What is the degree of consistency between internal and external perceptions of our identity?

• To what extent is our identity an asset? A liability?

• Is our identity enabling us to keep up with external change? Will it in the future?

• Are there internal or external signals that our identity might be blinding us to technological or market trends or structural performance problems?

• Can we go on as who we are, or do we need to break away from our identity?

• Who would be threatened and who would be served by a change in our identity?

Tools for Exploring a Firm's Identity

To answer these identity audit questions, here is a set of tools that can be used together or selectively for a systematic exploration of a firm's identity:

• **Exploiting Secondary Sources.** The first step in an identity audit is the exploitation of available internal and external writings about the firm.

• **Interviews With Key Constituencies.** Through initial discussions with senior managers and a first round of readings about the firm, the auditor must be able to create a list of relevant constituencies whose views of the firm and, more importantly, behavior vis-à-vis the firm are of critical importance.

• **Survey of Stakeholders.** The qualitative insights gained through secondary sources and interviews can be used to form hypotheses to be confirmed in a large-scale survey of the firm's stakeholders. ●

Leading in the Age of Identity

We now find ourselves in the Age of Identity, an age in which identity issues are ubiquitous — at the individual, at the organizational and at the societal level. In all spheres of activity, and particularly in business, leaders who are aware of the significance of identity for their firm — either instinctively or through systematic investigation — have a distinct advantage over those who are not aware.

As identity issues become increasingly pervasive, the need for sophisticated leaders who understand how to manage through identity will multiply. These leaders can leverage their awareness to either further reinforce their firm's identity when conditions so warrant or alter their firm's current identity when it constrains performance or adaptive capacity.

For additional information on reinforcing the I*Dimension, go to: http://my.summary.com

Symbolic and Concrete Actions

When managers believe that the current identity of the firm is a key asset, they can contribute to its reinforcement through both symbolic and substantive actions. Symbolic reinforcement of identity can be achieved with positive discourse, collective events and involvement in the larger community.

To substantiate claims about what distinguishes their firm from others, managers need to give evidence that they are faithful to that identity in their concrete decisions and actions. This could be reflected in decisions made about people: recruitment, promotion, compensation or layoffs.

Common Ingredients of Successful Identity Change

Here are five ingredients for successful identity change:

1. Vision. The leaders of successful transformations articulate their visions of the changes needed to seize new opportunities and preempt the threats facing their firms.

2. Effective communication. Successful identity architects are able to create simple and easily communicable messages about the need to change and the direction in which they are driving the organization.

3. Consistency. Effective identity architects gain credibility, internally and externally, by aligning their daily decisions and verbal behavior with the vision they articulate for the company.

4. Leadership continuity. Continuity in leadership is necessary if the identity of a large and well-established company is to be successfully altered.

5. Luck and positive signals. No matter how necessary or attractive a new identity may be, if the firm experiences severe performance problems in the middle of a metamorphosis, the process could well be terminated.

Venturing on the journey into the I*Dimension can prove to be an arduous trek, but those willing to take on the challenge are almost always rewarded generously. ●

RECOMMENDED READING LIST

If you liked *The Soul of the Corporation*, you'll also like:

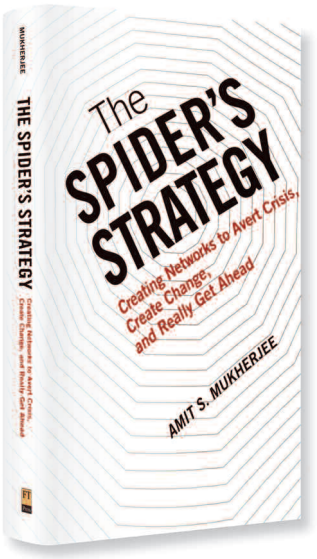
1. ***Corporate Agility*** by Charles E. Grantham, James P. Ware and Cory Williamson. In order to compete in the flat world, businesses must be willing to embrace a new strategic model. *Corporate Agility* provides the blueprint for this revolutionary move forward.
2. ***Good to Great*** **by Jim Collins.** The author takes on the question of whether a good company can become a great company.
3. ***Green to Gold*** **by Daniel C. Esty and Andrew S. Winston.** This book explores what every executive must know to manage today's environmental challenges. Based on the authors' years of experience and hundreds of interviews with corporate leaders around the world, the book shows how companies generate lasting value by building environmental thinking into their business strategies.

Summary

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The Spider's Strategy

Creating Networks to Avert Crisis, Create Change, and Really Get Ahead



by Amit S. Mukherjee

THE SUMMARY IN BRIEF

In *The Spider's Strategy*, strategy advisor Amit S. Mukherjee uses his in-depth industry knowledge to warn readers that the influx of technology and the introduction of computer integrated networks bring with them an epochal transformation. The only businesses that will survive the latest industrial summit are those companies that acknowledge this change and actively seek to transform themselves into "Adaptive Businesses" that can easily navigate the challenges of the new, networked world.

Mukherjee provides executives with the necessary tools to prevent their companies from entering "The Execution Trap," as "good management" is no longer sufficient for success. Traditional models that focus only on plan-and-execute processes will be obsolete as they are expanded to include "sense and respond" capabilities and incorporate learning and technology to charter the changes and challenges caused by the fragmentation of work across time and space.

With implementation of four powerful "Design Principles," *The Spider's Strategy* shows executives that success is this new epoch is possible. The application of the Principles enables a corporation to become an Adaptive Business by changing the way they learn, promote knowledge sharing, discovery and dissemination, and how collaborating among networks produces win-win outcomes for all. Mukherjee also explores the key role of technological capabilities and how, without them, Adaptiveness cannot be achieved.

IN THIS SUMMARY, YOU WILL LEARN:

- Why becoming "Adaptive" is key to success during the latest epochal transformation.
- What makes the traditional "plan and execute" model inadequate for modern competition.
- How to implement the four "Design Principles" to become an "Adaptive Business."
- How "sense and respond" capabilities will change everyday processes.

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THE COMPLETE SUMMARY: **THE SPIDER'S STRATEGY**

by Amit S. Mukherjee

The author: Amit S. Mukherjee founded Ishan Advisors in 2004. He has worked closely with senior executives of some of the world's best known companies, including Johnson & Johnson, Dunkin' Brands, SAP and Microsoft, to develop corporate and functional strategies. Prior to founding Ishan, he was the chief technology and strategy officer of TurboChef Technologies and a director at Arthur D. Little.

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For additional information on the author, go to http://www.summary.com.

The Fire That Changed an Industry

About 8 p.m. on Mar. 17, 2000, a lightning bolt struck a high voltage electricity line in New Mexico causing a fire in the Royal Philips Electronics radio frequency chip manufacturing plant. Although the fire itself only destroyed eight trays of silicon wafers, the smoke caused the sprinkler system to activate, causing damage to millions of chips that had been stored for shipment.

Nokia and its archrival, Ericsson, accounted for 40 percent of the plant's shipments. When Philips announced that cleanup would take approximately a week, Ericsson did not perceive a need for concern or stepped-up action. Nokia's intensified tracking and communications with Philips did not raise Nokia's confidence that its partner had the problem under control.

Recognizing that Philips' problem could affect the production of several million mobile phones, Nokia took three key steps: one team of executives and engineers focused on Philips, seeking a major role in developing alternative plans; a second cross-continental team redesigned some chips so that they could be produced in other Philips and non-Philips plants; a third group worked to find alternative manufacturers to reduce pressure on Philips.

That year, the mobile phone, laptop and other electronics markets were growing at more than 40 percent per annum. In the third quarter, Nokia's profits rose 42 percent and its global market share rose to 30 percent. Their annual report did not even mention the fire. On the other hand, Ericsson reported a second-quarter operating loss of $200 million in its mobile phone division due to the fire and component shortages.

Nokia was able to thrive because it had the capabilities needed to survive the challenge built into its strategy, processes, values and technology. It was able to adapt rapidly to the huge changes to its business plans. Companies — like Nokia — that can intelligently and effortlessly adjust to major shifts in market or operating conditions are Adaptive Businesses.

Design Principles for Adaptive Business

There are four Design Principles that senior executives can apply to transform their companies into businesses that will thrive in a networked world:

1. Embed sense-and-respond capabilities within normal plan-and-execute processes. The ability to detect a problem or opportunity early and correctly, and the ability to react effectively are key determinants of competitive advantage.

2. Adopt strategies that promote collaborative action among network partners. As companies globalize and their supply-and-demand networks fracture, they tend to lose visibility into their competitive landscape. Unless they develop cooperative relationships with their partners, they will not get preferential assistance with either crisis or opportunity.

3. Value and nurture organizational learning. Companies must collect, analyze and share across their networks knowledge about what works and what does not. Without "intelligent knowledge sharing," they will lack information to act decisively and effectively.

4. Deploy technologies that enable intelligent adjustment to major environmental shifts. To effectively and efficiently adjust to changed conditions, companies must apply information technologies that support the prior principles.

Although easy to state, the difficulty of implementing

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Toni Cannon**, Contributing Editor

the four Principles is what gives them their great power: *Collectively, they change how work is performed on a day-to-day basis.* In order for the Principles to have a voice in top management deliberations, companies must consider appointing a Chief Network Officer. This executive will bear primary responsibility for the implementation of the four Design Principles. ●

Shadows of the Past

Ramchandran Jaikumarr — Jai — studied 500 years worth of meticulous business records from the Italian gun maker, Beretta. He noted that, by the end of the 1980s, Beretta had gone through several major paradigm shifts that Jai called "epochs." Each started with the introduction of a new, often deceptively simple technology.

In response to periodic epochal shifts, companies have modified how work is performed, how their organizations are structured and even their corporate ethos. Distributed computer networks are driving the present epochal change by fragmenting work across time and space, engendering extreme product customization and blurring industrial boundaries.

This epoch has already extended itself beyond the boundaries of manufacturers, tying them very closely to retail businesses.

The Three Megatrends of the New Epoch

Three megatrends accompanied the new epoch and changed the landscape of modern business.

The first major trend was the decomposition of work across time and space. It began with the emergence of global data communication capabilities. This decomposition caused companies to extend their creation of intellectual property to locations around the world. This gave companies the confidence to break up work across networks of temporally and geographically dispersed — and often financially independent — workgroups.

The second major epochal trend is an explosion in the variety of output being produced by companies. Distributed computer networks make outputs possible that far exceed the ability of most companies to effectively manage the variety.

The third major trend is a tug-of-war over the basic structure of industries. One side has received considerable attention; many industries that exist today did not in the past. The other side has not received as much attention, despite being just as important and powerful; the traditional demarcations between industries are increasingly blurring and sometimes getting erased.

The Execution Trap

Doctrines of good management that work beautifully in one epoch tend to be inadequate in the next. In the Adaptive Business epoch, simply planning well and executing brilliantly will no longer guarantee great results. Companies will fall into the execution trap if they believe that reliance on traditional good management alone will help them succeed.

The Execution Trap is a direct consequence of the collective adaptation of the three trends. They make work too complex to meticulously plan and flawlessly execute in accordance with the plan. Individually and collectively, they limit managers' visibility into their vast empires.

Unable to predict what the future will bring and lacking the ability to work with the unfolding reality, executives and companies find that what they desire has little resemblance to reality and that what gets done is at odds with what was desired. ●

Visions From the Present

During the mid-1990s, Nokia was going through unprecedented change. Under CEO Jorma Ollila, it was busy reinventing itself as a global player in telecommunications by selling off businesses and investments in all other areas, including electrical power, tires and chemicals. Nokia was also coping with the three trends of the emerging Adaptive Business epoch.

In parallel, it was growing its telecommunications infrastructure and mobile phones businesses at rates in excess of 50 percent annually. By year-end 1995, it had become the world's second-largest mobile phone maker.

Through all this change, Nokia followed an old-fashioned plan-and-execute model that did not even incorporate Lean Enterprise principles.

Although management recognized these weaknesses, they had not been able to make the necessary changes. Nokia seriously stumbled while introducing a new product portfolio; they had large inventories of the wrong components and a shortage of components needed for the new products. This stumble led to the beginning of their transformational journey. This transformation was responsible for their success after the 2000 fire.

The Power of Networks

Executives in this present epoch are urged to think of the network of companies that surrounds them, for their emergence is the defining organizational characteristic of our times. Marketers, salespeople, finance professionals

and logistic experts are all working with manufacturers or engineers to create products and services. To be successful, managers must ensure that these workgroups fulfill four distinct but interlocking roles:

- **Build markets.** These workgroups are essential for selling products.
- **Create technologies.** These workgroups create key, distinctive intellectual property.
- **Assure supply.** These workgroups obtain or manufacture critical components and systems.
- **Develop complementary resources.** These workgroups provide ancillary products and services that, although inessential, engender great success or, in their absence, instigate failure.

The New Capabilities of an Adaptive Business

Because of the need to fill different roles in environments separated by time and space, members of a network may radically differ in size, goals, values, cultures, organizational structures, processes, risk tolerance and other factors. Such mismatches mean that very often amorphous, uneven groups that march to the beats of different drums must work together. Their collaboration must deal in real time with the implications of such differences: what a given workgroup notices in its environment, what it considers important, whether and how it reacts to these, and what it does.

Members of networks win or lose together; rarely can a company succeed while its network is failing. Individual workgroups — and the network as a whole — must develop three *additional* capabilities that complement plan-and-execute: the ability to *sense* unexpected changes, the ability to *respond* to the unexpected change and the ability to *learn* from experience. Together, these capabilities, working in concert with plan-and-execute, enable a company to consistently, effectively and efficiently deal with small and large changes in its environment.

Whether or not a company transforms itself quickly has an enormous impact on its financial performance. Financial markets are holding top managers accountable for perceived failures more than at any time in the past. If the transformation does not find room on top managers' agendas, their financial legacies could well be at risk. ●

Transform Everyday Work

The first Design Principle for Adaptive Businesses: *Embed sense-and-respond capabilities within normal plan-and-execute processes.* Without the ability to initiate a response to deal with normal business problems, a company cannot be considered able to effortlessly adjust in response to market changes.

The Importance of Being Earnestly Adaptive

Plan-and-execute processes deal with what is known and/or expected; sense-and-respond capabilities must address the unknown and/or unexpected. Normal work processes and systems must enable people to do both. Absent such integration, people (and processes) may not be able to identify and address the unusual, unexpected or spectacular as they execute the mundane. Such a disconnect may give rise to crises or missed opportunities. Well-managed companies may be able to react to these, but they won't be able to proactively exploit them.

Companies stumble when their planning-and-execution processes cannot match the pace with which changes propagate in a networked world. Businesses cannot simply rely on downstream execution to drive upstream work. They must be constantly vigilant for signals about actual events, wherever they may come from.

Embedding sense-and-respond capabilities within normal plan-and-execute processes is the modern-day equivalent of giving workers, not just masters, access to standard planes, micrometers and engineering drawings. Doing so makes sensing and responding everyone's responsibility.

What Must the Company Sense?

A company should seek to sense *predictable surprises*, a term coined by Michael Watkins and Max Bazerman. A predictable surprise is a problem with three characteristics: at least some people know that it exists; it is worsening with time; and, if unaddressed, it might become a crisis.

To perfect its role as a filter for focusing the company, the definition of predictable surprises must be expanded to cover opportunities that, if ignored, would not be exploitable. Second, it must cover events that are predictable not because they build up over time, but because they belong to known groups of recurring problems or opportunities.

Executives seeking to build sensing capabilities should review all predictable surprises in order to identify which ones deserve a response, and when and how to respond.

Companies have to identify their own predictable surprises based on their own particular situations. Moreover, it is important that as business conditions evolve, the predictable surprises that should be sensed may change. Therefore, executives must periodically

reassess their business needs and refocus their sensing capabilities on the new criticalities.

How to Design Sense-and-Respond Capabilities

Once executives use predictable surprises as filters to define what their companies must sense, they have to embed the sensing capability in plan-and-execute processes. They must decide what signals they should rely on, where the capability should reside and how the sensing will happen. Executives must assess how they would need to respond if the surprise actually occurred.

The developers of response capabilities must identify the key bottlenecks, capabilities, weaknesses or assets that could affect their ability to respond in their preferred manner and how work will be coordinated when a surprise materializes.

Finally, the designers must evaluate when the company must actually act if it senses an opportunity or challenge. This determination must be tackled last, simply because it takes into account the tasks covered by the prior three responsibilities and determine the time needed to actually execute these in a specific instance. ●

Succeed in a Dog-Eat-Dog World

The second of the four Design Principles for Adaptive Businesses is: *Adopt strategies that promote collaborative action among network partners*. Regardless of whether its creation takes massive amounts of time, energy and resources or the brilliant insight of one or more great minds, knowledge may be hard to decode, decipher and use without the active support of those who create and/or possess it. By acts of omission (suppressing key information) or commission (providing misleading information), those who create/possess knowledge can thwart its effective use by those who choose to appropriate it.

Why Companies Act Against Their Own Best Interests

Relationships between companies are often governed by assertions such as, "If we tell them what our true inventory levels are, they will take advantage of us." A game theory model called the Prisoner's Dilemma elucidates why companies behave like this.

The police arrest two suspects against whom they have weak cases. They hold the suspects in separate cells promising each leniency for implicating the other and harsh treatment otherwise. The prisoners do not realize it is an empty threat, but, unable to communicate with each other and concerned about being double-crossed, each one concludes that regardless of what the other does, he or she will draw a lesser sentence by implicating the other. Each then makes a perfectly rational decision to do so, thus giving the police the ability to convict both.

This scenario is repeatedly played by businesses acting as the prisoners; companies working together make rational decisions individually that produce bad outcomes collectively.

Companies fall into the Prisoner's Dilemma trap because their people lack critical information about the consequences of their decisions.

If businesses interact (work) with each other rationally and repeatedly, they should keep their partners' best interests in mind — not as an act of altruism, but one of enlightened self-interest. Over time, this will produce favorable outcomes for all parties.

Implementing the Second Design Principle

It is possible to evolve to win-win even in situations where the predominant perspective is win-lose. What is essential is a critical mass of people who believe in win-win. These people search out others who share their beliefs and, by working with each other repeatedly, over time they outperform those with a win-lose mindset. Their superior performance attracts the attention of others, who then join the group to gain the same benefits. So, to get the process started, a company must focus on the true believers.

Even with true believers leading the charge, companies should address immediate, practical issues of substantial value instead of initiating a crusade to change the world. Once people are convinced that win-win is beneficial to them in areas they care about, they become amenable to considering that by moving out of their comfort zones, they may create even greater value.

It is impossible to develop a win-win relationship with others without sharing critical information with them. Having critical information is of little value unless it is shared with those who need it to make key decisions. However, no company can tell all outsiders everything. The key question then is, "Who is authorized to share what information, with whom and under what conditions?" Sooner or later senior executives must develop policies to govern information sharing.

Of the four Design Principles, the second is most likely to draw skepticism, because its implementation requires people and companies to change not only what they do, but also how they behave. ●

Ensure That Work Teaches

The ability to learn from the experience of working across functional and/or organizational boundaries is critical to success. A company pursues organizational learning if it routinely and ethically enables its people to improve their knowledge of its environment and ensures that the private knowledge of an individual becomes the public knowledge of many. Five elements of this concept merit elucidation:

- **Routinely:** Every act of production should be an act of learning. This goal should be extended to all functions.
- **Ethically:** If a company behaves unethically by say, usurping someone's knowledge and then replacing him or her with someone cheaper — people will resist sharing their private knowledge and the company will not be able to learn continually.
- **Enables:** A company that simply encourages its people to learn, but does nothing to help them do so, is not pursuing organizational learning.
- **Environment:** This includes both the internal and external environment, which includes the work performed and the conditions that accompany its performance.
- **Private knowledge/public knowledge:** If an individual learns something valuable, he or she may benefit from it. For the organization to benefit, the individual typically must share that knowledge with others. Unless private knowledge is made public (within reasonable bounds of confidentiality) it is not organizational.

Distributed computer networks and their associated trends have increased the importance of managing learning. More generally, unless a company learns by collecting, analyzing and intelligently sharing knowledge, it can neither effectively design its network nor act decisively through it.

Companies that aspire to be adaptive must adopt the third Design Principle: *Value and nurture organizational learning.* This Principle is the energizing spark that drives all aspects of adaptive behavior.

To consciously implement the third Principle, executives must understand the range of learning styles that can be observed in business settings. Not every style is effective and knowing the range can facilitate behavioral change. Moreover, in order to move from encouraging learning to enabling it, executives must also know how organizational infrastructure supports or impedes learning.

How People Learn to Solve Business Problems

People usually learn to solve complex business problems by first observing more experienced colleagues tackle similar problems. They then develop their own instincts by trial and error, often under the tutelage of such a colleague. Such learning is called *experiential* to recognize the role of repeated contact with a diverse set of work-related situations. It teaches people two things; first, how to recognize events that require action and second, how to react to these events.

A less common way people learn to solve business problems is by first understanding *why* different elements of their work interact in particular ways. Such learning is called *conceptual* to recognize the critical role of theory. An "expert" can help elucidate a theory for the benefit of a novice. No one uses one or the other learning mode exclusively. We combine different levels of experiential and conceptual learning when we search for solutions to business challenges.

Creating a Learning Organization

The failure to learn keeps companies from intelligent and effortless adaptation. Executives must understand how they can improve their companies' ability to learn.

"Process" refers to a series of actions, changes, operations or functions that produce a result or create or modify a product or service. The most effective way to convert private knowledge into public knowledge is to embed the knowledge into a business process. Over time, Adaptive Businesses must re-evaluate processes to ensure that they: help the company become better over time, identify and resolve new and/or emerging problems, and see if the process itself can be improved.

"Organizational structure" can drive active knowledge sharing by indicating what knowledge exists and how learning can be managed. The key role that structure can play is as a gatekeeper and evaluating knowledge to assess whether it is valuable enough to retain. In this role, the gatekeeper is often a specific group of people formed for the purpose. The group may be temporary or permanent. The second role that organizational structure plays is as a repository of critical knowledge and an active facilitator of its use. This ensures that learning and managing knowledge are distributed across all managers of the organization.

The last of the elements that affect an organization's ability to learn is its ***"culture."*** The culture of a company is critically important. Adaptive Businesses must be open to outside influences and be willing to take risks.

To encourage people to constantly learn, a company must be open to outside ideas and open to try things that they have not done before. It is critical that a company be willing to learn from mistakes. Without this trait, post mortem analysis would turn into: Blame others while shielding yourself. This prohibits learning because it encourages people to "play it safe" for fear of consequences.

Implementing the Third Design Principle

Each of the three elements — process, organization and culture — collectively constitute the engine for organizational learning. Either by evolution or by design, they mutually reinforce each other's effect on a company's learning abilities.

The best way to become a learning organization is to build the right culture, organization and processes from the start. For established firms, this may seem to suggest that companies that are good at knowledge creation will continue to get better at it, while others will find it impossible to improve. However, this logic is not absolute. With care and effort, companies can become learning organizations by applying the propositions instead of fighting them.

Successful businesses inevitably enter new markets, launch new products and open new facilities. Executives should use such occasions to create learning organizations that are sheltered from the mainstream processes, organizations and culture. The key challenge is finding leaders who can simultaneously manage business challenges and the needs of a learning organization. The managers' other challenge will be transferring this new knowledge to those who need the knowledge but who are not members. ●

Make Technology Matter

The fourth Design Principle for Adaptive Business asks executives to embrace the marriage of technology and strategy: *Deploy technologies that enable intelligent adjustment to major environmental shifts*. There are four key capabilities that Adaptive Businesses need from technologies: provide visibility, support analysis, facilitate collaboration and enable mobility. Conversely, without these four capabilities, it would be difficult to be adaptive.

Provide Visibility

Visibility is the ability to "see" the what, how much, where and when of a company's internal and external environments. This gives you the ability to sense emerging problems and opportunities, but also provides the information that, if analyzed appropriately, enables the marshalling or cogent responses. Visibility technologies are the cornerstones of an Adaptive Business because they enable the effective application of the first and third Design Principles.

Support Analysis

Technologies for analysis look for patterns and anomalies in data. They often compare data against formal models or older data sets in the company's organizational memory. In the near future, analytical software could give individual managers and staff ready access to data and analyses that can corroborate or refute opinions or hunches.

In all fields of human activity, anything more that the simplest work requires collaboration among individuals with diverse knowledge, skills and experiences. As work fragments across time and space, it also requires collaboration among groups. Technologies that enable such collaboration are credited for all of the prior three Design Principles.

Mobility technologies give people on the move two overlapping capabilities: the capability to communicate with their primary places of work, and the capability to acquire information where they are and to manipulate or disseminate it as needed. These technologies increase their users' productivity. Information is not just not accessed or responded to, but is actually created in process.

This mobility directly enables all three Design Principles by enabling their support in various locations outside the company walls.

Implementing Adaptive Technologies

In effect, technologies that provide visibility, support analysis, facilitate collaborate and enable mobility go hand-in-hand with an Adaptive Business approach to managing a company. Each of these capabilities facilitates intelligent adjustment to changed environmental conditions by allowing companies to detect such changes, analyze them, respond to them through collaborative action, learn and disseminate what they have learned. Technology can play a key role in becoming an Adaptive Business but the fourth Design Principle, in and of itself, cannot make up for the absence of the first three. ●

Create the Organization

In each epochal change, work was transformed; the skills and capabilities valued by companies evolved; and consistent with the changes in work, skills and capabilities, organizational structures changed.

In prior epochs, people in staff positions served as the human drivers and coordinators of the work that arose

from the technologies powered by the epochs. It stands to reason, then, that in a world in which work is being performed by networks of workgroups within and outside individual companies, the staff must ensure that the network of workgroups thrives. They will thrive only if the workgroups individually, and the network as a whole, develop and use three new capabilities: the ability to sense, respond and learn, generalize and share. This implies that the staff must focus on creating, cultivating and ultimately institutionalizing the abilities to sense, respond and learn.

The Chief Network Officer

The overarching responsibility of the Chief Network Officer (CNO) is to provide top management and the leadership needed to make his or her company adaptive. The CNO must "'align the needles of the individual compasses" by leading a company's efforts in five key areas:

- **Prospecting:** Companies should constantly forage for potential partners who can not only provide key capabilities, but also can work effectively as partners.
- **Evangelizing:** The CNO must work hard to develop personal relationships with top executives of potential and actual partners.
- **Network building:** The third task is actually building the network.
- **Mediation:** A CNO should represent the overall corporate interests, particularly when conflicts, including those between partners, both internal and external, arise.
- **Knowledge transfer:** The final role that a CNO must play is to ensure that good adaptive practices developed in one part of the organization are transferred to not just other parts, but, whenever appropriate, also across partner organizations.

The CNO cannot do all the work. There must be a team. There are two viable options for the structure of this team. The first is creating a *corporate team*. As long as its own application of the third Design Principle keeps it from becoming inward-focused, such an organization can drive adaptive principles quickly through the company. The second team option is to create a *matrixed team*. In more complex environments, a strong matrix organization may be the best.

Top executives should look among their senior staff for CNO candidates who possess three main characteristics. The CNO, first and foremost, needs to be a *business executive*, not a functional specialist. This person must understand the company's products, markets, competitors, technology, processes, regulatory and socioeconomic environment.

To deal with the complexity of growing networks effectively, a CNO must have *collaboration and consensus-building skills* because leading a transformation requires a greater degree of complexity than simply overseeing "business as usual." The CNO must also be *imaginative and willing to learn*. At the beginning of an epoch no one has a monopoly on knowledge. If the CNO does not have the humility to admit he or she does not have all the answers, the CNO will also find it hard to fashion innovative solutions. ●

Introduce Change Holographically

There is no right answer for how a company should embark on the task of creating an Adaptive Business. Steps that may be perfect for one company may be disastrous for another. With this important caveat there are eight key recommendations for executives to consider:

- Introduce adaptive transformation holographically by satisfying three conditions: Define the core policies at the corporate level; introduce capabilities business unit by business unit, not Principle by Principle; actively transfer lessons learned across business units.
- Pick a business unit that wants to change.
- Start at or near the top of the organizational hierarchy.
- Build a master plan, even one on a small scale.
- Introduce the Design Principles in waves.
- Start with the non-customer-facing ends.
- Remember that incentives can be an executive's best friend.
- For the foreseeable future, let the results speak for themselves.

Adaptive Business has the power to help companies thrive. However, it is still years away from having the power to influence financial markets. This is actually a good thing. By introducing change under the radar of the financial markets, companies may make it easier for change to take hold. As such, CEOs who decide to take their companies down this path should leave the flamboyance to those who will follow them. ●

RECOMMENDED READING LIST

If you liked *The Spider's Strategy*, you'll also like:

1. ***The Fifth Discipline* by Peter M. Senge.** Senge helps you see through the complexity of systems and identify patterns that hide behind events and details.
2. ***Thriving on Chaos* by Tom Peters.** Peters points the way to toward success for corporations struggling to regain markets.
3. ***The 360 Degree Leader* by John C. Maxwell.** It's said that 99 percent of all leadership occurs from the middle of an organization. This book will teach you to be a leader in all directions.

Summary

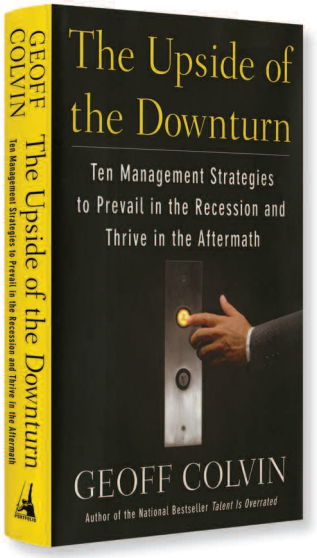
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Management: Strategies

The Upside of the Downturn

Ten Management Strategies to Prevail in the Recession and Thrive in the Aftermath



by Geoff Colvin

THE SUMMARY IN BRIEF

Some businesses — and some people — will emerge from this downturn stronger and more dominant than when it started. Others will weaken and fade. It all depends on critical choices they make right now. In *The Upside of the Downturn*, Geoff Colvin, respected business journalist and best-selling author, says even the scariest recession has an upside.

The best managers know that conventional thinking won't help them win in these tough times. They're taking smart, practical steps that will not only keep them strong, but will also distance them from the pack for years to come. The dozens of top-performing leaders Colvin interviewed reject the common view that slashing costs and firing employees are all that matter. They see the recession as a rich opportunity to reinvent their organizations and lay the groundwork for future growth.

Colvin's 10 solidly grounded strategies will increase your company's competitiveness and build its long-term value. He shows how these strategies really work, using examples of major companies that have applied them with inspiring results.

IN THIS SUMMARY, YOU WILL LEARN:

- The structure of industries will change profoundly as various players disappear and others transform themselves.
- The six key categories that shape performance and viability are financial strength, competitive advantage, government intervention, the state of your customers, your reputation and your risks.
- The true costs of layoffs and whether they will actually get you the benefits you're counting on.
- One way to think through the matter of your strategy and business model in this recession is to answer three basic questions.

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THE COMPLETE SUMMARY: **THE UPSIDE OF THE DOWNTURN**

by Geoff Colvin

The author: Geoff Colvin, *Fortune's* senior editor at large, writes the popular column "Value Driven." Colvin lectures widely and is the regular lead moderator for the Fortune Global Forum. He also offers daily business commentary on the CBS Radio Network. His first book, *Talent Is Overrated*, earned international acclaim and was a *Wall Street Journal, BusinessWeek* and *New York Times* business bestseller.

The Upside of the Downturn by Geoff Colvin. Copyright © 2009 by Geoff Colvin. Summarized with permission of the publisher, Portfolio, a member of Penguin Group (USA). 182 pages. $24.95. ISBN 978-1-59184-296-5.

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For additional information on the author, go to http://www.summary.com.

The Greatest Opportunity

It is easy to say that tough times are an opportunity, but much harder for most businesspeople to find anything attractive in trouble on today's scale. A global economic decline that in many nations is already the longest since the Depression, that has wiped out trillions of dollars of wealth, thrown millions of people out of jobs, caused hundreds of thousands of businesses to close, and is to most people just a mess, a curse, a plague.

But in fact, this historic downturn really does offer new, similarly scaled possibilities. The reasons are specific and hardheaded:

1. This downturn is worldwide, so your canvas of opportunity is huge.
2. This downturn is severe and painful, answering the prayers of every business leader who wants to make big changes in his or her organizations.
3. This downturn is deep, meaning it's affecting people's most fundamental economic behaviors — spending, saving, borrowing, investing — in ways that may last for years.
4. This downturn is long, which means that many companies won't survive it.
5. This downturn is novel, so most managers have never experienced anything like it and no one has an advantage in knowing how to manage for it.

This Downturn Will Test You Personally

Times of crisis present genuinely great opportunities not just to demonstrate leadership but also to develop it — to build leadership capabilities beyond what you or others in your organization now possess. Scientific research on great performance has shown persuasively that high abilities of all kinds are developed; they don't occur naturally. The question of whether great leaders are born or made is settled: they're made.

Everyone is facing the opportunities that are present, though sometimes concealed, in the global downturn. Only a subset of businesspeople will recognize those opportunities. Of those people, only some will get past fear and defensiveness and try to take advantage of the opportunities. And of that group, only some will succeed. ●

The New Normal

Seeing the downturn as a bunch of statistics is easy, tempting and almost useless. Seeing the recession as part of a story is our only hope of understanding it well enough to manage through it. And as fascinating as the story is, what we all really care about is our own narrative — what happens to me and my organization in this story?

It's also important to focus on the story's most important elements and, in the current portion of the world's economic saga, it's clear what they are. There are two: one is the behavior of American consumers; the other is risk and how economic players around the world have regarded it — a volatile love-hate relationship that is central to the story of the recession and what will come next.

The Day the World Changed

The day the world changed, though no one knew it at the time, was June 13, 2007. These turning points are never clear except in retrospect and no one can say exactly why they happen when they do. But on that day, for whatever reason, investors started waking up to

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risk, and all the world-changing turmoil we're coping with today has followed from that.

Specifically, investors began to feel they weren't getting paid enough for making risky investments. At first the effects were barely noticeable, but by August they were unavoidable. That's when the subprime crisis began, for the simple reason that investors who had previously ignored the risks of subprime mortgages and the securities built from them were now demanding to be paid a more realistic — that is, higher — return. Just six months after investors came to their senses about risk, the recession had begun.

Not Since Genesis

Every recession is unique, and this one is different in many ways, including the bizarre nature of the financial securities that got banks into trouble and its interconnected global complexity. But for people in business, the most important difference centers on the strange behavior of the protagonists of our story, consumers.

- Ever since Joseph decoded Pharaoh's dream about fat cows and thin ones, consumers have followed his policy response: Save in the fat years to survive in the thin ones.
- In good times they put away some of the abundance because they know they'll need it in bad times to come.
- Then, when the bad times hit, they spend some of what they've saved.

That's what consumers have always done because it's so obviously prudent. But it isn't what they did this time.

For the first time since Genesis, consumers did everything backward. During the expansion from 2002 through 2007, the savings rate of U.S. consumers fell rather than rose. In mid-2005 it even went negative, and it stayed below 1 percent for most of the period until late 2008.

Then, with the recession really taking hold, consumers again did the opposite of what they've usually done and increased their saving. That is the reverse of how consumers behaved during the Great Depression. That's how this strange story has led to a recession of historic proportions. Now businesspeople need to know what will happen in the story's next episode.

The New Normal

Because this recession is so severe, and because of the unique way in which it happened, we can be sure that it will change the world in several big, long-lasting ways.

Firefighting: The Most Dramatic Form of Responding to a Crisis

In this time of crisis it's worth considering what a group of psychological researchers learned when they studied firefighters. They investigated what two groups of firefighters, novices and veterans, actually saw when they looked at a burning building.

- The novices noticed the obvious features: the height and color of the flames, which parts of the building were involved.
- But the veterans, looking at the same fires, saw something different. They saw a story. They noticed the clues that told them how and where the fire had started, why it was burning as it was, and what it would likely do next.

By seeing the fire as a story, not just a collection of traits, they could create a plan for managing it. That's what made them effective firefighters. It's the same with the economy.

The changes are already happening. The structure of industries will change profoundly as various players disappear and others transform themselves. We don't have to wait for the recession to end to see the new world that it's creating, to glimpse the next episode in the story. Specifically:

1. The U.S. economy will become less consumer driven and consumer focused.
2. Social attitudes toward working, saving, spending and borrowing will shift.
3. The world economy will become less U.S.-centric.
4. Investors will remain spooked by risk for a long time.
5. Government will play a much larger role. ●

Reset Priorities

Jamie Dimon is arguably the only major bank CEO who has come through the financial crisis looking good. As chief of JPMorgan Chase, he got the bank out of subprime mortgages in 2006 and kept it so financially strong that when other major institutions failed, notably Bear Stearns and Washington Mutual, Chase bought them and their still-valuable assets for minimal prices.

Now everyone wants to learn more about how Dimon manages and he's not bashful about explaining it. When a Harvard Business School professor asked him, in October 2008, how he was managing through the

crisis, Dimon was perfectly clear about what was most important: "You have to prioritize. I am shocked by the number of people who are watching that train coming down the track" — meaning the recession — "and they're still worrying about their strategic plan for 2009. We canceled all that stuff — all of it — meetings, travel, you name it, to focus on the fact that we're in the middle of a real crisis."

What's Your Specific New Reality?

The changes in your reality are probably much more extensive than you realize. To grasp them fully, examine how your company's world has changed in six key categories that shape performance — and viability:

1. Financial strength
2. Competitive advantage
3. Government intervention
4. The state of your customers
5. Your reputation
6. Your risks.

Making Smart Decisions Under Stress

Understanding all the elements of your new reality is a big job, but the great thing about doing it is that it creates a picture — a rich overall view of your business in today's new environment. Looking at that big picture, you'll probably realize that many of your pre-recession goals just aren't realistic anymore. Abandoning such goals for now isn't failure, it's facing reality and protecting the business. In their place you'll create new goals:

- Increase market share.
- Lower breakeven points.
- Create new customer value propositions.

But in a way, this analysis, this assessment of the new reality and revising of goals, is the easy part. The hard part is responding — getting yourself and others to embrace the new reality, make decisions in a stressful, fast-changing and uncertain environment, and take action.

How to Respond?

The best and clearest explanation comes from studies of the military, where stress is worst and the consequences most serious. Research by the World Health Organization has shown how soldiers avoid the harmful effects of the stress and uncertainty of combat. Note how each factor has a clear parallel in business.

- They feel in control.
- They have strong group cohesion.
- They trust their leaders.
- They have high motivation.
- They feel well armed and protected.
- They feel well trained.
- They have a reliable medical corps.

Overstressed decision makers are bad decision makers, so unless the stress problem is at least blunted, nothing else will turn out well. ●

Protect Your Most Valuable Asset

Toyota has never laid off anyone. It's not that Toyota is selling as many cars and trucks in 2009 as it was in 2007. On the contrary, its sales were whacked more heavily than at any time in the company's history, though not nearly as badly as the Detroit Three's sales were hit. Nor is the company continuing to turn out millions of vehicles and storing them unsold on some vast parking lot. Instead, Toyota has been doing what it has always done in recessions, continuing to pay workers who continue to come to work every day.

If they aren't needed to make cars all day, which in this environment they often aren't, then they do other things. They take classes in workplace safety or how to handle materials; participate in exercises, developed at Toyota over many years on how to improve productivity; go to seminars on diversity or ethics; and go through assessment exercises to see how much they're learning.

Toyota doesn't promise its employees that it will never lay anyone off. Its policy of keeping employees on staff during recessions and giving them extra training means that when the economy turns up, those employees are in the plant, ready to go and probably far better prepared than the employees of any competitor.

The New Importance of Human Capital

The best companies and the best leaders take a larger view of their people during a downturn. They avoid the reflexive responses that they may have grown up with and that may be traditional in their own company. When they stop and examine today's environment, they find that it's full of opportunities — to begin practices they always should have been using, to improve the quality of their people, to increase employees' loyalty and motivation, to build the culture.

The True Costs of Layoffs

Maybe you've tried everything and concluded that you're in one of those companies that honestly cannot avoid layoffs. But before you pull the trigger, consider the true costs of layoffs and whether they will actually get you the benefits you're counting on:

- Layoffs are expensive in direct costs. Severance payments and other benefit costs that may be contractually required can add up to a substantial total, and most of those costs are immediate.
- Valuable knowledge will walk out the door.
- Your company will lose productivity before, during and after the layoff.
- Your company will damage its brand as an employer.
- Your leadership pipeline will suffer years from now.
- Even the survivors will pay a price.
- Wall Street's reaction may be the opposite of what you expect.

Engage the Outside World

Public Attitudes Are Changing

Today's crisis is no Great Depression, but it too will change business's world for decades. Finding opportunity in that shift may seem tough when public attitudes appear to be moving massively against business. But remember, your company isn't businesses, it's one company. As an analogy, it has been shown many times that most people don't like Congress but do like their own congressman. Indeed, there's no better time to look good than when the competition is despised.

The New Relationship with Government

Only a few companies are big enough to influence government during this critical period. The challenge for most of us will be understanding what's coming, then thinking deeply about what it will mean for our businesses. Change is on the way in four broad categories:

1. New regulation of leverage, risk and risk markets.
2. Large-scale new regulatory frameworks.
3. Protectionism and other employment programs.
4. Greater government activism in areas less directly connected to resolving the crisis.

Get Right with the Street

We all tend to keep quiet when we don't have answers — to "hunker in the bunker," as American Express CEO Ken Chenault put it, until we feel we have something definite to say. That's exactly the wrong approach. A company's constituencies don't expect you to have all the answers. They just want to hear your view of the world, to understand how you're approaching your situation and to know that you're thinking about them. In bad times they need to hear all this much, much more than when times are good.

Reexamine Your Strategy and Business Model

Is our strategy going to work in this environment? What must we change — and what must we not change? Will the recession fundamentally change our industry and our place in it? Or will this downturn just throw us off the long-term trend line for a couple of years? Do we need a new business model?

Those are large and deep questions for any company, and reconsidering strategy can turn into a miasma that consumes endless time and yields nothing. Yet the process is manageable. One way to think through the matter of your strategy and business model in this recession is to answer three basic questions:

1. What is our core?
2. How is this recession changing our customers and their behavior?
3. Will this recession hasten — or even cause — a large-scale restructuring of our industry, and if so, how will it affect us?

Three Multi-Industry Trends

Knowing which kind of future your industry faces — a world-changing, once-in-a-lifetime revolution or an era of major adaptation — is critical before you can form your response. A danger in a recession as deep as this one is that it may accelerate trends that will affect your business but that weren't even on your worry list. Three broad, multi-industry trends, already well under way, are especially worth watching because a bad recession could fuel them significantly:

- **Cocreation.** The idea is that most successful companies no longer invent new products and services on their own. They create them along with their customers, and they do it in a way that produces a unique experience for each customer. In cocreation, the choices are infinite and the company neither imagines nor delivers them all.
- **Brand building in developing economies.** It has been apparent for some time that the next great phase of business development in China and other developing economies will center on brand building, but it was slow going as long as the world clamored for low-cost manufacturing as fast as these countries could provide it. Motivated by the current slowdown, they may become brand power-houses far more quickly than many Western companies expect.
- **Imagination-based business models.** As living standards decline in Western economies, a conven-

tional response is to urge greater achievement in science and technology, long the foundation of economic dominance. The vision of the right-brain future is appealing in the developed world because it plays to the West's strengths today. ●

Manage for Value

For every company, deciding how to measure itself in this recession is one of the most critically important decisions to be made. That's because the way you decide to measure your performance is the foundational decision. Once it is made, it guides virtually all of your other decisions. If it's wrong, it will lead to many bad decisions, which in this environment may be disastrous.

Your Real Goal

Our system is called capitalism for a reason: it's all about capital. Yet that bedrock reality gets obscured in all kinds of ways as a result of accounting rules, corporate shorthand, media reports and other factors.

Every company's goal is to create value, which means using capital to build a business that's worth more than the capital itself. And the way this is done is to *earn a return on the capital that's greater than the cost of the capital*, a measure that financial economists call economic profit.

Get to Know Your Capital

Many of the world's best-managed companies understand this rule and live by it, but many other companies don't. The resulting wrong decisions may be survivable in a growing economy, but they can be fatal in a deep recession. To understand exactly how, you must first explore two simple questions: How much capital is in our business? How much does our capital really cost?

Making the Right Decisions the Right Way

The decisions managers are making now can be put into three major categories:

- **Deciding what to manage for.** In this recession, when cash seems so especially dear, managing for value may show the way to finding additional cash that wasn't available prerecession. As managers evaluate operations against the standard of a higher capital cost, they will likely find that some no longer meet the test and should be stopped, thus freeing up more cash.
- **Mergers and acquisitions.** Merger activity typically plunges in a recession, and that has been happening this time. Yet a historic downturn is a terrific opportunity for companies to buy other firms at bargain prices, and it can even work out well for sellers.
- **Dividends.** Most companies that pay dividends hate reducing them, yet that's what many have been doing. Yet it's possible that those companies have been forced into doing something smart. Paying a dividend achieves nothing for shareholders. It merely gives them some money that they already hold, embodied in the price of the stock. Every time a company pays a dividend, the price of its stock drops by the amount of the dividend.

A wonderful thing about the principles of finance is that they don't change. In a deep downturn, when every company must operate within much narrower margins of error, observing them becomes much more critical. Yet many managers, disoriented by the unfamiliar conditions, lose sight of the basic principles at just this crucial moment. The opportunity is to chart a course that may seem contrarian — to avoid cutting costs that others are cutting, to do deals that others won't do — secure in the knowledge that you're actually pointed in the right direction, and when the storm ends, you'll be far ahead of your competitors. ●

Create New Solutions for Customers' New Problems

The most successful companies understand that through good times and bad, they're always creating complete experiences to meet their customers' changing wants and needs. The process doesn't start when a recession hits. Instead, these companies are constantly monitoring the state of their customers and are experimenting with new value propositions that could better serve customers.

Getting Creative in Meeting New Needs

As companies create new value propositions for their customers' new recessionary wants and needs, they can do so on several dimensions, giving companies more options than many managers may realize. The simplest approach to creating a recession value proposition is devising a new product or service that offers the customer a reduced experience, carefully defined, at a lower price. ●

Price with Courage

To say that price cuts aren't inevitable in a recession is an understatement. If you believe that you absolutely must do it, please consider fully all the potential dangers, which are much more extensive than many business people imagine:

- Price cuts rarely pay for themselves. They may even reduce profit more than holding prices steady.
- Price cuts can destroy brand equity that took years to

build and may take years to restore.

- Price cuts train customers to behave badly. Buyers of all kinds have a tendency to remember the lowest price they ever paid for your product or service.
- Customers hate price increases more than they like price cuts.

How Much Pricing Power Do You Really Have?

Pricing is a continuing process through good times and bad. It's just that in good times you probably don't have to get it exactly right, while in a serious recession the stakes are much higher. For a business, even the most skillful pricing won't produce financial success if the company hasn't met the challenges of the recession on the inside. If its operations aren't competitive, if it isn't efficient, then it could still be crushed by the recession; while if it is, the recession can be a time of triumph. ●

Get Fitter Faster

Reevaluating the economic value of customers — and of products, services, facilities and lines of business — is one of the most important steps a company can take in tough times. It's the nuts and bolts of business, the millions of day-to-day decisions that add up to productivity, efficiency and financial success. In a historically severe recession, they become more important than at any other time.

The most effective moves aren't always the ones that managers reflexively make. Sometimes they're exactly the opposite. The greatest rewards go to businesses that move fastest and best in the following ten practices:

1. Understand the new economic profitability of all your business's components.
2. Look at your world through a green lens.
3. Think twice before cutting the easy expenses.
4. Ask, what would we do if we had to sell this business?
5. Focus intensely on a few clear goals.
6. Make executive pay a help, not a hindrance.
7. Don't spread the cuts evenly.
8. Don't sacrifice cash just to improve reported earnings.
9. Take a fresh look at offshoring.
10. Ask the employees where the opportunities are.

Operational Excellence

Operational excellence isn't every company's strength. An excellent book, *The Discipline of Market Leaders*, even argued that it shouldn't be — that every company needs to focus on just one of three possible strengths (the other two are product leadership and customer intimacy).

But in a deep recession, when every dollar of profit becomes far harder to earn, the value of operational excellence multiplies, and every company needs to get better at it.

The truth is that in operations and every other aspect of running a business, the stakes become much higher in a recession. ●

Understand All Your Risks

Around the world, thousands of companies were analyzing their risks diligently, and plenty of them (not just in finance and real estate) believed they were well prepared. They just never considered the type of cascading systemic failure that actually occurred. Of course, now we'll all be preparing for that type of catastrophe, which means the greatest risk we face is something new that we haven't imagined.

Seeing the Risk You Never Imagined

The enormously destructive power of this recession teaches five lessons that every company can apply for much better understanding and control of its risks.

1. **Turbocharge your imagination.** Because the events that do the worst damage are the ones you never conceived of, effective risk management begins with an eternal quest to imagine possibilities you hadn't even thought about before.
2. **Build scenarios.** Cold-war military strategists originated scenario planning, so by now the technique is well developed. Properly guided, it can help managers see important possible events they wouldn't have imagined, because it's all about thinking through possible sequences.
3. **Think in probabilities while realizing their limitations.** The strength of thinking in probabilities is that it forces us to bring to the surface and confront thoughts that we may not realize we're carrying around.
4. **Use the power of markets.** Prediction markets, in which real people bet real money on the likelihood of specific events, have been around for years and attracted lots of acclaim after correctly predicting the squeaker 2004 U.S. presidential election.
5. **Create an organization and culture that adapts quickly to new realities.** This recession is an unprecedented opportunity to begin such a change. ●

Don't Forget to Grow Yourself

Crisis is the ultimate leadership opportunity, but not every leader rises to the challenge. A crisis like this recession demands five actions of a leader. They're simple to state and may seem simple to do, but they aren't. Finding the strength to do them will contribute significantly to any leader's growth.

1. Stand up and be seen.
2. Be calm and in control.
3. Be decisive.
4. Show fearlessness.
5. Explain the crisis in a larger context.

Now Is the Time to Build All Abilities

Because a recession demands so much more of leaders, it offers them an opportunity to build their skills to much higher levels. So we all face more and richer opportunities to grow than we do in normal times. In fact, these opportunities are even greater than most people realize.

Psychologists have found that humans do not make progress at a steady, even pace. Instead, we follow a pattern of surge and recover. A severe recession is obviously not a time for us to recover. It is rather the very best time for us to surge, to push ourselves ahead and develop the new skills and abilities that will change us and stay with us forever. ●

For Next Time

Even long recessions end and are followed by expansions, which eventually beget new recessions. The best managers never become so consumed by the present that they forget their place in the cycle. Just as Dimon was thinking of the inevitable bad times to come as the good times rolled, smart managers are planning now for what they'll do when economic growth returns. The landscape of possibilities is broad, so it's useful to think of them in distinct categories:

- **Engaging the outside world.** Good times are when you make the friends that you'll need in bad times.
- **Managing people.** The temptations to become lax on this critical issue are almost overwhelming during a boom. But in a world where human capital is every company's most valuable asset, it's one of the most critically important jobs.
- **Adjusting strategy and business model.** Just as every investing strategy works in a bull market, every business strategy may seem brilliant during an economic boom. That's the time to ask how well the strategy or business model would hold up in a recession.
- **Staying connected with customers.** The best companies never stop refining their customer value propositions — observing customer behavior, understanding how customer needs are changing and experimenting with hypotheses for new value propositions.
- **Managing capital.** When a company lands in a recession after years of poor capital management, the pain is extreme. All that misery can be avoided if a company manages capital rigorously when times are good.
- **Getting more efficient and productive.**
- **Adapting to changing risks.** For unsuccessful companies, risk is a hot topic at the depths of a recession. For great companies, it's a hot topic at the height of a boom.
- **Continuing to grow personally.**

Good Times Preparation for the Bad

Managing intelligently during the next expansion, vital as it is, will be less a chance to clobber competitors than a way of preparing the organization for the make-or-break environment of the next recession. That way of thinking may seem strange. It feels backward. Good times seen merely as preparation for the bad? But it is the inescapable result of thinking about your company as an institution that, with luck, will last longer than your career or anyone else's, persisting through the elation and challenges of economic cycles that will never end.

We've forgotten how to think about business as progressing through a series of cycles. Yet that's what it is and will always be. Now that we've been powerfully reminded of that fact, we can again appreciate a larger truth about life in business. Good times are when you'll experience your greatest success. But bad times are your greatest opportunity. ●

RECOMMENDED READING LIST

If you liked *The Upside of the Downturn*, you'll also like:

1. ***Proactive Risk Management* by Preston G. Smith and Guy M. Merritt.** Dramatically improve the way you handle project risks using a practical, easy-to-use, fact based approach.
2. ***Leading Change* by John P. Kotter.** Kotter simplifies the messy, complex process of corporate change.
3. ***Value Shift* by Lynn Sharp Paine.** In light of recent corporate downfalls, *Value Shift* helps you discover the impact ethics have on an organization. It also demonstrates how to merge the goals of profitability and highly ethical behavior.

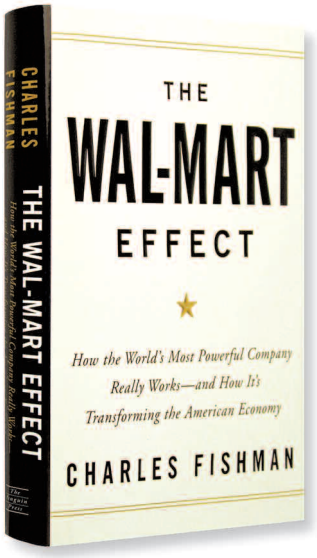
Summary

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Personal Finance

How the World's Most Powerful Company Really Works — and How It's Transforming the American Economy

The Wal-Mart Effect



by Charles Fishman

THE SUMMARY IN BRIEF

More than 60 percent of all Americans live within five miles of a Wal-Mart store. Ninety percent of Americans live within 15 miles of a Wal-Mart. Every week more than 100 million Americans shop at Wal-Mart — half the adults in the country. Each year 93 percent of American households shop at least once at Wal-Mart.

Wal-Mart is the world's largest company yet we know little about it. Charles Fishman removes some of the mystery about the retail behemoth and its often hidden impact on the U.S. economy in *The Wal-Mart Effect*. Using his award-winning investigative journalism skills, Fishman has gathered inside information from former employees and suppliers, academic studies, government reports and Wal-Mart's own data posted on company Web sites. *The Wal-Mart Effect* explores how the company achieves its mission of delivering "always low prices." The book reveals the impact those practices have on customers, suppliers and employees around the globe, — even on those who do not buy from or sell to Wal-Mart. Fishman argues that Wal-Mart touches every American, every day.

The Wal-Mart Effect shows, with documented examples, the depth of influence that Wal-Mart exerts on American life and why the company is either revered or reviled. Fishman probes Wal-Mart's place in the world economy, showing how its dominance creates a unique economic system and distorts economic data because of its size. He compares Wal-Mart to competitors and firms in other industries, giving names and validating his findings with solid research. Fishman goes beyond, "Is Wal-Mart good or bad?" to explain the ways Wal-Mart changes the world.

IN THIS SUMMARY, YOU WILL LEARN:

- How the world's largest company forms an economic ecosystem.
- How the "Wal-Mart effect" touches people who don't deal with Wal-Mart.
- Wal-Mart's effect on U.S. inflation data.
- The unintended consequences of "always low prices."
- How much larger Wal-Mart can grow.

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THE COMPLETE SUMMARY: **THE WAL-MART EFFECT**

by Charles Fishman

The author: Award-winning investigative journalist Charles Fishman began his career at *The Washington Post* and has worked as writer and editor of *The Orlando Sentinel* and the *News & Observer* in Raleigh, North Carolina.

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Who Knew Shopping Was So Important?

Wal-Mart shapes where we shop, the products we buy and the prices we pay — even for those of us who never shop there. It reaches deep inside the operations of the companies that supply it and changes not only what they will sell, but how those products are packaged and presented, what life is like for the factory workers who make the products — it even sometimes changes the countries where those factories are located.

Wal-Mart reshapes the economic life of the United States — a single company that steadily, silently, purposefully moves the largest economy in history. Wal-Mart has become the most powerful, most influential company in the world.

Unchallenged in Groceries

When Wal-Mart first started nudging into the grocery business in 1990, everyone in the United States already had well-established grocery-buying habits. The supermarket business was dominated by well-established, deeply experienced, well-run national chains. In ten years, at the end of 2000, Wal-Mart was the number-one food retailer in the nation.

In groceries, Wal-Mart is unchallenged. Its prices are about 15 percent lower for exactly the same food sold elsewhere. That translates into seven weeks of free groceries a year.

Wal-Mart didn't just change the lives and spending habits of grocery shoppers, though. It changed the very ecosystem and rhythm of the supermarket business. In the same decade that Wal-Mart has come to dominate the grocery business in the United States, 31 supermarket chains have sought bankruptcy protection; 27 of them cite competition from Wal-Mart as a factor.

Free-Market Hero or Insidious Beast?

In the last five years, a national debate about Wal-Mart's impact has escalated into a series of skirmishes being fought in print, in the media, at zoning hearings and in the courtroom. The way the company treats its employees, its suppliers, and communities, as well as its motivation, are all subjects of such bitter contention that it is hard to imagine that partisans are actually describing the same institution.

Wal-Mart's birth in a remote corner of Arkansas is now the stuff of American business legend. The company was the creation of a single man, Sam Walton, who latched on to a single idea that he somehow knew in his gut was singularly powerful: Sell stuff that people need every day just a little cheaper than everyone else, sell it at that low price all the time, and customers will flock to you. That single idea drove Walton to keep the costs of his own company as modest as possible and soon caused Wal-Mart to ask whether its suppliers couldn't be more frugal too.

As Wal-Mart gained in scale, the questions to suppliers became a way of doing business, a culture of looking for every penny of cost savings that could be wrung out of designs, packaging, labor, materials, transportation, even the stocking of stores. It is that cascade of frugality, questions and pressure that creates the Wal-Mart effect.

The phrase, "the Wal-Mart effect," has made its way into the culture, shorthand for a whole range of impacts resulting from Wal-Mart's way of doing business. A second phrase captures the ill-defined fears that the Wal-Mart effect has come to stand for: "the Wal-Mart econo-

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Athena Nicolaides**, Graphic Designer; **Carol Celeste**, Contributing Editor

my." This term describes the nagging sense that there might be some unseen but terrible cost to be paid for "always low prices."

Is Wal-Mart Good or Bad for America?

In the Wal-Mart economy, consumers buy too much just because it's cheap. We find the pull irresistible. In the last two years, Wal-Mart added more dollars in sales than Target's total sales. It is precisely that scale, built out of our own purchases, $5 and $10 at a time, that powers the Wal-Mart effect.

As the Wal-Mart effect has become more obvious and widespread, a new kind of question has arisen: Should I shop at Wal-Mart? It's hard to know even what kind of question it is: political? economic? moral? A values question? The question is really shorthand for the whole set of larger questions, the mystery at the heart of Wal-Mart: Is Wal-Mart good for America or bad? It is possible to get beyond the noise about Wal-Mart, to penetrate the wall of secrecy that Wal-Mart itself has imposed, and get at the truth of the Wal-Mart effect. ●

The Wal-Mart Effect

The Wal-Mart effect: When Wal-Mart starts selling groceries in a new area, bringing lower prices to its own shoppers and driving down the prices of established grocery stores as well.

The Wal-Mart effect: When Wal-Mart comes to town, reshapes shopping habits, and drains the viability of traditional local shopping areas.

The Wal-Mart effect: The relentless downward pressure on the prices of everyday necessities that a single vast retailer can exert on behalf of consumers.

The Wal-Mart effect: The suburbanization of shopping: the downward pressure on wages at all kinds of stores trying to compete; the consolidation of consumer product companies trying to match Wal-Mart's scale; the relentless scrutiny of unnecessary costs that allows companies to survive on thinner profits; the success of a large business at the expense of its rivals and the way that success builds on itself.

Sam Walton's Ten-Pound Bass

The bedrock values instilled by Sam Walton were all-American values: hard work, frugality, discipline, loyalty and a restless effort at constant self-improvement. The standard Wal-Mart headquarters staffer is working at least 15 percent more hours than competitors in a routine workweek, even if competitors are logging 50 hours. Vendors are required either to provide a toll-free phone number or to accept collect calls from Wal-Mart buyers. In the offices at headquarters, the furniture is often a hodgepodge of colors and styles, including samples of chairs from suppliers. Most Wal-Mart staffers who travel are reimbursed for tips at no more than 10 percent of the cost of a meal.

From all accounts, Sam Walton truly wanted his workers to be happy. Former employee Lowell Kinder remembers flying with Walton to visit a store in Victoria, Texas. He shooed the manager away, gathered the associates and had some frank talk about how things were going. On the flight home Walton asked Kinder what he did in his spare time. He said that Wal-Mart got his spare time, then added, "I do fish a little." Walton asked what his goal was with that, and Kinder said, "I'd like to catch a ten-pound bass someday." Walton said, "When we were fixing to leave the Victoria store and all those people were waving and hugging me, I caught my ten-pound bass right there."

Wal-Mart's relative isolation in Bentonville, Arkansas, and its disregard for outside opinion go a long way toward explaining the gap between how the public sees the company and how the company insists on seeing itself. That Sam Walton's core values seem to have become inverted is a sign that even worthwhile cultures need to question themselves constantly.

The Wal-Mart effect only starts with Wal-Mart employees. For the companies that supply Wal-Mart and their employees the impact is, if anything, even more dramatic. ●

Makin Bacon, A Wal-Mart Fairy Tale

When retailers showed no interest in Jonathan Fleck's Makin Bacon microwave dish, he talked his way into the offices of bacon-seller Armour, which decided to put a coupon offering the dish on the back of 15 million packages.

By the time Wal-Mart reached out to Fleck, after *Good Housekeeping* magazine ran an item on Makin Bacon, he couldn't keep up with the coupon's "4- to 6- week" delivery promise. Wal-Mart buyer Cheryl Knight told him they could only sell the item for less than the price on the Armour coupon. Fleck said, "Sorry, I can't do

that." Knight told him he was crazy. Fleck said when the promotion ran out he would come back. A guy whose entire company was running out of a mail-order fulfillment house in Grand Rapids, whose R&D adviser was a fifth grader (his daughter, who came up with the idea of a microwave bacon cooker) — that guy told the largest retailer in the United States to wait.

Many things go unappreciated about Wal-Mart. One is this: The company often is willing to wait to get what it wants. Six months later, the Armour promotion ended and the Wal-Mart deal was done over the phone.

Fairy Tale or Nightmare?

It was a great order — 200,000 Makin Bacon dishes — and it was a great day for Fleck. Except for one problem. "As soon as you get the order, you start to do the math," says Fleck. "Financially, going into Wal-Mart puts you on the brink of bankruptcy."

The Armour promotion was self-financing. Money came in with the orders to pay for production. For Wal-Mart, Fleck needed more than $100,000 in advance. He had to buy 60,000 pounds of plastic and have a package designed and manufactured in addition to the dishes.

Fleck went to his parents with his Wal-Mart blue stripers, the paper purchase orders used in the mid-1990s, and his father arranged a credit line for his son. It was the first time in the elder Fleck's life that he had borrowed money.

The loan was paid off in 60 days and Jon Fleck's business has never had to take another. He has sold about 1.25 million Makin Bacon dishes through Wal-Mart and more than 4 million nationwide. Makin Bacon world headquarters still occupies about a third of Fleck's basement, sharing the rest with a game room and sitting area. ●

The Squeeze

Wal-Mart is a genius at shifting work and costs that have traditionally been handled by retailers back to manufacturers. The company's own administrative costs and overhead are parsimonious compared to its competitors', and that gives Wal-Mart a real competitive advantage and, increasingly, a small image boost.

A significant reason Wal-Mart is able to keep its own costs down is not just basic frugality, but strategic cost — shifting to suppliers. The Wal-Mart effect means suppliers manage a chunk of Wal-Mart's business for Wal-Mart; it also means doing it smartly, and without self-interest, because Wal-Mart retains the power in the relationship.

Wal-Mart cascades data about its sales out to its vendors giving companies a remarkable window on the preferences of their own customers, but it gives those vendors the responsibility of analyzing those waves of data and reporting the insights back to Wal-Mart. That's what most of the thousands of Wal-Mart team members in hundreds of vendor offices in Bentonville are doing: poring over data, trying to understand why something is or isn't selling and how to help it sell better.

Chinese Send-out

To survive in the face of Wal-Mart pricing demands, some consumer products companies have had to lay off employees and close U.S. plants in favor of outsourcing products overseas. Of course U.S. companies have been moving jobs offshore since long before Wal-Mart was a retailing power. But there is no question that the chain is accelerating the loss of American jobs to low-wage countries such as China.

Wal-Mart, which in the early 1990s trumpeted its claim to "Buy American," doubled its imports from China between 1997 and 2002. In the next two years, Wal-Mart increased Chinese imports again by 50 percent.

Eventually, there are no more pennies to be saved with smarter distribution or reduced packaging or cheaper plastic. Eventually, the only way to lower costs is to manufacture products outside the United States, in countries with lower labor costs, fewer regulations and less overhead. This element of the Wal-Mart effect remains largely hidden from public view.

Wal-Mart benefits from the impression that globalization is some kind of unmanageable economic weather system out of the control of everyone. That posture avoids the challenging discussion about why the world is suddenly so flat economically and what role a globe-straddling company like Wal-Mart plays in the flattening.

The Job Defense

Wal-Mart has taken to aggressively defending its own business practices by pointing out the number of jobs it creates. Here's a completely unaccounted-for facet of the Wal-Mart effect: More than 70 percent of all new retailing jobs in the United States in the last seven years came just from the growth of Wal-Mart. The remaining new retail jobs amount to just 540 new retail jobs in each state, each year. Wal-Mart created new retail jobs for itself, while its scale and vaunted efficiency were sucking the oxygen away from job creation in the rest of the retail trade.

The connection to the elimination of manufacturing jobs is less direct but equally striking. While Wal-Mart was adding 480,000 jobs between 1997 and 2004, U.S. manufacturing jobs during those years fell by 3.1 million, a loss of 37,000 factory jobs a month, on average, for 84 straight months.

America's Addiction to Cheap

A remarkable milestone has passed all but unnoticed: In 2003, for the first time in modern U.S. history, we have more people working in stores than we do making the merchandise to put in them.

We find the abandonment of U.S. factories unnerving; we find cheaper stuff on store shelves addictive. And we don't connect the two.

Consumer spending accounts for two-thirds of the U.S. economy, and Wal-Mart's influence across the consumer economy is unrivaled, unprecedented and Wal-Mart's priorities unwavering. During the same period that U.S. manufacturing jobs fell by almost 20 percent, Wal-Mart's imports of inexpensive products from China alone increased 200 percent. ●

What Do We Actually Know About Wal-Mart?

If there is one place to turn for an understanding of the impact of Wal-Mart, one place where the many variations of the Wal-Mart effect on the businesses, wallets and behavior of Americans would be dissected with scholarly enthusiasm, it is the economics departments of the nation's universities.

Hiding in the Open

Emek Basker, an economist with a Ph.D. from MIT, wanted to answer two of the simplest questions you can ask about Wal-Mart. What effect does the opening of a Wal-Mart have on prices in the immediate area? What effect does the opening of a Wal-Mart have on the availability of jobs in the immediate area?

Basker needed a list of every Wal-Mart in the nation (3,811 stores) and the month each one opened in order to isolate and analyze the impact of Wal-Mart stores on prices and jobs by comparing data before and after the openings. Bentonville houses one of the two or three largest private databases in the world. In a footnote Basker writes, "Requests for store-opening data from Wal-Mart Corporation were denied." It took her one year to compile data on 2,382 stores using Wal-Mart annual reports, Wal-Mart editions of Rand McNally road atlases and annual editions of the Directory of Discount Department Stores.

Lower Prices, More Jobs?

Basker proved — proved! — that Wal-Mart lowers prices. "I find price declines of 1.5 percent to 3 percent for many products in the short run," she writes. "Long-run price declines tend to be much larger, and in some specifications range from 7 percent to 13 percent."

Her calculations on jobs show: In the first year after a Wal-Mart store opens, it adds 100 new jobs to the typical county. Basker immediately writes, "Recall that the typical Wal-Mart store employs 150 to 350 workers." Even at the low end of that range, 50 people who had retail jobs in that county before Wal-Mart arrived immediately lost their jobs (or went to work for Wal-Mart). Five years after Wal-Mart's arrival, there are only a total of 50 new retail jobs, again despite the fact that the new Wal-Mart store typically employs hundreds.

Basker also looked at jobs at companies that supply goods to retailers. She found that on average, a county lost 20 wholesale jobs after five years, lowering the total average county job gain five years after the opening of a new Wal-Mart to just 30.

Wal-Mart's Take on Basker's Study

Wal-Mart cites the study, to reporters and on its walmartfacts.com Web site, as "the most definitive look at this issue," noting the creation of the 50 new store-based retail jobs after five years. The very paragraph that cites Basker's study approvingly also asserts, "Studies show that new businesses spring up near Wal-Marts and existing stores flourish as they take advantage of the increased customer flow to and from our stores." No other studies are referenced, and Basker's study proved the opposite: that the arrival of Wal-Mart typically closes four existing businesses, and has little or no effect on at least some nearby businesses.

Wal-Mart and the Consumer Price Index

Each month the government issues the much-watched and much- relied-on Consumer Price Index (CPI). Modest as inflation was from 1998 through 2001, it may be overstated by 15 percent per year. That miscalculation comes to $6.6 billion that someone thinks we're spending on inflation-adjusted groceries that we're not in fact spending.

MIT economist Jerry Hausman and U.S. Department of Agriculture economist Ephraim Leibtag concluded that the government gets it wrong because the CPI

fails to take into account the impact of Wal-Mart's lower prices.

Such a striking and systematic failure to get a vital economic statistic correct shows two things. It shows the incredible hidden power of Wal-Mart across the entire economy and it also shows how hard it is to keep up with the range of the Wal-Mart effect, even for people who spend all their time and energy trying to do just that.

The folks at the Bureau of Labor Statistics (BLS) who compile the CPI follow this procedure: As Wal-Marts roll out in communities, they are substituted for other chain stores so that the market mix between Wal-Mart and competing supermarkets remains balanced city by city. Hausman and Leibtag say, "The BLS procedure does not recognize any price difference between the stores." They found, across 20 categories of food, that supercenter prices were on average 27 percent lower than at traditional groceries, an astonishing discount.

The Poverty Effect

The most surprising, and in some ways the most disturbing, conclusion from an academic study of the Wal-Mart effect was the result of idle curiosity on the part of Penn State University professor Stephen Goetz and a postdoctoral student. While finishing an analysis of poverty rates, Goetz was hearing about the battles in local communities over whether to allow a Wal-Mart store in or to actively woo Wal-Mart with tax breaks.

Goetz and his colleague examined changes in family poverty rates in every U.S. county from 1989 to 1999, a period that "coincides with the booming 'New Economy' decade." They controlled for a spectrum of known causes of poverty. According to Goetz's study, the New Economy lifted nearly one in five poor families out of poverty.

What the study discovered is so startling, it's hard to absorb: They found that once you control for everything else, U.S. counties that had a Wal-Mart just before 1989, or that added one during the decade, had higher poverty rates than counties that were Wal-Mart-free. In counties with a Wal-Mart, the rate of poverty fell 10 percent more slowly than it would have without a Wal-Mart during that decade. Goetz clarifies, "We're not explaining the poverty rate, we're explaining the change." He says it comes to roughly 20,000 American families in poverty because of Wal-Mart. The remarkable thing is how well that number matches up, at least in scale, with the results of Emek Basker's research on jobs and local businesses.

Wal-Mart's Reaction

One reporter asked Wal-Mart for a reaction to Goetz's poverty study, and Wal-Mart spokeswoman Mia Masten offered a glib defense: "Oftentimes, a study can say what you want it to say." Marketing studies do sometimes say what the companies want them to say. But peer-reviewed academic studies don't work like that.

"'You can show anything with the numbers,' that was the response," says Goetz. "Is that what they do when they tell us about their stores? About what their workers are earning?" ●

Salmon, Shirts and the Meaning of Low Prices

If prices are not just a way of judging whether something is affordable but also contain signals about supply, demand, prestige and even the conditions under which products are made, then salmon for $4.84 a pound is a new, unintended Wal-Mart effect. It is a price so low that it inspires not happiness but wariness.

Most of the farm-raised salmon we eat comes from Chile. The Atlantic salmon doesn't appear naturally anywhere south of the equator but more salmon are harvested in Chile now than anywhere else in the world.

Rodrigo Pizarro, a Chilean economist, studies the impact of salmon farming on Chile. "The issue is not the health conditions of the fish. It's the labor conditions of the workers," he says — long hours, a demanding pace using razor-sharp filleting implements, low pay. Farming also does environmental damage. The fish are packed close together and given a lot of antibiotics to prevent disease. The concentrated fish waste creates dead areas in the ocean around the pens.

The key to managing the impact of salmon farming, to making the business sustainable for Chile and its environment, isn't self-regulation or government regulation. It's the big corporations who buy salmon by the ton. Wal-Mart buys so much salmon that if it imposed and enforced a set of standards on how salmon were to be raised, and how salmon workers were to be treated, salmon farming and processing companies would comply, either to keep Wal-Mart's business or to stay competitive.

A Shirt Like Dad's

One of Wal-Mart's house brands in boy's clothing is a blue Oxford-cloth button-down shirt. It's a perfect miniature of Dad's. The label says "Made in Bangladesh." And the price is $5.74. How is it possible for Wal-Mart

to produce such a lovely shirt and sell it for less than the price of a child's movie ticket? If you could see a video of the factory where it is made, of the people who sewed it, would you still be able to button your two-year-old boy into it and smile?

Clearly, one of the ways companies are saving money isn't simply in wages. Factories in developing countries are cheaper because the whole superstructure of rules around those factories in the United States — the workplace, safety and pollution rules — can be left behind. In many countries, the factories don't even follow their own rules. S. Prakash Sethi is an expert on global factory conditions. "Because of the pressure of cost," Sethi says, "factories do everything possible to save on the third decimal of a penny. Wal-Mart is one of the primary, if not the most important, engines that pushes those costs down."

The Consumer Solution

From the outside, the changes look easier to impose than they actually will be. For Wal-Mart, it's not simply about adding a few new bullet points to the existing list requiring companies to deliver products on time, on price, packaged the way Wal-Mart demands. Using Wal-Mart's purchasing power to improve the environment and the working conditions under which those products are produced requires a radical shift in thinking at the home office, a willingness to admit that not every cost squeezed out is good.

Pizarro knows one point of leverage that Wal-Mart never ignores: shoppers. "I wouldn't think American parents would want to feed themselves or their children with something being produced by a worker who is miserable, and who works in terrible conditions," says Pizarro.

The Man Who Said No to Wal-Mart

The Snapper lawn-mower factory has been in McDonough, Georgia, for 50 years, and every Snapper lawn mower sold anywhere in the world is made in this factory. The Snapper lawn-mower factory hums with discipline and focus and urgency. It operates, literally, in Wal-Mart time. It must. It lives in the Wal-Mart ecosystem. But it does so in defiance of Wal-Mart. Because three years ago the then-CEO of Snapper's parent company pulled all Snapper products from Wal-Mart.

That CEO, Jim Wier, looked into a future of supplying Snapper lawn mowers to Wal-Mart and saw a whirlpool of lower prices, collapsing profitability, offshore manufacturing, and the gradual but irresistible corrosion of the very qualities for which Snapper was known.

But Shane Sumners, Snapper president, has to spur his factory on with the same tirelessness as if it were supplying Wal-Mart — with the efficiency of every factory worker measured every hour of every day — because Wal-Mart is setting the pace, even if you're not working for them.

Snapper was already selling lawn mowers through Wal-Mart when Wier's company, Simplicity, bought Snapper in November 2002. Almost immediately on taking over, Wier stopped shipping Snapper mowers to Wal-Mart, a move that instantly cut Snapper's sales by almost 20 percent.

One serious hazard to Wier's strategy is whether the independent lawn-equipment dealers can really survive all the same pressures that have hurt small, independent hardware stores. Says Wier, "I think we have a part in that outcome. Can Snapper, as a major supplier, continue to supply [the independents] with great product, and a product different than you can buy at Wal-Mart?"

One of the ways to compete with Wal-Mart, in fact, is not head-on but aisle by aisle — that is, category by category. The other way is to focus, even in the mass market, on things besides price: design, fashion, quality, cachet, the feel of the shopping experience and service. ●

The Power of Pennies

The average product we buy from Wal-Mart costs something less than $3. In fact, the real power of Wal-Mart doesn't come from selling the average consumable at $3. The magic of Wal-Mart has always been in selling the $3 item for $2.97 — that's the genius of Sam Walton. He realized that Americans would change their habits to buy a $3 item for $2.97, especially if it was $2.97 every day. And he figured out how to run a business that could be profitable giving up those three pennies.

How Much Does Wal-Mart Save Us?

The low estimate is that Wal-Mart saves its shoppers 15 percent on a typical shopping cart of food. In 2004, Wal-Mart shoppers spent $124 billion on groceries. That food, purchased at other supermarkets, would have cost $146 billion. So, Wal-Mart grocery shoppers alone saved $22 billion. If the rest of the merchandise Wal-Mart sells is just 5 percent cheaper than at competing stores, that's another $8 billion. A conservative estimate is that the people who shopped at Wal-Mart last year saved $30 billion — not accounting for the money saved as other

retailers lowered their prices to compete.

Low Price Trade-off

Shopping at Wal-Mart is not a delight. The only thing likely to make you smile at Wal-Mart is the price. It isn't really a place to shop; it's a place to buy things.

One ratio perfectly captures and contrasts the shopping experience across stores: how much merchandise a store sells for every employee. Wal-Mart sells $178,125 worth of stuff per employee. Target sells $156,506 worth of stuff per employee. Whole Foods sells $121,875 worth of stuff per employee. As those numbers go down, the pleasurability of the shopping experience goes up.

Wal-Mart sells so much more per employee because we buy more and because of the frugality. At Wal-Mart there just aren't that many workers. That's why you often can't find someone to open the jewelry cases. That's why half the checkout lanes are unstaffed.

American Attitude About Money

There is in the American character a deep strain of frugality going back to colonial and frontier times and sharply refreshed during the Depression and World War II rationing.

But we are also the country where the average credit card balances being carried by a family from month to month, excluding those who pay their balances in full, is $14,400. Despite all the money we save shopping at Wal-Mart, the family savings rate in the last year is below 1 percent. Our spending is growing faster than our income.

Waning Interest

The power of "always low prices" is waning. Since 1998 the growth rate of same-store sales has steadily decreased. Target, meanwhile, has been trouncing Wal-Mart in same-store sales. The reason is simple: style versus price.

Wal-Mart ads in *Vogue* magazine show happy and fashionable women, but the idea that you can assemble a style in a Wal-Mart women's wear department is at odds with the actual shopping experience.

Same-store sales growth is a sign of another problem. The nation simply doesn't need to buy much more from Wal-Mart than it already does. With only 16 percent of the nation's grocery business, Wal-Mart could one day have 30 percent. A few areas have growth potential: California has only 91 stores and based on population could support 460, New York City has not a single Wal-Mart. But that's all fill-in growth. America is nearly "full up" with Wal-Marts.

Growth Opportunities

The rest of the world, however, is mostly empty of Wal-Marts. So the company can continue to grow, even dramatically. It has fewer stores in China than in Alabama and no stores in India. Wal-Mart could easily be a half-trillion-dollar-a-year company by 2010.

Wal-Mart may well continue to dominate American retailing for years, or decades, to come. But it's likely that 20 years from now we'll look back on the early 21st century as the moment when Wal-Mart's real struggles began.

Low Price Addiction

The idea that Wal-Mart will somehow shake off its low-price soul, that it will gradually infuse style and other intangibles into a culture that measures how many items each cashier scans each hour — that kind of transformation runs counter to every instinct on which Wal-Mart has been built. ●

Wal-Mart and the Decent Society

With its dominance across a huge range of merchandise and geography, Wal-Mart is increasingly beyond the control of the market forces that capitalism relies on to enforce fair play. Wal-Mart isn't subject to the market forces because it is creating them.

In his letter to America printed in 100 newspapers in January 2005, Wal-Mart CEO Lee Scott wrote, "The question of how to assure that American capitalism creates a decent society is one that will engage all of us in the era ahead." He also said, "Our critics seem to have a broader, and, I believe, more troubling aim: to warp the vital debate the country needs in the years ahead about the proper role of business and government in assuring that capitalism creates a decent society." The most certain way to avoid a warped debate is for everyone to have a wealth of data, an openness Wal-Mart resists.

Wal-Mart mirrors our own energy, our sense of destiny, our appetite for bigness and variety and innovation. And Wal-Mart is not just a reflection of American society and values. It is a mirror of us as individuals. The Wal-Mart effect derives all its vast power from us and our spending. Both as individuals and as a society we have an obligation to answer the unanswered questions about Wal-Mart. Otherwise we have surrendered control — of our communities, of our economy, of some measure of our destiny — to decisions made in Bentonville. ●

Summary

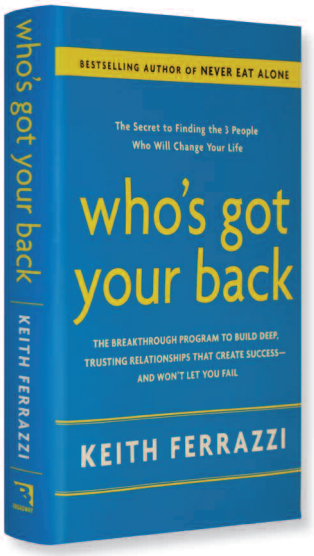
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Management: Team

Who's Got Your Back

The Breakthrough Program to Build Deep, Trusting Relationships That Create Success — and Won't Let You Fail



by Keith Ferrazzi

THE SUMMARY IN BRIEF

None of us can do it alone. We need the perspective and advice of a trusted team. In *Who's Got Your Back*, Keith Ferrazzi shows us how to put together our own "dream team."

Disregard the myth of the lone professional "superman" and the rest of our culture's go-it-alone mentality. The real path to success in your work and in your life is through creating an inner circle of "lifeline relationships" — deep, close relationships with a few key trusted individuals who will offer the encouragement, feedback and generous mutual support every one of us needs to reach our full potential. Whether your dream is to lead a company, be a top producer in your field, overcome the self-destructive habits that hold you back, lose weight or make a difference in the larger world, *Who's Got Your Back* will give you the road map you've been looking for to achieve the success you deserve.

Keith Ferrazzi, the internationally renowned thought leader, consultant and best-selling author of *Never Eat Alone*, shows us that becoming a winner in any field of endeavor requires a trusted team of advisors who can offer guidance and help to hold us accountable to achieving our goals. It is the reason Ph.D. candidates have advisor teams, top executives have boards, world-class athletes have fitness coaches and presidents have cabinets.

IN THIS SUMMARY, YOU WILL LEARN:

- How to master the mind-sets that will help you to build deeper, more trusting "lifeline relationships."
- How to get further faster by setting goals in a dramatic more powerful way.
- Why using "sparring" as a productive tool to make decisions will fuel personal success.
- How to replace the "yes men" in your life with those who get it and care — and will hold you accountable to achieving your goals.
- Why you should lower your guard and let others help.

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THE COMPLETE SUMMARY: **WHO'S GOT YOUR BACK**

by Keith Ferrazzi

The author: Keith Ferrazzi, CEO of Ferrazzi Greenlight, has counseled the world's top enterprises on how to dramatically accelerate the development of business relationships to drive sales, spark innovation and create team cohesion. As a thought leader and advocate for corporate citizenship, he has rallied executives around initiatives to improve health care and education nationwide. Ferrazzi has been published in the *Wall Street Journal*, *Harvard Business Review*, *Inc.* and *Fast Company*, and has appeared on *Today* and other national TV shows. His previous book, *Never Eat Alone*, is a national bestseller.

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For additional information on the author, go to http://www.summary.com.

SECTION ONE: WHO'S GOT YOUR BACK

Jean Nidetch was overweight. She was overweight as a child, she was overweight in high school and, despite endless diet regimens, her waistline kept expanding throughout her 20s and 30s. In 1961, at age 38, Jean started a diet sponsored by the New York City Department of Health. After 10 weeks she was 20 pounds lighter, but starting to lose motivation. She realized that what she needed was someone to talk to for support.

Her inspiration: Jean brought the "science" of the program to her friends' living rooms in Queens. She and her friends would all lose weight together. Out of those first meetings grew Weight Watchers, today widely recognized as one of the most effective weight-loss programs in the world. Nidetch's idea was simple: Losing weight requires a combination of dieting and peer support.

Behind every great leader, at the base of every great tale of success, you will find an indispensable circle of trusted advisors, mentors and colleagues. These groups come in all forms and sizes and can be found at every level and in nearly all spheres of both professional and personal life, but what they all have in common is a unique kind of connection with each other as *lifeline relationships*.

Know Who You Are and Where You Belong

Look at it this way: Success is the ability to create the results in life we truly seek and not, say, just the amount of money you make. People who have a clear picture of what makes them tick, who know their true inner motivations and priorities, simply don't get in their own way. They can focus with energetic intention on their goals. It's what allows ordinary people to live extraordinary lives.

Why Do We Need Lifelines?

Each one of us is a salesperson of ourselves and our opinions, if not of business products and services. And most of us come up against personal and professional problems that are just too big to solve alone. If we want to be as successful as we know we can be, we need the help of others. Reaching out to and connecting with others doesn't show up on the syllabus of most business schools. But one day it will. Here are eight things that are clear as day:

1. Life coaching, with its hazy self-helpish title, comes in for more than its fair share of ribbing in the media and elsewhere. But look past the snarky skepticism and you'll find a nearly $3 billion market of executive, life and career coaches. As individuals, we're looking for lifeline relationships anywhere we can get them, even if we have to buy them.
2. Those who have a few close, deep relationships are able to get the feedback, perspective and input that are the lifeblood of effective decision makers.
3. The Internet has provided the tools for sharing and cooperating on a global scale.
4. The Internet is an important tool, but it's not the answer. There are now countless ways to coordinate and connect us, but "connections" are not lifelines.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew B. Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Paula Ezop**, Contributing Editor

5. Considering the vacuum of skilled, effective front-line management in companies today, executives, managers and employees who are proactive in finding a team of advisors to help give them feedback, coaching, accountability and support are the ones who will flourish in today's challenging environment.
6. Like no other time in history, people are taking the search for meaning in their work more seriously. There is no easier or more effective way to gain that meaning in our jobs, and find work enjoyable again, than creating lifeline relationships.
7. According to Tom Rath's *Vital Friends*, only 18 percent of people work for organizations that provide opportunities for social bonding in the workplace. In fact, many companies actually forbid the practice.
8. From church basement support groups to the larger-than-life examples of successful bosses and their high-performing teams on the covers of magazines, there are groups helping to provide support and advice to improve the lives of others every day.

SECTION TWO: THE FOUR MIND-SETS

There are four core mind-sets — which can be learned and practiced — that form the behavioral foundation for creating lifeline relationships:

- *Generosity*. It's the promise to help others succeed by whatever means you can muster.
- *Vulnerability*. This means letting your guard down so mutual understanding can occur.
- *Candor*. This is the freedom to be totally honest with those you confide in.
- *Accountability*. Accountability refers to the action of following through on the promises you make to others.

Mind-Set #1 Generosity

Lots of people want to be generous in their lives but aren't quite sure what they have to offer. But we all have something to give. Viktor Frankl, the late Austrian neurologist and psychologist, was a Nazi prison camp survivor who, in his classic book *Man's Search for Meaning*, wrote about how he refused to let himself feel like a victim, even after he was separated from his wife and parents (all three later died in the death camps). This he accomplished through small, constant acts of generosity. If Frankl encountered someone hungrier than himself, he'd share his meager daily ration of bread.

Eureka!

I had started to think that because I was the boss and people looked to me as an expert, I was supposed to be the one with all the answers. But I didn't always have them. I needed people I trusted who understood my professional goals. I had those people in my life. I just never asked for their help.

What if, we hypothesized, we could adapt the don't-do-it-alone advice that is the bedrock of the 12-step programs, Weight Watchers, and faith-based support groups and apply it in the corporate environment? Leverage the same basic methodologies found in the most successful behavioral change programs in the world to keep organizations and employees focused on positive change and targeted goals? Empower people with the tools to help each other identify and resolve issues that hold them back personally and professionally?

Eureka! It was a triumphant moment.

There are many kinds of specialized currency, but two that are broadly applicable and among the most powerful are *universal currency* and *personal currency*.

- Universal currency refers to our innate human ability to connect to others, no matter who they are or who we are. We can all embrace intimacy with another human being by listening, empathizing or caring.
- Personal currency requires finding out what others need in order to be happy in every dimension of their lives, and then figuring out what you can do to get them there.

Now, Let Others Help You

On the surface, being generous seems easy: You just go out and help others. But the hardest part of generosity is receiving it. Whether we realize it or not, this willingness to "give and let give" creates a wonderful give-and-take in a relationship.

Mind-Set #2 Vulnerability

We can't afford to look weak in life, either at the office or in our personal lives — right? It puts a target on our back, or so we believe. But being vulnerable takes incredible courage. It is a crucial mind-set to master if you hope to build a circle of trusted advisors in your life. So what is vulnerability?

- It is the courage to reveal your inner thoughts, warts and all, to another person. Which is why it is critical to create a safe place first, where you can experience

deep intimacy — or intimacy to the point of vulnerability.

- It is admitting that you have doubts and fears — and that you need the support and encouragement of others to overcome what holds you back and achieve your goals.

The Eight Steps to Instant Intimacy

The eight steps to instant intimacy can be put into practice when meeting someone new or when you'd like to transform a relationship you already have into something bigger and better — a lifeline.

1. Create an authentic environment around you.
2. Suspend your prejudices.
3. Project the positive.
4. Share your passions.
5. Talk about your goals and dreams.
6. Revisit your past.
7. Talk about what's keeping you up at night.
8. Share your fears and concerns about the future.

Mind-Set #3 Candor

Candor is the ability to engage in healthy, caring, purposeful criticism — as opposed to turf wars, nitpicking, or simply turning our backs and not communicating about issues at all. Candor is the greatest gift you can give if it comes from a place of caring about the other person enough to want him or her to get better. It's a two-way street, too — we need to be able to tell others the truth and receive it in return.

Taking Candor to the Next Level

To make getting and giving candor a bigger part of your life, here's a list of things to keep in mind:

1. Find people you respect.
2. Create the opportunity.
3. Make it clear that any feedback you get is a gift.
4. Acknowledge your faults.
5. Tell the other person what you plan to do with the advice.
6. Don't tell the other person what you want to hear.
7. Ask specific questions.
8. Take it or leave it — but deliver on safety.
9. Pay the other person back.

Mind-Set #4 Accountability

The point is that peer-to-peer support is crucial for accountability and, in particular, for sustaining the behavioral changes we need to help us achieve our goals. The overwhelming majority of the most successful people on earth rely on advice, support, encouragement and forceful nudging from a few trusted people who help them when they stumble, falter or waver.

The Right Buddy, Not Just Anybody

It's important to understand the difference between a buddy and an accountability buddy. Whether you're dieting or trying to re-energize your career, sometimes your friends and family are too close to you to hold your feet to the fire, to hold you truly accountable for your goals. Regardless of whether your buddy is a friend or on the payroll, having someone hold you accountable for your goals is a powerful reinforcing mechanism.

SECTION THREE: BUILDING YOUR DREAM TEAM

The nine steps to creating the lifeline relationships that will help you get the advice and support you need to achieve your goals are:

Step One: **Articulate your vision.**

Step Two: **Find your lifeline relationships.**

Step Three: **Practice the art of the long slow dinner.** Practice how to turn those potential advisors into friendships and, hopefully, lifeline relationships that you can depend on.

Step Four: **Broaden your goal-setting strategy.**

Step Five: **Create your Personal Success Wheel.** This is the overall game plan behind your life strategy.

Step Six: **Learn to fight!**

Step Seven: **Diagnose your weaknesses.**

Step Eight: **Commit to improvement.**

Step Nine: **Fake it till you make it, then make it stick.**

Step One: Articulate Your Vision

One of our greatest "sins" is not maximizing the potential each one of us has, not fully using the talents and abilities we've been given. What prevents so many of us from making the most of that one shot at life is a failure to look deep inside ourselves to figure out who we are, where we are or what we want out of life.

You may not know right now what direction you want to go in. If you don't know what you're striving

to achieve, or the ways you want to grow and improve, you're less likely to find those who can help you on your journey.

Step Two: Find Your Lifeline Relationships

If you really want to leap ahead in your professional or personal development, you probably need to widen your circle. Your friends, colleagues, and family members may love you unconditionally, but they may lack the knowledge or experience to help you at work or in your personal life. Your ultimate goal in finding people who can help you change your life is to bring people on board with whom you can build trusted lifeline relationships. The support you are looking for from your advisors requires the 4 C's: commitment, comprehension (aka Know-How), chemistry and curiosity. And, there's one additional criterion: "diversity."

Step Three: Practice the Art of the Long Slow Dinner

One of the best tools for deepening a relationship is the "long slow dinner" named in honor of Greg Seal, who proposed just such a meal when first contacted for his help. Seal has always understood that getting people out of their daily environment and away from distractions is crucial to establishing a closer relationship based on genuine understanding.

"The essence of a long slow dinner is to build trust, openness and vulnerability," says Seal, "so that you can get the real stuff on the table and all the agendas off the table. A long slow dinner provides an intimacy that eliminates pretension, and allows the participants to look into each other's souls and share the truth. Only in truth can you put in place an action plan that's going to be successful."

Don't leave a long slow dinner without setting up another time to touch base or get together. This is an important step in making the process a success. Touch base with support partners regularly.

Step Four: Broaden Your Goal-Setting Strategy

Realize that with goal setting, as with everything else, two or more heads are better than one. Think of goal setting as a strategic plan for You, Inc. Take a personal lesson from the best companies, who know they need a team to figure out where they're going — no one person can do it alone. Great companies have always had strategic planning processes that include insiders, outsiders, market researchers and more. You should, too!

Create a 'Press Release' for Your Goals

Just the process of communicating your goals to your support partners, or really anyone else, can help you to achieve them. Sharing your goals with others forces you to clarify your vision. Your support partners will be able to spot flaws in your plan that you may have missed. And, communicating your goals isn't just about telling others what you're going to achieve — it's about telling yourself, over and over again, until you believe it.

Step Five: Create Your Personal Success Wheel

Having a solid grasp on your long-term goals is worth taking time to sort out. First, establish a combination of learning and performance goals that you want to achieve across seven sectors of your life: personal, professional, financial, wellness, intellectual, spiritual and giving back. Visually, this can be represented by the Personal Success Wheel. The elements aren't individual territories or fiefdoms. They should, and will, overlap. Your goals are simply a part of your schedule.



Personal Success Wheel from page 163 of *Who's Got Your Back*

The Who Factor

Next, come up with a list of people who are integral to helping you achieve your goals. This final element —

the "who factor" — is critical. And so few people do it. In fact, this is where even big companies miss out in their strategic planning process.

Step Six: Learn to Fight

When trusted partners get together to refine and debate goals, it is *sparring*. What is meant by that? Well, it's not an all-out competition; there's no winner or loser. Sparring is a vitally important exercise, one that's much more intense (and productive in achieving a specific goal) than a conversational long slow dinner. And while the back-and-forth of sparring can get heated, the give-and-take among you and your advisors is all about improvement and learning, changing and growing.

The Four R's of Listening

Much of successful sparring is really about listening. (Most people are better talkers than they are listeners.) Dr. Mark Goulston, a hostage negotiator and author, describes the way we listen in four different ways, which he calls the Four R's: removed, reactive, responsible and receptive.

- *Removed listening* is the kind of listening you do when you're actually engaged in something else, like using your BlackBerry.
- *Reactive listening* is when you're being somewhat more attentive.
- *Responsible listening* takes place when you not only react to what is said but reply with a further action or elaboration.
- *Receptive listening* is the deepest form of listening. This is the level of listening we all want to achieve in sparring.

Step Seven: Diagnose Your Weaknesses

We all have self-defeating behaviors that get in the way of our success. We also tend to fall back on them at the worst possible high-stress times, even though we know those behaviors or habits are bad for us.

By now, everyone knows that the first step to recovery is admitting we have a problem; once we do that, we can never fully go back to that same harmful behavior. Over time, we'll likely find the courage and ability to face and deal with it. But refusing to acknowledge a problem allows it to fester inside — and allows it to continue to control us.

What if you have more than one behavioral issue at a time to work on? Well, of course you do. We all do. So where should you start? Just pick one. It doesn't matter what you choose; the point is that when you go through this once and see the benefits, you'll have a great new tool at your disposal, and you'll pick another, then another, and on and on endlessly.

Step Eight: Commit to Improvement

The voluntary meaning of commitment — that is, committing ourselves by our own free will to some course of action or belief — is fairly modern. But the lingering sense of commitment as something that's involuntarily thrust upon us helps explain why the word still triggers a lot of negative emotion.

What is the upside of making a commitment?

1. First, it is enormously liberating. It takes a supernatural courage and conviction to commit to changing yourself.
2. Once you make a public commitment, there's no turning back. By committing publicly, you're far more likely to follow through on your promises.
3. Making a public commitment is one of the fastest ways to build intimacy with others.

Step Nine: Fake It Till You Make It — Then Make It Stick

The key to sustainability is contained in the word "daily." One of the big reasons for the success of twelve-step programs is that they talk about taking things one day at a time. Focusing on taking those small steps every day is a guiding principle of many self-help organizations and religions. In fact, focusing on what you can do right now is one of the most effective ways you and your trusted advisors can sustain change.

Twelve-step programs have a saying: "Fake it till you make it." In other words, try changing your behavior with the support of others even if you aren't ready to change your beliefs.

Faking Your Way to Mutual Support

But how does "Fake it till you make it" relate to mutual support? Enlist your advisors to help you "fake" your new behaviors. Take the necessary steps, even if you aren't yet convinced they will be effective.

Once, the members of the Billionaires' Club went out house-shopping in Beverly Hills for the sort of multimillion-dollar estates that only the truly rich can afford. They went to open houses and toured the marble foyers,

terraced gardens, apartment-sized closets, grand staircases and horizon pools. The point was to experience the rewards of what genuine wealth building could yield. They were faking it. But what a great idea!

SECTION FOUR: MAKE IT YOUR LIFE

According to a 2004 study conducted by Dun & Bradstreet for the executive support group Vistage, companies whose management joined Vistage almost tripled their rate of revenue growth within two years. "At Vistage, we help our members figure out what to do and then hold them accountable for doing it," says Rafael Pastor, chairman and CEO of Vistage.

At Ferrazzi Greenlight, they have seen astonishing results among their clients as well. At one of the world's most important global electronics and engineering companies, they decreased turnover by 30 percent among the 1,000 high-performing leaders in their training program. That training focused on creating cross-divisional peer support groups — what they now call Greenlight Groups.

There is a School for Every Fish in the Sea

There are countless existing peer support organizations, each with its own membership requirements and fees, that can relieve you of the burden of starting your own group from scratch. On the upside, getting started is easier, you'll be introduced to some amazing new people who are prescreened for their experience, and trained moderators will facilitate the experience and make sure that everything runs smoothly.

Do It Yourself

Starting your own formal support group is a lot like starting a company: you need "customers," a viable "product" and a way to connect the two to each other. You'll have concerns about loyalty, sustainability and management. One major difference (to carry the analogy further) is that you'll take your formal support group "public" right off the bat — that is, it will belong to all its members, no matter who started it. You're only the leader until you've added a second member.

Recruiting 101

Recruitment is a team sport. As soon as you add one member, the group is owned 50/50 by you and that other person. As you add more, ownership keeps subdividing equally. You don't have the right to any special pride or place as the founder. The group pursues growth and contributes to the growth of others, and everyone has an equal opportunity to lead in a powerful way.

Transforming the Workplace

You can choose to experience peer support with your colleagues, whether it's through a grassroots Greenlight Group, a functional team you work with every day or a special group brought together for a big project. You can start it with a new team or an old one. Sure, older ones have deeper prejudices to cut through. But the point is that your relationship going forward is always a choice. You can even do it — and, in fact, should do it — when there's a history of hostility among prospective members.

Lifeline Relationships Within the Corporation: What You're Working Toward

High-performance teams are a central driver of bottom-line success. Meanwhile, research tells us that strong relationships drive high-performance teams.

In a study published in 2007 in the *Harvard Business Review*, researchers statistically evaluated characteristics of 55 global teams at 15 firms, finding that the most successful have strong social bonds, formal initiatives to strengthen relationships and leaders who build strong relationships with their teams.

The Greenlight Method

At Ferrazzi Greenlight, they've created a systematic approach to building peer-supported teams within companies. The process is fairly similar to the creation of grassroots Greenlight Groups. But unlike grassroots groups, a trained moderator or an exceptional leader is critical. Why? A business team's members typically don't join of their own accord. And team members often come to the group with substantial prejudices or biases toward one another, particularly when the team cuts across departments.

Step One: **Make the case.** Whether your own team is newly formed or has worked together for years, the first step is to instill a belief in the potential promises of teamwork and peer support.

Step Two: **Raise the stakes.** Once you've opened your team up to the idea of peer support, help them articulate a vision of success.

Step Three: **Bond over the barbarians at the gate.** Clarify the external challenge for your people, and you'll be able to more quickly bring the team

together, change its mandate or rally the troops around a new leader.

Step Four: **Dial up the intimacy.** The key question to pose to your own team is this: What struggle from your past has most influenced who you are today?

Step Five: **Dig deeper in the now.** In the early stages of candor, the facilitator might need to act as the Yoda, speaking up when people are acting outside of the group's promises and principles.

Step Six: **Get candid.** What's needed is a safety net: the emotional security of knowing that speaking your mind won't destroy a relationship; the knowledge that straight talk won't hurt your career.

It's important to avoid turning team cohesion work into isolated "people stuff" meetings. You need to pick business issues with strong potential for group collaboration and then address them. "No one fails" sums up the tandem traits of generosity and accountability that a high-performing team requires — the accountability that comes not because someone kept checking in to ask, "Did you get that done yet?" but because there are deep social bonds, mutual support and widespread tell-it-like-it-is candor.

Pay it Forward and Keep it Going

In the middle of the most complex integration their industry had ever seen, the Thomson Reuters Markets leadership team agreed to continue their work on peer support, dedicating a formal three-hour part of their monthly senior meeting to the topic, and checking in between sessions, via teleconference, within their smaller groups. They made certain that the work of these meetings cascaded throughout the company by having everyone commit to taking the work to their own teams — then giving those teams the mission to do the same. That way, the work at the core would transform the entire company, from management to marketing to global sales — and, ultimately, to clients.

Today, the folks at Thomson Reuters know exactly who's got their back. And that has made all the difference in the world. ●

Never Sell Alone (For Salespeople Only)

Sales can be lonely. And that's exactly why the traditional model for sales — a lone guy, bag in hand, pounding the pavement or dialing for dollars — is radically insufficient for today's competitive, commoditized global marketplace; for that matter, it never really worked.

Mobile workforces, home offices, Con-Calls, voice mails, e-mails and text messages have replaced the regional office. At the same time, more and more products have become commodities; despite what everybody says, there's very little differentiation in the marketplace. And when you try to sell what differentiation you have, the client's eyes glaze over.

In essence, the salesperson these days is being asked to be a super-high-level strategist who can talk up and down the food chain with total aplomb. For some, it means becoming an entirely new animal.

We are entering a new era with new rules, where the road map to sales success has changed — an era where team selling isn't just a nice idea, it's becoming a pathway to survival.

Communication is Critical

In team selling, you have to get over the idea that the time spent holding meetings is time out of the field — time that could be used selling. With sales teams, there's no room for flexibility around weekly meetings; they must be a priority — no ifs, ands or buts. You'll need daily check-ins, too. Yes, it takes commitment, and you'll have to shift from a lone-wolf mentality to being a fully accountable teammate. ●

Coda: Escape Silo Nation

Work defines much of our lives. Regardless of whether and to what degree business is ultimately regulated, deregulated, taxed, controlled or allowed to run free, each of us has power to change the way the system works by investing ourselves and our co-workers in the notion of "one for all and all for one." From the corner store to the multinational conglomerate, it's time we have each other's backs. ●

RECOMMENDED READING LIST

If you liked *Who's Got Your Back,* you'll also like:

1. ***Never Eat Alone* by Keith Ferrazzi and Tahl Raz.** This book makes an excellent companion to *Who's Got Your Back* and features Ferrazzi's advice on relationship-building.
2. ***Great Business Teams* by Howard M. Guttman.** Guttman offers practical ways to develop high-performance teams in your organization. He offers insight into the dynamics of successful adaptation of a new horizontal model of team structure.
3. ***Leading at a Higher Level* by Ken Blanchard.** Blanchard has spent more than 25 years helping leaders attain a level of greatness. This book is the distillation of his quarter-century of experience.

· Book 218 of 304 ·

SuperMotivation

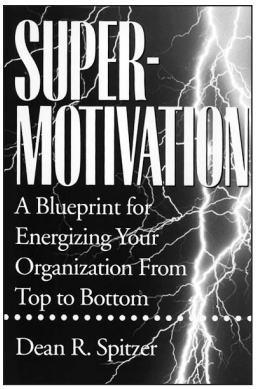
Dean R. Spitzer

SOUNDVIEW Executive Book Summaries®

Energize Your Organization from Top to Bottom

SUPERMOTIVATION

By Dean R. Spitzer



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THE SUMMARY IN BRIEF

No matter what you do, it seems, your employees do only what's absolutely necessary to get along. You've handed out raises across the board year after year. You've been as generous as you can be with various incentives. Now you're at your wits' end. You ask in frustration, "What will it take to motivate my employees?"

The answer is not in the workers, but in your organization.

Employee motivation is usually treated as a problem of the individual worker. Motivation programs and initiatives try to inspire employees to work harder, but they do nothing about the work conditions that continue to demotivate those same employees.

The result: As many as 50 percent of workers recently surveyed said they only put enough effort into their work to hold onto their jobs. And 84 percent said they could work better — if they wanted to.

If you want to buck these statistics, says author Dean Spitzer, don't try to fix your workers. Fix your company.

Discover the flaws in your organizational systems that are demotivating your employees and eliminate them. For example, if your reward systems reward speed over safety, then your employees aren't motivated to work safely. Eliminate unclear or conflicting expectations.

At the same time, add elements that motivate your employees. Delegating authority, for example, is a motivator.

In this summary, you will learn which demotivators to reduce and which motivators to add. From planning and production to evaluation and compensation, you'll learn how to build self-sustaining, long-term motivation throughout your organization.

Any motivation program, such as an inspiring speaker, can create an instant surge of motivation. But it soon dissipates. SuperMotivation takes a different approach. It creates a work structure that naturally leads employees to be — and remain — motivated.

Here's how you can do the same for your company.

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I'd Rather Be Golfing

When you play golf, you spend half a day of your leisure time walking long distances just to hit a tiny ball into a little hole — again and again.

Doesn't sound very motivating.

What makes golf exciting is the *context* that surrounds the admittedly boring *task* of hitting a ball into a hole. Contextual factors include variety (different strokes, different terrain), competition, scorekeeping, challenge, social interaction, exercise, etc.

Work, like golf, is more than a single task or even a series of tasks. It is also surrounded by contextual factors, including interaction with co-workers and supervisors, the physical workplace, equipment, rules and regulations, training, and rewards.

As with golf, these contextual factors make the tasks at work motivating — or demotivating.

Imagine, for example, that golf was designed like a typical work task. Your assignment is to drive the ball off the twelfth tee. That's all you do, over and over again. And you're told exactly how, when, and where you are supposed to hit the ball.

Not very motivating, is it?

Identify and Eliminate Demotivators

Demotivators are the negative conditions surrounding tasks that decrease employee motivation.

The first step in creating the SuperMotivating organization is to rid your company of demotivators.

In most cases, demotivators don't result from explicit wrongdoing by the company. Instead, they are the result of normal operating practices whose negative influence on workers' motivation is unnoticed — or underestimated.

Common Work Demotivators

- *Office politics.* Why work hard when politics, not performance, is what gets you ahead?
- *Unclear expectations.* For example, don't push for speed at all costs, then demand quality.
- *Unnecessary rules.* Don't prohibit talking, for example, when talking doesn't hinder performance.
- *Poorly designed work processes.* Divide the process into boring, repetitious work, and you'll get bored, demotivated workers.
- *Unproductive meetings.* Forcing employees to waste time in useless meetings won't push them to be more efficient back on the job.
- *Lack of follow-up.* Flavor-of-the-month programs excite nobody.
- *Constant change.* A habit of last-minute changes will erode the patience of even the most motivated of employees.
- *Internal competition.* Internal competition is not healthy. It creates a mentality of us vs. them.
- *Dishonesty.*
- *Hypocrisy.*
- *Withholding information.* Employees who aren't trusted, or who are lied to, aren't inspired to work harder for the company.
- *Discouraging responses.* Naysayers in management eventually kill the drive to initiate.
- *Criticism.* Criticism is never constructive. Value mistakes, for in them lie the seeds of success.
- *Underutilization.* Idle workers lose drive and motivation.
- *Tolerating poor performance.* Other employees will ask: Why bother to perform well?
- *Being taken for granted.* Employees will make the extra effort if you show you appreciate it.
- *Overcontrol.* Don't treat employees like children or dummies and expect them to be responsible.
- *Unfairness.* Employees may not say anything, but productivity will take a dive.
- *Being forced to do poor quality work.*☆

SuperMotivation **by Dean R. Spitzer**

Selected by Soundview as an Outstanding Book for Business People

The author: Dean R. Spitzer, a former manager for three Fortune 500 companies, has been a consultant to more than one hundred organizations in the U.S., Europe, the Middle East, and Australia.

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Turn Desires into Self-Motivation

Traditionally, work motivation has depended on external rewards such as pay and promotions.

As a result, employees have become conditioned to wait for external incentives or threats before taking action.

External motivation is, however, temporary, depending on the potency of the reward or threat.

To foster long-term, sustained motivation, organizations must inspire employees to draw their motivation from inside rather than outside. They must push their employees to be self-motivated rather than externally motivated.

The Eight Desires

The key to self-motivation is tapping the eight human desires shared by all of us. From these eight desires will emerge the *motivators* — the work conditions that motivate employees (see chart at right).

1. Desire for activity. People want to be active and involved.

In our personal lives, most people avoid boredom and monotony. Yet at work, employees are expected to accept boring, repetitious, monotonous jobs happily.

2. Desire for ownership. Owning things makes people feel better about themselves. Psychological ownership is even more important than physical ownership. Employees want to psychologically "own" their work. They want input into their work and want to feel responsible for their jobs.

3. Desire for power. People want to control their destiny. They don't want to feel powerless over external forces shaping their lives.

Traditionally, employees have been helpless in the face of rigid, top-down, control organizations. Today, more and more, employees are demanding their freedom back.

4. Desire for affiliation. People are social creatures. They like to interact and socialize with one another. While the degree of sociability varies, almost everyone desires some sort of affiliation.

Social support and helping relationships are among the many benefits provided by work.

5. Desire for competence. Competence is at the core of self-esteem. People welcome opportunities to feel more competent. Work can provide those opportunities.

6. Desire for achievement. People want to accomplish something, to succeed at something.

Under the right conditions, employees will be willing to work hard and overcome obstacles to achieve a goal.

7. Desire for recognition. People want to feel appreciated by others, to be positively recognized for their merits. Recognition is a powerful force that managers can use to unleash energy and motivation.

8. Desire for meaning. People want a reason to do something. They want to feel that their efforts, however humble, are making a difference.☆

The Next Step

The chart below shows the motivators inspired by the eight human desires.

On the following pages of this summary, we will look in more detail at how you can add these motivators to the production, planning, communication, training, evaluation, and rewards systems in your company.

By adding these motivators, and removing the demotivators discussed on page two, you will transform your company into a SuperMotivating organization.

DESIRES	MOTIVATORS
Activity	Make work more active.
	Build fun into work.
	Add variety to work.
	Ask for employee input.
Ownership	Give employees a stake in the firm's success.
	Let employees make choices more often.
Power	Give employees responsibility for their work.
	Provide leadership opportunities.
Affiliation	Offer opportunities to socialize.
	Use the power of teamwork.
Competence	Use employees' hidden strengths.
	Provide learning opportunities.
	Tolerate mistakes.
Achievement	Provide objective performance measures.
	Let employees set goals for themselves.
	Encourage employees to improve.
	Challenge employees to stretch their limits.
Recognition	Encourage employees.
	Show your appreciation.
Meaning	Show workers the significance of their work.

Reengineer Processes to Motivate Workers

Transforming production processes is currently a leading concern of managers worldwide. Companies are launching reengineering initiatives to redesign the production processes and make them more efficient.

But processes must also be redesigned to make them more motivating. Traditional production systems, which treat employees as cogs in a machine, have been notoriously demotivating. Employees are little more than robots, simply doing an assigned task over and over.

Break with Tradition

Motivating employees means breaking from the employee-as-cog tradition. Encourage employees to be active, think and take initiatives, and enjoy their work.

Here are some ways to make this happen:

- *Keep employees productively busy.* In motivating organizations, employees should leave work feeling that they accomplished something worthwhile. Don't allow them to be passive.

Instead of letting them wait for assignments, for example, encourage them to use downtime to carry out self-improvement activities or ways to improve their jobs.

- *Make work fun.* SuperMotivating production systems encourage employees to have productive fun. For example, let employees jazz up the physical environment with personal decorations. Chances are productivity will go up.
- *Make variety a way of life.* Job rotations, job sharing, and temporary work assignments are some of the ways to add variety.
- *Let employees make more choices.* For example, let them choose work schedules, break times, special projects, or training.
- *Maximize employee input.* Employees are a great source of ideas. And they will be committed to a company willing to listen to them.
- *Encourage productive social interaction.* Interaction enhances communication and cooperation.
- *Encourage teamwork.* Working on teams motivates all members.
- *Encourage self-measurement.* Use performance measurement positively to encourage, facilitate, and guide — not to control, punish, or find fault. Allow employees to measure their own performance. It's the surest way of showing that the system is there to help them, not to "get" them.
- *Create a climate of appreciation.* Most traditional production systems provide a low level of positive recognition. Well thought out expressions of appreciation are powerful motivators.☆

Rule Number One: Just Think

Delegating responsibility and authority is one of the fundamental ways to motivate employees. With more responsibility and authority, employees will begin to act more like owners.

More and more organizations are giving greater freedom to employees to take initiatives and make decisions.

For example, at one large manufacturer, employees have taken on traditional staff responsibilities for scheduling, quality, safety, hiring, and training.

More informally, a department store chain tells its employees: "Rule number one is to use your good judgment in all situations; there are no additional rules."

Involve Employees in Planning

Traditionally, management does the planning while employees are simply asked to implement what management has planned. This separation between "thinkers" and "doers" is demotivating to non-management employees.

SuperMotivating planning systems involve all employees — from executive suite to shop floor — in both strategic and operational planning. This is a radical change from the past, and not always easily accepted by managers or employees.

Basic Steps

Here are some basic steps to involve employees in planning.

- *Maximize opportunities for employee input in planning.* This is not only motivating to the worker, but it also helps the company. Workers are often more knowledgeable about many of the technical aspects of their own work processes than most supervisors. And they are are often closer to the customer.
- *Start small.* Phase in employee involvement. Start them off as technical consultants and eventually involve them in complex strategic and operational planning.
- *Involve employees in goal-setting.* Employees will be much more committed to goals set by themselves.
- *Don't forget strategic planning.* Employees may be technical experts, but they will also have ideas on the big questions: Who are our customers? What are our strengths and weaknesses? How can we improve our long-term performance?
- *Provide recognition for planning efforts.* Let your employees know: "You are making a major contribution to the organization."

Involving employees in planning shows the company's respect for their skills, encourages employees to increase their contributions to the company, and gives them an ownership stake in what they will be asked to do in the future. The "doers" will do things better than ever before.☆

Communicate Openly and Positively

In most employee-attitude surveys, one of the most common concerns employees have is lack of communication.

In fact, lack of communication is a root cause of half of the demotivators listed on page two — and indirectly related to the other half. How employees perceive, and feel about, communication in their organization plays a large part in the motivational climate.

Communication done right, therefore, is one of management's key motivational tools.

Open Communication

When you're on an airplane and it encounters turbulence, or if the flight is delayed, you want to know why. Not knowing the whole story makes you nervous.

Employees also want to know what is causing the bumpy rides in their organizations. What people don't understand, they often perceive as a threat.

And if they can't find out what they want to know from you, they'll start looking elsewhere. That's why every organization has a grapevine or rumor mill to compensate for lack of information.

You will defeat the rumor mills and remove perceived threats to employees by communicating as openly as possible.

There is little that you should hold back. Employees want to be, and should be, aware of the company's strategy, goals, sales, costs, profit and loss, etc.

Also communicate frequently and promptly. If something of importance happens, don't wait to tell employees. They'll hear about it through the grapevine, will wonder why they weren't told, and start to distrust your communication.

Bad and Good News

Make a point of sharing the good news. When something good happens in a particular area, let the entire organization know about it.

Employees will be excited about working in a company where so many positive things are happening.

But don't just communicate the good news.

Employees know that the news is not always good. They will assume that you are keeping the bad news to yourselves if they never hear about it.

Once again, they'll lose trust in you.☆

Employee Suggestions: Avoid the Black Hole

One of the outstanding features of Japanese companies is the successful use of employee suggestions. Employee suggestions in some companies can actually number in the millions per year.

The reason that Japanese employees are ready to take the time to make suggestions is that they know their suggestions will be taken seriously.

Nothing is more demotivating than making a suggestion that gets stuck in a "black box" or a "black hole."

There's no use putting a suggestion box on the shop floor if you never implement suggestions. For employees, the suggestion box will only be a constant reminder that when it comes to communication, the company only pretends to listen.

The Trust Bucket

Companies must communicate openly and honestly to their employees — without exception.

Building trust is like filling up a bucket drop by drop.

It takes a lot of time to fill the bucket. However, a single act of dishonesty or perceived dishonesty can overturn the entire bucket and spill out the trust so painfully accumulated.

Interactive Communication Is Key

One-way communication sends an extremely demotivating message. It tells employees that their input is not valued or important.

Just proclaiming that management's "door is always open" is not enough. As one employee told author Spitzer: "Of course this company has an open-door policy. If anyone doesn't like the way things are done, management shows them to the open door."

Management must convince employees that they are truly interested in employee feedback.

For example, schedule regular "rap sessions" or "town meetings" in which senior executives sit down with employees in all areas of the company to discuss employee ideas and concerns.

It's a good idea to draft agendas for these meetings with input from employee participants. This will give employees more ownership in the meeting.

Another idea is to select communication coordinators to improve communications between senior management and departments.

Of course, two-way communication doesn't have to be formalized in meetings or communication-related job positions.

One high-tech company has an e-mail hotline directly to the CEO. This leads to straightforward, informal, "electronic" discussions between the CEO and his employees.

And one airline chief executive arrives at work each morning by 7:15 A.M. He spends the next hour in the flight-operations area talking informally with pilots and flight attendants before heading into his office.☆

Show Your Commitment to Training

More and more companies realize that ignorance is more expensive than training. They are ready to invest time and money ($50 billion per year in the U.S. alone).

Yet this commitment in funds is often not backed up by management attitudes.

For example, many managers underestimate the time and effort needed to learn new skills.

They drop their employees into brief training sessions, then plop them back on the job with unrealistic expectations of improvement. When these expectations aren't met, employers become frustrated and employees discouraged.

Often, managers are outright hostile to training efforts. Instead of encouraging employees to learn, supervisors often view training sessions as interruptions of work.

Employees return to their jobs and find that instead of using new skills they are simply pushed to catch up on the backlog.

Management attitude can be summarized as "OK, you've had your training, now get back to work!"

Under these pressures, employees are, understandably, less motivated to learn new skills.

Motivating Training

To motivate employees, managers have to show that they are committed to their employees' training.

Here's how:

- *Establish a supportive environment for learning.* Learning new skills can be an anxious experience. Managers can help employees learn with strong interpersonal support. Take the time to answer questions, and, most important, never criticize.
- *Schedule adequate time for training.* Training that is rushed is demotivating. It shows that training is an afterthought, not a priority.
- *Provide training just-in-time.* If employees know they will immediately be able to use their new skills, they'll be more motivated to learn.
- *Focus training on core competencies.* Don't let training deteriorate into information dumping provided to employees "just in case" they ever have to know. Focus training on a few core competencies to ensure employees really need what they are learning.
- *Concentrate on developing employees' strengths.* Too many training programs are focused on eliminating weaknesses.

When employees are operating in areas of weakness, they feel incompetent, and all the training in the world won't help much.

Don't try to put square pegs into round holes. Recognize employees' strengths and build these up. Instead of being frustrated at their lack of progress in an area not suited to them, employees will steadily improve their skills.

- *Give employees the time to practice.* Putting employees quickly on the firing line sends a message that their jobs (or training) aren't really that important, so it doesn't matter if they make mistakes.☆

The Privilege of Training

In some companies, training is seen as a punishment. Employees are made to feel they're not good enough at what they do. That's why they need training.

SuperMotivating companies tell employees — through words and behavior — that training is provided because they are valuable to the organization.

One firm requires regular education and training for everyone from the janitor to the CEO. In addition, it rewards top employees with additional education and training of their choice.

Training at this company is not a punishment, but a privilege.

From Training to Job

What happens after training is more important than what happens during it.

First, help employees adapt their newly learned skills to the job. Learning a new skill is motivating. Not using it on the job, or not knowing how to use it, is demotivating.

Group learning helps because employees support each other during the difficult on-the-job application of the new skills.

Follow-up meetings are also important as employees will have questions stemming from their on-the-job experiences with the new skills.

Also, get supervisors involved. One firm asks managers and supervisors to coach employees before and after the training sessions. Employees thus learn how to make their training applicable to the on-the-job requirements.

Ensure Early Success

Design your training so that employees master simple tasks before they go on to the more difficult ones.

Employees using the simple tasks on the job will be encouraged by their success — and motivated to continue the more substantial training ahead.

Self-Assessed Training Requirements

Employees involved in making training decisions that affect them are much more motivated to make the training work.

For example, at the beginning of each year, employees at one company rate their own skills on a self-assessment questionnaire.

Based on this self-assessment, employees, in collaboration with their supervisors, develop an annual training plan.☆

Evaluate the Right Things Objectively

There are two components to employee evaluation: measurement and feedback.

The first step in assuring that evaluations are positive and motivating is to create objective performance measures. No one wants his or her performance to be measured solely on the basis of another person's opinion.

If, on the other hand, objective measurement criteria have been defined, employees clearly understand what is expected of them — and when they are not performing up to expectations. They will thus be ready to accept the results of the evaluations without seeking to blame any failures on management or other factors.

Involve Employees

Involve employees in developing the measures on which they will be evaluated.

They are often in a better position to know which measurements truly reflect the quality of their performance. There's nothing more demotivating than to receive a poor evaluation because of misleading or poor evaluation criteria.

For example, a hotel chain traditionally used two key measures to evaluate reservation-agent productivity: number of calls answered and number of reservations made.

These measures were unpopular with the agents because they did not measure the complexity of the calls, and they even discouraged quality customer service.

When finally asked for their input, the agents suggested a conversion rate (the ratio of number of reservations to calls received.) This, they felt, more adequately measured the quality of their performance on the phones.

Because the new measurement system didn't reveal the number of calls taken, employees were motivated to sell reservations, not just answer calls. And they knew the performance criteria were fair; they could blame only themselves for any lack of performance.

Self-Measurement

The ability to measure and keep track of their own performance also motivates employees. They have a sense of ownership over the evaluation process that pushes them to perform at their highest level.

Self-measurement also demonstrates the trust and esteem of the company, further motivating the employees to live up to that trust.☆

Increase Positive Feedback

One of the major reasons employees view evaluations negatively is because of the feedback such evaluations generate.

If you want to motivate employees and not discourage them, then you must ensure that the evaluation feedback is as positive as possible.

First, encourage and praise your employees frequently. When employees do something right, make sure people know about it.

If employees are doing something wrong, you can still turn normally negative feedback into a positive experience. Here's how:

- Correct employees only when it will help improve their future performance.
- Correct employees' mistakes when they happen, not days, weeks, or months later.
- Give negative feedback in private.
- Focus on the solution, not the problem.
- Close the discussion on a positive note.
- Be sure to recognize progress whenever it occurs.☆

Personal Development, Not Appraisal

Performance appraisal is often demotivating because appraisals are linked to compensation concerns — and sometimes to disciplinary measures.

Even employees that generally perform well will be defensive and fearful about any negative feedback they receive.

The purpose of appraisals is to encourage development, not focus on compensation or discipline.

One company completely reworked its performance appraisal system to reflect an emphasis on development over reward and punishment.

The name of the new program, "Performance Development Process," reflects this new focus. By including the word "process," the company sends another message: that performance appraisal is a continuous exercise and not just a year-end tally.

The Performance Development Process consists of four steps:

1. *Performance planning.* Employees and their supervisors meet at the beginning of each performance period to discuss expectations.

2. *Regular feedback.* Employees receive ongoing, if informal, feedback — on a daily basis if possible, on a weekly basis at minimum.

3. *Interim reviews.* Employees shouldn't have to wait for the end of the year for comprehensive feedback. Interim reviews (weekly, monthly, or quarterly) remove many of the negatives associated with one-shot annual reviews.

4. *Annual reviews.* The company deemphasizes the annual review. Nothing new is included at this stage, which is more of a summary of previous reviews.

Recognition Is More Valuable than Money

Rewards play a pivotal role in how organizations motivate their employees.

However, organizations are increasingly discovering that traditional rewards are becoming more and more costly — and less and less motivating.

Demotivating Rewards

Reward systems include base pay, incentive pay (such as bonuses and commissions), nonmonetary rewards (such as gifts, celebrations, and personal recognition), promotions, and benefits.

Traditionally, organizations have linked the motivating effectiveness of their reward systems to monetary value. The more money involved, the more motivating the reward.

However, there is another part of the reward that is even more motivating than money: the recognition value. The recognition value concerns the emotional impact of the reward on the participant.

For example, if an employee receives an unexpected Christmas bonus of a week's pay as a reward for exceptional performance, the employee will be very pleased. The recognition value is high.

If all employees receive Christmas bonuses every year, they will not be pleased. They will be expecting the bonus, and thus will only be displeased if they don't get it.

The recognition value in this case is low.

Monetary value is irrelevant to recognition value.

> ***I can live for two months on a good compliment.***
>
> ***– Mark Twain***

Employees feel more recognized — and more motivated — when they are the only ones to receive a bonus *week's* pay, than when everyone receives an extra *month's* pay.

Nonmonetary Rewards

The best rewards can have little or no monetary value.

What's important is to show your employees that you genuinely appreciate their specific contributions.

In addition to verbally expressing your appreciation, you can communicate this appreciation in an endless number of nonmonetary ways.

Here are some examples from other companies:

- A supervisor brought a home-cooked meal to his night shift workers in appreciation of their extra efforts during a very stressful period.
- A senior executive installed a special telephone in his office so that purchasing agents could call him directly and tell him about the price concessions that they had won.

The executive thanked them on the phone and followed up with a personal congratulatory note.

- One company gives a stuffed koala bear to employees who contribute significantly to quality improvement.

The company calls it the Koala T. Bear Award.☆

Six Keys to Effective Recognition

1. **Do it often.** Don't keep waiting for something "significant enough" to happen.
2. **Do it promptly.** Late recognition is weak recognition.
3. **Be creative.** Make recognition fun and memorable.
4. **Make it easy for people to do.** Recognition is not always something people feel comfortable doing. Some companies give out pre-printed pads of recognition notes for supervisors to fill in.
5. **Involve all employees.** Recognition isn't the domain only of supervisors. Peers and team members should also be able to recognize their coworkers.
6. **Build it into the system.** Establish a "recognition culture" in your company. For example, giving recognition should be part of the job description of all supervisors — and their bosses. Thus supervisors who take the time to recognize employees will in turn be recognized themselves.

Motivating Paychecks

In future SuperMotivating companies, paychecks will become more motivating as the base pay portion of the salary is reduced and the performance-based portion is increased.

Performance-based pay is already standard for salespeople. But in other jobs, the performance-based portion is minimal.

Here are some performance-based pay options currently available:

- *Performance bonuses.* These bonuses must really be performance-based and not annual entitlements expected by employees.
- *Gainsharing.* The company rewards employees for improvements in the company's performance, for example in productivity, quality, or reducing costs. Reward amounts are based on a predetermined formula.
- *Profit sharing.* Each employee gets a percentage of the company's profits.
- *Employee Stock Ownership Plans.* Employees get company stock. (This option is less motivating because it is long-term and not tied to specific employee contributions.)

Whatever performance-based compensation system you choose, don't neglect the base compensation package. Low or inequitable wages is a major demotivator that no amount of performance-based pay will overcome.☆

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Take Your Company Global

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Take Your Company Global

The New Rules of International Expansion



by **Nataly Kelly**

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THE SUMMARY IN BRIEF

Today, business is global from the moment you create a website. Billions of people around the world can theoretically discover your company, learn about your products and services, and form an opinion of your brand. As a result, the era in which companies focused on just one geography at a time has begun to disappear. Indeed, a growing number of companies today are not only "born digital" but "born global." This trend isn't just good for the companies, either. It has the potential to grow the world's economy overall.

Your company can become global sooner than ever before, which offers tremendous advantages and growth potential for your business. The problem with this new reality is that it can make international expansion even more chaotic and less predictable than before. If you're not careful about refining your expansion strategy, you may enter too many markets, too soon, before your company is ready. In ***Take Your Company Global: The New Rules of International Expansion***, author Nataly Kelly will help you achieve a balanced approach to taking your business global, helping you build new organizational muscles and skills that you will need along the way.

IN THIS SUMMARY, YOU WILL LEARN:

- How to prepare for global growth by aligning strategies
- What localization really means in practice
- How to determine how attractive a market is for your business
- Why a Global-First mindset is a key driver to international expansion

Part One: Prepare for Global Growth

Understand Market Intensification

"Market intensification" is a conscious choice your business makes to go deeper into a market, targeting more local customers, selling more effectively and at a bigger scale, finding the right channels, and further adapting your company's offerings to truly map to local market needs. More and more companies are finding ways to meet customers from many countries where they can all be found initially–online–addressing customers in many markets from the beginning stages of their business.

One major benefit of market intensification is that because it's more continuous, you can more easily adapt and adjust as you need to. You can throttle your speed and invest more or fewer resources in each local market based on factors such as performance, funding availability, and changing economic situations. Overall, under the new rules, you can adjust your international expansion strategy in a more continuous way, one that is more in keeping with today's ever-changing environments.

Today's leading technologies that are modernizing the world tend to be delivered in more continuous ways than in the past. Newer digital offerings that achieve success in today's reality tend to use what is known as a continuous integration model.

When you build things in a continuous way, responding to inputs and customer needs, you need to operate differently. And when you're doing this in multiple markets at once, the need to adjust and pivot in many directions at the same time can feel overwhelming. For this reason, it's impossible to overstate the importance of making sure you truly listen to local customers so that you'll know precisely where you need to flex, in order to make those local market adjustments as continuously as you can.

Here's the bottom line: if you're at a digital business going global quickly, and you need to figure out where to intensify your efforts, make sure to invest in data analysis and local insights by country as early as you can.

Only then can you truly paint a quantitative and qualitative picture of each local market and the opportunity it represents for your business. Otherwise you'll run a major risk of going into too many markets all at once, spreading your resources far too thin to make any real impact in any one market .

Align International Strategy with Corporate Strategy

There are many paths to growing your business, and ultimately, many of them will lead you toward international growth at some point. One or more of the classic paths to growth will form part of a corporate strategy for many businesses. So, at what point does international strategy become a priority?

Many companies take their eye off the international ball in favor of maintaining focus on their other growth strategies. While this is not a bad thing, one risk is that if you don't devote any attention to your international business whatsoever, you might struggle later to align your international strategy with your corporate strategy. At a minimum, you'll want to ensure that your international business does not pose any risk to your broader corporate strategy. In an optimal scenario, you'll want to leverage your international business in order to fuel your overall business growth.

As your business grows, an advanced question you need to ask is how much of your company's growth and your ability to meet your overall revenue targets is dependent on your international business. Basically, you need to know not only what percentage of your revenue comes from international, but how much uplift your international growth is adding to your overall growth rate. This will enable you to forecast future scenarios, so that you can determine whether creating an international strategy should be a priority.

Intensify Local Market Presence

While you can get started with global growth without needing to set up an office and officially enter a new local market, there comes a point where most businesses need to build their company's presence in a local market or they won't be able to scale in that market further.

There are five main triggers that typically cause companies to set up a local office along their international growth journey. On the surface, these triggers might seem to be the same today, in the digital age, as they were many years ago. However they tend to happen now at a different phase of a company's growth, and for different underlying reasons.

All of the reasons for setting up local entities in offices have to do with one core theme–access to talent. Companies usually expand their business outside of their home country to hire people who speak another language, who live in a time zone closer to customers, or are in an economy where the employer's cost will be lower.

When localization is poorly done, your customers can directly suffer, as can your company's relationship with them.

Five Reasons for Setting Up Local Entities and Offices:

1. Proximity to customers
2. Language
3. Time zone
4. Financial
5. Mobility

When a company decides to set up a physical presence in a local office in an international location, they need to create a playbook unique to the culture and business. The list of tasks you create will depend on your company, who does what, and how you decide to go to market in each place, but will include things like being able to actually hire and pay people locally, ensuring compliance with local employment and tax laws, and learning what benefits are attractive to local employees.

Enable Revenue with Localization

The term "localization" is often thrown around in conversations about international expansion, but for many business leaders, localization is an elusive area that isn't covered in management courses or in business school. Yet, it's a vital part of international growth for any company, so it's important for you to know what it means and why it matters for your business.

Localization means adapting an experience for a local market. The ultimate goal of localization is to enable an excellent customer experience for customers in a local market. The degree to which localization is successful depends squarely on several other processes that must occur either before it, or alongside it: translation, internationalization, and globalization.

- Translation means adapting a message, not just words alone, for a local market.
- Internationalization means adapting code, on any web-based or software experience, to enable localization.
- Globalization means adapting the underlying framework, on any web-based or software experience, to work for multiple local markets at the same time.

The customers who pay your company are the ultimate stakeholders that localization and its associated processes all seek to serve. Ensuring they have a delightful experience is imperative. When localization is poorly done, your customers can directly suffer, as can your company's relationship with them.

Localization is a vibrant and thriving profession. While it's a niche and specialized area, localization leaders can prove tremendously helpful to your company as allies, advocates, and key drivers of international growth. To ensure localization is done right, it's important to provide strong functional representation at the highest possible level of leadership that makes sense for your company.

Part Two: Determine Where to Focus

Apply the MARACA Model

There's no doubt that figuring out where to focus can initially be a daunting task. The purpose of the MARACA framework is to clear this fog. It provides a clear, at-a-glance view of the relative value of a given country to your business compared with others, in order to facilitate international strategy decisions and help you prioritize.

The MARACA model is made up of three areas that, in combination, can tell you how attractive a market is for your business at any given point in time. You'll learn more about each of these in the sections that follow. But to start, it's important to understand why you need to look at market attractiveness from these different lenses: market availability (MA), real-time analytics (RA), and customer addressability (CA).

- MA tells you how much opportunity the market offers. It matters because of revenue.
- RA tells you how you are performing in the market. It matters because it indicates traction.
- CA tells you how easily you can address this market. It matters because it impacts timelines.

Many companies find it helpful to turn these different areas of measurement into numbers, so that they can create a score, or ranking, to help prioritize markets. A 10-point scale

works well so that each area of the score–MA, RA, and CA–is worth 10 points. Those points can be broken down into the following key strategies that matter most for businesses, with 20 percent of the total available points available to each, weighted evenly and averaged to yield a score:

- Economy
- Packaging and pricing
- Ease of doing business
- Language
- Local market presence

The goal is not for any market to have a perfect score, but rather to use the score to prioritize markets and timing of intensification efforts, as well as to determine appropriate local market strategies.

Calculate Market Availability

If you hope to expand internationally, you'll want to know how much opportunity awaits. MA is a quantifiable number used to designate the size of opportunity for your business in a given country.

Three primary concepts come into play when calculating CA:

- **Total Addressable Market (TAM):** Number of total potential customers x average selling price
- **Serviceable Addressable Market (SAM):** Number of customers currently able to buy your produce x average selling price
- **Serviceable Obtainable Market (SOM):** Number of customers served currently by your company and competitors x average selling price

You can calculate these and arrive at your MA using internally derived or third-party data. No matter what formula you decide to use, it's important that you focus on a few important principles:

- **Seek data that is trustworthy and reliable, from valid sources.** Do not just resort to online search results. Purchase actual reports if they are available for your industry. If none exist, you'll need to come up with your own estimates.
- **Clarify what MA means for your business.** Make your formula as simple and clear as possible, so that everyone can understand how your market size estimates are derived.
- **Look for data that is geographically consistent.** Many research firms only offer regional estimates, not country-specific ones. You might need to come up with country estimates based on the regional ones.

For purposes of MA, pick the countries that make the most sense for your business. These will usually be the ones with the largest economies–ones where your industry is known to have a solid presence, or ones that your competitors are known to succeed in–and focus on those.

Pick Your Real-Time Analytics

Companies today have the advantage of analytics that are available in real time. Most businesses with a digital model use "funnel" or "flywheel" metrics to represent the various stages of a customer journey or life cycle. If you want to put your local customers at the center of your thinking, view the various stages of their interactions with your company not as static phases they "pass through," but as a more ongoing and continuous motion.

These metrics usually look at a few key areas:

- Attract: marketing
- Engage: sales
- Delight: customer success and retention

Beneath each category of metrics, there are usually many different pieces to look at. Ideally, you should choose only the top metrics in every area, and no more than three or four metrics per function. Once you have identified the top metrics that matter, you will need to calculate them separately for each different country.

Focus and clarity are hugely important for international expansion. Focus on fewer countries initially and look at them separately. Develop a playbook for those, and then apply that playbook to similar countries with adjustments. This will help you avoid spreading your company and its resources way too thin.

Measure Customer Addressability

Your company needs to understand the needs of, develop empathy for, and properly address your customers in a given local market. Barriers to payment are some of the highest risk barriers you need to surpass, because if you don't, potential customers will abandon you during the checkout process or upon signing a contract, simply because you failed to meet their needs at a critical moment: when it's time to pay. But these are not the only things that matter

No matter how big you are, and no matter how far your journey has gone, it's never too late to become a champion of Global-First thinking. . .

when it comes to determining your ability to truly address the needs of your local customers.

Categories to Calculate CA:

- Payment, inducing currency and type
- Product, including pricing and packaging
- Language, including existing proficiency or degree of localization
- Presence in the local market, including local employees, physical office, and partners
- Operations, considering the local market's economic development and ease of doing business

The more geographically and culturally distant a market is from your founding location, the more important it will be to pay close attention to CA in the new local market. Cultural distance barriers between you and your customers can be overcome by changing your internal company culture and the composition of your employees. Make sure you're hiring for international experience and cultural knowledge from the earliest possible phase.

Part Three: Go Global Within

Build a Global-First Culture

If you're an early stage founder or your company is still small, you have a great opportunity to be global from your earliest days and should consider this approach and whether it might work for your business. But if you've already started a company, or you are a business leader at any company, it's not too late to infuse a Global-First mindset into your business. No matter how big you are, and no matter how far your journey has gone, it's never too late to become a champion of Global-First thinking, so you can build it into your culture.

Global-First means creating things with global in mind from the beginning, but unfortunately that isn't enough. That's just the first step.

The next step, and what really makes something Global-First, comes down to (1) the details of how you execute to enable local flexibility, (2) the ability of teams to quickly connect with each other across GEOS, and (3) letting the local leaders make decisions about what is best for their markets, while ensuring they have the resources they need to turn plans into results.

Global-First also means connecting the dots, thinking through all the various pieces of how a given initiative will succeed–or fail–in each market based on a company's ability to connect those internal dots. Global-First not only means thinking globally from the start, but considering how to execute locally too.

Ultimately, make sure you advocate for everyone in your company to think globally, but execute locally. This is a hallmark of Global-First thinking and can make or break the success of your global business.

Amplify Local Customer Voices

By not tuning in early enough to key local markets, many businesses eventually hit a slowdown in growth because they're not listening carefully to their international customers early enough in their market expansion. Use customer insights to fuel your business, so that you can keep growing steadily over time without risk of slowing down.

Using a combination of quantitative and qualitative research is of great importance. Qualitative feedback from local customers is hugely important, but you run the risk of leaning too heavily on one-off anecdotes. Avert this by gathering qualitative input in a structured way. Gather local feedback with a qualitative approach, such as interviewing customers or otherwise capturing their verbatim feedback and then create a way of categorizing and coding this feedback. This moves it from anecdotal to structured qualitative feedback. Ideally you build this into your business so that isn't just a one-off but rather a continued initiative.

On the other side of the spectrum, some companies lean way too much into their data, letting it dictate every move they make. When it comes to local markets, data can be

very misleading. Talking with customers can accelerate learning and show what gaps exist in more tangible terms than just looking at the data alone.

There is no replacement for talking to customers. They will tell you which aspects of your product are appealing to them and which might need more work. Never assume that data gives you the full story, especially if you're using it to drive international expansion decisions. Small decisions early on can snowball, and if you're not careful, they can defocus your team and lead you down paths that ultimately are not the most advantageous.

Build a Globally Equitable Organization

The best motivation for building a global company is that you want your customers to be successful with your company, without geography becoming a barrier that prevents this from happening. Customers are happy to pay a price in exchange for value that they believe is fair. That's where creating an equitable experience comes in.

To ensure that your customers have an equitable experience with your business no matter where they are based, you'll want to strive to make local experiences equitable, but not necessarily identical.

In fact, where many companies go wrong is that they try to enforce a cookie-cutter approach onto all their markets in the name of global leverage but in doing so they miss out on the importance of local adaptations that are required to ensure their customers are equally happy with the value they're receiving in their local market, even if they define and derive that value in different ways.

Here are five guiding global principles your company may want to adopt, from the top down, bottom up, and across every function of your company, along with a mnemonic, GLOBE, to help make it easy for everyone to keep them top of mind:

Geo-agnostic: If you believe your market is the world from day one, you'll think, act, and grow in a way that naturally enables multiple markets.

Linguistically inclusive: Always build things in a way that makes language easy to access, understand, and ideally, localize.

Operationalized: Everything you do should be done in a way that supports international expansion and does not create blockers for your international customers.

Balanced: You have a fiduciary responsibility to your employees, shareholders or investors, and ultimately your customers. Make sound choices that won't destabilize your business.

Empathetic: Understand your customers' perspective and know what it's like to walk in their shoes.

Hire for International Knowledge

You can fast track some of the organizational learning–and minimize the global growing pains–if you hire the right types of employees from the earliest possible stage. The sooner you do this, the faster your company will evolve into a global business.

Start by prioritizing international experience, ideally as part of the hiring process, and your company will naturally have a strong global mindset built into its DNA. Here are some of the main categories of people you may want to consider hiring as early as you can to ensure you have less friction taking your company global when you decide to do so.

- Immigrants and refugees
- Children of immigrants
- Workers who speak other languages
- Employees with international work backgrounds
- People who demonstrate global curiosity

Multimarket is the New Multinational

International expansion is no longer reserved just for a special league or class of companies. Taking a company global can be accessible to anyone who wants to do it. Going global, quite simply, is something available and achievable for every entrepreneur, every business, every company who seeks customers and other markets.

You don't need to be a multinational to go global these days. What you do need is to have a multimarket mindset. Solve for more markets, sooner, to enable your company to go faster in more markets later on. By adopting this mindset and making it part of the way you operate, you'll build a business that can intensify your presence in more places when you decide to do so.

If you can't access or hire people with specialist knowledge and international growth right now, don't despair or think that you can't build a global company without this type of expertise. The hunger and drive to go global is often more important than any other factor in making international expansion actually happen.

Don't underestimate your organization's capability to learn what it takes to be a global success directly, by listening to your customers first. This is more powerful than what any international business specialist can tell you and in fact, if they are good, it's one of the first things they'll advise you to do. It's fine to hire people to help you with this, and it can put you on the fast track for expansion. But just know that this isn't your only option.

Remember that as a founder, entrepreneur, or business leader, you are operating from a special position. You already know your business and customers, and that is the foundation upon which all global success is built. Taking your business global is simply a matter of knowing a wider range of your customers and understanding how to adapt to reach more of them in new local markets. The key is to have a mindset of curiosity and an expectation that every market will have different needs to some degree.



Nataly Kelly is a seasoned business leader, international business expert, and longtime Harvard Business Review contributor on the topic of global business who is dedicated to empowering business leaders to strategically expand internationally. She is currently Chief Growth Officer at Rebrandly, a global software firm with customers in more than 100 countries. Previously, Kelly served at HubSpot as Vice President of Marketing, Vice President of International Operations and Strategy, and Vice President of Localization, where she helped drive international expansion.

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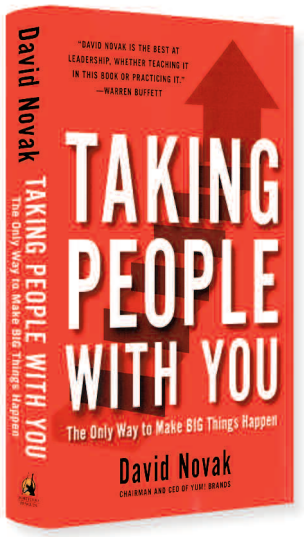
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Taking People with You

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Taking People with You

The Only Way to Make BIG Things Happen



by David Novak

THE SUMMARY IN BRIEF

David Novak learned long ago that you can't lead a great organization of any size without getting your people aligned, enthusiastic and focused relentlessly on the mission. But how do you do that? There are countless leadership books, but how many will actually help a Taco Bell shift manager, a Fortune 500 CEO, a new entrepreneur or anyone in between?

During his 15 years at Yum! Brands, Novak developed a trademarked program he calls Taking People with You. He spends several weeks each year personally teaching it to thousands of managers around the world. He convinces them that they'll never make big things happen until they learn how to get people on their side. No skill in business is more important. And Yum!'s extraordinary success (at least 13 percent growth for each of the last nine years) proves his point.

Novak knows that managers don't need leadership platitudes or business school theories. In *Taking People with You*, he cuts right to the chase with a step-by-step guide to setting big goals, getting people to work together, blowing past your targets and celebrating after you shock the skeptics. And then doing it again and again until consistent excellence becomes a core element of your culture.

In this book, Novak offers specific tools that will challenge you to reflect on how you're really doing on key aspects of leadership.

Get ready to change the way you think about leadership and, more important, the way you practice it every day.

IN THIS SUMMARY, YOU WILL LEARN:

- How to get inside the heads of your people.
- How to think big.
- How to practice "extraordinary authenticity."
- How to look for good ideas in unexpected places.
- How to choose a can-do mindset.
- Why you should cheer for first downs, not just touchdowns.

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THE COMPLETE SUMMARY: **TAKING PEOPLE WITH YOU**

by David Novak

The author: David Novak is the chairman and CEO of Yum! Brands, Inc., which operates in more than 112 countries and employs 1.4 million people. Novak is the former president of both KFC and Pizza Hut and has held senior management positions at PepsiCo. He's been featured as one of the world's "30 Best CEOs" by *Barron's*, one of *Fortune*'s "Top People in Business" and one of the "100 Best-Performing CEOs in the World" by *Harvard Business Review*. *Taking People with You* has been ranked #1 on the bestseller lists of the *New York Times*, *Wall Street Journal* and *USA Today*.

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Introduction

We all need people to help us along the way. You can go only so far by going it alone. If you want to start a business, if you want a big promotion, if you are developing or launching a new product, if you want your company to move in a new direction, if you want to expand your sales territory, if you want to raise money for a good cause, even if you become the coach of your child's soccer team, which has lost every game so far, and you want to show those kids what it feels like to win, you're going to need people to help you get there. You'll never accomplish anything big if you try to do it alone.

Early in my career, I had an experience that changed how I thought about my own role as a leader and inspired me to accomplish what, for me, is my greatest example of taking people with you. I was working for PepsiCo at the time, making my way up through the ranks, and had recently become head of operations for Pepsi Bottling.

I was at a plant in St. Louis, conducting a 6 a.m. roundtable meeting with a group of route salesmen, when, over coffee and doughnuts, I asked what I thought was a pretty straightforward question about merchandising, which is all about the displays and visibility we get in convenience and grocery stores. I wanted to know what they thought was working and what wasn't. Right away, someone piped up, "Bob is the expert in that area. He can tell you how it's done." Someone else added, "Bob taught me more in one day than I'd learned in two years on the job." Every single person in the room agreed: Bob was the best there was. I looked over at Bob, thinking he must be thrilled by all this praise. Instead, I saw that he had tears running down his face. When I asked him what was wrong, Bob, who had been with the company for more than 40 years and was about to retire in just two weeks, said, "I never knew anyone felt this way about me."

The rest of my visit to the plant went pretty well, but I walked away that day with an uneasy feeling. It was such a shame that Bob had never felt appreciated. It was a missed opportunity for the business, too. We all could have benefited from his expertise and more people could have learned from him. This guy was clearly great at what he did, but who knows how much better he could have been in a workplace that recognized and rewarded his knowledge. I knew that if he felt overlooked and underappreciated, others at the plant did too.

Make It Happen

I've always believed in people, but that experience made me even more determined to be the kind of leader who would never let a person like Bob go through his entire career without being thanked for what he did and encouraged to find out how much more he could do. I wanted the people who worked for me to know that they mattered and I wanted them to enjoy coming to work every day. I also understood that none of this would happen unless I made it happen. It was my job to cast the right shadow of leadership because no one else was going to live up to these principles unless I lived up to them first.

I am now chairman and CEO of Yum! Brands, the world's largest restaurant company and owner of the brands KFC, Pizza Hut and Taco Bell. When I started in this position more than a decade ago, I thought of the Bobs of the world and made it one of my first priorities

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Chris Lauer**, Contributing Editor; **Amanda Langen**, Graphic Designer

to create a recognition culture in which everyone counted and to do it so successfully that our company would become renowned for it. That was no small task, considering we now have more than 1.4 million employees spread out over 117 countries. But while we're far from perfect, it's working. I know it's working, because I get proof of it almost every day. ●

An Insight-Driven Approach to Leading People and Achieving Big Goals

You have to begin by asking yourself three big questions that will drive your approach to leadership and allow you to take people with you. They are:

1. **What's the single biggest thing you can imagine that will grow your business or change your life?**
2. **Who do you need to affect, influence or take with you to be successful?**
3. **What perceptions, habits or beliefs of this target audience do you need to build, change or reinforce to reach your goal?**

Before I ask you to answer these questions, I need to explain the right way to approach them. When Roger Enrico, who was chairman of PepsiCo at the time, first asked me to develop a program on leadership, the request forced me to take a look in the mirror and ask myself what was my key to taking people with me. How, exactly, was I able to get people on the same page and marching toward a goal? I concluded that the core of my leadership success stems from my ability to think like a marketer.

In marketing, if you can get inside the minds of your customers, you have the opportunity to solve their problems for them in a way that can improve your business. You need to have a good understanding of what they're thinking and why they're thinking that way. In order to get people to buy your product, for example, you have to start by gaining insight into what will convince them that they can't or shouldn't live without it. To be a successful leader, one who gets big things done, you need to have the same kind of insight into the minds of those you lead.

Be Relevant

You don't just talk about what you're offering people; you make sure your brand or product is positioned in a way that is relevant to whomever you're trying to influence. This kind of insight-driven thinking works in all kinds of situations. Snickers achieved dramatic growth when it tapped into the consumer mindset that candy bars are not good for you and started touting their brand as "The Snack that Satisfies." Swatch did something similar when, instead of positioning themselves as simply another watch brand, they realized that consumers wanted to use their watches as clothing accessories. Swatch started offering a wide variety of watchbands, and soon their products became a fashion statement. And you may remember how Oldsmobile successfully countered its stodgy image by talking about its new model as "Not your father's Oldsmobile." You get the idea. Knowing how people are thinking gives you the insight you need to reframe your product in a way that gets people on your side. ●

PART ONE: GET YOUR MINDSET RIGHT

Be Your Best Self: Be Yourself, Know Yourself, Grow Yourself

People know and follow the real deal when they see it, those who walk through life on their own terms, who stay true to their beliefs and who don't back down. We can all name people like this, and there's often a pretty broad consensus that such diverse figures as Nelson Mandela, Mahatma Gandhi, Oprah Winfrey, Muhammad Ali and Winston Churchill are (or were) all real deals, which goes to show that authenticity can be demonstrated in many different styles.

I call this having "extraordinary authenticity," which means having the ability to be yourself even in the toughest situations. This requires living with a paradox: To inspire as a leader, you need to know your stuff, but you also need to be able to admit when you don't know stuff. You need to be both confident and vulnerable at the same time.

Allowing yourself to be vulnerable can be hard enough for most of us, but in the business world, the idea of being yourself is further complicated by the fact that it's also important to get along with all sorts of people while staying true to yourself. You obviously can't just say to colleagues or customers, "This is me being myself, take it or leave it." Not if you want to get ahead. Instead, you have to figure out how to be you in a way that broadens your appeal and impact versus turning people off or unnecessarily clashing with company culture. ●

Help Others Be Themselves

As the leader, you have to communicate to everyone you lead how important it is for them to be themselves. Here is some advice:

- **Believe in All People:** Celebrate individuality.
- **Provide Individual Development Plans:** There's no substitute for tailored, constructive feedback.
- **Create a Safe Haven:** Make it easy for people to speak up, share their points of view and express their individuality.
- **Openly Seek Knowledge and Perspective from Others:** Don't wait for people to speak up. Ask them what they know and what they think about your ideas.

Be an Avid Learner: Seek and Build Know-How

One of the most effective things you can do to continue to grow and be your best self is to always be learning. In fact, I believe that being an avid learner is the single biggest thing that separates a good leader from a great one. Someone with a voracious appetite for knowledge is bound to inspire others with their passion and curiosity and can energize an organization by bringing to it new ideas.

I will take good ideas wherever I can find them. In fact, some of the biggest successes of my career have been the result of building on the ideas of others, and I'm not too proud to admit that some of those ideas came directly from competitors. For example, when I went to Pizza Hut to run marketing in 1986, sales were down and the brand hadn't had any successful new products in years. One of the emerging concepts in the industry back then was specialty pizzas, and one of the places that was doing that better than anyone else was California Pizza Kitchen (CPK). They excelled at using known flavor combinations to make unique specialty pizzas, like barbecue chicken pizza, Thai chicken pizza and BLT pizza.

So one day I took my team to Los Angeles and we went to CPK for lunch. We ordered practically every specialty pizza on the menu and really enjoyed them. It was clear they were on to something, but we weren't CPK. Could we make this concept work at Pizza Hut without losing what makes Pizza Hut unique?

At first, we tried a Cajun pizza, but that didn't really hit a home run with our customers. They wanted new menu options, but they didn't really want strange new flavor combinations. Next, we decided on a specialty pizza that gave our customers more of what they already loved. First, was a Meat Lover's Pizza, which was such a hit that it led to our Cheese Lover's Pizza and then to a whole new "Lover's" line that has become a phenomenal success. Our Pepperoni Lover's Pizza, which is just a regular pizza with an extra helping of pepperoni on top, was one of the most successful new products in Pizza Hut history.

This kind of pattern thinking, where you look at what's working for someone else and apply it to your own situation, is one of the best ways to make big things happen for you and your team.

Unleash the Power of People

I believe leadership is a privilege. I also believe deep down in my bones that all people, when given a choice, have an inherent desire to do the right thing, to contribute and to make a positive difference through the work that they do. And I'm absolutely convinced that it's crucial to have this mindset in order to get the most out of the people you work with. As a matter of fact, I believe that there is potential in every person and, as the leader, it's my job to unleash it.

Establishing Trust with Your Team

If you can establish an environment where every single person feels that he or she is part of a team and has a chance to contribute, you've created a situation where people can do great things. To build an environment like this, you have to start with trust.

Reaching out to people and building relationships based on trust might seem like a natural idea, but how do you do it? This is not the sort of thing they typically teach in business school. Below are things you can do to show people that you believe in them and that you care.

1. **Know that people want to contribute:** Start with the right attitude: Realize that 99.9 percent of people come to work every day wanting to do good and try hard. So you have to go to work every day thinking about your people that way and appreciating them for it, not looking to catch the 0.1 percent who want to mess things up or don't act in good faith.
2. **Demonstrate that everyone counts:** It's been shown that the most successful companies have a culture where every person feels valued. No matter what their position, they all know they have a chance to contribute and make a difference.
3. **The more they know, the more they care:** One way to show people you trust in their abilities and intentions is to share what you know.

4. **Ask questions that promote insight:** To find out more about who people are and what they think, one of my favorite questions to ask is, "What would you do if you had my job?"
5. **Take Responsive Action:** Once you've found out what people think, you've got to act on that and show that you've taken them into account. ●

You Have to Believe It Can Be Done

Think for a moment about what you want to accomplish and ask yourself: Do you truly believe you can make it happen?

If the answer to that question is not an immediate and emphatic *yes*, then you have some work to do.

Seeing Success

I wanted to really understand how a person has to think in order to win in any competitive arena, so after touring restaurants in Williamsburg, Va., I stopped in to see Bob Rotella at his house. Bob, one of the world's leading sports psychologists and an expert on peak performance, really drove this point home: "If you think of yourself as able to do something, you probably will do it. If you think of yourself as incapable, you probably won't." But believing that you can succeed is not the same thing as knowing exactly how you're going to get there. It means having faith that you and your people will find a way. If you don't already have the knowledge, you can find it. If you don't already have the resources, you can get them. It means believing that you and your team have the capacity to figure things out. And if you don't believe that, you need to spend some time thinking about why you don't. By fully examining why not, you'll identify barriers to your goal. ●

PART TWO: HAVE A PLAN: STRATEGY, STRUCTURE, CULTURE

Strategy: Tell It Like It Is ... and How It Could Be

My mentor, Andy Pearson, was a master at establishing truth in his business. When he was chairman of our company, there was something he used to say over and over again, like a motto: "See the world the way it really is, not how you wish it to be."

Telling it like it is means more than just presenting the facts; it means showing what they mean — and what they could mean for the future — for your business or for any task you're working on.

Your strategy starts by getting everyone on the same page, but you can't stop there. You can't just tell people how bad things are and then leave them be. You can't even tell them how good things are and then leave them be. You must define reality while also showing people where that reality can take them. Defining reality and creating hope go hand in hand here. As Napoléon Bonaparte once said, "A leader is a dealer in hope." Or put another way by a less controversial figure, the late author and philosopher Sydney Banks, "Never forget that hope is a very important ally that leads to miraculous things."

Creating hope means showing people where the facts in front of them could lead. ●

Strategy: Create a Vision and Personalize It

Once you've defined reality for the people you lead, the next step is to develop a shared vision for where you want to go next. After a meeting with his team during which he had laid out an inspiring view of their future, a KFC franchisee from Tennessee, Charlie Middleton, said to me in his deep baritone, Deputy Dog-like voice, "A road to nowhere is hard to build." What he meant was that it's a lot easier to get somewhere if you know where you're headed. I couldn't agree more. When constructing a plan to achieve your goal, it's essential that you have a clear idea of the end point first, before you start drawing a road map for how to get there.

What do I mean by a vision? It's your idea of what the future will look like when you achieve your Big Goal, what the benefits are, what the outcome or results will be. If you can create a vision for what you want to get done and make it feel relevant to the people you lead, then you're going to be well on your way.

When creating a vision, think about your target audience, the people you have to take with you. You have to create a vision that the people you lead can look at and say:

1. **I understand it.**
2. **I know that my customers, or the people we need to win over, will like it.**
3. **I can get excited about it.**
4. **I can make it happen.**

For example, in 1998, after our spinoff from PepsiCo, I wanted to talk about my vision for where I saw us headed as a new company. When I thought about it (with the help and input of my team, of course), the success of our restaurant brands boiled down to one thing: making people happy. Good food makes people happy. If we can give them a great customer experience

on top of that, they'll be even happier. If we give them value for their money so they can keep a bit more in their pockets, well, that makes people happy too. So the vision we came up with was to "Put a YUM on people's faces around the world."

The vision I set forth satisfied each of the four points above and all of us, from our restaurant workers to our lawyers, could get behind the idea. ●

Strategy: Gain Alignment Every Step of the Way at Every Level

Once you've shared the business realities and your vision with your team, the third part of executing your strategy is to gain alignment. Alignment is hugely important. You can have the best idea in the world, but it won't matter if you can't get people onboard to help you make it happen. If you can't get alignment, your great idea is not an effective idea.

During the past 20 years, I've had the benefit of learning from a number of top-ranked change consultants. What they all have to say about alignment basically boils down to this: You have to make sure people understand three things.

1. **What do you want them to do?**
2. **What's in it for them?**
3. **Are you going to do it too?**

People will get on board with your goal when they understand it, they know what they'll get out of it and when they know that you are as invested in it as they are. Only then will they truly feel accountable for doing their part to make it happen. ●

Structure: Resources, Organization and Process Enable Execution

It's one thing to say you want to do something; it's another thing to get it done. Once you have your strategy for your Big Goal, you have to put structure in place to make it happen. That means having the resources, organization and process you need to execute your strategy. These things together provide a solid framework that drives accountability.

For example, a number of years ago, we wanted to expand our lunch business at Pizza Hut. Customers loved coming into our restaurants for dinner, but they didn't see us as a viable lunch option for three basic reasons: Our pizzas were too big, too expensive and took too long to make. It was the opposite of the quick, easy and affordable fare that most people were looking for when on their lunch hour from work.

To solve these perception problems, we put a dedicated team on a mission to develop the lunch daypart. The first thing the team decided was to launch a 6-inch Personal Pan Pizza at a low price point. That solved two out of the three issues, but then we had to figure out how to ensure that our restaurants would be quick enough for the lunch crowd. So we put a process in place to make sure that customers could eat their lunch and still make it back to work on time. We offered a "five-minute guarantee" and put an hourglass on each table to mark the time. If the wait staff didn't get customers their pizzas before that hourglass ran out, they had to give them a coupon for their next pizza free. Our franchisees, even those who weren't thrilled in the beginning at having to implement a new process in the restaurants, were won over by the results. The promotion was wildly popular with customers and we doubled our lunch business. ●

Culture: Make 'Winning Together' a Big Idea

The final part of your plan is your culture. This is a critical ingredient that many leaders forget to consider. Or they just ignore it. But having the right culture, one that breeds positive energy and success, is crucial not just to the success of your current goal, but to anything you and your team want to accomplish going forward. A great culture is what will allow you to get those hard results and get them consistently.

What is culture? What I'm really talking about here is the work environment. As a leader, what sort of values are you projecting? What kind of atmosphere do you create for your team? Is it one in which people are excited to go to work every day, feel supported and appreciated and know they can grow? There is a big difference between people working toward a goal because they are getting paid to do it versus working together toward a goal because it is a rewarding experience. That difference shows up in the hard results that we all care about.

At Yum! we have come up with a list of How We Win Together principles, which are the foundation of our culture. Such principles should always meet certain criteria:

1. **Are they relevant to your business?**
2. **Do they help make people feel as though they count?**
3. **Do they make your people happy to be working where they are, enough so that**

they'll ask themselves, *Why would I want to work anywhere else?*

4. **Do they inspire your people to satisfy the customer and achieve results?** ●

PART THREE: FOLLOW THROUGH TO GET RESULTS

Market the Change: Be a Bold Ad for Your Big Goal

What makes a good ad good and a bad ad bad? This is something that people in marketing think about all the time, but really, in this day and age, we are exposed to so many advertisements over the course of our lives, we all have a pretty good idea of which ones we like, which ones we don't and why.

Good ads are emotional and memorable. They are relatable and address a need in those they target. They also drive their audience to action, to go out and buy that product. You want to see a good ad again and again.

Bad ads are forgettable. They feel irrelevant or out of touch with their target audience. They don't make clear what they're selling. Sometimes they're even so annoying that they make you want to do the opposite of what they want you to do. You never want to see a bad ad again.

As a leader, do you want to be a good ad or a bad ad?

KFC's founder, Colonel Sanders, understood the importance of being a good ad for his goal. As his chicken became more popular, he and his wife, Claudia, would travel around to different towns and put on Kentucky Fried Chicken demonstrations in local restaurants. But they didn't rely just on the Colonel's tasty chicken recipe to make a good impression. Claudia greeted customers in an antebellum-style dress. And whenever he had the chance, the Colonel himself would come out from the kitchen in his distinctive white suit, which became his trademark, to do "a little coloneling."

You need to market your goal or your initiative in the same dynamic way you would a new product. You need to keep that goal front and center in the minds of your target audience. That means you need to get their attention, convince them of its importance and *keep* convincing them. ●

Understand and Overcome the Barriers to Success

I still believe it's important to have the courage to move forward with intentionality to achieve your Big Goal, but its just as important that you don't do it until you've listened to everyone's concerns and considered all the potential barriers to success.

The thing you *don't* want to do when someone expresses doubts is to plow ahead as if it never happened. But sometimes we do this without even realizing it because we're so sure of ourselves, so sure that we have a good idea. The following is a checklist of what you should do to make sure you really are seeing all sides and considering all valid opinions and objections:

1. **Listen and understand why:** Take each concern seriously and get to the bottom of it.
2. **Incorporate valid objections into your plans:** If you decide that the objections have merit, then it's time to adjust your plan. Doing this may take a bit more time and effort, but the result will be better for it.
3. **Listen, then lead:** After you've heard and considered all the different viewpoints, you can't get paralyzed with indecision. It's up to you, as the leader, to make a decision about what to do next.
4. **Do the right thing and the right thing will happen:** Follow your instincts. If you know you've done right by your team, listening to their concerns and doing your homework on your initiative, then have confidence in your decision. ●

Use Recognition to Drive Performance

If you're doing a good job of measuring your progress and the benchmarks of success are clear, then everyone knows when progress is made, and that gives you the opportunity to celebrate your accomplishments along the way. Celebrations are essential. They are shared experiences that keep people motivated and invested in achieving the ultimate goal.

Years ago, I was watching an AFC championship game between the Cleveland Browns and the Denver Broncos. It was an incredibly cold day made worse by wind and snow, a really difficult atmosphere in which to keep one's spirits up. With just five minutes left on the clock and the Broncos behind by a touchdown, they got the ball on their own 2-yard line. It looked as though they were sure to lose. But then the team, led by Hall of Fame quarterback John Elway, started moving the ball steadily across the field, play by play, first down after first down. They got nine first downs in all before finally scoring a touchdown with just 37 seconds left in regulation play. It was an incredible 98-yard drive to tie the

score and Denver went on to win the game in overtime.

It was an amazing thing to watch, but what caught my attention the most was the way the whole team celebrated each and every one of those first downs. The guys on the sidelines were clapping and cheering the whole way down the field. Research has shown just how important this is too. A recent study of soccer players, for example, found that the team that celebrated goals with the most enthusiasm typically won the game.

It's a great lesson for any leader: Don't wait for the win or until you cross the finish line. ●

The Change Is Never Over

This idea of your work never being over is true for your goal, and it's true for your business overall. As one of my board members, Massimo Ferragamo, said to me once, "If someone says that the changes are over, they are over. I personally believe that every arrival point is a departing point, and you have to always think that way."

Massimo's business is a family business, started by his father, so he's been in a unique position to witness just how true this is over the long term. When he started working in the United States, trying to make his Italian shoe brand popular in a new market, there was really just one major competitor in the ladies' shoe market and one in the men's shoe market. So his team studied every detail of those competitors, from pricing to positioning to incentives given to salespeople. He says, "We went after [those competitors] like they were our target. And the success story was that we beat them both by looking at exactly what they were doing and trying to do it a little bit better."

Focus On Your Big Goal

To drive the change you want, keep your Big Goal front and center in your own mind and in the minds of your target audience. Three ways to keep the focus are:

- **Persistence, persistence, persistence.** It's your job to figure out how to keep the focus on what really matters and not get sidetracked.
- **Relentless communication.** Help keep the focus on your goal by never stopping communication with your people.
- **Play as though you're behind.** You should be going to work every day believing that you'll succeed, but playing as though you're behind in the score. That's the attitude that will give you the best chance at success.

Massimo remembers it as a continual process of improvement to reach that goal, and they never stopped wondering how they could get another extra edge. But now other companies are targeting his and trying to evolve in the same way that it did. Less than a decade ago, no one was selling as many shoes in the United States as Ferragamo, but now the competition has just ballooned. "From being a company that was the leader out of maybe 10 brands, today we have big fights to keep our position out of 70 or 80 brands. So the landscape has changed completely, and we are back in a position that we have to think the same way we were thinking 20 years ago and getting back that No.1 spot." ●

Afterword

I truly believe that taking people with you is *the* job of every leader; it's not something that can be delegated. If you're one person getting big things done, that's pretty good, but it will take you only so far. If you can help a whole team or organization full of people to reach big goals, then there's no telling what you can accomplish together. It's up to you as a leader to make that happen.

As I close, I'm reminded of something I witnessed recently. It was a Saturday and I was reading the paper outside by the pool at my hotel. I looked up and saw a woman stick her toe in the cool water and then very gradually, almost painfully, lower herself in, barely making a current in the pool. Meanwhile, a young kid ran past her and jumped in, cannonball-style. He made a huge splash that got everyone's attention and resulted in ripples that went from one side of the pool to the other.

You have a choice: You can take the lessons you've learned here and dabble with them and probably not make much difference in your life or in others'; or you can jump in with abandon, put these lessons to work and create ripples that will help you and those around you achieve all that you're capable of. I hope you'll choose to be a ripple maker and receive all the joy and results that go with it. ●

RECOMMENDED READING LIST

If you liked *Taking People with You*, you'll also like:

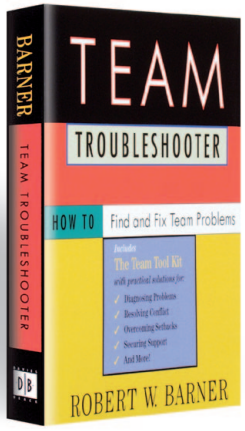
1. ***The Education of an Accidental CEO* by David Novak.** Learn how to get everyone from division presidents to dishwashers to buy into recognizing the achievements of others.
2. ***Drive* by Daniel H. Pink.** Pink exposes the mismatch between what science knows and what business does — and how that affects every aspect of life.
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· Book 221 of 304 ·

Team Troubleshooter

Robert W. Barner

SOUNDVIEW Executive Book Summaries®



By Robert W. Barner

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How to Find and Fix Team Problems

TEAM TROUBLE-SHOOTER

THE SUMMARY IN BRIEF

There is no denying that organizations are becoming increasingly team-oriented in their approaches to doing business and managing their customer relationships. Accomplishing this, of course, is easier said than done; sometimes teams hit roadblocks that can sabotage their success.

In this summary, Robert W. Barner lays out some of the most common pitfalls for teams, such as conflicts between team members and the team leader, poor relationships between corporate teams and customers, and the inability of a team to anticipate problems.

Specifically, Barner offers the symptoms and then the treatments to help your team overcome challenges in four key areas:

✓ **Improving internal relationships.** Wherever two or more team members are gathered, there's bound to be conflict at some juncture. You must keep minor conflicts within the team from escalating into major ones and proactively address and resolve inevitable leader-member conflict before turning your attention outward.

✓ **Strengthening team focus.** It is important for your team to be able to anticipate challenges and to distinguish changes that threaten the team from those that provide opportunities for growth. It is also important to find and maintain a clear sense of direction, minimize change anxiety and establish focused priorities.

✓ **Dealing with the challenges of change.** Teams that respond to changes with flexibility will be better equipped to face the future than those that are too brittle to be effective. Keeping your team flexible is a major challenge, to be addressed with coordination and innovation.

✓ **Mending external relationships.** Without external partners, such as senior managers and customers, teams would have no reason for being. Yet, among the most contentious of relationships your team will have will be with those two groups. Differences must be addressed and fences mended before too much damage is done.

Are you ready to do some team troubleshooting? Turn the page and get started …

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PART I: IMPROVING INTERNAL RELATIONSHIPS

Recognize Problems Within Your Team

It would certainly be a lot easier if we could lead teams as though they were some kind of logical, predictable machine. Unfortunately, that's not the way things work; teams are composed of people — unpredictable, contradictory, sometimes uncooperative people. Pressures to succeed in the team environment are many, and they come from outside the team (in the form of deadlines, productivity standards, etc.) as well as from within (in the form of burnout or the simple inability to forge a common approach to a task or project).

The question you must consider is not whether the members of your team sometimes find themselves enmeshed in conflict; at times, all teams experience internal conflicts. The true question is whether these conflicts are so pervasive and damaging that they could pose a serious obstacle to your team's long-term success.

Signs of Trouble

As team leader, you must not allow yourself to think the burden of resolving conflicts rests solely on your shoulders. In doing this, you are placing yourself in a patronizing, parental position that encourages your team members to abdicate personal responsibility for resolving conflicts — and denies them the chance to develop necessary skills to do otherwise. Your team must learn to detect and avoid potential conflicts and successfully manage those that cannot be prevented.

Some symptoms to look for are:

- **Rapid escalation of minor conflicts**. If relatively small, one-on-one disagreements swiftly expand to engulf other team members, the team leader or senior management, your team has a serious problem that demands prompt attention.
- **Self-imposed isolation.** Some team members may choose isolation in order to remove themselves from conflict situations, causing communication disconnects, work bottlenecks and turf wars.
- **Breakdowns in communication and personal relationships.** When there is little or no quality communication between team members, work processes are interrupted and people tend to look out for their own interests only, as opposed to their team's.
- **Use of intimidation.** Instead of refusing to engage one another, some team members may try to force coworkers to give into their demands by using arguments, veiled threats or other forms of intimidation. These tactics will often result in what looks like agreement, but which ultimately can lead to manipulation or withdrawal of support.
- **Formation of cliques.** Some team members may form alliances with other, strategically positioned coworkers, in order to out-maneuver or overpower opponents, or to isolate them from the rest of the team.

Treating Team Conflicts

While it is certainly true that teams can expect to, at some point, encounter issues that are potential sources of conflict, the things you do to promptly control the situation can make the difference in how the conflict is ultimately resolved, and how much productivity is sacrificed in the process. Consider these methods for treating team conflict:

1. Develop and model guidelines. Set the tone for preventing and resolving conflicts by laying down ground rules for your team members to follow. Some of those ground rules may include the following:

- **No personal attacks.**
- **No heated outbursts.**
- **No backbiting.**
- **Never assume hostile intent.**

Once you and your team have formulated guidelines, model them for the rest of the team, to show that you take the guidelines seriously.

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The author: Robert W. Barner, vice president of Organizational Development and Learning for Choice Hotels International, is a veteran international consultant and author of *Crossing the Minefield* and *Executive Resource Management.*

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Recognize Problems Within Your Team

(continued from page 2)

2. Identify areas of possible conflict. Map out locations of "organizational quicksand" — issues and areas within your team's objectives and projects where problems are most likely to occur. Once you've identified those areas, invite your team to discuss ways of addressing them.

3. Act immediately to control conflict. When conflicts arise, make an effort to contain them before they spread beyond your control by: reminding team members about the guidelines they developed; meeting with team members involved in conflicts to make sure they're trying to address the issue; and cautioning team members against inflammatory e-mail or voice mail.

4. Recognize agreement as it occurs. Each time your team reaches agreement on a point, summarize it verbally; it's easy for team members in the heat of discussion to forget points on which they've already agreed upon.

5. Perform periodic check-ins. When facilitating a conflict, stop periodically to determine how the team members think the resolution is progressing, and whether they feel their views are being heard. ■

Managing the Virtual Team

While we still tend to think of teams as groups of people occupying the same time and space, factors indigenous to modern business are increasingly causing teams to be constituted at least partially by virtual members — those who communicate via computer, fax, phone and other means, rather than being physically present with the team. Unfortunately, not all work professionals make an easy transition to the unique demands of virtual teams.

Signs of Trouble

If you're leading or participating in a virtual team, the following symptoms may indicate that your work group is experiencing transition trouble:

● **Communication problems.** Virtual teams that have not yet developed solid communication methods often find their decision-making process spotty, sometimes to the point in which they feel the need to go outside the group to get information on the group's internal activities. When this happens, your team is definitely moving toward a chaotic state.

● **Ineffective coordination of internal and external activities.** If effective check-and-control mechanisms are not built into a team's planning process, it is easy for virtual team members to unknowingly duplicate one another's actions, allow tasks to fall through the cracks, or grind to a halt because they don't know how far they can stray from the group's plans without problems occurring.

● **Lack of core identity.** Virtual teams that are also cross-functional sometimes have difficulty defining who constitutes the actual team. In these situations, multiple management layers typically feed into the team's decision-making process, leaving members confused about who reports what to whom. This renders them unable to establish the types of solidarity-building boundaries that build and maintain a team's identity.

Overcoming Challenges of Virtual Teams

When you see in your team effort the symptoms listed above, act quickly to address them by adapting your communication and planning process to the unique challenges encountered by virtual teams. Some suggestions include:

1. Ask your team members to provide input on the following communication issues:

- What communication avenues (for example, phone, videoconferences or face-to-face meetings) would work best for them?
- When can they make themselves available for regularly scheduled e-mail or phone discussions?
- What are the potential obstacles and challenges ahead in working together as a virtual team?

2. Develop ground rules for individual accountability. Work with your team members to generate a list of useful ground rules for keeping project activities on track when members are widely dispersed. Some of these rules may include the following:

- No team member should change milestone dates without first consulting the team leader.
- Determine which team members will keep executive stakeholders updated on team activities.
- Don't tolerate after-hour or weekend "hit and run" e-mails informing you that a portion of the project will not be completed as scheduled.

3. Develop a core team identity. Designate a core team that remains committed to the team throughout its life cycle, with support members (technical and knowledge experts) flowing through as required. ■

Use All Electronic Tools Available

Many team leaders are unfamiliar with electronic tools that can help them manage virtual teams. For example, many e-mail systems feature an electronic prompt that automatically notifies team members of important dates, such as the date of an executive debriefing. Another tool: an electronic whiteboard that displays written information at both ends of a videoconference.

Resolving Conflicts Between Members and Leaders

Even if team members have friendly personal relationships with the team leader, the team may still be headed for a conflict. The reason is that the member-leader relationship is not just based on personal issues, but also on issues such as:

- **how to balance member autonomy with leader control, and**
- **how to balance the need for fast decision making with the desire to achieve team consensus.**

In addition to these pressures, other factors can cause a deterioration in the relationship between a team leader and the members of the team.

Inappropriate leadership style is one such factor. Different leadership styles are suited to different work environments and cultures. For example, a leader who comes from a more formal frame of reference will likely have a difficult time handling employees who are used to a more laid-back management style.

A leaders who comes from a more formal frame of reference will likely have a difficult time handling employees who are used to a more laid-back management style.

Limited accessibility can be another problem. Team members and leaders sometimes have difficulty developing strong relationships because they are separated by geography, work shifts or schedules.

Relationships can also deteriorate because of a *lack of internal alignment.* Team members are not always aligned with their leaders regarding the value or feasibility of business objectives, the relative priorities that should be placed on competing projects, or the performance expectations used for member evaluations.

Signs of Conflict

Here are some signs that a team is headed for a conflict between its members and the leader:

- **The team leader practices micromanagement.**
- **The team leader communicates poorly with the team,** offering insufficient direction or vague instructions (this would be the opposite of the first symptom).
- **The team stress level rises,** which eventually leads to signs of burnout (for example, a low energy level).
- **Team members mistrust the leader,** greeting every suggestion or explanation with skepticism and suspicion.
- **The team acquires an "us versus you" mentality,** as team members no longer consider the leader as part of the team.

Preventing a Deteriorating Relationship

Here are some of the steps you, as a leader, can take to ensure an effective and productive relationship between you and your team members:

1. Recognize the needs of team members — and your needs. As circumstances change, team participants should continually redefine the support and assistance they offer each other. For example, if experienced members join the team or the team takes on a difficult project, the leader must be present and active. On the other

(continued on page 5)

Establishing Leader Expectations

One of the underlying causes of member-leader conflict is that members lack a clear understanding of the leader's performance expectations.

The following are seven performance areas in which a team often has difficulty discerning those expectations:

Work methods. Do your team members understand the work methods and procedures you expect them to follow when completing their jobs or projects?

Time frames. Do you communicate the due dates for completion of projects? How do you determine when dates have slipped, or which completion dates are final and non-negotiable?

Work responsibilities. Does each team member understand his or her role when he or she is assigned to a given job or responsibility?

Customer/supplier interface. Do your team members understand your expectations when dealing with supplier problems or customer complaints or requests? Do they understand how far they should go to build effective relationships with other work groups?

Work priorities. Do your team members understand which jobs take priority, and when those priorities change?

Performance expectations. Do your team members understand what you expect in the way of desired outcomes, what it means to do a good job, and the degree of effort expected to be put into a job?

Resources. Do your team members understand what resources (facilities, support staff, equipment, etc.) have been allocated to perform a job? Do they know how much control they have over resource decisions?

Resolving Conflicts Between Members and Leaders

(continued from page 4)

hand, if work procedures are familiar to the team or the team has built support networks in the organization, the leader can loosen his or her control.

2. Resolve personal conflicts. Act quickly, so that personal conflicts between individual team members do not draw in other neutral members.

3. Identify communication hot spots. For example, do team members believe that you act fairly when assigning choice tasks, allocating work and distributing resources? Find out.

4. Obtain feedback on your leadership style. Leaders are sometimes unwittingly creating problems. Feedback from team members can be an important wake-up call. ■

PART II: STRENGTHENING TEAM FOCUS

Developing Better Foresight

It's not uncommon for teams to run into occasional unanticipated challenges. However, if your team is repeatedly ambushed by unforeseen events, you may need to develop stronger skills in the areas of foresight and planning, and in recognizing significant changes as threats or opportunities.

Teams can be categorized by their ability to anticipate change. *Entrenched* teams live in denial, either ignoring major changes or convincing themselves the change is a temporary aberration. *Reactive* teams are slow to respond to change and usually take action only after the situation is obvious. *Proactive* teams try to get out ahead of change and consider the possible implications of events that are just starting to take place. Finally, *preemptive* teams have long-term vision, scanning the horizon to track trends and changes that affect both their own operations as well as the overall performance of their companies.

Which Type Are You?

Is your team a reactive team, or worse, an entrenched team? Here are some indications that you may have a problem in this area:

- Your team has a difficult time approaching problems or opportunities.
- Your team tends to focus on past situations, rather than the future.
- Your team members are unable to assess the impact of change on your team.

Why Teams Become Entrenched

- **They fail to establish or utilize a sensing array.** Some teams are heavily networked within their industries and thus wind up anticipating key trends in their fields. Others are detached from their industry and lose sight of the bigger picture.
- **They have victim mentalities.** Some teams talk as if they are passive victims of forces beyond their control. Their "woe-is-us" approach eventually renders them less prepared to anticipate change.
- **They resist new information.** Some teams hesitate to share new information that contradicts old information and might be contrary to the team's set objectives.
- **Their planning is static.** Lack of foresight may also be found in teams that formulate thorough plans by considering only a very narrow set of contingencies. Your team must understand that a plan is a living document, which should be continually reexamined in light of changing business conditions.

Improving Foresight

Team members and leaders can improve their team's ability to foresee and handle problems, and to take full advantage of opportunities, by implementing several strategies:

1. Create an early warning system. Help your team prepare for large-scale changes and possible associated problems by tracking emerging trends as well as business and organizational developments that could affect your team's performance.

2. Expose your team to other points of view. Create situations that force team members to question their assumptions about the future. Encourage them to attend meetings at other departments, or invite outside consultants in to troubleshoot team practices and processes.

3. Implement a thorough troubleshooting process. Identify the preventive and corrective actions your team should take to plan for the future, allowing you to shape the outcome or affect the likelihood of an event and manage changes once they are underway. ■

Finding a Sense of Direction

In today's volatile work environment, teams often must juggle hefty loads of projects and accountabilities and deal with internal and external changes — all within the context of a fast-paced organization that is rapidly changing its markets, services and structures.

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Finding a Sense of Direction

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These undeniably difficult tasks are ameliorated somewhat when the team has targeted long-term goals and clear priorities. On the other hand, when a team tries to function without a sense of long-term direction, the future can appear murky and uncertain.

Symptoms of a Broken Compass

Here are some symptoms that can indicate your team is navigating with a broken compass:

● **Big-picture blur.** If your team members are unable to visualize a scenario for success, they don't understand how their separate day-to-day activities feed into larger team objectives. They cannot respond to questions or address issues that lie outside their immediate field of vision, thereby discouraging team accountability in favor of more compact, personal projects or activities.

● **Excessive dependence on the team leader.** Team members who lack a sense of direction are forced to stop frequently and wait for marching orders, rather than taking the initiative on a task.

If team members feel they are working at cross-purposes, they may push personal objectives at the cost of the team's success.

● **High anxiety.** Because the team's future appears unpredictable and chaotic, members may experience a high degree of stress, anxiety and helplessness in the face of a bewildering future.

● **Conflicting priorities**. If team members feel they are working at cross-purposes, they may push personal objectives at the cost of the team's success, or hesitate to commit themselves to their projects because they don't see how those projects fit into the bigger picture. Because they are torn between these decisions, they tend to achieve very few of their goals.

Establishing a Sense of Direction

To help your team establish a clear direction, consider the following action steps:

● **Create a blueprint.** Get away from your daily routine. Take other members of your team off-site to exchange views on your team's core mission, its long-term vision, and your strategies for attaining success. From that dialogue, construct a four-part blueprint for guiding long term efforts consisting of a team mission statement, a mission document, team objectives, and written criteria for sorting team priorities. Once these elements are in place, your team can audit itself to determine whether projects and activities are aligned with the long-term strategy.

● **Audit performance criteria.** By what criteria does your team track its performance? As a standard rule of thumb, 80 percent of your team's efforts should be focused on no more than three criteria.

● **Create a scenario forecast.** This tool (see box above) encourages your team to think outside the box by trying to anticipate a variety of large-scale changes that could affect your organization and team. It also provides a valuable tool for building alignment among managers on future opportunities and threats, and helps team members better understand how their different assumptions about the future form the basis for team-stopping disagreements. ■

How to Create A Scenario Forecast

1. **Identify influencing factors.** With your team, brainstorm a list of external factors that are likely to shape your company's business environment.
2. **Rate influencing factors.** Rate each factor on a scale of 1 to 10 (with 10 being the highest) in terms of degree of impact (how intensely changes may affect performance) and scope of change (the amount of change the factor is likely to undergo in the next 10 years).
3. **Identify key influencing factors.** Multiply each factor's rating for degree of impact with that for scope of change, and select the two factors with the highest overall scores – these are your key influencing factors.
4. **Create alternative scenarios.** Describe two other possible scenarios for each factor – one optimistic and one pessimistic.
5. **Combine scenarios.** Integrate your scenarios in a combined matrix, creating titles that best describe the combined scenario represented in each cell of the matrix.
6. **Describe each combined scenario.** Create a short summary describing details of each combined scenario.
7. **Assess probability.** Use all available information to assess the relative probability for the occurrence of each combined scenario.
8. **Assess the implications.** Ask team members to jointly identify the implications of the combined scenarios for your business strategy.

PART III: DEALING WITH THE CHALLENGES OF CHANGE

Keep Your Team From Getting Brittle

Teams can react to change with flexibility (brought about by leaders who successfully manage change that they know they cannot control) or they can be brittle, lacking the resilience and tenacity to cope effectively with change. Certainly, within every team the inability to adapt to change reveals itself in many different ways.

Signs of Inflexibility

If your team has experienced the following, it probably lacks flexibility in dealing with change:

- **Anxiety about an unknown future.** While stress is a common factor for all teams, brittle teams exhibit an excessive amount of stress due to their anxiety over an uncertain and possibly threatening future. This anxiety becomes their prevailing, habitual response to any new and demanding situation.

- **Cognitive denial and self-imposed isolation.** Some brittle teams respond to change with a blanket denial, in spite of abundant information that a change will take place. Once the change does occur, they respond to the resulting stress by trying to ignore the process and cutting themselves off from the organizational flow of information. They're like organizational ostriches, their heads buried in the sand.

- **Slow or poorly coordinated response to change.** Members of brittle teams do not take the time to analyze changes, determine the factors behind them, or learn to adapt as a result of them. They are slow to respond to change and, when they do, their responses are weak and ineffective.

- **Active resistance to change.** Members of a brittle team have a difficult time distinguishing between changes that are just beginning to surface (and which, consequently, are most controllable) and those that are under way. Inevitably, the team fails to note (or ignores) an emerging change event until it is bearing down on them, at which point they leap into action and try to resist it — a futile action if ever there was one.

Making Teams More Adaptable

How do you remedy a brittle team? Here are some suggestions.

1. Conduct frequent fire drills. You can't prepare for every eventuality. However, you can help your team develop preventive and corrective actions for events that are highly probable and represent threats or opportunities.

2. Avoid creating unnecessary stress. If you're a type A person, make an effort to reduce your aggressiveness. Otherwise you may appear highly stressed and out of control — and the team, taking its cue from you, will begin to doubt its ability to handle change and adversity.

3. Learn from others who have been there. Most events have been experienced by other organizations. Use their experience whenever possible.

4. Overcome resistance to change. Some of the ways you can reduce resistance is by: building ownership and support; lowering the risk level for change; doing your homework; and choosing the right time and place for your battles. ■

Stuck in a Rut? Learn to Foster Innovation

Chances are, your team has exhausted its problem-solving resources or is overly complacent when it exhibits any or all of the following behaviors:

- **Loss of confidence when addressing new challenges.**
- **Ignorance of cutting-edge technology and work methods.**
- **Redundant actions and humdrum solutions to problems.**
- **Missed opportunities for new business.**
- **Defections from the team.**

Making Your Team More Creative

You can combat these and other limiting behaviors by fostering a spirit of innovation on your team. Among the ways you can accomplish this are the following:

1. Set the stage for creative thinking. Sit down with the members of your team and describe a work function or project that requires their full creative efforts. Let them know you encourage and welcome their ideas by asking to hear more; by recording ideas for later review; by giving everyone the opportunity to contribute; and by holding back on your own input until everyone else has had a chance to speak.

2. Brainstorm, but in a structured manner. When we think of brainstorming, we tend to think of a mighty rush of ideas emanating from team members, with each idea considered equally for review. As an alternative, ask your team to present only a single idea at a time; after multiple ideas have been discussed, see if there's any way to combine or modify certain ideas to create new ideas.

3. Import a fresh pair of eyes. Bring in an outsider — someone who has not been influenced by the team's thinking process — to ask questions that nudge team

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Stuck in a Rut? Learn to Foster Innovation

(continued from page 8)

members beyond their problem-solving assumptions. Focus on a problem or challenge facing your team, in order to get everyone to see that circumstance in a new light.

4. Review best practices. As a team, take a look at the best work processes, methods and procedures of world-class organizations, in order to discover those that can be imported into your own company.

5. Ask for more than one solution. Encourage creative thinking by asking for multiple solutions at the start of your discussion; usually the first solution will be routine while subsequent ones will be unique. ■

PART IV: MENDING EXTERNAL RELATIONSHIPS

Improving Relations with Management and Customers

You cannot overestimate the importance of both senior management and customers as factors in a team's success. Senior managers supply essential coaching and guidance for projects, and often have an in-depth understanding of the inner workings of your organization, giving you a big-picture view and even, on occasion, running interference for your team. Customers, on the other hand, are practically your entire reason for existence in business, whether they are internal or external. At the end of the day, the only way you can honestly assess the true value your team brings to the table is by determining whether it is meeting the needs of your customers.

While it's simple to surmise why those relationships are so important, the question of how to improve them is anything but simple. By focusing on the unique needs of each group, certain treatments make themselves apparent.

Senior Management

It is imperative to secure firm senior sponsorship if your team is attempting to implement major projects that are complex, address sensitive work issues, or require resources from other corporate units. The following approaches may prove useful in building that support:

● **Identify senior-level stakeholders.** You need to quickly identify those senior-level managers who are directly responsible for and have the greatest stake in the work your team is doing. These stakeholders may be actively or passively supportive or resistant of your efforts; it is important to determine where they stand, and adjust your team's direction accordingly.

● **Determine potential sources of resistance.** Resistance can come in many forms, and might not always be readily apparent; some people are very forthright about their criticisms, while others are reluctant to do so, or feel their opinions are self-evident. Unless you are able to detect pockets of resistance, you could be facing a few nasty surprises when it's time for your team to implement its objectives.

● **Keep your sponsors informed.** Once you have sponsorship from senior-level management, keep them informed of the issues and challenges facing your team. To do this, you must meet regularly with them; share important correspondence; ensure adequate lead time to support difficult issues; encourage senior managers to troubleshoot with you; and manage your team's relationship with senior management with sensitivity and respect.

Customers

Weak relationships between teams and their customers (whether internal or external) tend to develop from problematic work processes and attitudes — from a failure to understand the effect of a process on customers to downright team arrogance (taking a "we know what's best for you" approach to the relationship). There are just as many approaches for improving customer relationships, including the following:

● **Create opportunities for customer feedback.** Invite customers to your team meetings, and ask customers for permission to attend theirs. Create social gatherings or focus groups that enable your team members to solicit honest customer feedback on performance issues and products, and to share suggestions for improving that performance.

● **Put yourself in the customer's shoes.** Encourage your team members to do what they must to achieve a customer's-eye view of your products and services. This could mean using your own products, employing mystery shoppers to evaluate your service, or creating mock test areas for customers to use your products.

● **Keep track of your customers' customers.** Your customers' needs are largely determined by the requirements of their own customers. Staying informed about changing needs or markets for these groups will enable you to anticipate new developments of your own customers' expectations.

● **Audit your customer service regularly.** Sometimes, complaints are not caused by performance issues within your team, but by a lack of skill in forming positive relationships with customers. Get your customers' feedback on a number of relationship-related issues, from accessibility and responsiveness to requests to listening skills and conflict resolution. ■

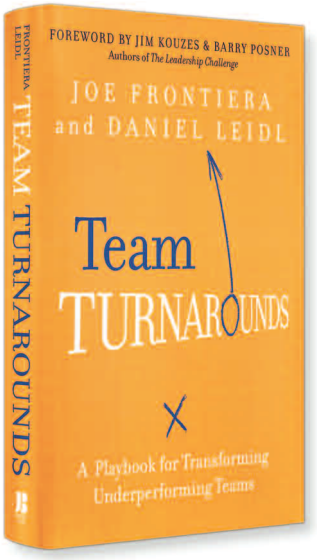
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Team Turnarounds

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Team Turnarounds

A Playbook for Transforming Underperforming Teams



by Joe Frontiera and Dan Leidl

THE SUMMARY IN BRIEF

In today's uncertain economic environment, teams are constantly asked to do more with less. Yet with resources stretched thin, turning around a struggling team has never been harder. Managers must work to identify and maximize whatever potential strengths a team already has. As sports fans already know, behind every great underdog story is a leader who roots out the competitive advantage that propels the team to victory.

In *Team Turnarounds*, Joe Frontiera and Dan Leidl share how this fine art of the turnaround really works, from how to inspire the team to the actual tools for change. Through interviews with team managers and turnaround masters in the NFL, MLB and the NCAA, as well as managers at the top global firms who have successfully reversed their fortunes, they show the six steps every team takes to make a 180 in performance.

Since every team's turnaround is unique, *Team Turnarounds* features the tools needed to start an organizational 180 — from leaders' action plans to thought-provoking group exercises — to help leaders and their teams create their own turnaround stories.

No matter how bad the circumstances, how awful the performance, or how far shares have plummeted, *Team Turnarounds* shows how any organization can make the climb back up to the top.

IN THIS SUMMARY, YOU WILL LEARN:

- A six-stage process for engineering a turnaround effort with your team.
- How to create a vision and establish guiding values for your organization.
- The methods to build resilience and embrace adversity as a valuable part of the turnaround process.
- How to create a culture of excellence that will help you continue to succeed after initial wins during the turnaround process.

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THE COMPLETE SUMMARY: **TEAM TURNAROUNDS**

by Joe Frontiera and Dan Leidl

The authors: Joe Frontiera and Dan Leidl co-manage Meno Consulting, a firm that focuses on culture turnarounds, team development and leadership development.

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Introduction

In 2009, the state of Michigan was in a downward spiral. Statewide, it was hemorrhaging jobs, and unemployment offices were receiving 800,000 to 1 million calls per day.

Governor Jennifer Granholm, then in her second term, recalled, "In our unemployment offices, people were in line down the street. [There were] people [who] had never collected unemployment before. The system was like a cancer patient that was breaking down everywhere."

Toward the end of her first year in office, Granholm had traveled to the 8,000-person town of Greenville, Mich., after learning that Electrolux, a refrigerator manufacturer that employed 2,700 people, had made plans to uproot its operations and move its plant to Mexico. In her typically confident way, she teamed up with the mayor, the local chamber of commerce, the company's union representatives and others to construct a comprehensive plan to get Electrolux to stay.

"We offered them zero taxes for 20 years. We offered to build them a new factory, $30 million in concessions annually and a $750 million package over 20 years. It was the most aggressive we had ever been — that Michigan had ever been."

After the presentation, the Electrolux executives left the room to confer. About 15 minutes later, they returned.

As Granholm recalled, one of the executives began, "This is really generous. We have never seen an offer like this. But," he continued, "there's nothing you can do to compensate for the fact that we can pay $1.57 an hour in Mexico, so we're moving."

With that, Electrolux was gone. Electrolux had manufactured its last refrigerator in Michigan and another Michigan community was left devastated.

Thousands of workers now needed to find a way to feed their families. Crushed as Granholm was, she also began to realize that the people of Michigan needed to change their mind-set — specifically, the ingrained belief that if they simply continued to do what they had always done, they would somehow turn things around and bring jobs back.

Turnarounds in the Modern Landscape

How can a governor change a culture, an ingrained belief system, in order to turn an entire state around? More broadly, how can any leader work to bring a team from the bottom to the top? This is the precise question we set out to answer as we embarked on our research project five years ago. Is it possible to transform a losing climate into one that fosters collaboration, innovation, and productivity, especially when leaders in all sectors are forced to do more with less?

We began our research in the world of professional sports. After our initial research was published in 2010, we expanded our questions to the world of business, talking to leaders at different levels. Some of our findings supported past research, but one amazing finding emerged. We discovered that, although the specifics of different turnarounds varied widely, and although they encompassed factors ranging from the size of the team to the scope of the challenge, there was remarkable consistency in the process that successful leaders in *all* sectors went through. We found six elements that were common to all the turnarounds we explored. These elements fit naturally into a six-stage model, one that we call the Team Turnaround Process. ●

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Stage I: Leading Past Losing

Organizations in stage I are at the bottom. For those who are guiding organizations at this early stage, the diagnosis is obvious. Your team is failing as you consistently and unequivocally lose games, customers, profits and credibility. And losing can become a comfortable norm that team members cling to, accepting poor performance because winning simply isn't seen as possible.

Although organizations in stage I are largely defined by all they do wrong, they are full of promise. As you guide your group through this early stage, there has to be a distinct and narrow focus on understanding the team's losing ways. Observation and reflection are the keys to moving forward, and you are charged with asking questions, discerning the truth, and accepting the answers. Working to understand why the team is losing is the goal, and exploration and examination are critical.

Stage I is an investigation into why your organization is performing poorly. It's a time for neither judgment nor decisive action, but it's critical that a foundation for growth be laid. Throughout this stage, you are building a clear case for why changes need to occur and for what those changes should be. You should be prepared to gather evidence regarding where your organization is missing the mark, and regarding what a winning organization does differently. You also need to identify just how team members can be shifted into roles that best suit their skills.

Face Reality

Once you understand what's wrong, it's time to let the team in on the secret — to go beyond platitudes and face reality, no matter how disconcerting it may be. This process can be hard, and confronting the issues will make a lot of people uncomfortable, but it's necessary.

When Frank Esposito was named president of Kendon Industries, he walked into an organization that was mired in rationalizations and denial. Kendon is a small company with around 25 employees in Anaheim, Calif. Kendon is in the business of manufacturing and selling motorcycle lifts and trailers, and, at one point, these products were among the best in their field. Kendon was once an industry darling, but the company fell from grace while chasing the promise of quick growth and million-dollar profits. When the company committed to the strategy that it could build its trailers for 20 percent less, sell 50 percent more of them, and lower the price, the problems began. The culture at Kendon shifted from one of considerate, creative artisans to one of "make a lot of money, take costs out, be cheap, and get rich."

Kendon had been spiraling downward, but eventually the company had the presence of mind to face facts and reach out for help.

In January 2009, when Esposito came in to right the ship, he started strengthening the organization's weak sense of reality by taking a more objective approach.

"I'm a validator," he says, "I don't just grab my own opinion and run with it. I go validate things pretty thoroughly."

He started by interviewing team members, asking them about the direction of the company, where it was going, what needed fixing and what needed to be changed. For the first time in a long while, Kendon had someone who was going to rely on facts and seek proof. No longer would the group be vulnerable to easy rationalizations and convenient denials.

"The very common answer," Esposito says, "was that they wanted to be proud of the product, and they wanted to take their time and build the best. They were instructed not to do that."

It's taken a few years, but things are changing. Relationships with the top two distributors in the motorcycle industry have been restored, a performance-based pay system has been instituted, manufacturing is now housed solely in the United States, and the brand has returned to its original position, focusing on quality and value. As for the employees, "they believe in the company," Esposito says.

Kendon is on a new path. With the help of Esposito, the company is working to open up communication channels, to value honest and objective feedback, and to maintain its commitment to being a niche company that makes darn good trailers and lifts.

Define Roles and Responsibilities

Role clarity is vital for success in any organization, but teams in stage I lack it. Without clear roles and responsibilities, team members lose focus and motivation, and are left to wallow in mediocrity. Individuals who are insecure about what they should do and how they should do it are often reluctant to do anything. As role ambiguity increases, job satisfaction and influence decrease, anxiety grows, and performance and confidence decline.

Clearly defined roles give employees a level of stability, and promote more focused and productive efforts. In guiding teams through stage I, it is imperative that leaders identify necessary responsibilities and define clear roles for team members. Nevertheless, as with all the other components of this initial stage of turning a poor-

ly performing team around, leaders must first gather information.

The first stage is a cold shower of truth. It feels good only after it's over and, once it's done, the organization is revitalized and energized to move forward. With dysfunction out in the open, the real work can begin.

Stage II: Committing to Growth

In stage II, your team is poised to move forward. It's time for the team's focus to shift from what's wrong to what's possible. Team members are fed up with losing. They recognize that change is needed and are committed to growth. Your team has gone through the emotional exercise of confronting and acknowledging its inadequacies, but it now needs direction. It wants to progress and leave the losing ways behind, but it may not know where to go or how to get there. It needs something to believe in as it pushes out of the haze of failure, and it will look to you for guidance. The team at stage II needs a vision for where it's going, clear values to guide it, and a decisive plan of action that's chock-full of specific and attainable goals.

Launch the Vision

For a team to move from catastrophe to conquest, the group has to define a path forward. As teams rise up, they have to develop and embrace a vision for the future. What's possible? What are the hopes? What's next? What are the dreams? A vision is intended to provide direction, motivation and clarity. The vision focuses effort and inspires action by defining where the group is going. A vision is intended to capture possibility and may seem incredibly unrealistic to a team numbed by failure. Nevertheless, in spite of how ridiculous a vision may seem, it's the responsibility of the leader to articulate and sell it.

As far as visions go, few professionals in sports have proved better than Bill Polian at selling grandiose dreams under incredibly unrealistic conditions. Polian walked into the Indianapolis Colts at a time when it was one of the worst franchises in the NFL. He established a vision for winning the Super Bowl and then he got to work, leading one of the most dramatic transformations in professional football.

In stage II of the turnaround process, leaders need to inspire and guide. Polian's vision for the Colts was clear, and his efforts didn't waver. He was convinced that the franchise could win a Super Bowl (a feat they achieved in 2005), and he communicated that conviction explicitly with words and actions. As Polian defined this path at stage II, his vision gave the Colts a focus that eventually spun them around, guiding them from failure to unprecedented levels of success.

Adopt Guiding Values

In addition to articulating a clear and inspiring vision, leaders guiding teams through stage II need to answer questions about how advancements will be made. At this stage of the process, guiding values provide needed structure for how the group will work to move forward. People are stirred by values, and they want to invest in organizations that share their ideals. As the leader, your determining team values and making them explicit motivates those around you. You have to make it clear that the group stands for something, whether it's customer service, effort, innovation or something else entirely. When you do that, the shared commitment will motivate specific actions by providing a framework for what's important, what's expected, and what's needed to see that the larger vision is achieved.

Establish a Plan and Set Goals

If your vision and values are a bridge taking you to a new frontier, your larger plan and smaller goals are the bridge's girders and rivets. Goals hold the plan together, providing team members with guiding objectives and clear, measurable milestones. As with every other aspect

Four Keys to Clear Communication

The manner in which a vision is communicated can make or break a team's eventual success. Here are some recommendations that can assist leaders in their efforts to clearly communicate and inspire others with a vision:

1. Be concrete. Concrete statements that team members can digest and unequivocally understand are more apt to incite forward movement and eventual progress.

2. Ask for input. When opinions and ideas are solicited, followers are likely to feel that they have a voice and own a small part of the eventual vision.

3. Communicate consistently. Consistent and repeated action is necessary for a vision to take hold, and how a leader links his or her actions to the vision can effectively move things along.

4. Communicate effectively. As a leader strives to turn an organization around, the language and the crafting of a vision may actually influence others to see that leader as both more effective and charismatic.

of stage II, teams are looking for direction and carving a clear path forward. The vision provides the team with a direction, and values determine the manner in which the team will advance, but a plan with goals serves as the road map that guides the team to its destination, one stop at a time.

Some argue that making a strategic plan has become passe. Others say that strategic planning is a useless exercise that a team rarely follows through on. Yet few would make the argument that plans do not help to focus the direction of a team. Larger plans can keep people motivated when smaller goals aren't achieved. They also enhance the likelihood that goals will eventually be attained. Through plans and corresponding goals, teams and organizations are able to visualize a path forward while maintaining the focus needed to advance to the finish line.

In stage II, you will draw a blueprint for your team's future success.

Stage III: Changing Behaviors

Stage III is a time when you will define, model and reinforce the behaviors that are right for your organization's growth. Because every organization is different, it is critical that you focus on the behaviors that are appropriate for your team. Stage III is a stage of action and it represents a distinct shift from planning to doing.

In stage III, change is afoot, but as the team sets out in this newly defined direction, the old ways must be left behind. Ani Shabazian took over the Loyola Marymount University Children's Center (LMUCC) when it was in profound disarray. The center had degraded to the point where child safety was in question and turning it around was a formidable task. Shabazian was dedicated to teaching her team the behaviors needed for success. It was a tough sell, but Shabazian believed that with time and persistence, the group could provide world-class child care services to the Loyola Marymount University community.

In 2006, the behaviors of the staff at LMUCC were woefully suspect. During those days, concerns were warranted. Enrollment was down, the relationship between the facility director and parents was caustic, and programs were canceled. It wasn't that the teachers and administrators were intentionally neglectful or abusive — make no mistake, it was a caring and affectionate team — but it was as if they didn't wholly understand the toll of their mistakes, as if they didn't know better.

When Shabazian arrived, the situation was a mess, and she admits to feeling overwhelmed, but she had committed to changing the center and refused to back down. She initially relied on education. She set out to ensure that all the teachers at the center actually had the necessary education to perform their jobs.

Education comes in many different forms, and multiple efforts to communicate information are more likely to stick than one singular effort. With this in mind, Shabazian was committed to educating her staff in multiple ways. Although she insisted on a minimum education level, she also worked to personally convey information to her staff members in order to ensure that they would avoid falling back into poor habits.

The center slowly progressed from being an organization in crisis to delivering a reliable service to eventually becoming highly respected in the industry. When she arrived at the center, Shabazian held the seemingly farfetched goal of the center's becoming accredited. By 2010, LMUCC had joined an elite 8 percent of child care centers nationwide by receiving full accreditation.

For LMUCC and Shabazian, growth is the theme and progress is a continual effort. The turnaround has been dramatic, but in the early phases the focus on behavior change was critical. Through formal and informal education, the reassurance of organizational leaders and Shabazian's persistent encouragement of positive change, early goals were achieved. Throughout stage III, Shabazian and LMUCC were simply focused on adopting the right behaviors.

Stage III is characterized by the small and consistent behaviors that will add up to bigger successes.

Stage IV: Embracing Adversity

By now you're nearly halfway through a long and, most likely, arduous effort, but the big wins are starting to come. Stage IV represents a swing in attention away from daily behaviors and on to the obstacles that lie in front of you.

Leaders and organizations that perceive obstacles and change as an opportunity continue to advance by becoming stronger. In contrast, organizations that see similar situations as threats become overly focused on preservation. Oddly, these distinctions are simply perceptual. They represent thoughts that can actually be controlled and, at this stage of the turnaround process, organizations are capable of perceiving the more positive option.

Build Resilience

Challenges are opportunities for those skilled in identifying and capitalizing on them. When properly taken

advantage of, these moments can grow an organization and make it stronger. In addition to looking at challenges with an open and eager mind, those who are resilient to the debilitating potential of upheaval and impediments are likely to advance. Seeing challenges as opportunities is an important component of stage IV, but equally important to effectively turning your team around is the ability to take difficulties in stride and bounce back from things that are damaging. Resilience is essential. Fortunately, it can be developed and enhanced.

Bill Stoneman, former general manager (GM) of the Los Angeles Angels of Anaheim, is a poster boy for these qualities and drew on his resilient attitude to turn his team around.

In the 10 years leading up to Stoneman's arrival, the Angels had compiled a 738-817 win-loss record, winning only 47.5 percent of their games over the course of a decade. In 2002 and the four subsequent years, the squad finished with a 452-358 record — a 55.8 winning percentage. In that somewhat magical turnaround year of 2002, the Angels won the World Series. Stoneman clearly had turned the franchise around, but what's noteworthy is how he did it, and the attitude he did it with.

Optimism and positivity are key ingredients of resilience. Positive thinking allows an individual to perceive a situation as a challenge rather than a problem. When Stoneman first stepped into his role as GM, he walked into a culture that focused on problems and accepted mediocrity. "They accepted that they were a midmarket club," he says, "and you heard that a lot. The bar was set low." More than anything, for Stoneman, the acceptance of mediocrity represented a loss of hope, a pervasive negativity that didn't make sense.

Resilience is an emotional construct, tightly tied to happiness and confidence, and Stoneman looked for ways to support his players. He took care of distractions and concerns so they could focus solely on baseball. He changed the clubhouse atmosphere, brightening up the lighting and making it a place of focus. What had once felt like a dimly lit lounge became "a place where you can prepare to do something on the field, not a place where you go to relax."

The 2002 season wasn't simply a one-year blip on the organization's radar. From 2003 to 2011, the Angels were one of the most successful teams in the American League (AL), finishing first in the AL West while advancing to the playoffs five times. The Angels serve as a picture of resilience. They were a group of underrated but determined players who never backed down from a challenge, never gave in, and always believed they could achieve in spite of the obstacles.

For the Los Angeles Angels of Anaheim, the seeds of resilience may have been sown early in the turnaround process, but the Angels seemed to embrace the concept later in their development. Stoneman may have led the way with a naturally resilient disposition but, by 2002, the team had started to wholly buy in. Stoneman did not let the poor track record of the franchise deter him from taking chances on unproved but promising young guns, turning the team around, and ultimately taking the Angels to a World Series win. And the players, given the right leadership, were able to become passionate about playing baseball to the best of their abilities even though they needed to overcome a decade of losses. The Angels had a sad history, and a host of reasons to lose hope and back down, but, ultimately, they developed an unshakable belief in themselves and that proved to be all that mattered.

The resilience and willingness to take on adversity that come with stage IV will prepare your team for the even larger challenges presented in stage V. ●

Stage V: Achieving Success

In stage V, you will finally achieve success as an organization. You and your team have overcome obstacles, and achieved the goals and vision you set for yourselves and, finally, all your efforts will pay off as you become an up-and-coming industry leader, a conference or national champion, a recognized trailblazer, a great competitor.

The prospect of success stirs us. From Woody Allen's nonchalant perspective that "80 percent of success is showing up" to Winston Churchill's more slogging sentiment that "Success consists of going from failure to failure without loss of enthusiasm," we find inspiration in the hope that we can succeed. But what is success? How do we know we've succeeded, and how do we keep success going?

For many, success is framed as a fleeting moment — the lifting of a national championship trophy, the securing of a multimillion-dollar deal, the "I do" of marriage, the final push of labor and the first cry of the baby. We think of life, our efforts, our aspirations, as something like a movie, as if we work toward the one big goal, give everything we have to a single crowning achievement and, when it's complete, the credits roll. We become so fixated on the effort to achieve that we sometimes lose sight of what we're doing and how it relates to the bigger picture. We sometimes forget that there aren't any credits, and that there's no stop to the action after we hold up the trophy. Life keeps rolling even after our big wins.

Adapt

We continually redefine success, making it a personal set of ideals to constantly strive toward. Email marketing software firm iContact teaches us the value of adapting to renewed standards and expectations. As a small start-up that was succeeding in growth and profits, iContact could have continued on a prosperous path, but the company redefined what success should be and then adapted to the challenge. It changed itself and became a leader in sustainable business practices.

As you succeed and refine your understanding of what success means, you must also adapt. The game keeps changing, and your ability to adjust to new rules and goals will define your capacity to achieve, moving forward. Change is essential, and if you don't push yourself to adapt, you're likely to stop achieving. Adapting to the situation, changing in an effort to stay on top, may, in fact, be one of the most important tools in your arsenal, and few stories are as intriguing as the story of iContact.

Around 2007, in an effort to keep his organization alive and growing in a shifting landscape, iContact CEO Ryan Allis was crafting a broader plan for the burgeoning tech firm. Allis saw a play, one that was not only sensible and reflective of the changing times, but also something he was truly passionate about. Allis's business partner, the co-founder of iContact, had been fighting cancer during this period. Ultimately he survived, but he and Allis had been spending time discussing the importance of making an impact, staying true to yourself, and making the most of life. And so, in an effort to adapt to what business could and perhaps should be, Allis dedicated iContact to a more sustainable path. He began to consider the organization as a vehicle for positive impact, as a means of doing good for the community and the environment while also making money.

Becoming a B Corporation

One concept that has emerged in an effort to offer structure to companies like iContact, companies that are working to have a broader positive impact through business, is the Benefit Corporation, or B Corporation. These organizations are more tightly monitored than most other corporations, welcoming stricter standards and guidelines in an effort to more proactively contribute to sustainable business practices.

In early 2010, the first time iContact applied for the certification, the company didn't hit the mark. After iContact's first failure, corporate responsibility manager Matt Kopac and the company pored over feedback and critically assessed where iContact's efforts could be made better for the next try.

In June of 2012, only three months after that initial failure, iContact was awarded certification as a B Corporation. iContact was now one of a small number of North Carolina businesses to have attained such certification, and it was the only such company in the email marketing industry.

Companies and teams, who are focused on forward movement think and act in these terms. They are constantly filtering information to identify strategic advantages, are willing to experiment with adaptive concepts and ideas, and are capable of managing a variety of systems while pushing decisions and actions throughout the organization. An adaptive culture facilitates quick movement, creativity, and fluid decision making that will likely support larger trends while benefiting the advancement and progress of the organization.

iContact continues to grow in profits and outreach. This growth is certainly a function of hard work, but the company's success in turning its sustainability efforts around was largely determined by a willingness to adapt. iContact adapted to a larger, changing world, and the organization is changing itself as it strives to be the best it can be. iContact was already a company on the rise, a genuine success story, but the company knew it could do better. By adapting its focus and dedicating itself to a more sustainable path, iContact continues to evolve as it reaches for unimagined heights. ●

The Must-Have Abilities for a Changing Environment

According to Martin Reeves and Mike Deimler, senior partners and managing directors at the Boston Consulting Group, "Globalization, new technologies and greater transparency have combined to upend the business environment and give many CEOs a deep sense of unease."

They go on to outline four "abilities" considered necessary to adapt to a new or changing environment:

1. Identifying and reacting to pertinent information.
2. Experimenting.
3. Managing complex systems.
4. Thinking adaptively across organizational levels.

Stage VI: Nurturing a Culture of Excellence

Once you've reached stage VI, you're an indisputable winner. The turnaround is complete. It's not to say that you won't go through some hard times. No matter how good you become, you and your team will occasionally face setbacks. But stage VI is about bracing for those times by developing a winning culture that is both lasting and enduring.

Those who achieve over and over, the genuine winners, never stop learning and innovating. Organizations that stay at the top are always growing, always pushing, always striving to be just a little better, just a little more accomplished or proficient.

Jerry Weast is a decorated and revered superintendent who has garnered the attention of business and academic leaders alike. He served as Montgomery County Public School (MCPS) superintendent for 12 years and retired from his post in June 2011.

MCPS is one of the 20 largest school districts in the United States, serving more than 144,000 students, employing more than 22,000 professionals, and, as of 2011, managing a $2.1 billion operating budget. In addition to being the largest school system in Maryland, the Montgomery County school system is also the state's most diverse. A suburb of Washington, D.C., Montgomery County is home to a broad swath of cultural and socioeconomic types. The student population speaks nearly 200 languages, and 13 percent receive English for Speakers of Other Languages services.

When Weast first took over as superintendent in 1999, by all public accounts MCPS was successful. According to standardized tests, grades, college admissions, and other metrics, the students of Montgomery County were succeeding. In his efforts to better understand the statistics, Weast uncovered a reality that gave him reason for concern.

A Tale of Two Districts

As Weast explains, "We [essentially] had two districts, both of them large districts, both of them around 70,000 in size. One of them held almost 80 percent African American and Latino [students]. And the other one had 80 percent white and Asian [students]." Although the district was relying on around 20 percent of its students' achievements to satisfy state and national expectations and mandates, the high-performing Asian and white populations was diminishing in size, yielding to the ballooning populations of African American and Latino families. Something had to be done to instill equity in the community, not just to ensure that the county could continue to report positive statistics, but also to properly serve the growing population of underserved children who deserved a strong preparatory education.

He framed the problem as a countywide crisis that couldn't be denied by any single racial or socioeconomic group. Weast argued that everyone shared the issue because if the school system didn't improve, the county would be seen as less attractive for businesses and homebuyers, and the existing value of property owned by current residents would degrade. It was a clear financial issue that relied on the "we're only as strong as our weakest link" argument. It was not hard to buy in. Administrators, teachers, parents and students came on board in a short amount of time and committed to the vision of overcoming the existing challenge. Weast says, "I wanted 80 percent of kids college-ready by 2014."

MCPS's academic achievements continue to improve, despite increases in poverty, population and students who don't speak English. Weast is proud that the education gap has narrowed. Student achievements across the board have advanced, with low achievers advancing at a rate that's catching up to the ever-improving high achievers. For Weast and the MCPS team, even though the turnaround has been completed, the effort never stops. Through constant striving to learn and a near obsession with innovation, the system keeps advancing.

The Playbook for Nurturing a Culture of Excellence

Stage VI brings with it a host of challenges that will force you to question how you can continue to improve. Commit your organization to excellence and long-term success. Don't take your achievements up to this point for granted. Keep doing what you've done to get here. Continue to learn, dedicate yourself to innovation, and take time both to understand and further define a culture that will drive success for years to come. There are going to be dips in the road. Things are not always going to run smoothly. But if you establish a culture for sustained success, your organization will continue to excel. ●

RECOMMENDED READING LIST

If you liked *Team Turnarounds*, you'll also like:

1. ***Great Business Teams* by Howard Guttman.** Discover how a powerful new high-performance horizontal model has changed the way leaders lead, team members function, challenges are met, and decisions are made.
2. ***Stop Workplace Drama* by Marlene Chism.** Chism shows how to change the way you and your organization confront and work through problems.
3. ***Reviving Work Ethic* by Eric Chester.** Chester presents an incisive look at the root of the entitlement mentality that afflicts many in the emerging workforce and how to cultivate this group's true talents.

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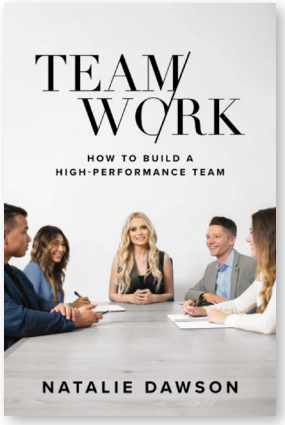
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by **Natalie Dawson**

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THE SUMMARY IN BRIEF

The business world is full of statistics – statistics about failing, statistics about succeeding, and so on. Yes, the reality is that most startup businesses fail (to the tune of 20% in the first year and a half within five years), but the real story about a business is often hidden in another statistic – the number of people it employs. Natalie Dawson introduces this concept in the introduction of her book ***TeamWork: How to Build a High Performance Team***, saying that out of the 31.5 million small to mid-sized businesses in the United States, 25 million have one employee listed – their founder. The next 5.3 million businesses in the group have two to 15 employees, and only 600,000 businesses have more than 15 employees.

The statistics help lay the foundation that it is hard to build a business solely through the people – and while growing and scaling sound easy in theory – they are not and require going to bat against the odds. That is what Natalie's book provides readers; the whole system required to create a people process in a business, including the resources and the structure required for cultural, operational, and financial scale.

IN THIS SUMMARY, YOU WILL LEARN:

- How to lead a team and develop people to form a winning combination.
- How to use a process being followed by a successful business.
- What it takes to grow and scale a team for success.
- The true value of teamwork and what it means to your business.

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Introduction

You can become an expert in leading teams and developing people; all it takes is the right teacher to help you develop your own skills. The tools presented in this book have been put into action and work in the real world – they are not just a set of theoretical ideas that may or may not work when implemented; these actually work in business. Everything presented in this book provides business owners with the tools they need to implement to get a better result – no fluff, just the right stuff.

Employee Engagement Cycle

Think of your team as an engagement cycle – employee alignment, employee development, and employee transition. If you look at the existing employee pool, and they are all in alignment, they are either new hires (within 90 days) or newly promoted (within 90 days). The goal is to see 20% fall in the alignment category. 60% of your team should be in the development phase, focused on being top performers in their roles, working on themselves, working on their goals, and adding to their ability to contribute.

You can get your team unstuck from their current phases, and it requires a reengineering process for your people. You should be consistently cycling your people through the engagement cycle, and when you don't, you get people problems, which are your fault. During the process, the things to keep in mind are that every piece is important and to keep the big picture in mind.

Mission Statement

The mission statement of your business is the very reason it exists. When asked, any employee should know exactly what the mission statement for the business is. This statement shouldn't just be a statement but a heartbeat about why you and your team show up every day to do the work you do. When you have a focused business statement, you can reduce the amount of friction that makes a business hard. It is important to remember:

Your mission statement is for your TEAM, and your brand statement is for your CLIENTS. The idea is to have a mission statement that creates confidence in the people you will need on your team by giving them the realistic expectations you have for their alignment within your business.

Vision Statement

Your vision statement should be used to help convey where you are going as a business to your team members. What often gets forgotten in the interview process is how that interviewee can help get the business where it needs to go, but instead focuses on the skills of that person in the present. The vision is forgotten.

Your need for a vision statement should help drive your future growth. There should be three versions – one for your team, one for your brand, and one for your revenue. You cannot have the same goals for all three areas, or you would not be able to facilitate any type of growth; they would be dependent on one another.

Core Values

Your business' core values define your culture. Before falling into a never-ending headspace full of questions about who you are and what you want - consider this:

Your core values should be a tool that helps you filter out who fits and who doesn't. There should be a distinct method – can you hire from it? Can you reward from it? Can you fire from it?

Your core values should reflect your vision and your mission, but also realize that no value lives on its own. As an example, Cardone Ventures has six core values – Inspirational, Disciplined, Accountable, Transparent, Aligned, and Results-Oriented. Each of these core values supports the previous value, which is intentional.

Where to Use Your Mission, Vision, and Values

Once you create your mission statement, vision statement, and core values – put them on everything. (Literally) By doing so, you make it perfectly clear what your organization is about and what you are looking for. Some popular places to put these statements include job posts, interviews, performance review conversations, your website, employee handbook, etc.

Job Post

According to Peter Economy's 11 Interesting Hiring Statistics You Should Know, there are five considerations

that employees consider important when looking at your job posting – salary and compensation, career growth opportunities, work-life balance, location and commute, and company culture and values. If you do not include this information in your job posting, you may miss out on the candidates you are trying to reach the most.

Interview Process

The process you use for interviewing could be as much a blessing as a detriment. If you are continually hiring the wrong fit for your business, then chances are that the interview tactics you are using are also wrong. You need to use a different approach – one that works most often is as follows:

The Cultural Interview Process: Do they have the behavioral attributes necessary to be culturally aligned? It is good to determine early on if the candidate will be a good cultural match for your goals.

The Operational Interview: Does the candidate have the technical skill set and experience to have a high level of effectiveness?

The Core Values Interview: This process determines if the candidate is on the same page with company goals – this should help you quickly determine if they are aligned with your business.

Onboarding

Set your new team member up for success by doing the following:

- Create a pre-arrival checklist so that you know you are prepared for them
- Finalize agreements
- Establish chain of command
- Send a welcome email
- Prepare their workstation (if applicable)
- Update job description
- Inform the team
- Prepare the onboarding plan

Once everything has been done and divided into stages for the new hire to learn the company's flow, set up a final onboarding meeting (approximately 30 minutes) to recap the process and to gain feedback from the employee.

Daily All-Team Meetings

It is hard to get this perfect at first, but starting the day the same way with the same meeting starts the day off on a structured foot. To begin an effective pattern of daily all-team meetings, begin by welcoming your employees to the meeting. Next, discuss the wins from the day before and the priorities for the day. When each area of the business shares something they are learning, it helps show that goals are being met and achieved. Finally, close out the meeting by reinforcing your core values. These values should be at the forefront of your teams' minds each day.

PPF Goals

Satisfying personal, professional, and financial (PPF) goals can be done by setting realistic goals for yourself. Personal, professional, and financial goals can change your life – whether you are 20 years old or 75 years old.

A great framework to implement a PPF conversation in your business is by using SMART:

- **S**pecific – What are you going to accomplish?
- **M**easurable – How can you track this progress?
- **A**ttainable – Are you able to accomplish this goal?
- **R**elevant – Why is this important to you?
- **T**imely – When will you accomplish this?

It is important to remember that you can't rush the PPF conversation, and you should allow the employee to take their time pondering these – they may not have thought about this before.

One On Ones

One on one meetings should be taken seriously within your company and conducted with the vision statement in mind. There should be a template for the meeting that is used across all departments and conducted no matter how many employees are on the roster. The one on one is a way to ensure that all areas of communication within the business infrastructure are open and operating efficiently.

Quarterly Team Meetings

Every business should be conducting a quarterly meeting consisting of a presentation deck that flows from cultural to

operational to financial (in that order). At the end of each meeting there should be a time for questions and answers – allowing the team members to address the questions that they have or any ideas that they want to address that have not come up in one on ones.

Employee Maturity Model

Every position in your business should be viewed as a potential career path and not just another job. An Employee Maturity Model takes the guesswork out of the equation for the employee (and you), because it lets the employee know what they can expect if they strive for greater things in their current position. The goal of this model is to provide clear boundaries and outlines for every position including the managerial roles, pay, etc.

Performance Reviews

Performance reviews should be a combination of employee review and employer review. The employee should have a time where they need to answer questions regarding their performance and then come together with the manager conducting the review to determine if everyone is on the same page. From most of these types of meetings, there should be some determinations made. Is the employee on the right path? Are they fulfilling their position? These are questions that may be brought up if there is a promotion or raise in question and may determine if the employee gets it.

Performance Improvement

If you are looking for improvement from an employee, you have to tell them. You cannot expect that they are going to see this on their own. The best form of helping get an employee back on the right track in terms of goals is by creating a performance plan – and following up on it. How are we going to change the situation? What can be done together to move forward to achieve goals?

Firing

No manager enjoys the firing process – but you should. The firing process helps to instill culture in the business, establishes stories, removes noise, and removes friction. The correct process or firing an employee is laid out in this chapter, yes, there is a right way and a wrong way to fire an employee. The goal is client success – you have to make sure you capitalize every opportunity without giving them too much room to stray from the stated mission and values.

Conclusion

Now is the time to begin implementing everything you have learned in these chapters. From creating the values and missions to interviewing and onboarding. Just remember that no matter how late in your business structure or how early – you can create the structure needed to be successful in your venture. Using this book as a strategy will help you increase the strength in your people and further your business goals.



Natalie Dawson is an expert in developing people and building scalable teams. She has interviewed, hired, trained, and led thousands of employees over the course of her career, most recently as Executive Vice President and Partner of Cardone Ventures, a management consulting, joint ventures, and private equity firm that helps business owners achieve their personal, professional, and financial goals through the growth of their businesses. Her specialty lies in aligning employees with business objectives—for measurable returns on investment.

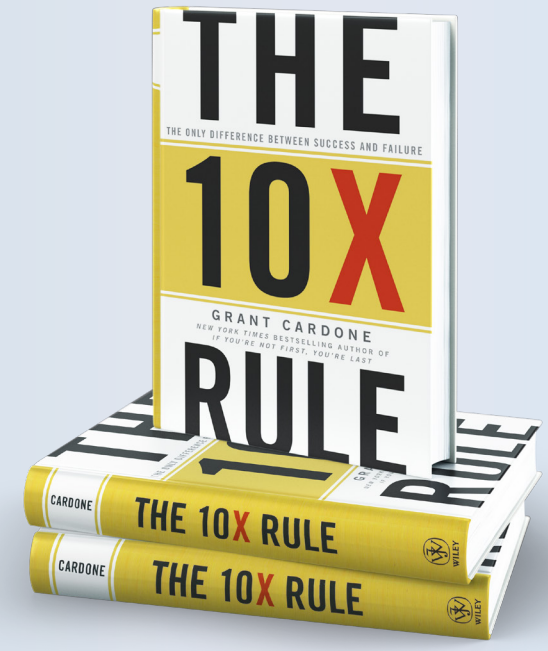
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The 10X Rule

Grant Cardone

BOOK SNAPS™
Zooming In On Your Next Read



The 10X Rule

By Grant Cardone

Grant Cardone is a New York Times bestselling author and an internationally renowned speaker on leadership, real estate investing, entrepreneurship, and finance. His 5 privately held companies have annual revenues exceeding $100 million. Cardone is a savvy private multifamily investor and holds a portfolio of over 3,800 apartment units throughout the U.S. with transactions valued at over $500 million. As CEO of the #1 Sales Training Platform in the World, Cardone consults with Fortune 500 companies and customers such as Google, Northwestern Mutual, Morgan Stanley, and more. He's a Top 5 Social Media Expert and one of the Top 10 Most Influential CEOs today.

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Achieve "Massive Action" Results

There is a reason why some people achieve at super high levels and others never quite get where they want to go. The difference between success and failure does not lie in an individual's personality, education level, or luck. With the right discipline, anyone can get everything they ever wanted and more. Employing the 10X Rule is the way to do it. High achievers know how to employ exactly the right amount of action and engagement needed at exactly the right time to get what they are after. Anyone who desires success but falls short is failing to think or act in the right way or quantity.

Grant Cardone has spent his life studying success and he asserts that the 10X Rule is the most crucial ingredient to creating the career and life you desire. His book, ***The 10X Rule: The Only Difference Between Success and Failure***, should be used "as though your life and dreams depend on it." Cardone shows you how to set the right goals, figure out how much effort will be needed to achieve them, how to put yourself in the best frame of mind for success, and how to take action in the most effective way. When these powerful components combine, you will be living by the 10X Rule, operating at higher levels than you ever imagined.

What is the 10X Rule?

When people set goals, they often place limits on themselves before taking the first step. Living by the 10X Rule requires you to set your aspirations higher. The main focus of the 10X Rule is to "set targets that are 10 times what you think you want and then do 10 times what you think it will take to accomplish those targets." This is the 10 X Rule and it is an extraordinary way of thinking and doing. It requires "massive thoughts" followed by "massive action."

Attitude, as they say, is everything. There is no exception to that when it comes to the 10X Rule. Your "massive thoughts" begin with the way you perceive your place in the world and what attitude you bring to the table of your life. In order to achieve the results you desire, you have to have a "take-no-prisoners" attitude and an "in-it-to-win-it-whatever-it-takes" mindset. Cardone acknowledges that this may sound "aggressive" but he asserts that is a necessary component to living by the 10X Rule.

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Taking Massive Action

People ask Cardone over and over again, "Exactly how much action is necessary to create success?" Cardone believes that most people are looking for the shortcut or easy way out. The truth is there are no shortcuts. You have a much better chance at success if you take more action, not less. "Disciplined, consistent, and persistent actions are more of a determining factor in the creation of success than any other combination of things." A solid business plan, amazing idea, or timely product launch will fail in the absence of the right amount and kind of action. To succeed, you need the right degree of action. Cardone breaks action down into "four simple categories or degrees of action." When deciding what to do, you have four choices:

1. Do nothing.
2. Retreat.
3. Take normal levels of action.
4. Take massive action.

We all "utilize all four degrees of action at some time in our lives, especially in response to different areas of life." For example, you may take massive actions with a particular project in your professional life but then do nothing when it comes to personal fitness. You may take normal levels of action in regard to your relationship with your children but then retreat in activities related to your spiritual growth. Every person is faced with the decision of how much action to apply to any particular pursuit, professionally and personally. Cardone says that you will excel in the areas where you "invest the most attention and take the most action." Doing nothing or retreating "are the basis for failure." Normal levels of action are required to create or maintain the status quo. Higher levels of success require massive action.

"Doing nothing" is a state in which you are no longer moving yourself "forward in order to learn, achieve, or control some area." You may be stuck in a state of doing nothing if you feel bored, lethargic, complacent, or lacking in purpose. Despite the way it sounds, "doing nothing" actually requires significant energy and effort. Instead of taking action towards a goal, you have to exert energy explaining yourself and making excuses. You may find that you are always insisting that everything is fine, when it is obvious to everyone around you that you "are not living up to your full potential."

The second degree of action is "retreat." When you are in this state of action-taking, you are moving in reverse. You are the embodiment of the "fear-of-success phenomenon." To get here, you may have tried to accomplish a goal, but ended up unhappy with the results. Rather than risk putting forth more effort to get less-than-desirable results, you decided to pull back. Patterns stemming back into childhood can make us get stuck in this state. As kids we are told to avoid things and stop certain behaviors in the name of safety. After years of being conditioned to "hold back" from things we are "curious about" it is a great challenge to "rebound" and "try new things later in life."

If there is any area of your life where you have failed and then determined that you will never try that again or that there is "nothing you can do," you are in a state of "retreat." Examples include never marrying because most marriages fail or never investing in something again because you experienced a loss. You are paralyzed in fear and unable to make forward progress when you are operating in "retreat" mode.

The most common degree of action in society is the "normal" level. This level of action provides just enough to maintain an average level of success. Cardone says that this level of action "creates the middle class and is actually the most dangerous because it is considered acceptable." If you have a normal life with a typical salary and average savings, a decent but not exceptionally healthy and exciting marriage, chances are you are taking "normal" levels of action. The problem, asserts Cordone, is that normal action only works under normal circumstances. If market conditions rapidly change, normal no longer works. In atypical situations, normal actions put you at risk for losses or worse. If a personal crisis happens, normal levels of action will not get you through it. Taking "only normal levels of action makes you more susceptible to challenges that are certain to come your way." The level of action that once worked for your life can "result in a serious degree of stress, uncertainty, or hurt" when circumstances are out of the ordinary.

The fourth degree of action is "the most natural state of action there is for all of us." Cardone says that we only have to look at the universe around us to see that "massive action" is the way life itself continues. The way children go full force in everything they do, the activity below the surface of the earth or in the ocean, or the buzzing life inside beehives and ant mounds—they are all perfect examples of massive action getting exceptional results. The problem is that you get off track from the natural state of things. Falling short, failing, becoming distracted, or having to deal with unexpected life events can all collude against you and throw you out of this state of "massive action."

Cardone shares that he spent a long period of his life from the age of 10 to 25 on the wrong track heading in the wrong direction. He had a turning point and from that moment on he put forth "constant, persistent, and immense" action towards his targeted goals. He refused to slip into retreat, no action, or normal action. And it paid off, in major ways, personally and professionally. Cardone sees success as a "duty, obligation,and responsibility." You have to treat this as if your "life and future depend upon it." Taking massive action is the "ace in the hole" that gets you there. He says you will know when you are at this level of action-taking when "people comment upon and admire your level of activity."

Interestingly, when you begin taking massive action, you will create problems for yourself. You may be thinking that anything that invites problems is undesirable. Not so, says Cardone. He says that "until you create problems, you're not truly operating at the fourth stage of action." In this state you will have to make "somewhat unreasonable choices and then follow them up with even more action." People will label you as "borderline insane" or a "workaholic" or "greedy." Cardone says that soon you will

> The harsh reality is that you will only achieve small things if you only set small goals."

understand that the only people placing such labels on you for your massive action are those that are operating at lower degrees. You will never find someone at your own level of success or higher who views your massive action as wrong. Those people know what it takes to reach the level of success you will achieve and will admire your action, not fault you for it. Operating outside of the "agreed-upon social norm" is exactly what you want and need in order to achieve the level of success you seek.

10X Goal Setting

Cardone believes that "one of the major reasons why people don't stick to their goals and fail to accomplish them is because they fail to set them high enough from the beginning." The harsh reality is that you will only achieve small things if you only set small goals. Unfortunately, most goal-setting books and seminars and the like teach you to "set realistic goals." Cardone says that is uninspired thinking and can only lead to mediocre results at best. If you want to achieve big things, you have to set big goals. If you want to get extraordinary results, you have to aim super high. Further, if you want to stay excited about what you are doing, you have to set exciting goals! If all you are going to get is an "at best average pay off," why would you work hard? In order to keep you motivated to keep moving, your goals have to be grand enough to "keep your attention."

Goal setting is linked to action-taking. If you are taking action as if your life and future depend on it, your goals need to be set often and they need to be huge. Cardone's method has two steps. (1) Write down your goals every single day and (2) set objectives that are "just out of reach." This method of aiming high ensures that you will open yourself up to your full potential and that you will take massive action towards that massive goal. Cardone recommends phrasing your goals as if you have already accomplished them, even if you have a long way to go to get there. The bottom line is that "average goal setting cannot and will not fuel massive 10X actions." You will meet resistance and challenges along the way. In order to have the energy needed to push through those obstacles, you need a "big reason to get there."

Setting a "big, juicy" goal is only the first step, however. In order to be successful, your goals have to be tied to something with a clear purpose. Cardone uses savings in a bank account as an example. You could set a big goal to "save $100 million in a bank account." That is definitely a big, juicy goal! However, if you do not tie that savings to a greater purpose, you may end up squandering it all away. Cardone points to the countless stories of people who got rich but died penniless as an example. Instead of simply having a certain amount of money in the bank, your goal could be focused to include using "that money to help my church and fund programs to improve conditions for mankind." Now your goal is combined with a greater purpose and will, therefore, have greater strength and influence over you.

Grant Cardone was not born into privilege. In fact, things were rough for him from a young age and he made some bad decisions that made things even rougher. He made a decision to change his life. He targeted his goals with laser focus and used every moment he had to get closer and closer to achieving them. And he succeeded, hugely. He is internationally recognized as an authority in sales training, appears regularly on major media outlets, has authored multiple best-selling books, and has financial wealth that landed him on a show with Joan Rivers called, "How Did You Get So Rich? His story and experience are a living testament to the idea of "go big or go home." If anyone can guide you on how to achieve your wildest dreams, it is Grant Cardone.

In The 10X Rule, Cardone shares his secret strategy with the world so that you, too, can attack life with massive action and get huge results. Far too often, people put forth what they think is a reasonable amount of effort and fail to get the results they were after. That's the problem! Cardone stresses that "normal" is not enough. To get results, you have to aim 10 times higher and put in 10 times the effort than you thought. If you are looking for a sugar-coated supportive type of motivational book, The 10X Rule is not for you. Cardone's message is delivered with the same ferocity he gives to all of his pursuits. If you want to achieve great things, you have to get up, go out, and get them.

Anyone looking to raise the bar on their personal and professional life will find the right way to think, act, and succeed in The 10X Rule.

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The 20 Percent Doctrine

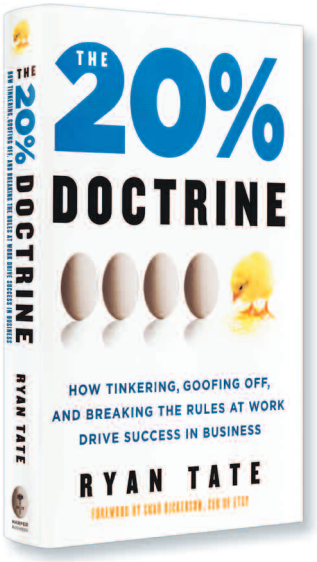
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Management

The 20% Doctrine

How Tinkering, Goofing Off, and Breaking the Rules at Work Drive Success in Business



by Ryan Tate

THE SUMMARY IN BRIEF

In this bold business title, journalist Ryan Tate offers new insight for CEOs and employees alike, revealing how innovation is being fueled by passionate workers and the companies that give them the time to explore what they care about most. At companies like Google, employees are encouraged to spend 20 percent of their work time on projects they're personally interested in, producing over the years incredibly successful new products such as Gmail and AdSense. Now other companies have adopted the concept, providing a path to innovation and profits at a time of peril and uncertainty, and offering employees creative freedom at a time when many are feeling restless.

The 20% Doctrine shines a light on the thought-leaders who are shaking up the corporate landscape, visionaries whose advice and experiences can deliver salvation for corporate America. With its emphasis on risk taking and experimentation, *The 20% Doctrine* is an ambitious new road map for shareholders, CEOs, and every worker who is critical to his or her company's success.

IN THIS SUMMARY, YOU WILL LEARN:

- How to provide creative freedom to develop successful new projects.
- How to complete projects with limited time and resources.
- How reuse of old systems can launch innovative products.
- Why fast iteration of innovations is key to success.
- How to connect with people's passions to drive innovation.
- A new process to recruit people to your 20 percent project.

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THE COMPLETE SUMMARY: **THE 20% DOCTRINE**

by Ryan Tate

The author: Ryan Tate is a technology gossip blogger for Gawker.com and a veteran business journalist whose posts are read 2.5 million times by 700,000 people per month.

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For additional information on the author, go to www.summary.com.

Introduction

It's time for a change, and everyone knows it. The crises that have undermined the priesthood of American business are empowering what was once the underclass: the rebellious, the young and the marginalized.

Businesses have begun to do things differently and you can take advantage of that change. It first requires an understanding of Google's "20 percent time" policy.

So what is 20 percent time? It was invented at Google and works like this: Employees at the Internet company are allowed, and sometimes encouraged, to devote one-fifth of their time to projects they dreamed up themselves. It could be a day each week, four days each month, or two-and-a-half months each year. There are no hard-and-fast rules; the Googlers and ex-Googlers I've spoken to all made it clear that 20 percent time is, above all else, an *idea*, a practice that exists more as a widespread understanding than as a written policy.

3M was known for its "15 percent time" policy before Google even incorporated. The policy was instituted after a 3M engineer defied an order from the company president to stop trying to create a superior "Scotch" masking tape. In 1925, the engineer finished Scotch Masking Tape, which would become one of the company's most iconic products.

Google's adaptation of 3M's 15 percent time is helping it flower throughout Silicon Valley and well beyond. More and more organizations are experimenting with ways to empower individual workers to experiment, hoping to benefit from their innovative ideas in the process.

So-called Hack Days, where corporate programmers are encouraged to create a software prototype of their choosing within 24 hours, began as an attempt to spark 20 percent-style projects on the cheap. They have become wildly popular over the past five years, spreading to Google, Facebook, Twitter, eBay and other Silicon Valley powerhouses.

In another twist on the original 20 percent concept, some companies invite outsiders to participate in internal side projects, for example, by accepting open-source software patches from independent programmers, by inviting passionate citizens to become "citizen journalists" and by soliciting outside engineers to participate in company coding marathons.

After surveying an array of companies acting in the spirit of 20 percent time, I decided to home in on some of the more recent and successful among them, with an eye toward assembling a collecting from a diverse cross section of industries. Among them, I noticed a set of common tenets, which I'll refer to as the 20 Percent Doctrine:

Provide creative freedom. At their most basic level, systems like 20 percent time are about liberating people from the management structures that dictate their tasks the other 80 percent of the time. They provide mechanisms by which employees can develop ideas normally deemed outside the scope of their job or which are otherwise stifled.

Connect with people's passions. The things people are enthusiastic about and the things they work on every day sometimes diverge, to put it mildly. Twenty percent-style projects are a way to let employees work on projects they find emotionally resonant. Customers tend to notice when a product is built with passion by someone who cares.

Worse is better. People developing products in the margins — in the margins of their work week, in the periphery of their company — must cut some corners if

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Jeannette Scott**, Contributing Editor

they are ever going to finish anything. Time is tight. Money usually is, too. And, in the meantime, there are lots of skeptical co-workers and mangers to convince. It's imperative to get something out the door. You can always improve upon it later.

Embrace reuse. Almost by definition, 20 percent projects are not about big-bang innovation. The best side projects tend to start as hacks, leveraging some existing product or technology in a cleaver new way.

Iterate quickly. Just as important as releasing something quickly is improving it quickly. Time and again, successful 20 percent-style projects have used iteration to snowball their way to success within the host company. Releasing a stream of improvements creates a positive feedback loop: Each improvement generates discussion, draws attention and encourages supporters.

Communicate lessons as you learn them. The unspoken agenda of every 20 percent-style project is to become a full-blown company initiative. The creators of successful side projects are, thus, always selling. They are selling to their bosses, from whom they'd like resources; they are selling to other employees, from whom they'd like help; and they are selling to their existing helpers, whom they'd like to keep around.

Embrace outsiders. Side projects tend to be especially allergic to insular thinking and especially receptive to outside ideas. Selling and realizing a disruptive vision is not an easy thing to do, especially when the people you're selling to are the ones you're trying to disrupt. Outsiders can help. Help can come in the form of actual work, advice, publicity or public affirmation. ●

Scratching Your Own Itch

At 3 a.m. one day in Mountain View, Calif., a software engineer named Paul Buchheit made a promise to his manager, Google Vice President Marissa Mayer, with whom he had been working late at company headquarters. He pledged not to press forward with his idea for "creepy and weird" text ads based on the contents of one's email inbox. "I remember leaving," Mayer later said, "and when I walked out the door I stopped for a minute, and I remember I leaned back and I said, 'So, Paul, we agreed we're not exploring the whole ad thing right now, right?' And he was like, 'Yup, right.'"

Buchheit broke his word almost immediately. Over the next few hours, he hacked together a prototype of "the ad thing," a system that would read your email and automatically find a related ad to display next to it. The advertising system would fund Gmail, an advanced new email system he had invented. When, the next morning, his co-workers saw what he had created, they called it blasphemy. Mayer thought about ordering Buchheit, asleep at home, to drag himself out of bed and pull the plug on his creation.

Luckily, she didn't. Buchheit's asystem, called AdSense, makes Google around $10 billion in revenue each year. You've probably seen AdSense's trademark blue-and-white ads in page margins all over the Web.

From Rogue Project to Public Demand

Through his long struggle to launch AdSense and its companion product, Gmail, which boasts hundreds of millions of users, Buchheit transformed Google from a company narrowly focused on search to one with a bigger vision of itself, a company expanding quickly into new markets by following the passions of its employees. The mild-mannered engineer proved to Google high command the value of letting programmers push the company into new markets, a practice codified internally as "20 percent time" and now widely emulated.

Gmail and AdSense addressed issues that, first and foremost, bothered Buchheit. Slowly but surely, they grew to address the needs of Buchheit's immediate co-workers. Then Buchheit set a goal of making 100 Googlers happy with his creations. Only later were they released to the public. By putting himself at the center of his development process, Buchheit created products beloved by millions of users to say nothing of Google's shareholders.

Build for Yourself

If you're trying to launch your own side project, the takeaway from Gmail and AdSense is that before you can sell the project to your boss, you first need to make something you yourself would buy into. Scratching your own itch provides the motivation to work on something above and beyond your regular duties.

It took just six months to launch AdSense to the public. The ad platform debuted in June 2003 as a standalone product and advertising widget that any publisher — from a lone blogger to a giant media company — could attach to any Web page. It generates around $10 billion per year, making it Google's second-biggest source of revenue after AdWords. AdSense's original reason for being, Gmail, launched on April 1, 2004, after a total of two-and-a-half years of development. Gmail became the fastest-growing Web mail service and now claims upwards of 200 million users. All because one determined engineer wanted to solve a problem he was having around the office.

Another thing Buchheit did was to manage horizon-

tally rather than just up the chain of command. In other words, he effectively reached out to his peers for ideas, feedback and support, and he recruited some of them to his cause.

On the one hand, sell your vision and the awesomeness of whatever you're working on. On the other hand, don't hide the fact that you need some help. Your best potential allies won't be scared off by that; they'll be excited. ●

20 Percent on the Cheap

Today, there's no doubt Flickr is a brilliant product; the world's first big photo website, it is home to more than 6 billion pictures and made a reported $30 million for its creators. But Flickr was almost shot down before it could take off. "The vote was actually tied," said Caterina Fake, remembering the referendum she and partner Stewart Butterfield called to determine whether their broke start-up should build what became Flickr. "There were six of us voting, but Stewart and I guilted Eric Costello into voting with us, so we got him to switch sides. … There was one guy who didn't like the Flickr idea and had voted against it, so he went to work on another [company] similar to classmates.com."

The divisive Flickr vote is just one illustration of how much more contentious it can be to launch a 20 percent-style project at a start-up: Resources are constrained; there is no capital, staff or time to spare; and there is no margin for wrong turns. By consuming precious attention, Flickr represented both hope and potentially lethal challenge to the Canadian video game company where it was born.

But tight resources ended up being precisely what made Flickr successful. An almost desperate hunger to win and win quickly, to accumulate users and revenue, motivated the Flickr team to listen closely to their user. A lack of money and a lack of other advantages opened them to the ad hoc and unconventional. The masterful way they turned desperation into a new beginning has since been given a name, "pivoting," and it has been widely embraced among Silicon Valley start-ups, including by the people who built Twitter.

Flickr was born as a last resort. "We were out of money," Fake told me.

She had begun her start-up a year and a half prior, with husband Stewart Butterfield and their programmer friend Jason Classon. Fake and Butterfield's honeymoon had just ended, and a sense of revelry suffused their new venture, which they dubbed "Ludicorp," after ludus, the Latin word for "play."

Ludicorp's sole product, a social Web adventure called Game Neverending, was inspired by the Internet games Fake and Butterfield had played as research for a kids' website Butterfield built for the Canadian Broadcasting Corporation.

Game Neverending was a tough sell; people weren't yet used to Web games or to nonlinear adventures. But venture capitalists were even more confused by Game Neverending than were consumers. Most games were sold on CDs or cartridges; Game Neverending was Web based. Most games involved straightforward missions and goals; Game Neverending was nonlinear and exploratory. Fundraising was as grueling as it was fruitless.

But there was an idea floating around the office of how the company might be saved. From their boredom, an idea emerged: Why not spin out the instant-messaging technology already baked into Game Neverending and do something novel with it? Instant-messaging programs were, at the time, all about text. There seemed to be a need for a program that transplanted Game Neverending's immersively graphical way of socializing into the real world. This idea, which ultimately evolved into Flickr, was the basis for Ludicorp's fateful referendum.

The Pivot

What Flickr was considering with its referendum was a "pivot" — a complete reorientation of a company around a new product or idea. The concept of the pivot has gained currency in Silicon Valley in recent years as tech advances continue to push down the cost of retooling. It's unlikely you'll be able to get your company to pivot, especially if (unlike Ludicorp) it's got more than a handful of employees. But the idea is still valuable. You should be willing to pivot your own side project when the conditions are right; if you're getting nowhere with your old idea and seem to have stumbled across one that's better. A side project pivot is especially well advised if you've attracted a significant number of team members and if they're enthusiastic about the change. As Fake and Butterfield showed, there are few better ways to get behind the creative freedom of your team than to put your future direction in their hands.

Reuse

Just as Buchheit had done with Gmail and AdSense, the Flickr team was adapting old work in a new and innovative way. This ethic of reuse is common among 20 percent-style projects. That's why the 20 Percent Doctrine says to build a prototype quickly ("worse is better") and to iterated new versions fast. Existing work contributes

directly to the former by giving you a head start and to the latter because it's easier to work on and improve something you're already deeply familiar with. ●

The Rise of Hack Day

In early 2005, a start-up called JotSpot found itself with a serous case of Google envy. The maker of corporated wiki software badly wanted to emulate 20 percent time — to empower employees to follow their passions, to make the workplace more intrinsically rewarding and to figure out radical new ways of helping its customers. But JotSpot was just seven months old, small and perpetually shorthanded. All its efforts fizzled. "In a start-up, it's very hard to introduce 20 percent time," former JotSpot VP and current Googler Kevin Norton told me. "You're always under the gun, and everybody's doing a little bit of everything, so 20 percent time ends up being 0 percent time, even with the best of intentions." JotSpot tried a bunch of different things; none of them worked. It seemed like every time the company allocated time for experimentation, something urgent would come up at the last minute.

JotSpot's Google envy persisted unabated until CEO Joe Kraus spotted an intriguing blog post out of Sydney, Australia. Like Kraus, Mike Cannon-Brookes ran a small software company, Atlassian. And like Kraus, he was fascinated by 20 percent time. "It's very intriguing," he wrote, but "letting your engineers run around wild one day a week is very scary indeed to any manager." So the Aussie entrepreneur came up with a compromise with his staff over lunch one day: His engineers could run wild *once* rather than one day per week, creating a prototype in eight hours and demonstrating it to the rest of the company. It would be a pressure cooker version of 20 percent time. Referencing the concept of one-day delivery, Cannon-Brookes called his event "FedEx Day — a mini, experimental, heavily bastardized version of Google's 20 percent playtime." He was thrilled with the results, he said, which included a task list maker, a flowchart generator, and tools for updating and debugging Atlassian's software suite.

Krause was sold, and less than two weeks after Cannon-Brookes's blog post, JotSpot staged its own version of the event, rechristened as a "hackathon."

Hack days are like 20 percent time on crack. They are cheaper, higher-pressure venues for employees to work on their own ideas.

For your own side project, Hack Days, as we'll see, provide a great environment for getting an initial design off the ground and for collecting feedback and inspiration. They give you a hard deadline and a shot of adrenaline when you need a burst of creativity. They can also help you get perspective and support from people outside your company. ●

A Side Project School Rises in the Bronx

There wasn't much structure in Joan Sullivan's household. With 10 children in her semirural New Jersey family, things could get chaotic. Sullivan's eccentric father actively encouraged this; the Jesuit priest turned Gestalt psychologist turned high-stakes poker player didn't believe in stetting rules. There was no bedtime. He didn't believe in traditional schools, either, reasoning that they stifled creativity. He encouraged the kids to attend anarchic "free school" and romp around on the homestead farm the family tended near Princeton. "He was constantly trying to remove me from school," Sullivan told me.

Sullivan's father didn't succeed in making her allergic to schools, but he did give her a free spirit, a sharp mind and an ability to meet intricate challenges in an anarchic environment. She would go on, starting at 29 years of age, to create one of New York's most successful high schools right in America's poorest congressional district.

Breaking Constraints of Bureaucracy

Sullivan's school, the Bronx Academy of Letters, stands as an example of how a large organization can graduate beyond conventional 20 percent time, creating a pipeline that allows gifted employees to turn their experimental ideas into stand-alone organizations within the larger institution. The New York City school system looks very different from Google, but under reform-minded schools chancellor Joel Klein it pursued a similar management philosophy. Klein facilitated the creation of many small schools with a diverse array of academic themes and clustered these schools in the city's poorest neighborhoods — not unlike Google's multitude of small fluid teams, its broad range of projects, 20 percent and otherwise.

Klein gave his small schools freedom to operate outside the tightly regimented rules that covered the city's older, larger schools. Much like 20 percent time projects at Google, they were driven by the visions of individuals; Klein gave principals like Sullivan wide latitude. They could hire and promote without as much regard for seniority. They could allocate their own budgets. And they could design their own curriculums. Like 20 percent project leaders at Google, his principals operated with minimal oversight. Klein held them account-

able with school report cards, based on relative improvements (or lack thereof) in student test scores during the time they attended the school. "We transformed the principal from an agent of the bureaucracy to the CEO of his or her school," was how Klein put it in one interview.

Of course, the stakes were higher in the New York public schools than at Google. Children's futures were on the line. So New York took a more developed approach to hatching innovation. Principals like Sullivan worked full-time, as did their teachers; for them the school was no 20 percent time project. But the staff enjoyed the same sort of devolved control that is the hallmark of 20 percent time and, as organizations, the schools were effectively side projects within the New York school system. Among its most successful was the school started by Sullivan.

Audacious Confidence

Urban Assembly, the nonprofit that set up the high school where Sullivan taught, was going to create another school. Sullivan spoke with Urban Assembly's CEO to see if she could get involved. Sure, he said. But the proposal was due in two weeks.

Sullivan hesitated. She was young, inexperienced in education and not even legal for the job of principal. It was audacious of her, with only two years as a teacher under her belt, to try to establish a brand-new academy. The idea of starting a school was, in her words, "crazy."

The school Sullivan applied to create was focused on reading and writing. She believed deeply that having the ability to communicate was a prerequisite to other academic accomplishments. Many of the city's other schools had narrowed the curriculum, discarding or reducing elements like, say, arts and athletics. Sullivan wanted to aim higher — to emphasize not just graduating students but graduating them into top colleges and exposing them to a broad curriculum. A school of letters was just broad enough to accommodate these lofty goals while being sufficiently focused for the Urban Assembly.

Daunting as it was for a teacher with barely two years in the system to attempt to launch a new school, or for a well-connected Ivy Leaguer and member of a distinguished literary dynasty to try to do so in one of New York's roughest neighborhoods, Sullivan pressed forward. This took extraordinary boldness, a boldness that has become the hallmark of Sullivan's career and, indeed, her life. The girl who defied her father's wishes to attend primary and secondary schools, and then Yale, became the woman establishing a school playing by its own, very different set of rules. For a 29-year-old, Sullivan had tremendously outsized ambitions.

This is the sort of confidence it takes to get noticed when you're working in the margins, when you're trying something different on a small scale — Sullivan started with just one grade — in and obscure corner of a larger institution. For people who believe in their idea enough to turn it into a passion project, Sullivan's confidence should be a template. What's the point of investing all your spare moments in something and then being meek about it? You need an obvious zeal for what you're doing and the ambition to seize big, daunting opportunities if you want to make your passion inspiring and contagious. ●

The Huffington Post Brings 20 Percent to the Masses

Until now, we've looked at employee side projects. In this chapter, we examine something different: a project that harnessed the spare time of people far beyond the host company, of thousands of volunteer contributors across the country. It was 20 percent time on a massive scale. Participants included students, teachers, actors, and computer technicians.

The project, Huffington Post's Off the Bus, was the first instance in which the idea of citizen journalism, in which amateurs report stories for free and bring the concerns of ordinary people into the news, was made to really work. By the end of the 2008 election, Off the Bus had changed media and politics forever.

Much of the credit goes to Amanda Michel, who commanded Off the Bus's daily operations. Her real-world experience organizing Internet volunteers for two presidential candidates helped her realize the vision of countless starry-eyed citizen journalism utopians who had come before. "Amanda's work on Off the Bus helped transform journalism in two big ways," said Clay Shirky, the New York University lecturer and Internet culture expert. "First, she showed that citizen journalism was not just possible, but practical, and, second, she showed that amateurs produce different kinds of value than the pros."

Adaptive Strategy

Michel's breakout success had a lot to do with the fact that she was a fish out of water at the Huffington Post, working in the cultural rift between journalism and politics. HuffPo's newsrooms in New York and Washington, D.C., operate in isolation from the publi-

cation's unpaid bloggers, creating stories through individual staff without coordination with outsiders. Off the Bus, in contrast, used a small handful of paid editors to orchestrate the efforts of thousands of amateur citizen journalists. Michel wanted to get as far away from the traditional newsroom model as possible. A long string of prior citizen journalism efforts had failed because they encouraged volunteers to become like unpaid full-timers, a fantasy Michel dubbed the Ideal Citizen Journalist, who can work all day, interview like a pro, turn in crystal-clear copy before deadline and do it all for free.

Michel thought it was smarter to adapt journalism to the lives of the volunteers than to ask the volunteers to remake their lives for journalism. That was how it worked in politics, where volunteer coordination was the norm rather than the exception. Michel's vision was to break down the production of news articles into distinct phases that could accept small contributions from an array of people.

Create an Experience

The transformative spirit of the project was reflected in its odd title, Off the Bus. It was at once a nod to and a rebuke of the tight-knit culture of political journalists described in the book *The Boys on the Bus*, a behind-the-scenes look at pack journalism in the 1972 election. Unlike the boys on the bus, who rode around the country with campaign entourages, Off the Bus's correspondents would remain in their hometowns, where no carpetbagging political reporter could match their knowledge of local issues. "We wanted them to do what journalists weren't positioned to do, or were too lazy to do, or structurally couldn't do, to take advantage of opportunities not afforded to journalist," Michel said.

This emphasis on fresh voices made recruiting Off the Bus's most crucial activity. The project started with a big advantage: the Huffington Post itself. By soliciting volunteers on the HuffPo front page and throughout the site's email newsletters, Jay Rosen and Ariana Huffington bestowed upon Michel a massive initial pool of recruits. "Immediately — literally immediately — we had a thousand people," Rosen told me.

A big pool of leads is no guarantee of success. Off the Bus wouldn't have been possible if Michel and her team hadn't created an amazing experience for their contributors. A pivotal lesson of Off the Bus is that a 20 percent project rises and falls on how well it provides such an experience.

Michel told her volunteers, repeatedly, that she didn't want them to imitate the mainstream media. Where old-school political reporters were trained to maintain a cold, objective voice and to hold the campaign at arm's length, Off the Bus contributors were instructed to be subjective, open about their feelings, and even, in the case of the Grassroots Correspondents, to get directly involved in electioneering. "We were always trying to break form," Michel told me. And she showed her volunteers how to do that, highlighting and promoting articles that embodied the fresh approach. ●

A Blueprint for Recruiting

Amanda Michel's recruiting process is an excellent blueprint for seducing people to help on any 20 percent-style project. In abstract terms, Michel did a handful of simple but highly effective things:

Cast a wide net. Michel didn't limit herself to people with experience in journalism or politics.

Ask specifically. Michel never beat around the bush, even when soliciting help from an audience of thousands.

Show them a good time. Michel tried to ensure all volunteers had a fun first experience, even if that meant depriving experienced volunteers of plum assignments.

Get close. Even with thousands of volunteers, Michel found ways to talk to people individually on the phone.

Corral the elite. Michel put a positive spin on asking people for additional help when she created teams with elite status.

How a Top Chef Started Over

By 2006, Thomas Keller was riding high. His new restaurant in New York, Per Se, had just received three Michelin stars. His flagship restaurant in Yountville, Calif., The French Laundry, was revered as the best restaurant in the country, maybe the world. His thriving chain of French bistros, Bouchon, had spread from Napa Valley to Las Vegas. But something was missing amid the jammed reservation lines, 500-plus employees, and high-tech videoconferencing screens that linked his New York and Napa Valley kitchens.

Keller looked back fondly to his more obscure days. When The French Laundry first opened in 1994, for example, there was barely enough money for a fresh coat of paint and some scraps of carpet; the chairs were donated, the silverware secondhand and the restaurant made do without a single sauté pan ("we sautéed in pots," Keller later said). He was ready for something new and, at the same time, ready for something very

old. "I wanted to have a small staff that worked together and had a real bonding experience with one another," Keller told me, "a throwback to the days when a five-day-per-week restaurant was normal. … Kind of like The French Laundry when I first bought it."

Keller's nostalgia would soon lead to the launch of a new restaurant, Ad Hoc. Intended to be a temporary side project, it flowered quickly and profitably into a mecca for California foodies and savvy wine-country tourists. Later, it became a franchise, with a line of products at Williams-Sonoma, a cookbook that sold 235,000 copies and went into 12 printings, and an eye toward expanding to other duties.

Embracing Constraints

One key takeaway from Keller's Ad Hoc experience, for other 20 percent time projects, is the importance of using constraints, especially time and financial constraints, to bust through perfectionism. Because Ad Hoc was intended to live a short time, Keller simply had to let go of certain details, no easy feat for such a famously obsessive chef. In this way, Ad Hoc had something in common with tech projects like Flickr, which were similarly energized by tight deadlines.

Hearkening back to childhood food memories and touching on fondness for family and staff camaraderie helped Keller fire up his employees. Ad Hoc succeeded in the marketplace, meanwhile, by resonating emotionally with customers. Keller and his team selected dishes by identifying "reference points" in customers' lives that dishes would touch on.

The service was stripped down but, at the same time, it added something to the mood. "It's meant to be like you're at home," Keller told me. "And you put the wine on the table and, yeah, you grab it, but you serve the person next to you and you pass it around. Same thing with the water, the food … It's a point of social engagement."

In the dining room, Keller's team just applied a clean coat of paint and furnished with secondhand items bought at a consignment store. Their butcher's block was an antique Keller had lying around at home; the maître d' stand was pulled out of storage, having been discarded from The French Laundry; and culinary director Jeffrey Cerciello picked up additional items at an antiques store and at a secondhand San Francisco shop named Cookin', famous for its surly service and "dusty," "dirty" and "precarious" piles of esoteric kitchen supplies, as described on Yelp.com. The bare-bones approach to Ad Hoc's interior was very much like the Spartan opening of The French Laundry.

The ethic of thrifty reuse at Ad Hoc mirrored the way Gmail, AdSense and Flickr were launched by slightly adapting old code (a discussion search engine, a porn filter and a video game chat system, respectively). Reusing old tools is a useful way to satisfy the 20 Percent Doctrine tenet of launching a prototype as quickly as possible, as Keller has discovered.

If Keller can find corners he's comfortable cutting in a pinch, you can, too. The best way to find those shortcuts is by using a forcing mechanism like the ones Keller used. Embrace small budgets, embrace tight deadlines and embrace the idea that what you make today will soon be undone, either because it's temporary or because it will be iteratively improved into something unrecognizably better. ●

Conclusion

We're seeing the flowerings of a movement toward more creative freedom in corporate workplaces.

For all that's known about how to develop a successful side project, it is early yet in the spread of the 20 Percent Doctrine. All the time, we're seeing new vehicles for tapping into workers' autonomous creativity.

More and more large organizations, like National Public Radio and Condé Nast, are finding they can successfully inject the energy and creative freedom of start-ups into their own teams using 20 Percent Doctrine principles. And why couldn't they? If a massive urban school district can devolve creative freedom, certainly they can, too. If a famously meticulous, 56-year-old chef can learn the art of the hack, then they can as well. If some of Silicon Valley's most hard-core nerds can turn a bit punk rock, surely they can follow their lead. As more and more 20 Percent Doctrine projects succeed, more people will try to follow their examples, and we should end up with more innovation, creativity, emotional touchpoints and, indeed, more humanity in the modern workplace. And that will be a true blessing. ●

RECOMMENDED READING LIST

If you liked *The 20% Doctrine*, you'll also like:

1. ***The Accidental Creative*** **by Todd Henry.** This summary teaches effective practices to support your creative process regardless of your role in an organization.
2. ***Disciplined Dreaming*** **by Josh Linkner.** Linkner distills his years of experience into a 5-step process that will make creativity easy for you and your organization.
3. ***Serial Innovators*** **by Claudio Feser.** Feser provides a guide for how to build a company that is adaptive, innovative and can survive well into the future.

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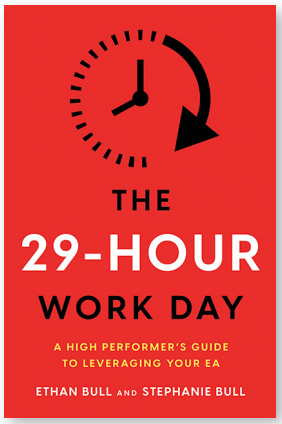
The 29-Hour Work Day

Ethan Bull, Stephanie Bull

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The 29-Hour Work Day

A High Performer's Guide to Leveraging Your EA



by **Ethan Bull and Stephanie Bull**

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THE SUMMARY IN BRIEF

If you are a busy executive, you may find yourself hiring executive assistants to try and fill the void that comes with the tasks at hand. In many countries around the world, executive assistants feel many of the same frustrations – the executive doesn't know what to do with them, leaders and HR do not know what assistants really do, and that they are thinking of quitting because they feel undervalued and bored. The biggest problem is that executives don't realize the real value of the executive assistants they hire and underutilizes their talents.

In ***The 29-Hour Work Day: A High Performer's Guide to Leveraging Your EA***, Ethan Bull and Stephanie Bull make a rock solid case for how executives no longer need to do everything themselves. When they hire an executive assistant (EA), there is much to learn about how to leverage their strengths and use them to one's advantage instead of trying to take on everything themselves. Through the book, the authors discuss how to find, utilize, and even the overall performance benefits of working side by side with your EA to their full capacity.

IN THIS SUMMARY, YOU WILL LEARN:

- How to unearth the superpowers of your executive assistant.
- How to find the executive assistant to drive your success.
- What to do when you find the right executive assistant.
- The importance of training and partnership with your executive assistant.
- The performance multipliers of utilizing your executive assistant's superpowers correctly.

Introduction

Whether you are the CEO of a large corporation or a former executive doing consulting or philanthropic work will sitting on boards, it is impossible to manage and grow your business yourself. In the story of a high-level actress, whose assistant ran city blocks to find her raspberry jam and got her to her hair and makeup appointment on time – it is a true testament of the dedication that an executive assistant has for their employer. Finding the right executive assistant who can provide the support needed in any circumstance can bring more benefits to your role as an executive. Statistics show that 51% of a good EA's job is concerned with soft skills – communication, service, emotional intelligence, and trust. The other 49% are hard skills – technology, calendar, data management, and organization. 100% of the time, an EA serves as a hospitalian, doing their jobs with finesse and aptitude by using their superpowers, so that an executive can achieve more.

Executive Assistant Superpowers

For many executives, learning to turn to and trust an executive assistant can be hard – especially if the relationship between the two lacks communication. Some executives will trust their EA from the beginning, making it easier to adapt. However, sometimes this trust is earned by using their EA superpowers and showing the executive just how capable they are at making their lives easier. There are four superpowers that an executive must pay particular attention to when working with an EA – ESP, synchronization, omniscience, and translation. These powers go above and beyond and provide the maximum amount of benefit, especially when growing for the future.

Finding "The One"

Before you can begin finding "the one," it becomes imperative to understand exactly what you need first. If you don't know what your needs are, it is next to impossible to find the EA that matches up with your needs. One of the best methods for finding the EA that completes your skillset requirements is a recruiter. Recruiters take care of all the legwork, screening applicants and finding the right fit for you to discuss your needs with. Recruiters require a fee, but if you are not looking to pay someone to find the EA that meets your needs, another option is searching through LinkedIn.

First impressions count when looking for an executive assistant. Executives should be looking at the way the candidate expresses themselves on paper and through other avenues like social media. Some big red flags can be gleaned from these sources – especially inconsistencies that may come up across these avenues. Although looking at their skills as they pertain to your industry might be relevant, the truth is that most EAs are chameleons with a slew of foundational capacities that may not be evident to the naked eye. However, seeing that they have remained in their current roles for more than a year speaks volumes of their dedication within a role.

In the end, it is your gut that will tell you what you need to know – as an executive, you have to trust your own judgment when selecting who will fulfill the role of your executive assistant. Once you have chosen the one, you need to fulfill your due diligence - checking references, background checks, etc. Once all of your ducks are in are in a row, then you can make the offer – but ensure you are paying them what they are worth. Now that you have found the one, you need to make sure you are using the one to their full executive assistant powers.

When You Have "The One"

The perfect EA brings about a mixture of hard and soft skills that will benefit you in your day-to-day tasks and help you fulfill the roles that you need assistance with. Communication with your EA is the only way to ensure that clear instruction and expectations are shared across the board. They are also hospitable; they are receptive of your needs and often fulfill them before you ask. When you are working in sync with your EA, be sure to work together, answering questions and providing communications back and forth that will further your business goals as well as take some of the extras off your plate.

Training And Partnering With Your Executive Assistant

The relationship that you create with your EA is important – from the beginning. If your EA does not have clear expectations set from the beginning, the relationship is doomed to fail. This is not fair to them, and it is not fair or beneficial to you or your business when the outlined needs are not addressed, or feedback is not given. It is unlikely that your EA will walk in and be well versed in all of your needs from the start, which is why it is important to not only train your EA, but to bring them in as a partner for the overall

betterment of the goals at hand. When training, sharing as much of your knowledge with your EA will be vital in their assistance to you. Once you are well on your way to performance multiplier status, it is important not to become a micromanager – you have trained your EA to handle things as you would – allow them to do so.

Performance Multiplier #1: Business Partner

When an executive looks at their EA as a business partner, it doesn't mean that you should sell half of your company and divide up the assets with them – instead, you should look at your EA as a partner who shares your concerns, knows how you think, and is loyal to representing your vision. When you look at your assistant through that lens, you'll discover a variety of ways you can team with them and have them take on some of the responsibilities a business partner would handle. You can empower your executive assistant in this role by equipping them with the background and information necessary so that they can sit in for you at the board meetings, fundraising functions, and even the occasional team meeting. Although they will not make decisions for you, they can be your eyes, ears, and sometimes your mouth so that you can make the decisions when you are able.

Performance Multiplier #2: Chief Of Staff

In a traditional sense, a chief of staff is hired at the direct report level to sit on strategy and C-suite meetings. They are expected to track progress and push toward quarterly and yearly goals. They know what KPIs to measure performance, who controls what, and what levers to push or pull to ensure expectations are met. This is not the chief of staff that you would be employing with your EA – instead they would share the same type of knowledgebase that a traditional chief of staff would have. They can track, guide, and ensure that progress is made – a more logistical and immediate role, less strategic. Instead of flooding your inbox or voicemail with contacts, you can use your EA as a gatekeeper for the information. They will cut out many hours spent handling these contacts and calls by screening them ahead of time and handling the relevant ones to you personally – that is what your EA as a chief of staff can do for you.

Performance Multiplier #3: Project Manager

Project managers are often responsible for taking a viable project and moving it through the production process. Many of these project managers hold degrees in project management and are familiar with Sigma Six or Lean manufacturing process tools. This does not mean that your EA will have the same role as the project manager, but they do have the ability to take ownership of a project or even to help you. For example, if your company is planning a retreat, you can employ your EA to take care of all the finer details of the trip, allowing you to enjoy it with your board members. In a project manager role, the EA can take on annual events, creating successes and can be your point person throughout the process.

Performance Multiplier #4: Assistant/ Scheduler

The more successful an executive comes in their role, the more responsibility falls on their plate. As much as you may want to do all or the majority of the work that comes your way, using your EA to schedule can help you stay on top of everybody and every project that comes across your desk. In this role, your executive assistant takes on the role of a traditional assistant, managing time slots, and doing whatever is necessary when things come up. Time engineering requires detailed, precise scheduling, and using their superpower of ESP, they can log pertinent information on your calendar invites or in an email you want to link a calendar invitation to. You have shared your priorities and goals with your EA and they know exactly what you need – making it easier to organize your day-to-day activities and doing so in a way that makes it easier to tackle everything that falls on your plate.

Performance Multiplier #5: Personal Assistant

The definition of a personal assistant varies depending on the needs of the executive. In general, this assistant helps to manage life outside of work and are closely tied to family, grocery, appointments, and other errands that make day-to-day life outside of the office feasible. Having already fulfilled multiple duties within the business structure, using an EA to help facilitate roles in life can be a refresher for some executives. Sometimes personal errands can blend with the workplace, like buying gifts for employees or arranging a

lunch for a business meeting – these are all things your EA is capable of handling for you and may have more inside knowledge on what someone would like than you would in an executive role. It is important to use discretion when assigning personal assistant roles to your EA, this being said, it is best to evaluate your relationship with your EA before assigning more personal tasks that may be sensitive.

Conclusion

As an executive, you have to be open-minded enough to do a little self-examination. Great leaders are humble and self-deprecating, and they use that to their advantage to make people below them feel comfortable expressing their ideas, thoughts, and opinions. When you do this with your EA in a proper way, you enable them to set their superpowers free. You create a safe space between the two of you to encourage them to be a performance multiplier. Whether you use your EA to boost your project management or as a personal assistant, leveraging their skills can help you work within the scope of a 24-hour work day instead of trying to work a 29-hour work day.



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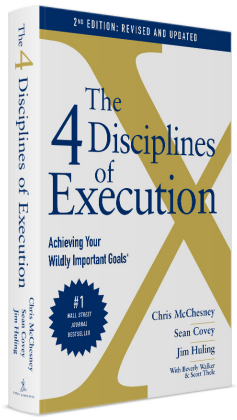
The 4 Disciplines of Execution

Chris McChesney, Sean Covey, Jim Huling

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The 4 Disciplines of Execution

Achieving Your Wildly Important Goals, Second Edition: Revised and Updated



by **Chris McChesney, Sean Covey, and Jim Huling with Beverly Walker and Scott Thele**

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THE SUMMARY IN BRIEF

Do you remember the last major initiative you watched die in your organization? Did it go down with a loud crash? Or was it slowly and quietly suffocated by other competing priorities? By the time it finally disappeared, it's likely no one even noticed. What happened? The "whirlwind" of urgent activity required to keep things running devoured all the time and energy you needed to invest in executing your strategy for tomorrow!

The 4 Disciplines of Execution, Revised and Updated can change all of that forever. It offers a simple, repeatable, and proven formula for executing your most important strategic priorities in the midst of the whirlwind. The original book sold more than 500,000 copies; in this revised and updated edition, the authors have refined 4DX based on 4,000 implementations, with content targeted to leaders' roles.

When a company or individual adheres to these disciplines, they achieve superb results regardless of the goal. ***The 4 Disciplines of Execution, Revised and Updated*** is the one book that no leader can afford to miss.

IN THIS SUMMARY, YOU WILL LEARN:

- To recognize a breakthrough strategy.
- The 4 Disciplines of Execution and how to use them to achieve results.
- How a leader of leaders and a leader of frontline teams can apply 4DX.
- To get leaders on board and sustain 4DX results and engagement.

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PART I: LEARNING 4DX

The Real Problem With Execution

Whether you call it a strategy, a goal, or simply an effort at improvement, any initiative you as a leader drive in order to significantly move your team or organization forward will fall into one of two categories. The first mainly requires a stroke of the pen; the second is a breakthrough, requiring a change in behavior.

Stroke-of-the-pen initiatives are those you execute just by ordering or authorizing them to be done. Breakthroughs that require a change in behavior are very different. You can't just order them to happen, because executing them requires getting people—often a lot of people—to be highly engaged in a new or different approach to creating results. If it requires people to do something different, you are driving a *breakthrough strategy*, and it's not going to be easy.

The Whirlwind

It's natural for a leader to assume the people are the problem. But this is wrong. Certainly, lack of clarity, commitment, collaboration, and accountability exacerbate the difficulty of strategy execution.

But the real enemy of execution is your day job! This is the whirlwind. It's the massive amount of energy that's necessary just to keep your operation going on a day-to-day basis; and ironically, it's also the thing that makes it so hard to execute anything new. The whirlwind robs you of the focus required to move your team forward.

Executing in spite of the whirlwind means overcoming not only its powerful distraction but also the inertia of "the way it's always been done."

The 4 Disciplines of Execution are not designed for managing your whirlwind, and they are not designed to manage stroke-of-the-pen initiatives. The 4 Disciplines are the precise methods for accomplishing breakthrough results on your single most critical objective: your Wildly Important Goal.

The 4 Disciplines work because they are based on principles, not practices. Practices are situational, subjective, and always evolving. Principles are timeless and self-evident, and they apply everywhere. They are natural laws, like gravity. Whether you understand them or even agree with them doesn't matter—they still apply.

Discipline 1: Focus on the Wildly Important

The first discipline is to focus your finest effort on the one thing that will make the biggest difference. Execution starts with focus. Without it, the other three disciplines can't help you.

But how you apply Discipline 1 will differ depending on whether you are a leader of a frontline team or a leader of leaders.

Discipline 1 for the Leader of a Frontline Team

Discipline 1 requires that you identify the one objective that will be separated out from your whirlwind and given intense focus. This difference is signified by the name Wildly Important Goal. Your WIG is an outcome so significant that it cannot be accomplished without the finest efforts of your team and by performance that is above their day-to-day level. This is the one objective to which you apply 4DX.

When you've defined your WIG, you will then view the work of your team in two distinct buckets. The first bucket contains everything the team needs to accomplish in the course of their day-to-day work (their whirlwind). This bucket is substantial and will likely require 80 percent of their time and energy.

The second bucket is the Wildly Important Goal—the one specific outcome that represents the most meaningful breakthrough you'd like to achieve. Ideally, the WIG should be given the remaining 20 percent of the team's capacity.

Discipline 1 for Leaders of Leaders

The choice of the WIG at your level is critical. Whatever you choose as the Primary WIG can be like a compass for the teams—each leader of a frontline team can align their Team WIG to the direction you set. There are four primary rules for applying Discipline 1 as a leader of leaders:

Rule 1. No individual focuses on more than one WIG at a time. This rule acts like a governor on an engine. Keep this rule in mind as you consider the remaining three rules. If you violate this one, you will have lost your focus as an organization.

Rule 2. The battles you choose must win the war. It isn't enough that the Team WIGs just support or align with the Primary WIG. The achievement of the Team WIGs must ensure the success of the Primary WIG.

The key principle behind lead measures is simply this: leverage. Achieving your Wildly Important Goal is like trying to move a giant rock.

Rule 3. Leaders of leaders can veto but not dictate. While senior leaders will undoubtedly determine the Primary WIG, they must allow the leaders of frontline teams to have a significant role in defining the WIG for their own team. Senior leaders can then exercise their right to veto if the WIGs chosen will not achieve the Primary WIG.

Rule 4. All WIGs must have a finish line in the form of From X to Y by When. Every WIG at every level must contain a clearly measurable result as well as the date by which that result must be achieved.

Discipline 2: Act on the Lead Measures

The second discipline is to apply disproportionate energy to the few actions (or behaviors) that will have the greatest impact on achieving the Wildly Important Goal. These are called "lead measures" because they are the measurable drivers that actually lead to WIG achievement.

A lag measure shows you if you've achieved the goal. A lead measure tells you if you are likely to achieve the goal—meaning that the team is doing the things that are most critical to goal achievement. While a lag measure is hard for an individual (or a team) to directly affect, a lead measure is chosen to be both *predictive* of impacting the lag measure and within the team's control—referred to as *influenceable*.

Defining Lead Measures

The key principle behind lead measures is simply this: leverage. Achieving your Wildly Important Goal is like trying to move a giant rock; but despite all the energy the team exerts, it doesn't move. It's not a question of effort; if it were, you and the team would already have moved it. Lead measures act like a lever, making it possible to move that rock.

How do you choose the right levers? To achieve a goal you've never achieved before, you must do things you've never done before. Look around you. Who else has achieved this goal or something like it? What did they do differently? Use your imagination. What haven't you thought of that might make a real difference?

Then select the activities you believe will have the greatest impact on achieving the WIG: the 80/20 activities. Which 20 percent of what you do has as much or more leverage on the WIG than 80 percent of what you do?

The lead measures with the most impact come from a collaboration between the leader and the frontline team. The impact of the lead measures is greater when the top-down influence of the leader provides guidance and direction, and the bottom-up influence of the team provides clarity on which actions actually produce the greatest results.

And it is clarity on cause (lead measures) and effect (outcome on the WIG) that you are after. When done well, this collaboration creates a synergy that neither the leader nor the team could have created alone.

Discipline 3: Keep a Compelling Scoreboard

The third discipline is to make sure everyone knows the score at all times so that they can tell whether or not they are winning. Discipline 3 is based on the principle of engagement.

People play differently when *they* are keeping score. If the lead and lag measures are not captured on a visual scoreboard and updated regularly, they will disappear into the distraction of the whirlwind. People disengage when they don't know the score. When they can see at a glance whether or not they are winning, they become profoundly engaged.

Ask four questions when determining if a scoreboard is likely to be compelling to the players:

Is it simple? Think about the scoreboard in a sporting event. The scoreboard on the field shows only the data needed to play the game.

Can I see it easily? The results become personally important to the team when the scoreboard is displayed where it can be seen by everyone.

Does it show lead and lag measures? The team needs

to see both, or they will quickly lose interest. When they can see both the lead and lag, they can watch the bet play out.

Can I tell at a glance if I'm winning? If you can't tell within five seconds whether you're winning or losing, you haven't passed this test.

Although physical scoreboards are still an essential tool used by many teams, today the most visible and easily accessible location for a scoreboard is on your tablet or phone. The 4DX app provides the ability to display and update a scoreboard for your team that is constantly available, simple to use, and compelling to display.

Discipline 4: Create a Cadence of Accountability

In this discipline, you create a cadence of accountability—a regular and recurring cycle of accounting for past performance, as well as committing to move the score forward. Discipline 4 is where execution actually happens. Disciplines 1, 2, and 3 set up the game; but until you apply Discipline 4, your team isn't *in* the game.

In Discipline 4, your team meets at least weekly in a WIG Session. This meeting, which lasts no longer than 20 to 30 minutes, has a set agenda and goes quickly, establishing your weekly rhythm of accountability for driving progress toward the WIG.

WIG Sessions might vary in content, but the agenda is always the same. Here's the three-part agenda for a WIG Session, along with the language you should be hearing in the session:

1. Account. Report on last week's commitments. "I met with our VP but wasn't able to get the approval we wanted. Here's why . . ."

2. Review the scoreboard. Learn from successes and failures. "We're trending upward on our lead measures, but our lag measure isn't moving yet. We've agreed as a team to double our efforts this week to get the score moving."

3. Plan. Clear the path and make new commitments. "I'll meet with Julius on our numbers and come back next week with at least three ideas for helping us improve."

To prepare for the meeting, every team member thinks about the same question: "What are the one or two most important things I can do this week to impact the lead measures?"

Each commitment must meet two standards. First, the commitment must represent a specific deliverable. Second, the commitment must influence the lead measure. In addition, while the leader of the WIG Session is responsible for ensuring the quality of commitments, the commitments must come from the participants.

Let's take the example of Tomás, a member of a sales team whose lead measure is to send out two new proposals each week, Tomás knows that his list of prospects is running low, so for this week his commitment might be to acquire names and contact information for 10 additional prospects, ensuring he has enough to successfully move two of them to the proposal stage.

The level of importance you place on the WIG Session will directly determine the results your team produces. Based on your consistency, your focus, and your modeling of making commitments and following through, you will establish the WIG Session as either a high-stakes game or a low-stakes game in the minds of your team members.

PART II: APPLYING 4DX AS A LEADER OF LEADERS

Choosing Where to Focus

The most challenging question for the leader of leaders in 4DX: "What should we choose as our Primary WIG for the organization?" Your Primary WIG represents a breakthrough result that will require human engagement and a significant change in behavior.

Leaders rarely make this choice without rigorous debate and collaboration by an entire leadership team, with the most senior leader often in a facilitating role and, if needed, making the final decisions.

Identifying Your Breakthrough Result

The first question to ask is, "If every other area of our operation remained at its current level of performance, in which one area would we most want to achieve significant results?" This question naturally focuses the mind on the result that might represent a breakthrough by holding every other area constant.

Once you have a list of candidate WIGs, you should next discuss each candidate in terms of two categories: impact of failure and at risk of failure (without significant change).

Impact of failure. How mission-critical is the candidate

WIG? While this question might seem straightforward, it can actually require deep thought. Instead of simply focusing on a single short-term objective, evaluating it leads your team to ask the larger questions and to think about the longer-term impact before making a final decision.

> Gaining the full commitment of a leadership team is just as critical to your success as choosing the right strategy.

At risk of failure (without significant change). Next, the leadership team should consider how "at risk of failure (without significant change)" is the candidate WIG. Leadership teams are reluctant to discuss the possibility of failure of any sort. It's much easier to keep the discussion focused on the comfortable subject of importance rather than on the uncomfortable subject of risk.

But the decision to define and undertake a WIG is a decision to spend energy not dedicated to the whirlwind—a limited and extremely valuable currency. Waste that currency, and you will likely have lost time and energy that can never be recovered.

Here are four traps to avoid in the creation of your WIGs:

- Creating too many Primary WIGs.
- Choosing a Primary WIG that is too broad.
- Creating a Primary WIG that is aspirational but not measurable.
- Creating WIGs that are not aligned to the mission and vision of the organization.

Getting Your Leaders on Board

Gaining the full commitment of a leadership team is just as critical to your success as choosing the right strategy. To help you succeed in this important objective, this section presents the mindsets and skillets that have proven to be most successful. The ideas are presented from the point where the leaders of leaders have already developed a Primary WIG and their Key Battle WIGs. Now they are ready to engage the leaders of frontline teams who report to them.

In this critical next step, the leaders of leaders have three objectives: finalize the Primary WIG and the Key Battle WIGs; develop the draft Team WIGs for frontline teams; engage the entire leadership team in a committed effort to win.

Three leadership mindsets are essential if you want to create alignment and engagement across an entire leadership team.

Transparency mindset. While full transparency is not always organizationally possible, the mindset of transparency is, and there are few things that develop high trust more rapidly than authentic transparency. Leaders with a transparency mindset share their concerns openly, freely acknowledge that they don't have all the answers, and actively encourage feedback from others no matter where they reside on the organizational chart.

Understanding mindset. The key to influence is first to be influenced. An understanding mindset means that the leaders of leaders truly seek to understand the concerns and ideas of the leaders of frontline teams before making a final decision on the Primary WIG and the Key Battle WIGs. The more you adopt an understanding mindset, the more you will learn, the more you will lower resistance, and the better the decisions you will make.

Involvement mindset. When final decisions are made on the Primary WIG and the Key Battle WIGs, leaders of frontline teams play an essential role in understanding and, if possible, improving these crucial WIGs. But the final decision belongs to the leaders of leaders. However, when Team WIGs are chosen, leaders of frontline teams make their own decisions, subject only to final validation by the leaders of leaders.

Sustaining 4DX Results and Engagement

The greatest impact of 4DX is not simply the ability to produce breakthrough results; it's the ability to sustain (and even improve) those results over a significant period of time. This characteristic is rooted in building habits of execution, practices that become so ingrained that teams are no longer conscious of them as a requirement for performance.

Although the Primary WIG will always be the most immediate and most visible target, the greater achievement is

your ability to establish a culture of execution—one where WIGs can be achieved again and again, regardless of fluctuating conditions.

To crystallize this focus, a single indicator measures not only WIG results but also the habits of execution that drive them: the Execution Performance Score, or XPS. There are four components of XPS.

Establishing a cadence. This component indicates how well the team has established a cadence of meeting weekly to focus on the scoreboard.

Fulfilling high-impact commitments. This component indicates how well the team has consistently made commitments and followed through.

Optimizing lead-measures performance. This component indicates how consistently the lead measures are being performed.

Achieving lag-measure (WIG) results. This component indicates how effectively the first three components are enabling your team to achieve its WIG.

The calculation of your XPS consists simply of identifying the score for each component and then adding them together. Since each component has a maximum score of 1, a perfect score would be 4. Your XPS score can then be used to give you insights into your team's performance and the results it is producing.

PART III: APPLYING 4DX AS A LEADER OF A FRONTLINE TEAM

Applying Discipline 1: Focus on the Wildly Important

Superb team performance begins with selecting a single Team WIG. Focusing on a single breakthrough goal is the foundational principle of 4DX. Without it, your team will get lost in the whirlwind. Selecting the right WIG is crucial.

Step 1. Consider the possibilities. Begin by brainstorming possible WIGs. You have three options: Brainstorm with peer leaders, especially if you are all focusing on the same Primary WIG for the organization, brainstorm with your team or with a representative subset of the team, brainstorm alone. Ideally, both the leader and the team participate in defining the WIGs.

Step 2. Rank by impact. When you're satisfied with your list of candidate Team WIGs, you're ready to identify the one that promises the greatest potential impact on the Primary WIG. Calculating the impact of a Team WIG depends on the nature of the Primary WIG. For example, for an overall WIG that is financial, rank the Team WIG in terms of prospective revenues, profitability, investment performance, cash flow, and/or cost savings.

Step 3. Test top ideas. Once you've identified a few Team WIG candidates, test them against four specific criteria for your team's final choice:

- Is the Team WIG aligned to the overall WIG? Is there an unbroken line of sight between the candidate Team WIG and the Primary WIG?
- Is it measurable? A game without a clearly measurable score will never be a game that matters.
- Who owns the results—our team or some other team? Does the team have at least 80 percent ownership of the result?
- Who owns the game—the leader or the team? The Team WIG should depend primarily on what the team does, not just the leader.

Step 4. Define the WIG. Once you've tested your ideas and selected a final Team WIG, make it as clear and measurable as possible. Define the Team WIG according to the following rules:

- Begin with a verb. Simple verbs focus the mind immediately on action.
- Define the lag measure in terms of "From X to Y by When."
- Keep it simple. Most organizational goals are vague, complex, and pretentious.
- Focus on what, not how. The WIG should focus exclusively on what the team plans to achieve.

Applying Discipline 2: Act on the Lead Measures

Acting on lead measures is the single most difficult aspect of installing 4DX in your team. There are three reasons for this: Lead measures can be counterintuitive. Lead measures are hard to track. Lead measures often look too simple.

Here are the steps for arriving at high-leverage lead measures.

The key to engagement is a visible, continually updated scoreboard that is compelling to the players.

Step 1. Consider the possibilities. Begin by brainstorming possible lead measures. Resist the temptation to choose quickly. Ask, "What could we do that we've never done before that might make all the difference to the Team WIG?" For example, a grocery store has this Team WIG: "Increase year-over-year sales by 5 percent."

Step 2. Rank by impact. When you're satisfied with your list of candidate lead measures, you're ready to identify the ideas that promise the greatest potential impact on the Team WIG. The team must press hard on the lead measure to move the lag measure. Too many lead measures, and you dissipate that pressure.

Step 3. Test top ideas. Once you've identified a few high-leverage lead-measure ideas, test them against these six criteria:

- Is it predictive? If the idea fails this test, even if it's a good idea, eliminate it.
- Is it influenceable? Ask if the team has at least 80 percent control over it.
- Is it an ongoing process or a "one-and-done"? The ideal lead measure is a behavior change that becomes habitual and brings continuous improvements to the lag measure.
- Is it a leader's game or a team game? The behavior of the team must drive the lead measure.
- Can it be measured? If the Team WIG is truly wildly important, you must find ways to measure the new behaviors.
- Is it worth measuring? If it takes more effort than its impact is worth or it has serious unintended consequences, it fails the test of a lead measure.

Step 4: Define the lead measures. Answer these questions as you put the lead measures in final form:

- Are we tracking team or individual performance? Tracking team results allows for differences in individual performance while still enabling the team to achieve the outcome.
- Are we tracking the lead measures daily or weekly? Daily tracking creates the highest level of accountability because it demands the same performance from every associate every day, whereas weekly tracking allows for varying performance each day as long as the overall result for the week is achieved.
- What is the quantitative standard? In other words, "How much/how often/how consistently are we supposed to perform?" You decide based on the urgency and importance of the Team WIG.
- What is the qualitative standard? In other words, "How well are we supposed to perform?"
- Does it start with a verb? Simple verbs focus the mind immediately on action.
- Is it simple? State your lead measure in as few words as possible.

Applying Discipline 3: Keep a Compelling Scoreboard

Discipline 3 is the discipline of engagement. The key to engagement is a visible, continually updated scoreboard that is compelling to the players, whether it's a digital scoreboard in the 4DX app or a physical board constructed by the team.

Step 1. Choose a theme. Choose a theme for your scoreboard that displays clearly and instantly the measures you are tracking. You have several options: trend lines, speedometer, bar chart, andon, personalized.

Step 2. Design the scoreboard. The team should design the scoreboard with these questions in mind:

- Is it simple?
- Can the team see it easily?
- Does it contain both lead and lag measures?
- Can we tell at a glance if we're winning?

Step 3. Build the scoreboard. Let the team build the scoreboard. The greater their involvement, the better— they

will take more ownership of it if they build it themselves.

Step 4. Keep it updated. The design of the scoreboard should make it easy to update at least weekly. If the scoreboard is hard to update, you'll be tempted to put it off when the whirlwind strikes—and your Wildly Important Goal will disappear in the noise and confusion. The leader should make very clear who is responsible for the scoreboard, when it will be posted, and how often it will be updated.

Applying Discipline 4: Create a Cadence of Accountability

Even though you've designed a game that's clear and effective, without consistent accountability, the team will never give their best efforts to the game.

If you can instill the discipline of accountability in your team, they will beat the whirlwind every week. However, if you're casual about accountability for commitments as well as for results, the whirlwind will overwhelm the Wildly Important Goal.

Here's how Serena handled this important moment in a WIG session when Jeff couldn't keep his commitment.

Step 1. Demonstrate respect. Serena: "Jeff, I want you to know that the event last week was a huge success, and without you, it could have been a disaster." In this crucial first step, Serena shows Jeff that she respects him as a team member, but she also shows the team that she respects the whirlwind.

Step 2. Reinforce accountability. Serena: "Jeff, I also want you to know how important your contribution is to this team. Without you, we can't reach our goal. This means that when we make a commitment, we have to find a way to fulfill it no matter what happens during the week."

This is a challenging moment for both Jeff and Serena; but because Serena has made it clear that she respects Jeff and the demands of the whirlwind, Jeff should be able to see the importance of doing his best for the team.

Step 3. Encourage performance. Serena: "Jeff, I know you want to help us follow through. Can we count on you to catch up, by fulfilling last week's commitment as well as the one you were planning on making for next week?" Serena gives Jeff the opportunity to report with pride that all commitments have been fulfilled.

Discipline 4 keeps your team in the game every week, as the members connect their personal contributions to the most important priorities of the organization. With this comes not only the awareness that they are winning on a key goal but that they have become a winning team.

Which is the ultimate return on the investment you make in 4DX.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***The Leader's Guide to Unconscious Bias*** by Pamela Fuller, Anne Chow, Mark Murphy
- ***The Speed of Trust*** by Stephen M.R. Covey



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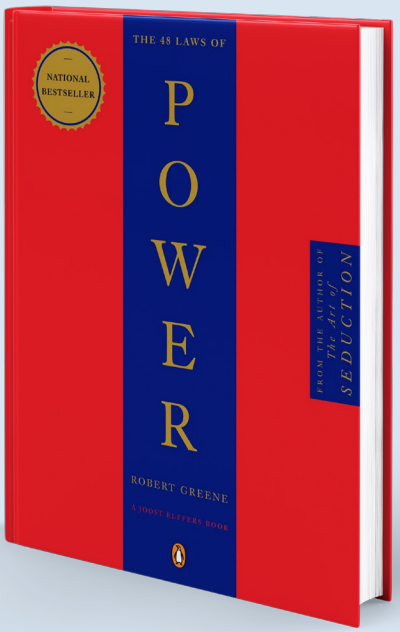
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The 48 Laws of Power

Robert Greene

Book Snaps™
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The 48 Laws of Power

By Robert Greene

Robert Greene is the author of the New York Times bestsellers *The 48 Laws of Power, The Art of Seduction, The 33 Strategies of War, The 50th Law, Mastery, The Laws of Human Nature,* and *The Daily Laws*. In addition to having a strong following within the business world and a deep following in Washington, DC, Greene's books are hailed by everyone from war historians to the biggest musicians in the industry (including Jay-Z, Drake, and 50 Cent).

A Book Review by Soundview

Learning the Game of Power

In his book, ***The 48 Laws of Power***, author Robert Greene attempts to help his reader gain power in the world. It is power, he believes, that most people aspire to and that they find its acquisition alluring. In the 48 laws he gives in this book, it becomes apparent that Greene is most concerned with power, not with morality or loyalty. High on his list of people to emulate in the acquisition of power are the courtiers of days past. After all courtiers spend their time getting as close to power as they can all while keeping up appearances and bolstering the ego of the ruler. Greene relies on lessons of the courtiers as well as those of powerful men and women throughout history to help explain his 48 laws. In doing so, he does not focus solely on those who were successful in the acquisition of power. He also focuses on those who transgress his laws and who suffer as a result of this. Greene also lets his reader know when reversals of the law are possible in certain circumstances although with some of his laws, he does not believe that anyone can reverse them and be successful.

Outshining the Master

Greene's first law dictates the relationship one should have with power as he states, "never outshine the master." In order to illustrate what happens when someone transgresses this law, Greene tells the story of Nicolas Fouquet who was the finance minister for Louis XIV. Fouquet had a grand taste for the finer things in life. It was suspected that he would become Prime Minister when the former Prime Minister died. This was not to be the case,however, as Louis XIV instead got rid of the position. This bothered Fouquet who started to worry that he was losing his position of favor with the king. To rectify this, he threw an elaborate party, inviting all the most powerful people in Europe as a way to honor Louis XIV. His plan did not work out as suspected as he was arrested the next day and spent the rest of his life in solitary confinement. While Fouquet was trying to honor the king, he did not understand the king's psychological needs. Louis XIV could not stand being upstaged, and he felt upstaged by this grand event that Fouquet managed. Greene, therefore, warns his reader to avoid Fouquet's fate by making sure that the master and leader always shines most brightly in all circumstances.

Greene believes, in fact, that "when it comes to power, outshining the master is perhaps the worst mistake of all" as he warns his reader that when it comes to power, not much has changed over the centuries. He then goes on to warn his reader against believing that they have free reign to do what it is they want just because the person in power favors them. This is too risky. He suggests people engage in flattery of the ruler, and he also recommends that his reader make him or herself seem less capable than the leader by purposefully making mistakes which the leader can then correct. These are ways to bolster the ego of the ruler.

Greene believes that power can actually be granted "by letting others outshine you." The exception to this is when a leader is falling in power. In such cases, Greene believes that it is okay not only to outshine the master but to hasten his or her downfall. He warns his reader against scruples in such regards by telling readers that the master does not have these scruples him or herself. He ends this law by saying, "your master will fall someday, and if you play it right, you will outlive and someday outshine him."

Associating with Infectors

Greene's tenth law warns his reader to "avoid the unhappy and unlucky" as he discusses infection. He tells a story of a nut told by Leonardo Da Vinci. In this story, a crow carries away a nut to a bell tower. The nut was never eaten by the crow, however, because it fell into a crevice. The nut then flatters the wall it fell into and asks the wall to shelter it. The wall obliges, but within a short amount of time, the nut opens up and its roots grow into the crevices, eventually tearing the wall apart. By this time, it was too late for the wall to do anything about its misfortune. Greene uses this story as an interlude to discuss those who bring destruction upon themselves. He believes that when people face hardships due to forces they cannot control, people should help them. He does not feel the same way about those who bring destruction upon themselves. He believes that it is unlikely that people can help those who face their own ruin of their own accord. He believes it is far more likely that those negative patterns will begin to infect those who try to help them, bringing on even more ruin.

Greene says, "The incurably unhappy and unstable have a particularly strong infecting power because their characters and emotions are so intense. They often present themselves as victims making it difficult, at first, to see their miseries are self-inflicted." He also believes that those who are constantly dissatisfied are also to be avoided. Greene believes that as well as being infected by negative attitudes, people can also suffer in the eyes of others if they are seen in the company of those who bring misery on themselves. Because of this, it is best not to be seen with those who suffer misfortune.

To avoid the pitfall of falling into an infector's trap, he suggests carefully judging people by the fruits of their actions rather than by what they attribute these fruits to. He believes "infectors can be recognized by the misfortune they draw on themselves, their turbulent path, their long line of broken relationships, their unstable careers, and the very force of their character, which sweeps you up and makes you lose your reason." Not all infections are negative, however. Good qualities and success can be contagious as well. He believes people should take advantage of this trait and focus on associating with people who have positive traits that counteract their own negative traits. This is much better than associating with people who have the same faults as you do because your own fault will only be exaggerated in such cases. He does not believe there is any exception to this rule. Much can be gained by associating with the successful, but associating with the less successful can be dangerous.

Creating Spectacles

While in his first law Greene advises against creating spectacles that can outshine a master, that does not mean that he despises spectacles in and of themselves. In fact, he believes they can be a powerful tool. He tells of the spectacle created by Dr. Weisleder and his wife in 1780s Berlin. They had many people coming to them to heal illnesses and maladies great and small. These were traditionally maladies that medicine could not cure. He claimed to use the power of the moon to heal people, and as such, he became known as The Moon Doctor of Berlin. Both he and his wife would claim to cure people in this manner. They would each take people into a room and bring them to a window and rub the exposed injured or defective area of the body while mumbling some words. People had great faith in this husband and wife team, despite the fact that the arrangement of the rooms and the layout of the house made it impossible for multiple people to experience the moon's rays at the same time.

Greene credits the success of the Weisleders to their understanding of human nature. They understood, Greene contends, that people often rely on their emotions and do not need or want explanations for the way things work. Therefore, appealing to people's emotions can be powerful. Green actually believes that giving an explanation would have hurt the credibility of the Weisleders because it could have decreased people's belief in the power of the moon to heal. He believes "the moon was strong enough – it was a magnet for fantasies, as it has been throughout history." The illusion they created is what convinced people they were healed.

Greene goes on to state that shortcuts must be taken in the quest for power, and visual spectacles are a great shortcut because they bypass people's suspicions. Ever since the Renaissance, out of all of the senses, people have relied the most on the sense of sight. Therefore, appealing to what people can see is a powerful tool. People can argue with words, but visuals and symbols are powerful in getting people's attention and convincing them of your messages. He mentions former Roman emperor Constantine. Constantine worshiped the sun until one day he saw an image of the Christian cross superimposed across the sun. This proved to Constantinople that Christianity was the superior religion, and he converted the entire Roman Empire to Christianity because of this one visual symbol. This demonstrates just how powerful symbols and images can be in attracting people to a message.

> *. . . today it is important to avoid employing too much flattery because this can wear itself out while also drawing negative attention from peers."*

Playing the Courtier

Throughout his book, it is evident that Greene looks to courtiers and their behavior to help inform his laws to acquiring power. In his twenty-fourth law, Greene turns directly to courtiers as he advises his reader to employ courtesan tactics in the pursuit of power. Courtiers are his perfect example because they "thrive in a world where everything revolves around power and political dexterity."

Court society was set up to both amuse the ruler as well as to keep the nobility in line. Greene says, "The court serves power in many ways, but most of all it glorifies the ruler, providing him with a microcosmic world that must struggle to please him." This was not always an easy job. For example, in 19th century Darfur, courtiers were obligated to do whatever it was the sultan did, going so far as being forced to injure themselves if the sultan injured himself. While staying close to the ruler could prove dangerous to one's health should the ruler himself be injured, straying from the ruler could be even more dangerous and often ended in death. Being a courtier required one to be a master of appearances and to never step out of line. Their very lives sometimes depended upon mastering this skill.

Greene then moves into a discussion of court politics and some of the guidelines those at court had to follow. The first of these guidelines that Greene mentions is that of avoiding ostentation. Courtiers had to be careful to avoid too much or the wrong attention to themselves. This could cause jealousy among other courtiers which could lead to one's ruin. Along similar lines, today it is important to avoid employing too much flattery because this can wear itself out while also drawing negative attention from peers. Paradoxically, while too much ostentation is a dangerous thing, it is also important to stand out to some degree. Otherwise there is no opportunity for advancement. Part of standing apart involves cultivating a distinctive style. The road to power can require a delicate balance.

Courtiers, according to Greene, matched their language and mannerisms with the people they were speaking with. Equality was not to be sought after and, indeed, is not to be sought after today either. Greene believes that talking as equals to people below oneself sounds condescending while talking equally with those above oneself appears offensive. Greene considers this sort of acting to be an art form. Along similar lines, he warns his reader "never affect friendliness and intimacy with your master." A superior can approach an inferior with an attitude of friendliness, but this is always the superior's decision. An inferior should never approach their superior in a similar manner. In addition, one should avoid directly criticizing a superior. When advice needs to be given, it should be both polite and indirect.

To express how too much honesty can prove dangerous, Greene tells the story of Callisthenes. Aristotle was a tutor to Alexander the Great, and Alexander complained that he had no one to talk about philosophy with when Alexander was out on his campaigns. Aristotle recommended that Alexander talk to Callisthenes on such occasions who Aristotle had schooled on court life. Callisthenes respected speaking truth bluntly and believed that Alexander would be able to handle this directness if he respected learning as he professed to. Unfortunately this was not the case for Callisthenes, and Alexander had him killed.

More successful were the courtiers during the Han Dynasty in China. Greene explains how during that time Chinese emperors were seen as forces of nature who everything revolved around. It would not be prudent for anybody to tell any of these emperors what to do. Because these emperors were not infallible, however, it was sometimes necessary for people to point out their errors. In order to do so without risking their own lives, courtiers would insert strange natural phenomena that they falsely reported seeing into their reports. Emperors would take these strange phenomena as signs that things were not as they should be, and they would change their behavior accordingly. This method avoided the pitfalls of criticism but still allowed for courtiers to point out errors when necessary. Greene recommends using similar approaches to "use symbols and other indirect methods to paint a picture of the problems to come, without putting your neck on the line." Sometimes it is necessary to speak out, but Greene recommends these roundabout ways to give feedback without bringing negative repercussions on the person speaking out.

Matching Behavior

In his thirty-eighth law, Greene encourages his readers to keep their minds independent and free but to match their behavior to those around them. He does not believe that this will get a person labeled a hypocrite because nobody will really know what it is they think in the first place. In other words, if you keep your opinions to yourself but match the outward behaviors of others, no one will really know what you think or believe.

Like with his other laws, Greene goes back in history to demonstrate how this both has and has not worked for others. He tells the story of Pausanias from Sparta who went out to conquer part of Persia. He was successful in becoming the leader of a portion of Persia, but this is where things started to go wrong for Pausanias because he fell in love with the opulence of the Persians which contrasted greatly with the austerity of the Greeks. He eventually developed a plan to work with Persia's King Xerxes to rule over all of Greece. Despite breaking with

Greek customs, when Pausanias is captured by the Greeks for transgressions, he is eventually let free because he was of noble birth, and they did not want to punish him too greatly. He ended up getting captured again immediately after being let go, however, when the Greeks learned that he still wanted to work with Xerxes to gain power. He went into a temple to hide from the Greeks. The Greeks did not go in to capture him, but they also did not leave. Eventually Pausanias died in the temple, refusing to meet his fate at the hands of the Greeks.

Greene notes that many people fall in love with other cultures, and this turns people from their own culture away because it generally involves a rejection of one's own culture and ways. This offends those who remain loyal to their ways as the person who deviates from their home culture generally places themselves above those who remain loyal. Therefore, Greene believes it is important to match outward appearances and language to that of those around you.

Greene goes on to discuss the Spanish persecution of Jewish people in the fourteenth century. Many of these people were forced to convert to Catholicism. They did so outwardly, and for three hundred years they gained access to the highest levels of Spanish society, displaying the outward signs of Christianity while retaining their Jewish beliefs privately. Greene writes, "if you stick to conventional appearances in public few will believe you think differently in private." He makes mention of a black sheep who is ultimately killed by wolves because it is shunned for looking different from the rest of the herd. Greene uses this as a warning about the importance of blending into one's surroundings. He does, however, admit that in very limited circumstances standing out can be beneficial, but this is only when a person already stands above those around them. As an example, he gives the fact that President Lyndon Johnson would sit on the toilet during meetings. Very few people have this level of power, however, and as such, the majority of people are best off allowing themselves to blend in.

This is only a selection of Greene's forty-eight laws. Included among the others are seemingly morally neutral suggestions such as "always say less than is necessary" and "use absence to increase respect and honor." Also included are rules that many people would consider to be morally suspect including "get others to do the work for you, but always take the credit," "pose as a friend, work as a spy," and "keep others suspended in terror." It is important to note that Greene does not try to make his readers morally admirable people or even happy people. He does not focus on living a well-rounded life or living with integrity. His purpose is to teach his reader how to get power and to keep power at all costs. Through delving deep into history as well as by looking at more recent examples of powerful people, Greene is able to exemplify his rules and show why they can lead one to power if that is where a person wants to find themselves.

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The 5 Dysfunctions of a Team

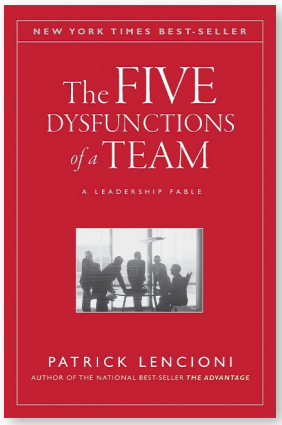
Patrick Lencioni

Executive Book Summaries®

The Five Dysfunctions of a Team

A Leadership Fable

by **Patrick Lencioni**



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THE SUMMARY IN BRIEF

In ***The Five Dysfunctions of a Team***, renowned author Patrick Lencioni turns his keen intellect and storytelling power to the fascinating, complex world of teams.

Using his familiar writing style of incorporating fables, Lencioni tells the story of Kathryn Petersen, DecisionTech's CEO, who faces the ultimate leadership crisis: How to unite a team that is in such disarray that it threatens to bring down the entire company. Will she succeed? Will she be fired? Lencioni's tale serves as a timeless reminder that leadership requires courage and insight.

Lencioni reveals the five dysfunctions that are at the very heart of why teams — even the best ones — often struggle. He outlines a powerful model and actionable steps that can be used to overcome these common hurdles and build a cohesive, effective team.

Lencioni's compelling fable offers a deceptively simple yet powerful message for all those who strive to be exceptional team leaders.

IN THIS SUMMARY, YOU WILL LEARN:

- How to overcome a lack of trust among team members.
- Ways to help a team engage in constructive conflict.
- How to follow a clear, concise and practical guide to using the five dysfunctions model to improve your team.
- What to do to achieve the real power of teamwork.

The Fable: Luck

Only one person thought Kathryn was the right choice to become CEO of DecisionTech, Inc. Luckily for her, that person was the chairman of the board.

And so, less than a month after the previous chief executive had been removed, Kathryn Petersen took the reins of a company that just two years earlier had been one of the most talked-about, well-funded and promising startup companies in the recent history of Silicon Valley. She could not have known just how far from grace the company had fallen in such a short period of time, and what the next few months had in store for her.

PART I: UNDERACHIEVEMENT

Aside from a brief reception on her first day and subsequent interviews with each of her direct reports, Kathryn spent almost all of her time walking the halls, chatting with staff members and silently observing as many meetings as she could find time to attend. And perhaps most controversial of all, she actually asked DecisionTech's former CEO and current head of business development, Jeff Shanley, to continue leading the weekly executive staff meetings, where she just listened and took notes.

The only real action that Kathryn took during those first weeks was to announce a series of two-day executive retreats in Napa Valley to be held over the course of the next few months. As though she needed to give them any more ammunition, none of her reports could believe she had the gall to take them out of the office for so many days when there was so much real work to be done.

And to make matters worse, when someone suggested a specific topic for discussion during the first retreat, Kathryn refused. She had her own agenda already set.

The Staff

Employees referred to the DecisionTech executives as "the Staff." No one referred to them as a team, which Kathryn decided was no accident.

In spite of their undeniable intelligence and impressive educational backgrounds, the Staff's behavior during meetings was worse than anything she had seen in the automotive world, where she had previously worked. Though open hostility was never really apparent and no one ever seemed to argue, an underlying tension was undeniable. As a result, decisions never seemed to get made; discussions were slow and uninteresting, with few real exchanges; and everyone seemed to be desperately waiting for each meeting to end.

PART II: LIGHTING THE FIRE

Kathryn chose Napa Valley for the off-site because it was close enough to the office to avoid expensive and time-consuming travel, but just far enough to feel out of town.

Kathryn smiled at her staff and addressed them calmly and gracefully.

"Good morning, everyone. I'd like to start the day by saying a few words. And this won't be the last time I say them".

"We have a more experienced and talented executive team than any of our competitors. We have more cash than they do. We have better core technology. And we have a more powerful board of directors. Yet, in spite of all that, we are behind two of our competitors in terms of both revenue and customer growth. Can anyone here tell me why that is?" There was silence.

Kathryn continued as warmly as when she started. "After interviewing with every member of our board and spending time with each of you, and then talking to most of our employees, it is very clear to me what our problem is." She paused before completing the thought. "We are not functioning as a team. In fact, we are quite dysfunctional."

The Speech

She continued. "I want to assure you that there is only one reason that we are here at this off-site, and at the company: to achieve results. This, in my opinion, is the only true measure of a team, and it will be the focus of everything we do today and as long as I'm here. It is my expectation that in the next year and the year after that, we will be able to look back on revenue growth, profitability, customer retention and satisfaction, and, if the market is right for it, maybe even an IPO. But I can promise you that none of that will happen if we do not address the issues that are preventing us from acting like a team."

Kathryn paused to let everyone digest the simplicity of her message, and then continued. "So, how do we go about this? Over the years I've come to the conclusion that there are five reasons why teams are dysfunctional."

She then drew an upward-pointing triangle on the whiteboard and divided it with four horizontal lines, creating five separate sections.

> If we don't trust one another, then we aren't going to engage in open, constructive, ideological conflict. . . we'll just continue to preserve a sense of artificial harmony.

Absence of Trust

"Right now I'd like to start with the first dysfunction: ***absence of trust.***" She turned and wrote the phrase at the bottom of the triangle.

She continued. "Trust is the foundation of real teamwork. And so the first dysfunction is a failure on the part of team members to understand and open up to one another. It is an absolutely critical part of building a team. In fact, it's probably the most critical.

"Members of great teams do not hold back with one another," she said. "They are unafraid to air their dirty laundry. They admit their mistakes, their weaknesses and their concerns without fear of reprisal."

Kathryn pushed on. "The fact is, if we don't trust one another — and it seems to me that we don't — then we cannot be the kind of team that ultimately achieves results."

Kathryn explained, "The only way to build trust is to overcome our need for invulnerability." She wrote the word invulnerability next to trust on the whiteboard.

Inattention to Results

Kathryn described the next dysfunction by writing the phrase ***inattention to results*** at the top of the triangle.

"We are going to the top of the chart now to talk about the ultimate dysfunction: the tendency of team members to seek out individual recognition and attention at the expense of results. And I'm referring to collective results — the goals of the entire team."

Nick, DecisionTech's chief operating officer, asked, "Is this about ego?"

"Well, I suppose that's part of it," agreed Kathryn. "But I'm not saying that there's no place for ego on a team. The key is to make the collective ego greater than the individual ones.

"When everyone is focused on results and using those to define success, it is difficult for ego to get out of hand," she added. "No matter how good an individual on the team might be feeling about his or her situation, if the team loses, everyone loses."

She wrote ***status*** and ego next to ***inattention to results*** on the whiteboard.

Fear of Conflict

Just above ***absence of trust*** Kathryn wrote ***fear of conflict.***

"If we don't trust one another, then we aren't going to engage in open, constructive, ideological conflict. And we'll just continue to preserve a sense of artificial harmony." She wrote artificial harmony on the whiteboard next to ***fear of conflict.***

Carlos, DecisionTech's head of customer support, weighed in. "But why is harmony a problem?"

"It's the lack of conflict that's a problem," Kathryn answered. "Harmony itself is good, I suppose, if it comes as a result of working through issues constantly and cycling through conflict. But if it comes only as a result of people holding back their opinions and honest concerns, then it's a bad thing. I'd trade that false kind of harmony any day for a team's willingness to argue effectively about an issue and then walk away with no collateral damage."

Lack of Commitment

Kathryn went back to the whiteboard. "The next dysfunction of a team is a ***lack of commitment*** and a failure to buy into decisions." She wrote this dysfunction above the previous one. "And the evidence of this one is ambiguity," which she wrote next to it.

"I'm talking about committing to a plan or a decision, and getting everyone to clearly buy into it. That's why conflict is so important," Kathryn explained. "When people don't unload their opinions and feel like they've been listened to, they won't really get on board. The point here is that most reasonable people don't have to get their way in a discussion. They just need to be heard, and to know that their input was considered and responded to."

Avoidance of Accountability

Kathryn went to the board for the last time and wrote ***avoidance of accountability.***

She explained, "Once we achieve clarity and buy-in, we have to hold each other accountable for what we sign up to do, for high standards of performance and behavior. And as simple as that sounds, most executives hate to do it, especially when it comes to a peer's behavior, because they want to avoid interpersonal discomfort."

"What exactly do you mean by that?" Jeff asked.

"I'm talking about that moment when you know you have to call one of your peers on something that matters, and you decide to let it go because you just don't want to experience that feeling of … interpersonal discomfort," Kathryn explained.

She wrote ***low standards*** next to ***avoidance of accountability*** on the whiteboard.

PART III: HEAVY LIFTING

Over the next two weeks, Kathryn began to push her team harder than ever before regarding their behavior. She chided Martin, DecisionTech's chief technologist, for eroding trust by appearing smug during meetings. She forced Carlos to confront the team about its lack of responsiveness to customer issues. And she spent more than one night with DecisionTech's CFO, Jan, and its head of sales, Nick, working through budget battles that had to be fought.

More important than what Kathryn did, however, was the reaction she received. As resistant as they might have seemed in the moment, no one questioned whether they should be doing the things that Kathryn was making them do. There seemed to be a genuine sense of collective purpose.

The only question that remained in Kathryn's mind was whether she could keep it going long enough for everyone to see the benefits.

PART IV: TRACTION

Over the course of the next year, DecisionTech grew its sales dramatically and met its revenue goals during three of the four quarters. The company moved into a virtual tie for the number one position in the industry, but had yet to separate itself from its chief rival.

With the substantial improvement in performance, the company saw turnover among employees subside and morale rise steadily, with the exception of a slight and temporary dip when the company missed its numbers.

Interestingly, when that happened, even the chairman called to encourage Kathryn not to get too disappointed in light of the undeniable progress she had made.

The March

With more than 250 employees, Kathryn decided it was time to trim down the number of executives who reported directly to her. She believed that the larger the company, the smaller the team should be at the top. And with the addition of a new head of sales and a human resources director, her staff had grown to a barely manageable eight. It wasn't that Kathryn couldn't handle the weekly one-on-ones, but it was increasingly difficult to have fluid and substantive discussions during staff meetings with nine people sitting around the table. Even with the new collective attitude of the members of the team, it would only be a matter of time before problems began to surface.

So more than a year after the final Napa off-site had ended, Kathryn decided to make a few organizational changes, which she delicately but confidently explained to each of her staff members.

The Team

A week later, another of Kathryn's quarterly two-day staff meetings took place. Kathryn told her staff, "Jeff won't be coming to these meetings any more." Jeff was DecisionTech's VP of development.

Everyone in the room was stunned by what Kathryn had said, and that she had said it with so little emotion.

She explained: "This was Jeff's idea."

That thought had not occurred to any of her executives. Kathryn went on. "He said that as much as he wanted to stay on the team, it made more sense for him to be part of Nick's sales group. I actually gave him a chance to change his mind, and he insisted it was the right thing to do for the company, and for the team."

Kathryn let the team members enjoy a silent moment of admiration for Jeff, their former CEO.

And then she continued. "I think we owe it to Jeff and everyone else at this company to make this work. Let's get started."

The Model

An Overview of the Model

Two critical truths are clear. First, genuine teamwork in

most organizations remains as elusive as it has ever been. Second, organizations fail to achieve teamwork because they unknowingly fall prey to five natural but dangerous pitfalls, which can be called the five dysfunctions of a team.

These dysfunctions can be mistakenly interpreted as five distinct issues that can be addressed in isolation from the others. But in reality they form an interrelated model, making susceptibility to even one of them potentially lethal for the success of a team. A cursory overview of each dysfunction and the model they make up should make this clearer.

Understanding the Five Dysfunctions

1. The first dysfunction is an **absence of trust** among team members. Essentially, this stems from their unwillingness to be vulnerable within the group. Team members who are not genuinely open with one another about their mistakes and weaknesses make it impossible to build a foundation for trust.
2. This failure to build trust is damaging because it sets the tone for the second dysfunction: **fear of conflict.** Teams that lack trust are incapable of engaging in unfiltered and passionate debate of ideas. Instead, they resort to veiled discussions and guarded comments.
3. A lack of healthy conflict is a problem because it ensures the third dysfunction of a team: **lack of commitment.** Without having aired their opinions in the course of passionate and open debate, team members rarely, if ever, buy in and commit to decisions, though they may feign agreement during meetings.
4. Because of this lack of real commitment and buy-in, team members develop an **avoidance of accountability**, the fourth dysfunction. Without committing to a clear plan of action, even the most focused and driven people often hesitate to call their peers on actions and behaviors that seem counterproductive to the good of the team.
5. Failure to hold one another accountable creates an environment where the fifth dysfunction can thrive. **Inattention to results** occurs when team members put their individual needs (such as ego, career development or recognition), or even the needs of their divisions, above the collective goals of the team.

And so, like a chain with just one link broken, teamwork deteriorates if even a single dysfunction is allowed to flourish.

Dysfunction No.1: Absence of Trust

Trust lies at the heart of a functioning, cohesive team. Without it, teamwork is all but impossible.

The kind of trust that is characteristic of a great team requires team members to make themselves vulnerable to one another and be confident that their respective vulnerabilities will not be used against them. These vulnerabilities include weaknesses, skill deficiencies, interpersonal shortcomings, mistakes and requests for help.

Overcoming Dysfunction No. 1

How does a team go about building trust? Unfortunately, vulnerability-based trust cannot be achieved overnight. It requires shared experiences over time, multiple instances of follow-through and credibility, and an in-depth understanding of the unique attributes of team members. However, by taking a focused approach, a team can dramatically accelerate the process and achieve trust in relatively short order. Here are a few tools that can bring this about:

- **Personal Histories Exercise.** This low-risk exercise requires nothing more than going around the table during a meeting and having team members answer a short list of questions about themselves.
- **Team Effectiveness Exercise.** This exercise requires team members to identify the single most important contribution that each of their peers makes to the team, as well as the one area that they must either improve upon or eliminate for the good of the team.
- **Personality and Behavioral Preferences Profiles.** Some of the most effective and lasting tools for building trust on a team are profiles of team members' behavioral preferences and personality styles. The best profiling tool is the Myers-Briggs Type Indicator (MBTI).
- **360-Degree Feedback.** These tools call for peers to make specific judgments and provide one another with constructive criticism.

The Role of the Leader in Building Trust

The most important action that a leader must take to encourage the building of trust on a team is to demonstrate vulnerability first. This requires that the leader risk losing face in front of the team, so that subordinates will take the same risk themselves. Team leaders must create an environment that does not punish vulnerability. Displays of vulnerability on the part of a team leader must be genuine; they cannot be staged.

Dysfunction No.2: Fear of Conflict

Teams that engage in productive conflict know that its only purpose is to produce the best possible solution in the shortest period of time. They discuss and resolve issues more quickly and completely than other teams do, and they emerge from heated debates with no residual feelings or collateral damage, but with an eagerness and readiness to take on the next important issue.

Overcoming Dysfunction No. 2

How does a team go about developing the ability and willingness to engage in healthy conflict? The first step is to acknowledge that conflict is productive and that many teams have a tendency to avoid it. As long as some team members believe that conflict is unnecessary, there is little chance that it will occur. But beyond mere recognition, there are a few simple methods for making conflict more common and productive:

- **Mining**. Members of teams that tend to avoid conflict must occasionally assume the role of a "miner of conflict" — someone who extracts buried disagreements within the team and sheds light on them. Some teams may want to assign a member of the team to take on this responsibility during a given meeting or discussion.
- **Real-Time Permission**. In the process of mining for conflict, team members need to coach one another not to retreat from healthy debate. One simple but effective way to do this is to recognize when the people engaged in conflict are becoming uncomfortable with the level of discord, and then interrupt to remind them that what they are doing is necessary.
- **The Thomas-Kilmann Conflict Mode Instrument**. This tool, commonly referred to as the TKI, allows team members to understand natural inclinations around conflict so they can make more strategic choices about which approaches are most appropriate in different situations.

The Role of the Leader in Overcoming the Fear of Conflict

It is key that leaders demonstrate restraint when their people engage in conflict, and allow resolution to occur naturally, as messy as it can sometimes be.

A leader's ability to personally model appropriate conflict behavior is essential. By avoiding conflict when it is necessary and productive — something many executives do — a team leader will encourage this dysfunction to thrive.

Dysfunction No.3: Lack of Commitment

In the context of a team, commitment is a function of two things: clarity and buy-in. Great teams make clear and timely decisions and move forward with complete buy-in from every member of the team, even those who voted against the decision. They leave meetings confident that no one on the team is quietly harboring doubts about whether to support the actions agreed on.

The two greatest causes of a lack of commitment are the desire for consensus and the need for certainty:

- **Consensus**. Great teams understand the danger of seeking consensus, and find ways to achieve buy-in even when complete agreement is impossible. They understand that reasonable human beings do not need to get their way in order to support a decision, but only need to know that their opinions have been heard and considered.
- **Certainty**. Great teams also pride themselves on being able to unite behind decisions and commit to clear courses of action even when there is little assurance about whether the decision is correct. They realize that it is better to make a decision boldly and be wrong — and then change direction with equal boldness — than it is to waffle.

Overcoming Dysfunction No. 3

How does a team go about ensuring commitment? By taking specific steps to maximize clarity and achieve buy-in, and by resisting the lure of consensus or certainty. Here are a few simple but effective tools and principles:

- **Cascading Messaging.** At the end of a staff meeting or off-site, a team should explicitly review the key decisions made during the meeting and agree on what needs to be communicated to employees or other constituencies about those decisions.
- **Deadlines.** One of the best tools for ensuring commitment is to use clear deadlines for when decisions will be made and honor those dates with discipline and rigidity.
- **Contingency and Worst-Case Scenario Analysis.** A team that struggles with commitment can begin overcoming this tendency by briefly discussing contingency plans up front or, better yet, clarifying the worst-case scenario for a decision they are struggling to make.
- **Low-Risk Exposure Therapy.** Another relevant exercise for a commitment-phobic team is to demon-

strate decisiveness in relatively low-risk situations. When teams force themselves to make decisions after substantial discussion but little analysis or research, they usually come to realize that the quality of the decision was better than they expected.

The Role of the Leader in Building Commitment

More than any other member of the team, the leader must be comfortable with the prospect of making a decision that may ultimately turn out to be wrong. And the leader must be constantly pushing the group for closure around issues, as well as adherence to schedules that the team has set. What the leader cannot do is place too high a premium on certainty or consensus.

Dysfunction No.4: Avoidance of Accountability

In the context of teamwork, accountability refers specifically to the willingness of team members to call their peers on performance or behaviors that might hurt the team.

The essence of this dysfunction is an unwillingness by team members to tolerate the interpersonal discomfort that accompanies calling a peer on his or her behavior and the more general tendency to avoid difficult conversations. Members of great teams overcome these natural inclinations, opting instead to "enter the danger" with one another.

Members of great teams improve their relationships by holding one another accountable, thus demonstrating that they respect each other and have high expectations for one another's performance.

The most effective and efficient means of maintaining high standards of performance on a team is peer pressure. More than any policy or system, there is nothing like the fear of letting down respected teammates to motivate people to improve their performance.

Overcoming Dysfunction No. 4

How does a team go about ensuring accountability? The key to overcoming this dysfunction is adherence to a few classic management tools that are as effective as they are simple:

- **Publication of Goals and Standards.** A good way to make it easier for team members to hold one another accountable is to clarify publicly exactly what the team needs to achieve, who needs to deliver what and how everyone must behave in order to succeed.
- **Simple and Regular Progress Reviews.** Team members should regularly communicate with one another, either verbally or in writing, about how they feel their teammates are doing against stated objectives and standards.
- **Team Rewards.** By shifting rewards away from individual performance and toward team achievement, the team can create a culture of accountability. This occurs because a team is unlikely to stand by quietly and fail because a peer is not pulling his or her weight.

The Role of the Leader in Instilling Accountability

One of the most difficult challenges for a leader who wants to instill accountability on a team is to encourage and allow the team to serve as the first and primary accountability mechanism.

Once a leader has created a culture of accountability on a team, however, he or she must be willing to serve as the ultimate arbiter of discipline when the team itself fails. This should be a rare occurrence. Nevertheless, it must be clear to all team members that accountability has not been relegated to a consensus approach, but merely to a shared team responsibility, and that the leader of the team will not hesitate to step in when necessary.

Dysfunction No.5: Inattention to Results

The ultimate dysfunction of a team is the tendency of members to care about something other than the collective goals of the group. An unrelenting focus on specific objectives and clearly defined outcomes is a requirement for any team that judges itself on performance.

Results are not limited to financial measures, like profit, revenue or shareholder returns. This dysfunction refers to a far broader definition of results, one that is related to outcome-based performance.

Every good organization specifies what it plans to achieve in a given period, and these goals, more than the financial metrics that they drive, make up the majority of near-term, controllable results. So, while profit may be the ultimate measure of results for a corporation, the goals and objectives that executives set for themselves along the way constitute a more representative example of the results it strives for as a team. Ultimately, these goals drive profit.

But what would a team be focused on other than results? Team status and individual status are the prime candidates.

- **Team Status.** For members of some teams, merely being part of the group is enough to keep them satisfied. For them, achieving specific results might be desirable, but not necessarily worthy of great sacrifice or inconvenience.
- **Individual Status.** A functional team must make the collective results of the group more important to each individual than individual members' goals.

Overcoming Dysfunction No. 5

How does a team go about ensuring that its attention is focused on results? By making results clear, and rewarding only those behaviors and actions that contribute to those results.

- **Public Declaration of Results.** Teams that are willing to commit publicly to specific results are more likely to work with a passionate, even desperate desire to achieve those results.
- **Results-Based Rewards.** An effective way to ensure that team members focus their attention on results is to tie their rewards, especially compensation, to achieving specific outcomes.

The Role of the Leader in Focusing a Team on Results

Perhaps more than with any of the other dysfunctions, the leader must set the tone for a focus on results. If team members sense that the leader values anything other than results, they will take that as permission to do the same for themselves. Team leaders must be selfless and objective, and reserve rewards and recognition for those who make real contributions to achieving group goals.

Conclusion

The reality remains that teamwork ultimately comes down to practicing a small set of principles over a long period of time. Success is not a matter of mastering subtle, sophisticated theory, but rather of embracing common sense with uncommon levels of discipline and persistence.

Ironically, teams succeed because they are exceedingly human. By acknowledging the imperfections of their humanity, members of functional teams overcome the natural tendencies that make trust, conflict, commitment, accountability and a focus on results so elusive.



Patrick Lencioni is founder and president of The Table Group, a management consulting firm specializing in executive team development and organizational health. As a consultant and keynote speaker, he has worked with thousands of senior executives in organizations ranging from Fortune 500s and high-tech startups to universities and nonprofits. His books include ***The Five Temptations of a CEO, Death by Meeting and The Three Signs of a Miserable Job***.

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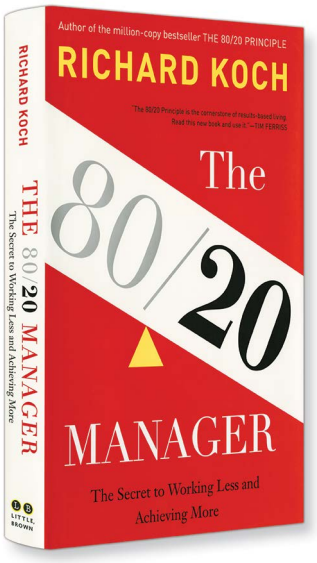
The 80/20 Manager

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The 80/20 Manager

The Secret to Working Less and Achieving More



by Richard Koch

THE SUMMARY IN BRIEF

Do you feel overwhelmed by an overflowing inbox? Are you constantly struggling to finish your to-do list? Do you stay at work longer than you would like and feel as though you never spend time on the things that really matter?

Bestselling author Richard Koch shows how the 80/20 Principle — the idea that just 20 percent of our time, effort and key decisions generates 80 percent of our success — can be used at all levels of business. Now, in *The 80/20 Manager*, he demonstrates how to apply this groundbreaking principle to management.

The Principle is predicated on a strange economic phenomenon first outlined over 100 years ago by Vilfredo Pareto. The "Pareto Rule" is at the heart of the 80/20 Principle. The Principle is that a small number of events give rise to the majority of effects. Therefore, *very few things matter at all; but those that do, matter enormously*. The Principle is not a theory. It came from observation — from examining the relationship between a number of causes and a number of results, both expressed as percentages.

How does this apply to management? A manager can be much more efficient and effective if he or she applies 80/20 to their own situations. The principle is weird and counterintuitive and based on the premise that most effort is a waste of time, but a few, well-chosen interventions can turn this upside down. The true value of the Principle is that it helps us to identify those few activities that we should pursue because they will lead to great results.

IN THIS SUMMARY, YOU WILL LEARN:

- How to achieve exceptional results without working so hard.
- How to focus on the issues that really matter and ignore those that don't.
- How to ask the right questions and find the right connections.
- How to find meaningful achievement by defining the core of the firm and yourself.
- How to value thought above action to create winning strategies.

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THE COMPLETE SUMMARY: **THE 80/20 MANAGER**

by Richard Koch

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PART I: The Question Are You Overwhelmed?

Would You Like to Simplify Your Work and Life?

Work is overwhelming. Do you find that? Does everything pile up in your inbox and on your desk? Do you feel like you're always behind? Do you have a sinking feeling on your way to work and a guilty feeling on the way home? Do you suspect that your bosses neither understand nor care?

If you can identify with any of these issues, I have some good news for you: *Work doesn't have to be that way*.

Unsurprisingly, the great majority of managers find work overwhelming — frenzied, stressful, complex, unrelenting, exhausting and demoralizing. But a small minority has managed to buck the trend. They are optimistic, confident, relaxed and happy. They keep their work and their lives simple.

Two Ways to Manage

There are two ways to manage. You were probably taught the standard way to manage, or maybe you picked it up by osmosis:

- You work hard, often putting in long hours, and are highly visible and available.
- You are continually busy, exhibiting a buzz of activity.
- You answer inputs in a timely and linear way. If someone sends you an email, you respond promptly. This seems perfectly natural and no more than good manners. However, it is time consuming.
- You have some discretion about what you're doing and the way it is done, but always within the constraints of company policy, teamwork and what your bosses want.
- There is an unspoken rule that you should not be too different in style or behavior from the bulk of your bosses and other colleagues.

In practice, this management approach quickly leads to overload. You slip behind with your work and never really catch up.

The other way to manage is much less prevalent, but the road less travelled is more peaceful. If you are one of these rare managers,

- You generally put in fewer hours than your colleagues.
- You are — unfashionably — not very action-oriented. You spend a lot of time thinking and a considerable amount talking face-to-face. Much of your time is spent out of the office.
- You focus on outputs, not inputs. You often do not feel the need to respond to incoming emails or texts immediately, only answering them at particular times of the day. Each morning, you work out the one thing you want to accomplish that day. Then, you do nothing else until that task is complete.
- You keep your work simple. You remove or ignore the trivial clutter that routinely strangles your colleagues. You work primarily on what can be done quickly yet will make a big difference. As far as possible, you delegate or overlook everything else.

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Rebecca Clement, Publisher; **Sarah Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **Janet Lloyd Murphy**, Contributing Editor

- In a quiet way, you're a non-conformist. You are still a team player, accessible and friendly, but you often say things that surprise your colleagues. You can be inconsistent, and you ask a lot of questions. You do things your way.
- You feel successful, although your definition of "success" may not match anyone else's!
- Superficially, you seem quite similar to your colleagues because you don't make a big deal about your differences. Only those who know you well realize how unusual you are. The biggest difference of all is that you are unstressed, unhurried and usually happy.

The difference is not a matter of temperament and personality. What makes these managers different is not what they feel but the way they think. They have a secret weapon … they understand the Principle.

The Secret Weapon

The secret weapon is the 80/20 Principle. It is the observation that the lion's share of results comes from a small amount of effort and energy. Only 20 percent of your time will generate more than 80 percent of your useful results. And 20 percent of your decisions will lead to more than 80 percent of your success and happiness — or the opposite. The amazing thing about the Principle is that very few things matter at all; but those that do, matter enormously.

The true value of the Principle is that it helps us to identify those few activities that we should pursue because they will lead to great results. Awareness of the Principle enables us to simulate, multiply and accelerate those things we want to happen.

Why Does the Principle Matter to Managers?

One of the most harmful, ridiculous, idiotic, yet enduring assumptions of the business world is that *all* sales are good, *all* revenue is valuable, and *all* sources of revenue are of roughly equal importance. They are not.

The delusion that all revenue is good drives the worst and most palpably absurd blunders in the business world. It leads to enormous amounts of energy and money being wasted in chasing totally unsuitable customers. It also drives expensive and sometimes fatal acquisitions. The same misguided assumption encourages expansion into new products that have limited appeal among the firm's core customers or don't fit its channels of distribution and brand positioning.

The assumption that all sales are good leads to profitless growth. So, why do otherwise good managers make these mistakes? Because they think the world is 50/50. They think that results flow from causes in a linear and roughly equal way. They think that all revenues lead to profits. They think in *averages*. They don't understand that the world is really 80/20.

It is likely that only about one-fifth of customers are worth around four-fifths of a company's value; which means that the other four-fifths are worth only one-fifth. If you do the sums, you realize that one core customer is worth *16 times* one ordinary customer.

The value of 80/20 thinking is that it can change your mindset from a widely accepted yet wholly inaccurate way of viewing the world to one that is harder to believe but infinitely more accurate. The Principle provides a new window on the world — one that is hard to accept and understand but gives us rare insight and radically improves our effectiveness.

PART II: The Answer
Ten Ways to Be an 80/20 Manager

Don't be daunted by the fact that there are 10 different ways. Think of them as a menu from which you can pick and choose, not a checklist of skills that you must master. In fact, being brilliant at one of the 10 ways will take you an awful lot further than being competent at all 10.

Way One: The Investigating Manager

What do you do when you know you have a problem but don't know how to fix it? The first thing is to investigate what is wrong.

A Questioning Mind

Children learn to ask questions very early on, opening new windows on their world. Questions enable them to piece together connections in the mystery of life and understand how they fit into the big picture.

As we grow older, though, we tend to stop asking questions and start offering answers — usually not especially original ones. We stop thinking. Because we stop asking questions, we lose the ability to uncover fresh patterns. Life becomes less mysterious, more dull. Detectives — and some scientists — are among the few adults who still think like children. They get their kicks by asking questions and increasing their knowledge as a result.

Managers should behave in the same way. Asking questions and not automatically believing what everyone else believes or accepting everything you are told — in other words, investigative thinking — is an 80/20 activity. It

yields occasional insights that turn reality on its head and enable you to move to a higher plane of existence.

In business, the most potent type of investigation looks beyond averages, because averages can be misleading. Business is not driven by averages; it is driven by exceptions, extremes. Beneath the average there are always a few good forces and a mass of mediocre or bad ones. The investigating manager's mission is to work out which is which.

What is Your Firm's "Core"?

Just a few products and a few customers really count, while most of the rest drag down your profits, so most of a firm's activities are largely irrelevant, while a few are extraordinarily important and give the business its reason to exist.

This is the concept of the "core." It consists of the 1-20 percent of what your company does (and what it is) that makes you different from any other firm in your sector and delivers most of your value to the world.

Firms without a strong core don't become well known. Nor do they last long. Firms with a strong core can change the world.

Harvard Business School professors David Collis and Cynthia Montgomery talk about a business's "core resources." The idea of core resources encompasses not just what the firm does well but its physical assets, such as great location, and its intangible assets, such as a great brand or the ability to work in a unique way. Collis and Montgomery provide five criteria for a core resource, all of which must be met:

- Hard to copy
- Depreciate slowly
- Controlled by the company, not by employees, suppliers or customers.
- Secure against substitution by a new product, service or technology.
- Clearly superior to any rival's comparable resource.

If you are ruthless in testing your own firm's resources against these criteria, you will typically find that it has only one or two core resources. Once you establish what they are, you can focus everyone's energy on building them up. As a result, your company will soon have a much greater impact on the world.

Way Two: The Superconnecting Manager

Weak Links, Powerful Effects

Who do you think can provide the most help in your work and life? Your close colleagues? Friends and family? Or people you hardly know and rarely see?

The answer is surprising. Great leaps forward in our lives — such as getting a fantastic new job or finding the key to transforming a business — are more likely to come out of the blue, from casual acquaintances, and fully utilizing the "weak links" we all have in profusion.

In a seminal paper, sociologist Mark Granovetter speculated why family and friends — who are strongly motivated to help — are usually less valuable than casual acquaintances in our career turning points. He came to the conclusion that our friends, family and close colleagues form a "closely knit clump of social structure" where most contacts are in touch with the others. These close contacts have access to the same information we have, but not much more. So we have to move outside our immediate circle and contact the distant extremities of our social network to gain fresh insights and learn new information.

How to Become a Superconnector

A superconnector links people from disparate backgrounds, acting as a bridge between people who would benefit from knowing each other but don't.

Here's how to become a superconnecting manager:

- Begin by improving your network of connections within the firm, especially with high-performing (80/20) managers and with "diverse" links — executives who are dissimilar to you and those who work in other departments or distant locations.
- Use travel for work business to get to know your acquaintances better.
- Join cross-disciplinary and cross-location project teams.
- If you can, work overseas for a time.
- Be willing to change firms even if you are feeling comfortable in your existing job, and then keep in touch with your former colleagues.
- Gravitate towards departments and jobs that require extensive external contact — for example, marketing or customer-facing roles.
- Form a dining club of external, friendly acquaintances.
- Learn about new ideas by reading magazines, trade journals and books that nobody else in the firm is likely to read.

Once you are open to the world, connecting people and ideas becomes second nature, and life takes on numerous delightful new dimensions.

Way Three: The Mentoring Manager

"Mentoring" and "being mentored" are just fancy terms for teaching and learning. Except that both can be very personal. Look back on all the jobs you've had — including different jobs in the same firm — and ask what you learned in each job and how. Chances are that your most valuable lesson came from a boss or colleague.

So, the question to answer is this: Are you willing to invest in *your* people? Their growth matters more than marketing, strategy, finance, technical skills, industry knowledge or customer intimacy.

How to Become a Mentoring Manager

Here are some of the ways in which the 80/20 Principle applies to mentoring:

- Fewer than 20 percent of managers are effective mentors, yet this small group of leaders probably accounts for more than 80 percent of the performance difference attributable to the human factor.
- Mentoring is a great example of how a small amount of energy can produce amazing results. Because people yearn for attention, direction and encouragement, a few minutes of your time can keep them motivated throughout the working week.
- You are likely to achieve the best mentoring results through the least effort if you tell your people about the Principal and the 10 ways to become a super-effective manager.
- Get everyone you mentor to agree to mentor at least two other people in the firm.
- Make raising the performance of the people they mentor an important part of performance appraisal for your managers.
- The Principle suggests that there will be only a few great mentors in any firm. So, identify the great mentors, analyze precisely what they do, and imitate them.

How to Find Great Mentoring

It doesn't matter who you are — the lowliest clerk, the CEO of a multinational corporation or the President of the United States — we all need support and coaching. We all need mentors.

Tips for acquiring and retaining a really good mentor include:

- Go for quality over quantity. One terrific mentor is worth five very good ones.
- Once you've found your mentor, don't demand too much of their time.
- Listen intently. Few people like to be brutally honest, so learn to read between the lines.
- The best advice is useless unless you act upon it.
- Give something back. Mentees can also introduce mentors to some angles they never would have found on their own.

Way Four: The Leveraged Manager

To be a leveraged manager, you should exploit as many levers as you can. A "lever" in this context is any simple device that has the power to multiply the effectiveness of your input and so allows you to achieve extraordinary results through ordinary effort. Here are the seven levers for great results:

1. **Caring and the power of the subconscious**
   The subconscious is better than conscious thought for solving all the really interesting problems. You have probably experienced an idea popping into your head seemingly from nowhere. But that happens only when you truly care about something.
2. **Confidence**
   Confidence has the power to generate a super-positive force field, life-saving energy, impossibility-defying ingenuity.
3. **Ideas**
   Every business starts with an idea. And if the business is to thrive, that idea has to be a good one. But every idea can be improved.
4. **Decisions**
   Without decisions, we drift rudderless on the sea of life. If we are decisive, we might well succeed. If we are indecisive, we never will. Focus on taking the few crucial decisions, those that could transform your business and your life, and let the rest go hang.
5. **Trust**
   The essence of trust is that you focus on the outputs, not the inputs, and you allow your people to do the same. A lack of trust requires constant supervision, which makes it horrendously inefficient. It is the antithesis of the 80/20 approach.
6. **People**
   Invest whatever money, time, energy and persuasion are necessary to recruit the very best in your industry. Recruiting the best staff is just as important as attracting the best customers, perhaps even more so.

7. **Money**
   As a manager with a good idea, you can afford to think big because the money for the project comes from the company. If the project takes off, so will you. If it fails, you won't have to pay back the investment. Launch the largest projects. This is what 80/20 managers do.

Using the seven levers is a little different from the other nine ways to be an 80/20 manager in that these levers naturally help and reinforce all of the other approaches.

Way Five: The Liberating Manager

A liberating manager must be utterly honest with his or her people, supportive and friendly yet very demanding. The liberating manager brings out the best in all of his or her people for the benefit of each individual and the firm.

Making Creativity Work for You

To get the best out of your people, you need to open up their creative side — the 20 percent of their abilities and personality that can lead to more than 80 percent of what they can deliver. You need to liberate them to achieve their full potential, which means identifying their few outstanding personal "spikes," then encouraging them to nurture and deploy these skills in ways that will benefit the team and the firm.

If someone's creative side is to flourish, they need to work in an honest, friendly, open environment. Historically, firms have been extremely bad at providing this, and big firms have typically been the worst of all. These organizations have been based on power, fear and tight supervision.

However, there is nothing soft and squidgy about being a liberating manager. It demands high rather than low standards. A performance culture without liberation is a pity, but a liberating culture without performance is unsustainable. The liberating manager chooses to work in one of the few firms that encourage high performance and personal liberation.

Way Six: The Manager Seeking Meaning

Nothing is more important than achieving meaning in your life. Viktor Frankl, the Austrian doctor and philosopher, said meaning derives from achievement — from creating something or performing a deed that derives from your unique imagination and talents. Happiness is a by-product of leading a life with meaning.

Achievement, and therefore success, in any field goes disproportionately to the few. The more results depend upon individual imagination, personality and unique skills, the more the Principle operates.

Unique accomplishments rest on finding meaning in work, and they give back compounded meaning to life. Real achievement makes you feel proud and useful. Yet meaning is also subject to the Principle. Very few people find true meaning in their lives, but these are the ones who fuel progress for the world as a whole.

Be Incredibly Selective

Choosing where to work is as important as what you do while you are there. This one decision — usually made very quickly — can have a bigger impact on your success and happiness than years of toil. Most managers allow the organization to select them. It should be the other way round. If you are looking for meaning, you must take a different approach which includes five aspects: the field in which you work must turn you on; the job must give you rare knowledge; the firm must inspire by love rather than rule by fear; you must like your colleagues and bosses, and they must like you; and finally, the firm must be going places.

Finding Your Core

Successful investigating managers understand the importance of identifying their firm's core, and this process is just as important for those managers who are determined to find meaning in their work. To do so, polish and hone your core attributes so that they become ever more powerful and appreciated. Consider these questions:

- What can I do faster, better, more elegantly and with less trouble than almost anyone else?
- What are the best results I've ever achieved in my life? How did I do it?
- Who are my core customers, the few significant people inside and outside the firm who are most impressed by what I can do and who most value my contribution?
- Do I naturally identify with these core customers, or is there a different group with whom I might identify more?
- Am I better at thinking or doing? What kind of thinking or doing?
- Which few things do I enjoy or intensely experience more than any others?

- When have I pointed in a direction different from everyone else and been proved right?

If you are uncertain what your core is, experiment with various jobs until you find your niche, the unique role that will allow you to reach glorious new heights. But make sure that your core is congruent (or at least overlaps and is compatible) with the core of the business where you work.

Way Seven: The Time-Rich Manager

Value is not related to time but to ideas, collaboration and the power of our intent as human beings to do what we do. The further up the value ladder we climb, the more this is true. In creative work — including that of all the best managers — value is hardly related to time at all. Once we realize this, we become free. Time itself does not create stress. We do, by thinking our value is constrained by the amount of time we put in.

Eight Ways to Become Time Rich

There are eight steps to working fewer hours and achieving better results. But before embarking on them, change your attitude. Are you prepared to focus all your energy on the vital few and ignore the trivial many? If so,

- Maximize your freedom to work how you want.
- Select just *one* priority each day and tackle it first.
- Think before you act.
- Identify the few causes of success in your firm or team.
- Listen to your core customers.
- Make your team 80/20 managers.
- Identify the 20 percent of your work that results in 80 percent of your happiness and effectiveness.
- Progressively reduce your working hours.

Becoming time-rich boosts your health and relationships. It's also the way to reach your full potential. But don't think it'll be easy. In discarding the trivial and focusing on the essential, you will have to reject the habits of a lifetime.

Way Eight: The Simplifying Manager

The best business strategies are always simple, reining the business back to its core customers, deepening relationships with them, and providing only the products that they want. Firms win when they focus on the simplest 20 percent — their most authentic and distinctive core, the most powerful fifth of what they are and what they do. The same goes for managers. The simplest, most authentic, distinctive and powerful 20 percent of what you do should be your exclusive focus. And only one thing should really matter to you at any one time.

How to Simplify Your Work

The essence of simplification is grasping what is and what is not important in a complex picture, then reducing this to something that is recognizable and easily understandable. The Principle states that most things are unimportant. So the challenge is to find the small parts of the picture that are truly crucial and recognizable and then to render the insight memorably in a concise phrase or a product in a form that is intuitive and easy to use. A large part of simplification resides in communication — through the product itself, the brand and associated promotion.

Reframing Reality

The mark of a great leader is someone who simplifies in such a way that his or her listeners grasp *one powerful conclusion and then act on it*. Inevitably, simplification always includes an element of distortion; but the distortions of a great leader are geared to constructive reinterpretation of reality in such a way that the audience knows how to overcome the roadblocks.

Simplification is not just about the big issues in our society and our businesses. It is also about *us.* It involves interpreting and reinterpreting our past, drawing conclusions about the future, de-cluttering our daily lives, and realizing that our minds can act effectively on only a few really simple messages. We need to feed our minds simple messages if we are to act super-effectively.

Way Nine: The Lazy Manager

The Right Sort of Laziness

Contrary to conventional wisdom, managers can be "lazy" and still achieve the status of greatness in their industries. The catch is that this type of laziness must be complemented by high intelligence to truly be an 80/20 strategy. These managers must also possess a host of other virtues, such as thoughtfulness, originality and vision — as well as some less attractive qualities, including at least a pinch of arrogance, narcissism and self-indulgence.

We do not normally associate laziness with determination, but the determination to find a much better solution involving much less effort is the highest form of laziness. It is the very essence of the 80/20 Principle in action. Those

who practice it are *visionary* managers — lazy, thoughtful, inventive and possessing a self-confidence bordering on the most constructive form of arrogance. Their brilliance gives them the confidence to be lazy, and their laziness gives them the freedom to find shortcuts to better results through less effort.

It is easier to make a few really good decisions if you don't waste your time on things that will never be life-changing. Laziness, selectivity and confidence compound each other and are the nearest we can get to a short formula for extraordinary achievement.

Way Ten: The Strategic Manager

The final way to become an 80/20 manager can be demanding. It is, however, often the most valuable and rewarding route. This is the world of the strategic manager. Strategic managers create fantastic value by re-imagining their industry.

By devising fresh ways of doing business, strategic managers provide unique products or services for which customers are happy to pay a premium, or they cut costs without reducing quality, or ideally, they do both. The new way of doing business is highly profitable — it is an 80/20 solution.

The Essential Characteristics of the Strategic Manager

Strategic managers often reach for the stars, but strategic management can be applied to any level of ambition — as long as it yields exceptional results for unexceptional effort. All strategic managers value thought above action. Unlike most of their colleagues, they never let action — or conformity — drive out thought. Then they think very hard about how to do more with less.

Mastering the art of thinking is only the first step in becoming a strategic manager, though, because serious thought inevitably leads to uncertainty; after all, if there wasn't uncertainty, there would be no need to think. Thinking always involves risk — it may force you to commit to something unfamiliar, daunting and possibly even harmful. Acting on an innovative idea is a gamble because you will be staking your reputation, time, energy and the firm's resources without knowing what will happen.

Successful strategic managers also need the extreme ambition to create a better business model, an understanding of how to achieve this, and the determination to make it happen. Once these elements are in place, the rewards for one bright idea can be enormous.

Finale: The 80/20 Manager and the 80/20 Organization

80/20 managers need 80/20 organizations, just as 80/20 organizations need 80/20 managers. 80/20 companies possess proprietary knowledge and earn high returns, mainly from leadership positions in high-growth markets. They are innovators that have reinvented their markets. A corporation that is growing fast and is sustainably profitable is an 80/20 company, even if none of its managers have heard of the Principle.

Like an 80/20 manager, a "super 80/20 company" would use the same highly selective strategies in conducting its business. This company would, among other things, turn their people into 80/20 managers, run 80/20 workshops, develop mentoring programs to reinforce and extend 80/20 learning, build 80/20 project teams, establish weak links to contrasting teams and individuals outside the firm and "twin" with another 80/20 company in a different industry or country to share knowledge and insights.

In these organizations, the best leaders openly encourage their people to take control of their careers and then maintain lifelong, friendly relationships with their former protégés. They appreciate that there is no shortage of talent; there is only a shortage of firms that are prepared to liberate it. Greatness is collective, but its foundation is individual and ever-shifting. Liberating greatness within yourself and then within your colleagues might seem to need a miracle, but it's easy once you know how. The secret to being an 80/20 manager is to realize sky-high aspirations through intelligence and acute observation instead of through toil and trouble. Like angels, we can soar and lift humanity while scarcely flapping our wings. But unless we care deeply about specific results and unless our ambition is boundless, we will never even take off.

RECOMMENDED READING LIST

If you liked *The 80/20 Manager*, you'll also like:

1. ***No More Pointless Meetings by Martin Murphy.*** Murphy reframes the entire concept of collaboration and introduces four "Work Sessions" that replace meetings to get more done, faster than ever before.

2. ***Extreme Productivity by Robert C. Pozen.*** Pozen explains how to determine your highest priorities and match them with how you actually spend your time.

3. ***The Pause Principle by Kevin Cashman.*** Cashman describes the need to pause to grow personal leadership, develop others, and foster a culture of innovation.

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The Advantage of Other

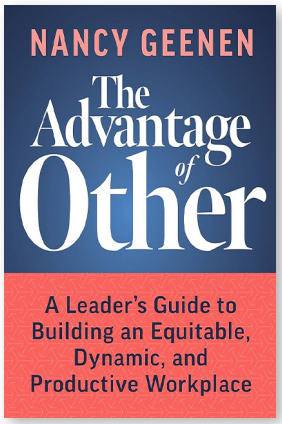
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The Advantage of Other

A Leader's Guide to Building an Equitable, Dynamic, and Productive Workplace

by **Nancy Geenen**



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THE SUMMARY IN BRIEF

Great leaders know how to build a culture of creativity that churns out high-performing teams. These teams then become the greatest competitive advantage a business can have.

The book ***The Advantage of Other: A Leader's Guide to Building an Equitable, Dynamic, and Productive Workplace*** explores the five pillars that build the foundation of a successful organization. The pages within transform into a personal (and practical) guide for anyone who wants to shape their leadership approach around diversity, equity, and inclusion.

Author Nancy Geenen unfolds a step-by-step journey toward creating a solid culture of inclusivity and building a team that drives your organization toward success. Every chapter of the book overflows with personal anecdotes, recommendations for personal and professional growth, and clear goals and objectives.

IN THIS SUMMARY, YOU WILL LEARN:

- Why people are the greatest competitive advantage in our businesses.
- How, as a leader, you can commit to diversity, equity, and inclusion in the workplace.
- About your people, your presence, your pipeline, your profits, and your partners.
- How to build an equitable, dynamic, and productive workplace.

Introduction

Our employees are the competitive advantage in our businesses. This book is designed to support business leaders who are committed to diversity, equity, and inclusion in the workplace.

Diversity is the representation of many identities and lived experiences. Equity is the access to career opportunities, resources, and tools needed to thrive uniquely in the workplace. Inclusion is the impact on the team member that lets them trust that they are both seen and heard and heard because they are seen.

The best leaders recognize there is a difference between leading and managing. Leading is a way of being accountable to oneself and the team. Managing is a way of holding the team accountable to each other. We have got to create a leadership culture of mattering and belonging in business for both short and long-term sustainability and growth.

Chapter 1: The Power of Story

Before we dive into the broader ideas of diversity, equity, and inclusion at work, I invite you to get curious and approach this book with the wonder of a child. To be childlike is to ask questions and learn new skills, all while being secure in the space of not knowing. The path to leadership has many, many steps, and mastering it requires consistent intention and attention.

We all have a story to tell. More importantly, re-examine the stories that you have always told yourself, and dive deeper into the truths that these stories hold. When we share our stories, we see the similarities and differences among us. From there, we discover how to learn from one another and from one another's stories. Sharing your story is one of the best ways to create and build trust.

Everyone has a very deep need to be seen and heard, to achieve and be accepted, to belong, and to matter. Approach everything with a childlike curiosity. Stay curious throughout your journey. Enjoy being a beginner and enjoy the journey toward mastery, which never ends. To carve a life story worth telling, figure out what your unique ability is, what you love doing, and what comes easily and effortlessly to you.

Chapter 2: Your People

Above everything else, leadership is about giving of yourself. Your time and attention are the most valuable resources your team can have access to. It's your job to make sure your stakeholders, your team, your customers, your suppliers, and even your wider network feel seen and heard.

Recognize that you're a team. While leadership requires some degree of personal work, the simplest thing you can do as a leader is to refocus your attention on the people you work with instead of yourself. Ask yourself, "What do I love about my work?" "What's not working?" "What tools or resources are needed to do more of what's working?" Instead of only telling your stories of leadership and learning, invite others to tell their own stories. Having the vision and the right team isn't enough. A great leader makes their team trust both the greater organizational vision and the people they work with.

To build a valuable team, think like a coach. Consider every member of your team to be an integral part of your business. The first step to building safety among team members is to make sure everything – from the physical working environment to the workplace energy – feels inviting and comfortable. Lean into diversity. The more diverse a team is, the better its performance when measured against the competition. Recognize your biases and set the intention of interrupting them, making the unconscious conscious. Remember, discomfort isn't a bad thing. It's an indicator of growth.

Chapter 3: Your Presence

So much of what empathy is, really, is presence. It's learning to be comfortable enough in the self, in the present moment, to be able to really listen, without judgment or even the desire to fix or solve the problem. Empathy requires a genuine curiosity and interest in other people and their stories. It means listening without involving yourself in the speaker's story. Your presence as a leader, more than anything else, dictates the effectiveness of your team. As the leadership goes, so goes the rest of the company.

The data from the "great resignation" during the COVID-19 pandemic has shown us that more and more people are refusing to put up with a toxic workplace, or an egotistical boss, even if for a hefty paycheck. A leader who holds too tight to the reins, who makes the decisions alone, behind closed doors, will never get full buy-in from the rest of the team. Your confidence should always be tempered with humility. Humble confidence means that the leader is open to sharing challenges as well as triumphs and they are open to advice and recommendations for upgrades.

Recognize your patterns. Try to concentrate on facts and issues. Ask yourself what happened, rather than how you feel about the event or stimulus. Practice presence. When a leader is fully present, they are better equipped for handling those unconscious gestures, facial expressions, and even thoughtless words and actions. Without presence, we are not in control of our actions and what we are communicating likely isn't the information that we want to convey.

Use your time wisely. Prioritize person-to-person interactions or at least, screen to screen, if in-person meetings are not possible. Ask for advice and commit to doing better. Ask everyone on the team for advice on how to do better in the future. Use good listening skills to let your team know they've been heard. Be reliable, keep your word as if your life depended on it. Be accountable and give others permission to hold everyone accountable.

Chapter 4: Your Pipeline

In business, the term "pipeline" typically refers to sales. Leaders should use the same strategies used in sales to nurture and grow their existing talent team. Finding the right people to put in the right seats is a process that starts with identifying a need, defining a function, developing an applicant pool, hiring the candidate, retaining and training the team member, and creating a career path that has positive results for both the company and the team member.

Remember, building a talent pipeline is a process that is relationship based, not transactional. Reexamine your bias about the places from which you can find talent. Building a meaningful relationship with your team is possible only if a leader is comfortable enough to be vulnerable and accessible. Lead the company by example. Create a culture of vulnerability, care, curiosity, and empathy. Create a culture that people will want to be a part of, invest in, and commit to.

Chapter 5: Your Profits

At the end of the day, the business must be profitable to stay open and achieve the vision. Creating a workplace in which people feel seen and heard, is actually an advantage rather than a hindrance to the bottom line.

People are your competitive advantage. The more diverse your group of leaders and management or the individuals who make up your think tank, the faster you're going to grow your revenues. For instance, if you have gender diversity in your leadership, you are likely to experience a whopping 25% increase in profitability over a comparable company that lacks gender equity in its workplace. Every leader must develop financial literacy to succeed in the business world. The business owner must accept responsibility for the numbers and should be well-versed in the financial status of the company, even if the company has an accountant, controller, or chief financial officer

Focus on your company's Gross profit, operating profit, and net profits (also known as bottom line). The leadership must review each of these profit numbers monthly if they are interested in scaling their business. When it comes to a small or mid-size business, cash is king. You must know your cash position every day. Pay close attention to how much money is coming in and how much is going out. Understand the trends on a monthly or annual basis. This information will indicate whether the business is scaling up, adding more people, more products, and more services to the roster. Develop a dashboard that tracks your finances.

Chapter 6: Your Partners

By definition, a partnership is an arrangement where two or more parties agree to cooperate to advance their mutual interests. A partnership is reciprocal. It must be exactly and delicately fair, even if not equal, in terms of resources, energy, money, skills, and open and honest communication.

Really great partners know that being committed to the partnership means that your best day is a day in which your partner has their best day. But what should you look for in a partner? Considering how much risk-taking is involved in business, it's imperative that you find someone you can trust with your money and your well-being. The process of making decisions, even though only one person has the ultimate authority, is the difference maker. Before finalizing whom you want to partner with, take a solid amount of time to discuss the vision, the core values, the mission of the business, and the exit plan.

Through these conversations, you get to know each other. Spend time together in new and different situations. Learn how each handles stress and emotionally charged situations and how they recharge. Check references, both personal and professional. Finally, plan the long-term strategy before signing documents that bind you together. I have found that my most successful partnerships are the ones that are galvanized by an abundance mindset. We show appreciation for challenging one another and encouraging one another to

speak the truth and share our visions.

Conflict in partnerships is absolutely necessary. Healthy, vigorous debate, disagreement, and conflict are to be welcomed. If you can get past the initial discomfort, and really go deep to the place of openness and vulnerability, there is a place of agreement. If not complete agreement, then at least a place of understanding, acknowledgment, and gratitude for one another. This level of trust is important for the creativity and transformation that is necessary to keep building and scaling up your business.

Chapter 7: A Purposeful Implementation

There comes a moment in many leaders' careers where they reach a tipping point that requires an intentional decision. You can dig deeper and do the work or continue to tread lightly and perhaps forgo the dream in making this decision. The choice lies between settling for what's "good enough" and choosing to work toward mastery. Because we are so attached to, and comfortable with the status quo, even a small leap may take a massive amount of bravery and then consistent effort. Choosing change may be scary, but it is the way to move forward.

I'm hopeful that the acceptance that we have fought so hard for – the ideas of mattering and belonging, curiosity and care, being seen and heard – will soon be givens. The new generations in the workplace care deeply about company culture which is demonstrated by the diversity of identities at all levels of leadership.

With equity and inclusion already a part of the system, there still lies the need for creating diversity. Improvement in diversity metrics is the result of systemic inquiry and inclusion processes in every function of a company. Choosing a benchmark, and increasing the diversity of your staff by 25% each year requires a commitment to a strategy supported by sufficient resources.

But metrics are not enough to build a great culture. First, leaders must get comfortable with "otherness" and self-identification. So, before you begin this journey towards diversity, equity, and inclusion, really take some time and ask yourself, "What do I stand for? What work have I already done? What work remains? How am I stepping outside of my comfort zone to do the hard work, both on myself as well as within our company?" Figure out what you stand for, and then take a stand.

Conclusion

Becoming a great leader takes consistent and equally great steps. Find a mentor and a coach who can support and guide you on your personal and professional journey. Join a peer network that offers continuing education such as equity and inclusion, financial, and leadership education. Form an Advisory Board because when you have at least five full-time employees or you have crossed the $3 million mark in revenue, you are going to need a group of subject matter experts who will help you with strategy and growth. Make sure you're always learning and always advancing your knowledge. Finally, stay connected to the most current issues and ideas by reading, listening, and watching thought leaders in the business field.



Nancy Geenen is a serial entrepreneur, and the cofounder and visionary of Flexability, a workplace equity and inclusion firm that has partnered with hundreds of organizations to equip them to build equitable, dynamic, and productive working environments. Prior to that, Nancy spent twenty-five years as a trial attorney, including two years as a prosecutor for the United Nations in Geneva, Switzerland.

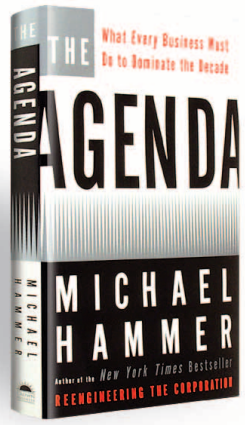
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The Agenda

Michael Hammer

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By Michael Hammer

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What Every Business Must Do to Dominate the Decade

THE AGENDA

THE SUMMARY IN BRIEF

In the fourth quarter of the twentieth century, suppliers, who until then had dominated industrialized economies and set the terms of how business was done, lost their position of dominance to their customers. Customers refused to accept high prices, low quality and dreadful service just to get what they needed. The reason for the shift in power: The servitude of customers — who once stayed with familiar vendors because it was easier — ended when information technology allowed them to comparison shop. At the same time, technology changes dramatically shortened product life cycles, further putting suppliers on the defensive.

The end result is that supplier-dominated economies have been transformed into ones ruled by customers. This is the real "new economy."

The nine agenda items presented in this summary create a map for surviving in today's customer-dominated era.

What You'll Learn In This Summary

- **Make yourself easy to do business with.** Presenting a single face to your customers is just one of six ways to simplify customer interactions.
- **Add more value for your customers.** Your job is to solve problems, not sell products.
- **Obsess about your processes.** Don't focus on individual activities; focus on how those activities fit together.
- **Turn creative work into process work.** Creativity doesn't need chaos; on the contrary, it thrives better in disciplined, coordinated environments.
- **Use measurement for improving, not accounting.** Don't measure to collect data, but rather to collect clues for performance improvement.
- **Loosen up your organizational structure.** Dynamic, respected leaders and motivated teams, not command-and-control hierarchies, are needed.
- **Sell through, not to, your distribution channels.** Too many organizations forget that intermediaries are not their customers. The end user is.
- **Push past your boundaries in pursuit of efficiency. Creative collaboration with outside partners is essential.**
- **Lose your identity in an extended enterprise.** Your company is not an isolated entity, but rather an element in a larger system.

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Run Your Business For Your Customers

To succeed, you must become ETDBW, or easy-to-do-business-with. Being ETDBW means that from the customer's standpoint, interacting with you is as inexpensive and effortless as possible. It means you accept orders when and by whatever means your customer wants to use, you make it painless for him to check the order, you send a simple bill, and your customer service representatives actually provide service.

For customers, price is only part of the cost of doing business with you. In some cases, the overhead involved in doing business with you may rival what you charge. If your way of working is designed for your convenience rather than your customers', they will pay the penalty, and in the end so will you. The harder it is to do business with you, the less competitive you become.

Becoming ETDBW requires adopting six practices:

● **Present a single face to your customer.** Many companies present multiple and fragmented faces to their customers. One section doesn't know what the other is doing. To avoid this problem, create an integrated team that deals with customers across all products and functions and has the authority to remove barriers that get in the customer's way.

● **Work in different ways for different classes of customers.** In order to sell to different groups, many companies practice market segmentation. They customize the product and message to each group. But once a customer is captured, the company typically tosses the newcomer into an undifferentiated customer base and does business with him or her the same way it does business with the rest. Resist the temptation to treat customers as if one size fits all. It doesn't.

● **Know what your customers will ask for before they do.** Predict what customers want, and have it ready when they ask. For example, a company customer service line can predict when a customer may need a bilingual operator. Using Caller ID, the company can see if there is a strong likelihood that the caller needs a Spanish-speaking representative, and routes the call to a bilingual operator. And if the caller doesn't need one, no harm is done, since the operator also speaks English.

(continued on page 3)

Managers Transformed Business

Managers responding to the rise of customer power have dramatically changed the way business is done. If Rip Van Winkle had fallen asleep in 1975 and awoke today he would find:

- ✓ **Just-in-time inventory management**
- ✓ **Total quality management and six sigma quality**
- ✓ **Cross-functional teams**
- ✓ **Supply chain integration**
- ✓ **Performance linked compensation**
- ✓ **Economic value added measurements**
- ✓ **Customer-supplier partnerships**

Progressive Insurance Succeeds by Measuring What Matters to Customers

Progressive Insurance, the nation's fourth-largest auto insurer, has adopted customer-focused measures and has benefited enormously. Before the change, it concentrated on internal measures such as adjuster productivity. Of course, that's not what customers cared about. They just wanted to get their claims handled fast. The insurer shifted from "Progressive time to customer time" by measuring the time from accident to adjuster arrival. Soon, adjuster arrival was measured in hours, not days. Customer satisfaction rose, and market share grew.

The author: An internationally renowned consultant and lecturer, Michael Hammer is the originator of the reengineering business concept and author of *Reengineering the Corporation.*

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Run Your Business For Your Customers

(continued from page 2)

● **Make your customers' experience a seamless one.** Customers shouldn't be treated as if they are new when you've been doing business with them for years. You must make sure that every employee who comes in contact with a customer can access relevant information about that customer.

● **Let customers do more for themselves.** One of the best ways to become ETDBW is to let customers do some of the work. Let customers enter and manage their own orders. Customers think it's easier.

● **Measure the things that customers really care about.** Measurements, to be meaningful, must matter to the customer. ■

Give Your Customers What They Really Want

Your customers have no interest in you or your company and only a little more in your products or services. You are merely a bit player in their lives. What your customers care about is themselves and your only excuse for existing is your ability to improve their lives. You must go beyond giving them your products and services; you need to help them solve the problems that motivated them to ask for those products or services in the first place. Give them more value-added (MVA).

All customers have problems that require resolution. You can visualize MVA as a ladder with your product at the bottom and the solution to your customer's problem at the top. The more help you provide your customer to fill that gap, the more value you add to them, which differentiates you from your competitors. You must control as much of the ladder as possible so that the solution is an integrated one.

Trane, a division of American Standard, is a multibillion-dollar manufacturer of heating and cooling equipment. In the past, the company focused on providing the highest quality components, but as the industry matured it became difficult to differentiate on product quality alone. Trane set out to reinvent itself as a total heating and cooling solution. By acting as the general contractor and directly with commercial building owners, the company solves energy problems and recommends solutions. It then installs and services the solution, adding tremendous value to the transaction.

The MVA approach lets you bill customers on value rather than cost. Customers willingly pay for the value you have added. By removing administrative costs and hassle, companies that provide MVA can bill more and make more profit. ■

How GE Adds Value For Home Depot

When Home Depot wanted to sell large appliances to customers, GE responded to the need by doing more than selling Home Depot appliances. It solved a potentially problematic inventory problem for the retailer. Customers want a wide variety of appliance styles and colors to choose from, but keeping a large inventory is expensive in terms of retail floor and warehouse space and finance costs. GE offered to hold the inventory and take over responsibility for delivering the appliances from GE warehouses. Home Depot keeps a few samples on the floor. GE operates a computer kiosk from which customers can order other selections. In effect, GE is relieving Home Depot of some of its most profit-sapping burdens and freeing it to concentrate on selling GE products.

Add More Value For Your Customers

- ✓ Think of yourself as a provider of solutions, rather than of products or services.
- ✓ Distinguish between what you are selling and what your customer is buying.
- ✓ Take a broad view of your customers' underlying problems that go beyond you and your products.
- ✓ See what your customers do with what you give them, and either do it for them or help them with it.
- ✓ Price in terms of value rather than cost.

Put Process First

From the customers' point of view, a company exists only to create value for them. Yet in far too many companies, the actual creation and delivery of customer value is not the responsibility of any particular individual. Instead, the work that creates results for customers is broken into pieces and scattered across departments and units. One person takes the customer call, another gathers the needed information, a third decides what has to be done, a fourth takes action, and no one oversees the whole thing. If your company operates like this, it suffers from a crisis of process.

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Put Process First

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Process is a technical term with a precise definition: an organized group of related activities that together create a result of value to customers. Note that no single task creates the result. And the process is organized and requires working together. To make it work, all elements must be present in your process. You must design processes that specify exactly what work is to be done, in what order, in what location, and by whom.

Unfortunately, traditional organizations aren't friendly to processes. They are structured around departments, each focused on one task. Each unit speaks its own language and remains aloof from the others. As a result, customers' orders are like travelers passing through a series of rival kingdoms, where border guards give them a hard time before stamping their visas.

How do you make the shift from the old way to the new? It requires paying close attention to process development. Being organized as the definition requires means having concrete, specific designs for processes so that their performance can't be determined by improvisation or luck. Being together means creating an environment in which all process workers are aligned around common goals and see themselves as collaborators rather than adversaries.

The Four Characteristics of Good Process

There are four distinct features that characterize process thinking. First, processes are teleological. That is, they focus on the outcomes of work rather than on the work itself. Everyone in the company understands the why as well as the how of their work. Training and performance measures reinforce the outcome orientation of processes.

Second, processes are customer-focused. Thinking in terms of processes compels a business to see itself and its work from the perspective of the customer rather than from its own.

Third, processes are holistic. Process thinking transcends individual activities. It concentrates instead on how activities fit together to produce the best outcome. Superior value for the customer is achieved when warring departments are replaced with a seamless web of collaborators working together for a unified purpose.

Finally, process thinking is based on the belief that business success flows from well-designed ways of working. A company's success isn't attributed to a visionary CEO, a marketing genius, or a brilliant product developer. Instead, process companies institutionalize success by designing high-performance ways of working. They believe that a company achieves its highest potential by designing processes that mobilize everyone's abilities rather than depending too much on any single individual, no matter how talented.

Creating the Process Owner

In order to work, every process must have a process owner — a manager responsible for ensuring that the entire process keeps flourishing from start to finish, over and over. He or she is in charge of designing the process, building its support, installing it in the organization, and making sure it operates as planned. The manager also designs and implements the measures to assure the process works. The process owner does more than design and measure the process. He or she also supports and enables the people who actually perform it by educating them and serving as a resource.

Process owners must be among the most senior managers in an organization. The position can't be given to a mid-level manager with no clout. He or she must be senior enough to have the authority to implement the process. Some companies are appointing senior executives to be chief process officers, or CPOs. A CPO is responsible for convening and chairing a process council consisting of all the company's process owners and key executives. The council resolves cross-process issues of politics, priorities and resource allocation. ■

The Payoffs of Process Mastery

In a survey of dozens of companies that adopted the process approach, cycle times were reduced by 60 to 90 percent, and on-time delivery with no errors increased by 25 percent. Procurement costs were slashed by 80 percent, and procurement times by 90 percent. Successful launches rose from 30 percent to 50 percent and the time to market for a new product was shortened by 50 to 75 percent. These improvements in process performance paid off in the critical enterprise currencies of customer satisfaction, customer retention and corporate profits.

Create Order Where Chaos Reigns

In many organizations, much work is best compared to Brownian motion, where particles bounce around completely at random. The reason is simple. They still operate the same way they did when they were much smaller and could operate informally.

With growth come problems. The company's old ways of working don't scale up. As more workers are hired, fewer of them know each other, or the customers. The company's employees soon find they know more and more about less and less.

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Create Order Where Chaos Reigns

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The key to continued success is coordination and discipline. Activities not only must be done, but they must fit together and be done in the right order. The critical work of selling and developing products must be built on discipline and structure — it must move from the ad hoc to the methodical. Making it up as you go is a recipe for disaster. By specifying a precise sequence of steps and pinpointing responsibility for performing them, you introduce composition and order into areas where chaos would otherwise rule. No longer will people need to put energies into figuring out how to work; they can concentrate on the work itself.

Discipline Encourages Creativity

Discipline does not eliminate the need for individuality or creativity. On the contrary, it actually encourages them by providing a framework that allows each person to leverage his or her own activities. Structure ensures that the parts come together as a whole. Structure is liberating. Discipline provides a framework that assures that creative and talent-intensive activities are done by the right people, at the right time, with the right information.

Introducing structure is important for another reason. Companies that do become less dependent (and hostage to) a small group of talented people, who often know all too well that they are close to indispensable. A company dependent on heroes can find itself in desperate straits if they suddenly depart. A disciplined process, however, belongs to the company. If some people go, others can be plugged into the system in their place.

Strong Leadership Is Key

Achieving a disciplined approach requires gaining a new perspective, a new set of attitudes on the part of everyone in the organization — managers and front line workers. People have to accept that they can't be a lone wolf, but must believe in the primacy of teams. It is the group working together that creates results. These are extraordinarily difficult adjustments to make for many people.

How do you make it happen in the face of resistance? The critical ingredient is unswerving executive leadership and constant reinforcement. An occasional memo will not do. A new way of thinking and behaving must be repeated and stressed by the company's leaders, who must make it plain that there is no going back. The cultural shift must also be reinforced by readjusting the compensation system. Compensation can encourage changes in behavior and send a signal of what's important. Even when people get the right results, they must not be rewarded if they succeeded in the wrong way. ■

Measure Like You Mean It

A company's measurement systems typically deliver a blizzard of nearly meaningless data that quantifies practically everything in sight, no matter how unimportant. It often is so voluminous as to be unusable, is delivered too late to be of any use, and languishes in briefing books without being put to any purpose.

Make measuring part of managing, not accounting. Although measurement systems were initially developed to let companies report financial results to shareholders and tax authorities, the systems were inappropriately pressed into service to support management decision-making. Using financial measurements designed for accounting is like trying to manage a baseball game today by using last year's win-loss record to tell you whether to call a hit or bunt.

Today there is relentless pressure from shareholders and customers to improve performance immediately. A company's measurement system must be able to reveal the sources of performance inadequacies. Companies need a new approach to measurement, one that is tuned to the demands of the customer economy. The purpose of measurement is not to know how a business is performing but to let it perform better.

Contemporary measurement systems should provide no data without a purpose; people must know why things are measured and what they are supposed to do about them. Companies will need to develop business models that link overall goals to specific things they can control. Then they must identify the key elements in that model and develop measures for them. Design measures that are objective, timely, easy to calculate and easy to understand. ■

Managers on Useless Measurements

Here are some real comments by managers on their companies' attempts at measuring:

- ✓ **"We use two percent of what we measure. The rest is CYA."**
- ✓ **"We are masters of the micro. We measure paper clip acquisition times."**
- ✓ **"If you want to know my inventory levels on March 2, I'll tell you in mid-April."**
- ✓ **"Business leaders don't concentrate on measurement because they were turned off by accounting in business school."**
- ✓ **"It's hard to do measurement right because our executives don't believe it's important."**

Manage Without Structure

Corporate managers definitely don't play well with others. They are as territorial as lions and wolves, and the more senior they are, the more territorial they become. This behavior isn't genetic; it is induced by the ways in which companies are organized. Executives typically divide their companies into pieces and assign a different manager to each. The problem with this scheme is that it narrows the focus too far. Those managers often ignore everything outside their domain and defend it from all intruders. They reluctantly accept orders from higher-ups but exhibit intense animosity toward other managers who are competing for resources, attention and promotion.

The time has come for managers to worry less about organizational structures and charts and more about marshaling their resources for the benefit of the customer. That an enterprise as a whole can be decomposed into independent units is an outmoded idea. Emerging in its stead is a structure far more subtle and complex, in which no manager has complete independence. Those at the top collaborate for the benefit of the entire company.

New Management and Leadership Skills

This new kind of non-structure needs a new kind of manager with a new set of skills. The traditional managerial role bestowed authority and power on whomever happened to be filling it at the time. No longer. Now management roles are only what the incumbents make of them. If they are forceful representatives for their constituencies as well as effective team players, then both they and the company will succeed. If they are not, they will be relegated to the sidelines.

This new kind of structure is virtually structured and essentially unstructured. It is responsive and flexible and requires very little overhead to make it work effectively. What it does require is a dynamic and strong leader. Structure-less does not mean leaderless. A true leader, not a bureaucrat or a dictator, is an absolute requirement if the enterprise is to harness the power of structural ambiguity. A strong leader provides the cohesion that otherwise would be provided by formal structure.

This kind of business leadership is a new requirement. In the new customer economy, a rigid organization led by a traditional manager will fall apart at the seams. Today's leader must hold the enterprise together, because nothing else will do it for him. ■

End the Tyranny Of the Organizational Chart

✓ Get over the idea of sharply defined business units with autonomous managers.
✓ Redefine managers as representing markets, products or processes, rather than having total control over them.
✓ Make managerial teamwork and cooperation the rule rather than the exception.
✓ Teach managers to put the needs of the enterprise as a whole first.
✓ Employ rewards that emphasize the group over the individual.
✓ Substitute inspirational leadership for formal structure.

Focus on the Final Customer

Do you know who your customers are? In a great many industries, companies simply have no idea. They are shielded from their real customers — the people and companies that make use of their products or services — by their distribution chains or channels — the wholesalers, distributors, retailers, dealers and other intermediaries that come between them. The great majority of products and services reach their final destination only after passing through the hands of one or more intermediaries who buy and resell.

That has to change, simply because each step in the process adds cost, but no value. An air conditioner is no better because it was sold by the manufacturer to the distributor and then to the contractor. In addition, using intermediaries means that goods must be warehoused. Consider the dry groceries industry. Dry groceries are the packaged items in the central isles of most grocery stores. On average, more than 100 days pass from when the product comes off the production line until the consumer buys it. The problem is not slow trucks. The problem is that the foods are moving through lots of hands. More than 40 percent of all food items stop at least twice between the plant and the retail shelf. Each time it must be loaded and unloaded, adding cost but no value.

Using Intermediaries Differently

In the days when customers were weak and powerless, the traditional intermediary system worked. However, customers won't put up with it any longer. Companies must be closer to their final customers in order to hold them, up-sell and cross-sell them, and get the high-margin follow-up sales. They need to be closer so they can serve them quickly and accurately, and to drive out huge costs and inefficiencies.

The answer is not to eliminate intermediaries entirely, but to use them differently. Manufacturers and intermediaries must collaborate to leverage each other's capabilities in the interest of creating a distribution system

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Focus on the Final Customer

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that maximizes value for the final consumer. You must begin to think of distribution from the customer's point of view.

Remember, the real purpose of a distribution channel is not to get products to final customers, but to solve customers' problems. Consider customers who need cell phone service. To help them sort through the variety of choices of plans, equipment and price, customers need help. They can turn to the sales people who distribute cell phones for that information. If these distribution channels and service providers work together, customers will get what they want and need, and everyone in the chain wins.

The Distribution Community

One furniture manufacturer has turned to the Internet to successfully use intermediaries when necessary, but reaches customers directly for some purchases.

The company has divided its products into furniture and furnishings. Furniture, which customers want to see and touch before buying, and furnishings, such as lamps and other small items that don't need to be touched before selection and are easy to ship, are marketed differently. A Web site lets potential customers see the selection of furniture styles, but directs them to local retailers to try them out. Customers can then order directly or thorough the retailer.

In both cases, the goods are shipped to the retailer for delivery. The retailer remains an intermediary physically, but not financially. He doesn't have to buy and inventory the furniture. The retailer gets a commission for delivery and service. Furnishings are ordered directly from the Web site and then shipped directly to the consumer. But the local retailer still gets a ten percent commission, in exchange for promoting the brand and the Web site.

These new relationships need a new name. They are no longer distribution channels. Rather, there is now a distribution community. Driven by a customer focus, and enabled by new technology, channels have evolved into communities, or groups of companies that work collaboratively to meet the final customer's needs. ■

Duke Power Gets It

One company that understands how to make a company work is Duke Power. At Duke, neither a process owner nor a regional boss has complete autonomy. The former controls the process design while the latter controls the people who carry it out. This requires extraordinary cooperation between the two. In designing the process, the process owner must take into account the regional staff's capabilities. The regional boss must take into account the requirements of the process when hiring people. Neither one can say to the other "Do it my way." If either tries to assert total control or usurp the other's responsibilities, the enterprise fails. Duke does not have a hierarchy with clear lines of authority. Instead, its executives float in a soup of shared accountability. If the process owner and regional boss work well together, both succeed. If they don't, both fail.

Knock Down Your Outer Wall

If you are like many other companies, you have been systematically stripping out all the nonsense activities that degrade business performance. It wasn't easy but now you feel you are lean and mean, flexible and efficient, stripped of fat down to the bone.

Dream on.

Things may in fact be better than they were a decade ago. But in the larger scheme of things, you have just begun. What degrades your performance is no longer how you work internally, but how you work on your boundaries with customers and suppliers. Getting rid of this overhead is the Next Big Thing in improving your operating performance. Now you must destroy the walls between enterprises, especially those that separate you from your suppliers and customers.

Integrating Operations with Suppliers

If integrating operations within your company can produce greater efficiency, so can doing so with your supplier. Take, for example, a common scenario in business. You need to order supplies to use in the manufacturing process. You locate the supplies, prepare an order, send it out, and wait for the supplies to arrive. On the other end, the supplier gets the order, makes sure it is available, prepares an invoice, and ships the order. You then get the shipment, enter the information in your computer, and pay the invoice. Many of the steps in the transactions are redundant. These two processes (order and fulfillment) should be seen as one process.

The real power of the Internet lies in solving this problem, in integrating intercorporate business processes and the information systems that support them. This, in effect, takes a sledgehammer to the walls that separate companies from one another.

There are five guidelines that companies who want to collaborate more closely need to follow. These are:

- **The final customer comes first.** All members of the collaborative must be aligned around meeting the needs of the customer, whom they ultimately work

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Knock Down Your Outer Wall

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together to serve.

● **The entire process should be designed as a unit.** Any collaborative process needs to be thought through in holistic terms. Each participant can't design and implement its own part in the larger process. It must be done together.

● **No activity should be performed more than once.** Eliminating duplication of activities yields savings.

● **Work should be done by whomever is in the best position to do it.** Do what you do best, and let the others do the same.

● **The entire collaborative should operate one database.** Everyone must share the same version of all information. ■

Extend Your Enterprise

While Henry Ford may have been sold on vertical integration, it doesn't work well today. The realities of scarce capital make it unrealistic to control every aspect of production. It simply isn't possible to finance a totally vertically integrated enterprise anymore. Vertical integration is being replaced with its polar opposite, **virtual integration.**

Instead of doing everything involved in creating a product or service, a virtually integrated business focuses on doing those things it does best. It works in close partnership with other organizations that also focus on what they do best. Companies stop being self-contained units that produce products or services, and become elements in a larger system.

Do More of What You Do Best

Outsourcing is an essential component of virtual integration, as is the notion of core competencies. Core competencies were originally those tasks that a company had to perform superlatively in order to succeed. Companies today are under intense pressure to outsource everything that isn't a core competency — to someone for whom the task or service is a core competency. The marriage of core competence and outsourcing means that companies are doing more of what they do best and less of everything else.

Combine increased customer value-added, inter-enterprise collaboration, and core competence-driven outsourcing, and the result is virtual integration: multiple companies working together to create the results expected from just one. From the inside, everyone can see that there are multiple enterprises at work. From the customer's point of view, everything meshes as though there were only one.

Prize Partnership

Virtual integration will require a radical cultural shift. Instead of the traditional values of haughty pride and suspicion of all outsiders, a company must prize cooperation, trust and partnership. It must eagerly share information and be able to sacrifice short-term gain for the benefit of the larger virtual enterprise of which it is a part. It must recognize that success comes to every participant or none at all. ■

Prepare for a Future You Cannot Predict

You cannot know what challenges will face your company in five years, or even next year. Just look at last year's strategic plan. Is it still relevant? Or are you responding to entirely different challenges than those you envisioned when creating the plan? That doesn't mean you shouldn't plan. It does, however, mean that you must begin to identify problems or opportunities before it is too late.

Do so by building a process to spot changes on the horizon that includes the following steps:

● **Create an early warning system.** Because most organizations regard change as an anomaly, none of a company's sensory systems are designed to watch out for it. Critical change tends to occur far below the sixteenth-floor suites occupied by company executives. These can include a sudden shift in customer preference, or a competitor's new product. You must make change watching a formal and explicit activity within the organization, a process.

● **Develop deep insight into your customers.** Part of the change process must be developing deep insight into your customers. That means identifying their real needs. You must see the world through their eyes and understand them better than they understand themselves.

● **Analyze potential competitors.** New competitors require serious attention. You must continuously scan the horizon looking for others that have the potential to offer competing products and services.

● **Look for the seeds of the future in the present.** There are always early indicators of change. Your job is to find them, and act.

● **Become proficient at responding to change.** There must be a disciplined process in place to respond to change. Waiting too long or moving too fast can both be mistakes.

● **Create a supportive organizational infrastructure.** In order for the processes of change recognition and implementation to succeed, they must take root in a corporate culture and structure that welcomes them. ■

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The Amazon Management System

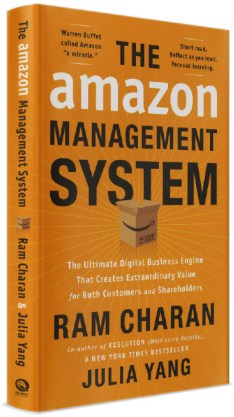
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The Amazon Management System

The Ultimate Digital Business Engine That Creates Extraordinary Value for Both Customers and Shareholders

by **Ram Charan and Julia Yang**



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THE SUMMARY IN BRIEF

The arrival of the digital pioneers, such as Amazon's founder and CEO Jeff Bezos, has disrupted corporate leadership models of the past. Amazon's trillion-dollar success is the envy of everyone but achievable by anyone. What has propelled their record streak of growth? Their management system, and it can do the same for you no matter what business you are in or what level.

Soon, all companies will be digital, which means traditional command-and-control management will no longer be relevant. Learning Amazon's system is as simple as six building blocks distilled by *New York Times* best-selling author and global CEO advisor Ram Charan and Julia Yang, in ***The Amazon Management System***.

From high-velocity decision-making to top talent-hiring practices, the insider secrets behind Amazon's success are now within anyone's grasp, block by block. Whether you are an established CEO or a recent college grad, ***The Amazon Management System's*** concise, actionable advice will help your business win in a new digital era that demands nonstop innovation.

IN THIS SUMMARY, YOU WILL LEARN:

- The six building blocks of Amazon's management system.
- Why customer obsession is Amazon's number-one principle.
- How Amazon defines, motivates, and retains the right talent.
- How the company continuously generates groundbreaking inventions.

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Introduction

Our 21st century prevailing management systems are still largely inherited from the oldest forms of human organization, such as the military and the church. They were designed for the purpose of command and control in an age when there was no internet, no smartphone, and none of the various forms of digital technology such as big data, algorithms, and AI, and when personal supervision was the only way to keep an eye on employees.

This old management approach has become obsolete in the digital age. Amazon is one of the biggest reasons why.

At the heart of all Amazon's business endeavors is the Amazon management system, a digital engine composed of six building blocks, that has been continuously and relentlessly empowering Amazon for more growth and more exploration into the unlimited sky of the digital age.

It's a Must, Not Optional

Going forward, all companies will be digital. Every company will have a platform of its own and/or be connected to someone else's platform. For founders and business owners, the good news is that most of your legacy peers have not started down this path yet, so if you get a head start on embarking on the digitization journey, you may improve your chances to take the lead.

The choice is yours to make: to die or to digitize and achieve exponential value creation.

For senior executives, in the digital age your job will change radically. Instead of spending most of your time supervising others and attending endless reviews, meetings, and committees, your job will be to study consumers directly (not through filters) and drive continuous innovation for them.

As more companies make the transition to the kinds of Amazon management practices described here, leaders will remove management layers, requiring junior to middle managers to reimagine their jobs and rebuild their competence.

There has never been a better era for new talent—the young and fresh. The more you understand the Amazon management system, the more contributions you can make, and the more successful you will be in your career, whether you are working for a company or starting your own.

The point is not to advocate a blind replication of all and everything in the Amazon management system but to help you understand how it works and pick the valuable ingredients and inspirations for your own digital way.

Let's now learn the six building blocks of Amazon's management system.

Building Block 1: Customer-Obsessed Business Model

The first principle that Amazon founder and CEO Jeff Bezos stated in his famous nine-point management and decision-making approach published in his first Shareholder Letter in 1997 is, "We will continue to focus relentlessly on our customers." Among all 14 Leadership Principles, Customer Obsession ranked number one and has remained at the top ever since.

Why has Bezos been so obsessed with the customers? Customers are the central piece in Amazon's flywheel and in the entire Amazon platform. Why is Amazon able to aggressively and successfully expand into more and more categories? Because they have customers who would like to buy more. Why are third-party sellers attracted to the Amazon platform? One of the most obvious reasons is that there are hundreds of millions of customers, and by leveraging the Amazon platform, they can scale up much faster.

Customers' trust is an earned privilege, not a long-term benefit to be taken for granted. Trust takes years to build, seconds to break, and forever to repair. That's probably why Bezos emphasized, "Our pricing objective is to earn customer trust, not to optimize short-term profit dollars."

Invent for the Customers

As Bezos put it, "One thing I love about customers is that they are divinely discontent. Their expectations are never static—they go up. It's human nature." How do we not just meet but stay ahead of customers' ever-rising expectations? The only way to do this is through continuous innovation and relentless invention. In this way, the divinely discontent customers became the sources of continuous inspiration for Amazon's invention machine.

Unlike traditional companies that primarily use technology for cost reduction, Amazon focuses on using technology to totally transform the existing customer experience and to imagine an experience that does not exist today, and invent on behalf of the customers.

Why is long-term thinking so important for Amazon? The secret is in the very nature of its business model.

In the spirit of this relentless drive to invent, Amazon single-handedly created entirely new markets with huge global potential, such as cloud services (AWS) and smart speakers (Echo). As Bezos pointed out, "No one asked for AWS. No one. Turns out the world was in fact ready and hungry for an offering like AWS but didn't know it. We had a hunch, followed our curiosity, took the necessary financial risks, and began building—reworking, experimenting, and iterating countless times as we proceeded."

Long-Term Thinking

In his first shareholder letter, Bezos said that Amazon "will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions."

Why is long-term thinking so important for Amazon? The secret is in the very nature of its business model. Amazon is all about platform and infrastructure. So it is, in essence, a scale business characterized by high fixed costs and relatively low variable costs.

So how to drive the return on such a massive investment? Scale and speed really matter here. According to company shareholder letters, increasing scale "spreads fixed costs across more sales, reducing cost per unit, which makes possible more price reductions."

Once the scale passes a certain threshold, what Bezos calls the "tipping point," it "allows us to launch new ecommerce businesses faster, with a higher quality of customer experience, a lower incremental cost, a higher chance of success, and a faster path to scale and profitability than any other company."

Second is speed. Platform and infrastructure are a technology game. Prior investments and faster movements captivate a larger customer base earlier and accumulate historical data earlier, which translates into significant first-mover advantages in data analytics, algorithm enhancements, and AI-driven solutions. In short, all these elements combined create Amazon's digital core competencies.

Building Block 2: Continuous Bar-Raising Talent Pool

If you ask Bezos what the most important decision is at Amazon, his answer will be and has always been from the very beginning: hiring the right talent.

So what has Amazon done to make sure that they only attract and retain the right talent? In the first place, what is "right" by Amazon's standards? Bezos looks for builders who can make things happen, who can think and behave like owners—the type of people who display a sense of "true ownership."

In his 2018 Shareholder Letter, he wrote, "Builders are people who are curious, explorers. They like to invent. Even when they're experts, they are 'fresh' with a beginner's mind. They see the way we do things as just the way we do things now. A builder's mentality helps us approach big, hard-to-solve opportunities with a humble conviction that success can come through iteration: invent, launch, reinvent, relaunch, start over, rinse, repeat, again and again. They know the path to success is anything but straight."

Amazon is now a burgeoning 750,000-people organization, so how to reinforce such rigor and maintain such a high bar—not only across the globe but also down to each new hire?

The Bar Raisers

Bar raisers are carefully selected individuals who are meticulously trained to be the stewards of Amazon's leadership principles. Their mission is to ensure that the bar is never lowered due to pressing business urgency, to make the final and right hiring decisions, and to strive for continuous raising of the bar. In many ways, they act on behalf of the Amazon leadership team as the final line of defense in recruiting.

Bar raisers have three tasks. The first is to evaluate, using Amazon's Leadership Principles as the yardstick, whether candidates have long-term potential at Amazon and whether they can raise the bar. The second is to conduct the post-interview drilling with each interviewer, as Bezos did before, so that all observations, assessments, considerations,

and doubts can be fully explored and thoroughly examined to arrive at a correct decision. The third is to help hiring managers and other interviewers prepare for interviews, to ensure consistency in the high bar, and most importantly, to provide written feedback.

Given that recruiting the right talent is regarded as the most important decision at Amazon, the company has made huge investment, in terms of teams' time and energy, into getting this right.

Motivate and Retain the Right Talent

Given that Amazon's bar is so high and continuously rising and the short-term cash compensation is not so lucrative, how can Amazon motivate and retain the real builders with true ownership and mental toughness on a long-term basis? The answer lies in two aspects: what they love and what they hate.

What do builders hate most? Bureaucracy. It is slow; it is suffocating; and in many cases it prevents them from making things happen in the way they like. Such an atmosphere is anathema to builders, who love to invent and to try unconventional ways. They have little patience and want to jump in and make things happen. For Bezos, the abhorrence of bureaucracy is personal.

Above all, builders love challenges. The problems that appear to be hard to solve or even impossible for many people represent something entirely different to the real builders. They see these problems as exciting opportunities, the best thrills, and the most fun part of the job.

At Amazon, new hires are pleasantly surprised at how much ownership they can have from the start. When they are assigned to a project team, they will be exposed to and engaged in all functions involved, and make decisions and build products that could potentially impact millions of customers.

Building Block 3: AI-Powered Data and Metrics System

Running Amazon, the gigantic business empire with unprecedented complexity from drastically different businesses, from vastly spanned geographies worldwide and from the massive size and scope of operations, is no doubt a daunting challenge for many.

Without digitization, one could not do that. Bezos' secret lies in Amazon's world-class standard-setting AI-powered data and metrics system, in which everything that matters can be tracked, measured, and analyzed, with insights generated and routine decisions automated.

The Answer Starts With Numbers

Jeff Bezos is a man of numbers. This is his unique way of understanding the world, having fun in life, and running business at Amazon. Bezos has unique standards to define what the robust data and metrics are.

Ultra-detailed. Execution is about knowing and delivering details. Amazon's level of details for data and metrics is magnitudes beyond many people's wildest imagination. If you were asked to pick a location for a new data center, how many factors would you consider? About five, 10, 20, or dozens? Amazon used a checklist of 282 metrics when choosing its first data center in China.

End to end. In most traditional companies, data collection is broken down by silo, by layer, and by actual involvement. Each division or function can see data generated and collected only within its own domain of business operations.

At Amazon, a small team is bestowed with the end-to-end responsibility for one product or one service. How to ensure that this team does a good job? After ensuring the selection of the best people, the next most important crucial enabler is the availability of end-to-end data that is not segregated by silo nor by function. Without such data support, running a business would be as difficult as maneuvering in a pitch-dark mansion.

Real time. In many companies, business reviews are held quarterly or monthly, with a delay of 10 days or more due to the time needed for accounting proceedings. At Amazon, such data is tracked on a real-time basis with no time lag. Relevant people can review the results daily, hourly, or by the second.

Track inputs. This is probably the most unique aspect of Amazon's data and metrics system. When setting goals, most companies focus on revenue growth, margins, and net profits. Amazon believes that to ensure good outputs, one needs to get to the bottom of the issue and seriously track the inputs. Why does Amazon track the time required to load a webpage? Because according to Brad Stone in ***The Everything Store,*** its data analytics shows that "even a minuscule 0.1-second delay in a webpage loading can translate into a 1 percent drop in customer activity."

Trust but verify. At Amazon, each claim needs to be supported by data and metrics. Unfounded promises will not fly.

The AI-Powered Tools

Bezos' personal passion for technology and signature spirit of imagining and inventing have become one of Amazon's underlying characteristics. The applications of this approach are countless and inform virtually all key decisions made by Amazon. How does Amazon pick the location of its next fulfillment center? The answer is Mechanical Sensei, a software system "that simulated all the orders coursing through Amazon's fulfillment centers and predicted where new FCs would most productively be located," according to Stone.

How does Amazon ensure its competitiveness in pricing? Pricing bots. Stone writes that these are "automated programs that crawled the Web, spied on competitors' prices, and then adjusted Amazon's prices accordingly, ensuring that Bezos' adamant demand that the company always match the lowest price anywhere, offline or online, would be met."

How does Amazon drive more consumption from each consumer? Personalized recommendations. And who at Amazon decides which items to recommend to which customers? Actually . . . no one. An algorithm-enabled system fully automates personalized recommendations for each individual consumer.

How does Amazon develop options and decide the fastest and cheapest delivery option for each order? By the early 2000s, an Amazon fulfillment software system could run millions of such decisions every hour. Given Amazon's relentless pursuit of improvement, its highly sophisticated fulfillment software systems have been on a never-ending treadmill of iterations ever since creation.

Building Block 4: Groundbreaking Invention Machine

What makes Amazon an outlier above all others is the sheer power of its identity as an invention machine: one that is able to deliver continuously, and at an ever-accelerating pace, groundbreaking, game-changing, and customer behavior-shaping inventions that create new market spaces and economic opportunities of massive magnitude.

That's probably why *Fortune* described Bezos as "the ultimate disruptor" in 2012, *Fast Company* named Amazon the world's most innovative company in 2017, and *Forbes* put Amazon on its list of World's Most Innovative Companies in 2018.

All great inventions need to start with an idea, a brilliant one, a revolutionary one, or a seemingly impossible one.

So how does Amazon continuously generate new ideas and meticulously pick which ones to pursue?

Seek big ideas continuously. Amazon invented the "idea tool," to tap into employees' creativity and imagination. Anyone who has an idea can submit his or her thoughts without filters of layers of managers or concerns about feasibility from either technical or financial points of view. In addition to the people inside Amazon, Bezos also seeks ideas from those outside.

What makes Amazon an outlier above all others is the sheer power of its identity as an invention machine.

At Amazon, the ideal adventure to create is not aimed at merely 100 or 1000 people. Bezos seeks inventions that speak to billions of customers and millions of enterprises worldwide. Why so big? Because of the risky nature of invention, in which failure and invention are inseparable twins. What could offset the numerous failures along the way? A big win, such as AWS.

The company must invent on behalf of customers, and the idea must be distinctly differentiated. Amazon Go is the perfect example. This venture, as described in Amazon Shareholder Letters, called for a complete re-imagination of a whole new customer experience: walking into a store, picking up what is needed and just walking out, without "annoying and lasting-forever checkout lines" anymore. Many customers describe the experience of shopping at Amazon Go as "magical."

Build the idea patiently. It all starts with the press release, an internal document that looks at what the future would be like with the successful execution of the idea being proposed. Three things play pivotal roles in such releases:

- Who are the customers? How will they use it? What is their new experience? Which existing experience will it replace? What changes will it require them to make? Why will they prefer it? What are the benefits in the

eyes of the customers?

- What are the goals? They need to be bold, specific, and measurable. What drives creativity? It's the challenges. If something gets too easy, people's true creativity will be left underutilized or even untapped.
- What are the hurdles? To convert a big idea—one that is distinctively differentiated, uniquely Amazon, and even seemingly impossible—into reality is never easy. After all, there must be almost insurmountable hurdles that prevent others from trying or even imagining the possibility of success.

Construct the team carefully. Amazon has a well-known approach to drive project development: the two-pizza team, or as Amazon refers to it, 2PT. As Bezos repeatedly pointed out, if you can't feed a team with two pizzas, the team is probably too big.

At Amazon, a project team with a clear mission and specific goals needs to be cross-functional, full-time, and co-located. It's a total immersion experience, with the team constantly working together, hour upon hour, days and nights, and in some cases, months and years.

Why? Creativity comes from people's interactions; inspiration comes from intensive concentration. Just like a start-up, the initial founding team huddles together in a garage, experimenting, iterating, discussing, debating, trying and retrying, again and again.

Pick the right team leader. The right leader may not guarantee success, but the wrong leader will surely guarantee failure. In each of Amazon's major breakthroughs, you will find a strong leader.

At Amazon, the project team is held accountable end to end, meaning their ownership extends all the way from concept, to design, to development, to testing, to launch, and to post-launch operation. Why? Bezos believes in the principle of "eat your own dog food." This is a forcing mechanism of enforcing crystal clear accountability for everyone with nowhere to hide, no one at whom to point the finger.

Building Block 5: High-Velocity and High-Quality Decision-Making

Amazon's decision-making is not only high in both velocity and quality but also high in scale, with a set of clearly articulated principles and a uniquely designed methodology enforced with striking consistency throughout the organization.

How can Amazon upgrade its decision-making and achieve the three seemingly conflicting goals of speed, quality, and scale at the same time?

Bezos has categorized all decisions into two types and designed different kinds of decision-making processes depending on whether they are a Type 1 or Type 2 decision. As noted in a company Shareholder Letter, Type 1 decisions refer to those that "are consequential and irreversible or nearly irreversible—one-way doors . . . . If you walk through and don't like what you see on the other side, you can't get back to where you were before."

Because of the long-term implications, Bezos suggested that Type 1 decisions should go through a heavyweight process to ensure they are of high quality. However, most decisions aren't like that.

Type 2 Decisions: Speed Matters

Type 2 decisions refer to those that "are changeable, reversible—they're two-way doors. If you've made a suboptimal Type 2 decision, you don't have to live with the consequences for that long. You can reopen the door and go back through."

Applying the heavyweight process on Type 2 decisions will lead to slowness, risk aversion, failure to experiment sufficiently, and diminished invention. As CEO, you should identify and delegate the Type 2 decisions, as they "can and should be made quickly by high judgment individuals or small groups."

Don't wait for all the information. In business, Bezos used a 70–90 rule instead. He stated that "most decisions should probably be made with somewhere around 70 percent of the information you wish you had."

Let the metrics owner make the call. At Amazon, each operation has a set of metrics to ensure operational excellence, and each metric has one designated metrics owner. In this way, the metrics owner is the single point of accountability, so no more finger-pointing; the owner has full access to all the relevant data and analytics, so no more being handicapped by partial information; and the owner has clear authorization to take corrective initiatives, with maximum one-level of approval, so no more heavyweight decision-making.

The company also digitizes math-based routine decisions. One typical example: how to manage inventory purchasing. Given the availability of vast amounts of historical data about customer orders, seasonal volatility, replenishment speed of vendors, and all the AI-powered analytics and pre-

Customer obsession and Day 1 thinking are inextricably linked twin drivers of the Amazon management system.

diction tools, this is a typical math-based routine decision that can be largely digitized.

Scale Up Good Decision-Making

Here comes the billion-dollar question: how to scale high-velocity and high-quality decision-making. The first step is to crystallize consistent principles.

In his first Shareholder Letter, Bezos offered an unambiguous manifesto, specific, observable, and verifiable, that enabled shareholders to make informed investment decisions regarding Amazon. It also provided customers with the company's decision catechism, so that they would be more willing to build a trust-based long-term relationship with Amazon.

But most importantly, this transparent and widely shared set of principles is for all current and future Amazon employees: a set of crystal-clear guidelines so that every single one of them can understand the decision-making logic and be able to make the right choice when duty calls.

Specify consistent methodology: narratives. June 9, 2004 witnessed a brilliant innovation in human management practices. It all started with an email from Bezos: No PowerPoint presentations from now on at Amazon's core executive team. From that day on, Amazon embarked on a journey towards what came to be known as "Six-Page Narratives."

Writing six-page narratives forces the author to conduct complete analysis, to distinguish between subtle nuances, to articulate the inner logic and set priorities for various ideas, and take full accountability for specific proposals. There is no wiggle room, no hiding place, and no safe haven. Everyone must put "skin in the game" and is to be held accountable for it.

Enforce a consistent approach in every decision. It is tough to make good decisions and even tougher to crystalize decision-making principles. The toughest part is to walk the talk and consistently apply the stated principles when making every single decision. Julie Weed wrote in the foreword of ***The Amazon Way,*** Amazon's "principles aren't slogans printed on wall posters and coffee mugs. They are lived and breathed every day by Amazonians from the CEO on down."

Building Block 6: Forever-Day-1 Culture

If you read through all the Shareholder Letters that Bezos meticulously wrote over the past 22 years (1997–2018), the phrase "Day 1" appeared an amazing 22 times, with striking consistency. For the past 10 years, every Shareholder Letter has ended with the same line: "As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1."

Why Day 1? At the early stage of any startup, the founder (or the small founding team) runs everything, from design to production, to sales, to delivery, to bookkeeping. If luck is on their side, the business will soon outgrow the capacity of the founding team, and they will need to expand the team and build an organization.

Normally, in the beginning, the organization will still function with speed, nimbleness, and a risk-acceptance mentality, but as the business grows bigger, complexity starts increasing and layers begin creeping in, and the once-nimble startup inevitably falls into the trap of so called "large organizations" characterized by slowness, rigidity, and risk aversion.

Bezos' evocative and sticky model of "Day 1 vs. Day 2" captured his aspiration for Amazon to grow aggressively in scale and scope while preserving the entrepreneurial vitality of a startup and building on the numerous advantages of a large company at the same time. Customer obsession and Day 1 thinking are inextricably linked twin drivers of the Amazon management system. Amazon has to improve continuously in everything it does, in everyone it has, and with accelerating speed and agility.

How to Build a Forever-Day-1 Culture

First, operationalize the culture. Today, Amazon uses a set of 14 Leadership Principles to define its corporate culture: customer obsession; ownership; invent and simplify; are right, a lot; learn and be curious; hire and develop the best;

insist on the highest standards; think big; bias for action; frugality; earn trust; dive deep; have backbone—disagree and commit; deliver results.

For each leadership principle, Amazon specifies the expected behavior. For example, what does "Customer Obsession" really mean? Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers. Once you bring these principles down to clear and specific behaviors on the ground, they become operational, and everyone and anyone can start practicing them accordingly.

Create forcing mechanisms. Amazon has created a system of simple but effective forcing mechanisms to ensure that everyone in the organization really lives and breathes the stated values and principles. Let's take Amazon's favorite and perennial number-one principle, Customer Obsession, as an example.

Every week, Bezos asks his executives the same question: What can we do better for the customers? He asks this every week. No exception.

Each year, some managers are required to participate in a two-day training session at a call center. This direct interaction with customers is designed to help them gain a first-hand understanding of customers' frustrations and pain points and also to provide them with the precious humility to recognize that despite its widely applauded success, Amazon still needs to continuously improve.

Given that in the digital age, a seemingly random post can go viral in no time, and if not handled properly in time, the damage from a negative post could be disastrous, Amazon has invested millions to build a system to systematically track customer feedback in real time.

If a service or product provided is discovered to be subpar, instead of waiting for customer complaints posted online or communicated via the call center, Amazon can detect the glitch and take the initiative to refund customers via its automated systems.

The most powerful forcing mechanism has to do with personally modelling the behavior expected from everyone.

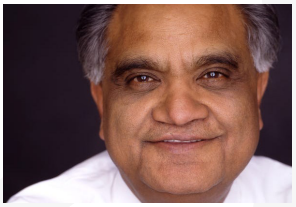
Why does the Amazon Management System work so well for Amazon? Because it best fits the personal values, principles, characters, and styles of Jeff Bezos, Amazon's founder and CEO, and his core team; it also best fits the nature of Amazon's platform and infrastructure business.

What works for you? What fits you and your business best? No one has the perfect answer. You will have to experiment, iterate, and invent your own.

Always remember: It is still Day 1.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***The Attacker's Advantage: Turning Uncertainty into Breakthrough Opportunities*** by Ram Charan
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Ram Charan's 27 books have sold over 3 million copies and include the *New York Times* best-seller ***Execution.*** He is a world-renowned business advisor, author, and speaker who has spent the past 35 years working with many top companies, CEOs, and boards. Julia Yang is a trusted advisor to entrepreneurs, founders, CEOs, and executives, a reputation earned during nearly 20 years of relevant practice. She currently works with Ram Charan to serve business leaders and explore new management practices in the digital age.

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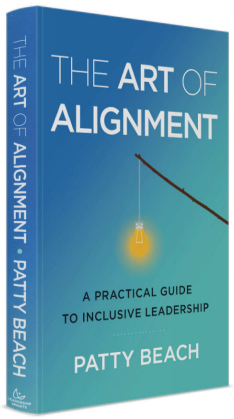
The Art of Alignment

Patty Beach

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The Art of Alignment

A Practical Guide to Inclusive Leadership



by **Patty Beach**

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THE SUMMARY IN BRIEF

Leadership can often seem like an uphill battle—even when you're powered by an idea that's unmistakably good. The problem? Most leaders just don't know how to align their people behind an idea and give it the momentum to get it up and over that hell. But if you were a leader who could get everyone on the same page and moving together, on any project or goal?

Whether you're at the top or bottom of an organization, Patty Beach's ***The Art of Alignment*** is all about helping business leaders move projects, initiatives, strategies, and their overall mission and vision forward. Here you'll find a pragmatic approach to introducing new ideas to a group, getting them to agree on a path forward, and commit to carrying their weight in getting that idea across the finish line. Practical tools include a guide to where alignment and business intersect as well as a full strategy for introducing alignment at your organization through targeted meetings and careful approaches with your people.

IN THIS SUMMARY, YOU WILL LEARN:

- The true power of alignment and why it's so essential (yet undervalued) in business.
- The core principles of alignment, including the iterative co-creation principle, the Shuva principle, and the versatility principle.
- The 4 steps to alignment.
- How to prepare and run alignment meetings.

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Meghan P. Kozak, Editor-in-Chief • Kylie Waytuck, Graphic Designer

Alignment and Business

All businesses require alignment because groups of all kinds, including leadership teams, boards, employees, customers, vendors, and investors achieve more when aligned. Alignment isn't just about getting groups to agree. It's required whenever any two people come together to make a plan, whether they're business partners, a boss and direct report, a consultant and client, or two colleagues working together. Imagine how much you could accomplish between all these parties.

Alignment drives growth and scalability in business. To scale and grow, you have to get others to do things, and they, in turn, have to get others to do things, and so on.

Alignment and Leadership

Fostering alignment is the critical skill that separates dreamers from leaders who get things done. To reinforce this idea, it's important to clarify how leadership and alignment are linked.

The most essential component of leadership is vision. Without a vision of a future better than the past, there is no leadership. Instead, you have the status quo— or worse, devolution.

Leadership is the art and science of inspiring committed and aligned action towards a clear vision. Commitment trumps compliance every time.

The Iterative Co-Creation Principle

By consulting as many people as you can to help shape your ideas, you create a brain trust. By including people from different parts of the system, you gain many perspectives on the problem like facets of a prism. When a decision is informed by those it impacts, it is more likely to be sound and well-received.

Another reason to not only consult others but to invite them to co-create with you? Ownership. People don't take down what they build, so including stakeholders in shaping solutions avoids the future destruction of your most recent resolution.

The SHUVA Principle

SHUVA is an acronym that describes a basic need universal to all humans: the need to be Seen, Heard, Understood, Valued, and Appreciated.

When you feel seen, heard, understood, valued, and appreciated, it feels terrific. You can be yourself and express yourself. SHUVA is the path to true alignment because all ideas, including doubts and reservations, are welcome. When you feel SHUVA from a person or group, you're more willing to expand the extra energy required to hash out areas of misalignment. Keep in mind: you don't have to agree with what somebody says to offer them SHUVA.

The Versatility Principle

The Principle of Versatility unleashes the power of masculine and feminine energy by:

- Factoring in facts and feelings into conversations.
- Allowing people to build on each other's ideas.
- Being inclusive and selective about who to engage in the decision-making process.
- Respecting lines of authority while empowering people to reach across them.
- Alternating push and pull energy to move ideas from me to we.

With the Principle of Versatility, you don't end up with forced or fake alignment; you achieve true alignment.

The 4 Steps and 5 Cs of Alignment

Leading divergent thinking is easy; it's getting the group to converge that's hard. Instead of letting the conversation go unstructured, use a standard process to efficiently funnel ideas from divergence to convergence. That process is the 4 Steps of Alignment.

Step 1: Propose

The act of making a proposal shifts the conversation from uncommitted to committed and from divergent to convergent thinking. Just be careful not to go too far. Proposals are not declarations. When it comes to alignment, declarations are deadly because they leave no room for iterative co-creation. They set up challenges and power struggles and are off-putting.

When presenting a proposal, you're laying the groundwork for greater alignment even if the process to get there involves lots of potential roadblocks.

Step 2: Probe

Instead of probing for responses to your proposal in a ran-

dom way, collect feedback using four of the five Cs: Clarifications, Compliments, Concerns, and Changes, in that exact order. First, ask clarifying questions. Next encourage compliments about the proposal. Then you are ready to explore concerns and changes that can resolve the concerns. Finally, test for the last C- commitment.

Here are some tips about the Probe step.

The audience will want to jump ahead. Don't let that happen; instead, hold the line and make sure they follow the Cs in the right order

Give participants a notepad to capture what they are thinking sot hey can hold on to ideas and share them when the right time comes

Make sure someone is transcribing all comments

Step 3: Re-Propose

Your re-proposal should include the ideas that most resonated with the group, not everything that anyone expressed. Lean toward those ideas shared by decision-makers, informed experts, and those responsible for implementing solutions. Giver the preferences of these key stakeholders more weight than those of people the final decision only casually impacts.

If you don't follow this step, you risk having team members waiting until they get to the water cooler to deep-six all your hard work. Training your team to speak up is one of the big benefits of the 4 Steps of Alignment.

Step 4: Close

All too often, we neglect to Close properly. We kick the can down the road, postponing decisions to a later date. This can be a big waste of time and creates a perpetual churn. So, finalize your agreement by declaring a formal close; that doesn't mean the topic can never be reopened, but it does signal an intent to commit and move into action.

You've reached the Close when all parties have reached the desired level of agreement. Resist the temptation to continue debating until everyone is 100 percent satisfied unless you really need that level of agreement.

Defining the Players

One thing that can be hard to determine is who to include on your path to alignment. To help you figure that out, map all stakeholders and consider the best approaches to including them. Before deciding who to include, step back and map out all parties who will be impacted by the change you need alignment around. These are your stakeholders.

Alignment Meeting Logistics

When it comes to planning alignment meetings, it is valuable to follow the Principle of Versatility by balancing masculine and feminine energies. To run a meeting in a versatile way, use this MSF— design tight and hang loose.

For example, plan out an agenda to the minute and bring a timer to reinforce it, but also plan for time to let the conversation roll when needed.

Meeting Roles

If your meeting includes more than six people, it is very helpful to assign roles. Not only does doing so take the load off of you, it provides an opportunity for others to be more engaged and active in the meeting.

The top roles to consider for your meetings are Leader, Facilitator, Scribe, and Timekeeper. IT is customary to give timekeepers a voice or vote depending on whether they are group members or decision-makers.

Issuing the Invitation

Now that you have initial considerations and logistics worked out, you are ready to issue invitations to alignment sessions. A well-worded invitation can help set expectations for participants and get their idea machines up and running before they arrive.

The Opening

A good alignment session starts with a strong opening. Take time when you open a meeting to orient everyone so that they know where the meeting is going and can fully participate.

Follow this process— Clarify the purpose of the meeting, then clarify anything that may have transpired prior to the meeting that is relevant. Then review the agenda and any processes you may use, such as the 4 steps or 5 Cs. Finally, confirm that the participants are ready to start and are in agreement.

Ground Rules for Alignment

Ground rules are recommended for any meeting, but they are particularly useful when you are dealing with critical de-

cisions. The following meeting ground rules, when followed, will go a long way toward creating psychological safety and the best conditions for alignment.

Balance participation

There are no bad ideas

Say what you mean, just don't say it mean

Honor confidentiality

Top-Down Alignment

Alignment in a multilayered organization is always challenging. Conventional wisdom says start at the top, then cascade decisions down to every level. A top-down approach to alignment has many advantages.

Those at the top have the best vantage point to reconcile competing options and make best use of limited resources, have the formal authority to make changes, and hold the power of the purse needed to provide incentives.

Bottom-Up Alignment

When you don't have the power or authority to make a change, you may feel it is not your place to even suggest one. We don't believe in that. If you have an idea that can create a better future, then why hold back, even if you are at the very bottom of an organization? You just need the know-how to step outside the lines and the patience to work iteratively to bring others along. If your idea crosses organizational boundaries, you will need finesse, diplomacy, and change management skills.

Sideways Alignment

Sometimes you need alignment in a system where there is no power differential. Examples include partners in a business, working in a coalition of peers, or working with volunteers where no one is in charge. Every once in a while, I work with teams and organizations that have no hierarchy because they value equity so much that every person has an equal vote. In these cases, alignment principles and practices can keep things moving forward.

Dealing with Disruptors

When someone interferes with progress, it can be tempting to label them as a troublemaker and dismiss them. Labeling is not helpful, as it blames them for being off track and gives you an excuse to do nothing. Rather than thinking of these people as problems, think of them as valuable contributors who are using reactive behaviors to meet their otherwise unmet needs.

Maybe You Are the Trouble

If you feel you are continually facing resistance, guess what? Your problems share a common denominator: you. Start by looking in the mirror. Ask yourself: Am I creating the problem? Whether you are or not, if you change what you are doing, you might discover a breakthrough.

Conclusion

Inclusive leadership takes time, but if you practice the principles in this book, you can get any group of any size to back up good ideas and eliminate bad ones. Big ideas require a lot of preparation, especially when you are working across organizational boundaries. As you think things through, be sure to always be mindful of the whole system and lines of authority.



Patty Beach is the founder of LeadershipSmarts, a consulting firm that transforms managers into creative leaders that build "teams on fire that never burn out." Her approach to leadership development evolved over twenty years of designing award-winning programs for companies, universities, nonprofits, and government agencies. Before earning a master's degree in organizational development from Pepperdine University, and becoming an ICF Master Certified Coach, Patty was a geologist and manager leading initiatives in new technology and emerging markets in the energy industry.

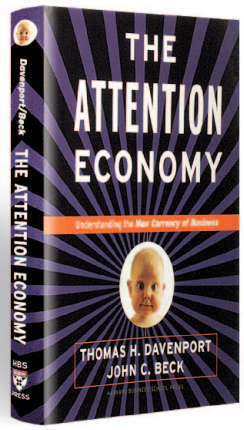
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The Attention Economy

Thomas H. Davenport and John C. Beck

SOUNDVIEW Executive Book Summaries®



by Thomas H. Davenport and John C. Beck

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Understanding the New Currency of Business

THE ATTENTION ECONOMY

THE SUMMARY IN BRIEF

As with any company, an amazing volume of information flows into your offices, within your offices, and out of your offices, to employees, customers and shareholders. What do you and your people focus on first? Second? Over the short and long term? The amount and quality of attention you pay to information can make or break your company. Ask yourself:

✓ **Are you missing key information when making decisions?**

✓ **Do you find yourself without time to reflect on anything but the simplest information transactions (via e-mail or voice mail)?**

✓ **Are you unable to focus when necessary? Do you see this in your employees?**

Accenture consultants Thomas Davenport and John Beck recognize that in today's information-rich business world, the scarcest resource is not talent or technology — it's attention. In this summary, they show how to capture, manage and hold attention, both within your organization and outside it. You will learn:

● **What attention is and isn't.** The authors discuss the six basic units of attention-related "currency," and how companies use different combinations to grab and hold attention successfully.

● **What technology helps focus attention.** The Web's flashy multimedia capabilities has upped the ante for companies hoping to grab customers' attention. The most useful technologies of the future will help people and firms filter and manage information, according to their attention needs.

● **What attention factors affect e-commerce.** "Stickiness" — the ability to get people's attention, keep it there and keep them coming back — is the key to a successful Web site. The authors present the four factors that determine how sticky a site can be.

● **How attention affects leadership.** Leaders must be able to focus their own attention to useful means, as well as focus the attention of their subordinates and customers toward information that benefits both themselves and the leader's business.

The first guidebook on this valuable resource begins on the next page.

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THE ATTENTION ECONOMY

by Thomas H. Davenport and John C. Beck

— THE *COMPLETE* SUMMARY

What Is Attention — And Why Is It Important?

Every business is an engine fueled by attention — the focused mental engagement on a particular item of information. In the Industrial Revolution, manpower drove the economy; in the information age, knowledge was power; in this business era, attention is the rare resource that powers companies. Recognizing that attention is valuable, that where it is directed is important, and that it can be managed like other precious resources is essential in today's economy.

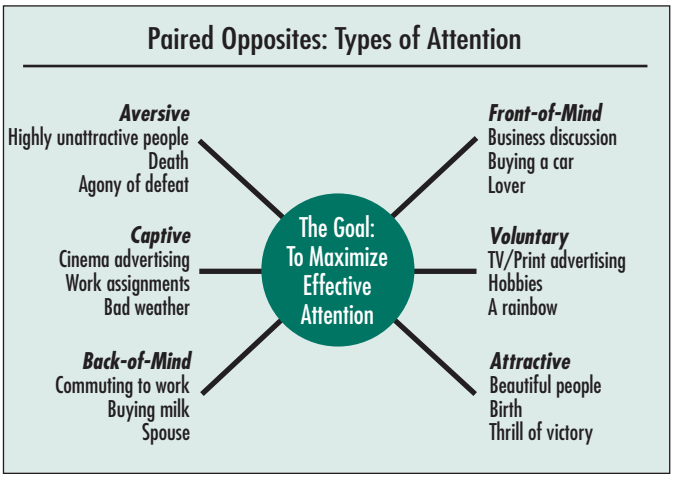
It helps to understand the manner with which information is processed within each of us (see chart below). Items come into our awareness, passing through a relatively unconscious *narrowing* phase, in which we screen out most of the sensory impulses around us. Those items then pass through a *decision* phase in which we decide whether to take action based on the attention-getting information.

Without both phases, there is no attention. Likewise, our definition requires some consideration of action as well. In the end, one may or may not act, but the consideration of action suggests that the matter at hand was given some degree of attention.

Six Units of Attention Currency

The concept of attention in the realm of business is a broad one. While the links between advertising and the attention of customers are fairly obvious, there is also the need for a company's leaders to manage attention on several levels, whether it be directing their own attention toward information, their employees' attention toward profitable activities, or the entire organization's attention toward customer needs.

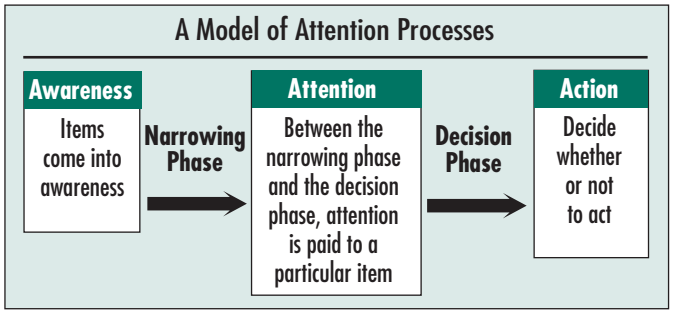
There are six basic units of currency (see box above, right) that are exchanged in an attention market, each emphasizing a specific facet of focused mental engagement. These types of attention can be paired into three dimensions, with each pair containing two opposing kinds of attention:



● **Captive versus voluntary.** Attention can be driven by curiosity, the desire to learn, or the desire to escape from the demands of an environment — in other words, people pay attention to things they have to pay attention to, as well as to those things they want to pay attention to.

● **Aversive versus attractive.** We pay attention to some things because we wish to avoid negative experiences (aversive attention), whereas we pay attention to other things because we think they may bring us positive experiences (attractive attention). Children ride tires like sleds in Michelin commercials, providing the underlying message that we will jeopardize our children's safety if we buy elsewhere — an example of aversive attention. Likewise, a car with a dubious safety record may be pitched on attractive attention, based on the sleek look of that model.

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● **Front-of-mind versus back-of-mind.** Front-of-mind is conscious, focused and explicit — the kind of attention you use to write reports or read information. At the same time, your brain is paying back-of-mind attention to dozens of other subjects, things that will never register with you consciously unless something unexpected occurs (for example, breathing).

The ultimate attention-getter draws all six extremes of attention at once. These are experiences that characterize the most intensely rewarding and enjoyable moments of our lives, regardless of whether they come to us or we seek them out or create them. Extreme sports and sky-diving are examples of how to combine all six extremes of attention into a single activity. It seems we love to have our attention totally saturated, to the extent that some of us risk our lives for the experience. ■

Use New Technology To Grab Others' Attention And Protect Your Own

The standard for what's attention-grabbing is always being raised — that which dazzles you today may very well bore you tomorrow. Inserting cute cartoon graphics into your PowerPoint presentations used to elicit chuckles. Now everyone has the same clip art package, the same fonts, the same transitional elements between slides. Many methods and tools for attracting attention have become mere commodities.

To compete in this environment, the attention-conscious manager or employee must engage wholeheartedly in the use of attention-getting technologies — tools such as streaming stored video, high-quality audio, hypertext and high production values. It's important to use the technology to customize information to the specific needs and habits of individuals. Highly tailored information attracts and keeps attention. For example, mass e-mail campaigns annoy just about everyone, whereas a customized message for you and you only gets your attention.

Corio Knows Customization

Corio, a leading application service provider (ASP) that provides access to business information technology applications over the Internet, had developed a product strategy that attempts to minimize the need for the user's attention. The company wants to present an integrated view of all relevant information for a particular type of user, so that everything he or she needs is easily accessible through a Web browser. This is a fine example of an organization building information systems that customize the information they present to each customer — without asking for a lot of the customer's attention in the customization process.

Technology as Filter

Given the barrage of information and the scarcity of attention, perhaps the most popular technologies of the future will be those that preserve, protect and defend your attention. (Ironically, the same technologies used to invade your privacy are the ones that can protect it.)

The goal in employing these technologies is not to eliminate all information, but to filter out messages not wanted at a particular moment. This requires the user to decide on his or her own preferences, then communicate that information to machines by selecting alternatives.

Technology alone will rarely, if ever, be the solution in itself to attention protection. The user must invest some time and attention, and even then, will only be able to protect attention in certain domains (such as e-mail, telephone and TV). ■

Attention Structures: Why We Keep Paying or Lose Attention

What keeps us paying attention once we've started? How can an informational message not lose the attention it has gained?

The following attention structures will help:

● **Make a change.** One way to keep attention over time is to make timely changes — to content, format, tone, involvement level, etc.

● **Tell a story.** We stay in movies and finish novels because we want to find out what happens in a story and to that story's characters. Give your audience a story, and they'll stay with you.

● **Keep it real.** Informational messages that are lifelike and realistic are more likely to keep attention than those that are not.

● **Don't stop.** If you have an audience's attention already, you have a good chance of moving to another topic or location without losing them. If, for example, you're watching a television program, the chances are good that you will watch a commercial broadcast during that program.

● **Alter the flow.** The most successful attention-structuring tools try to hold our attention to a given message, but also make it easy to change the informational context. One big reason that TV, radio and the Web are all successful is that it's very easy to change channels — in essence, altering the flow of the attention stream. ■

E-Commerce and Attention: The 'Stickiness' Factor

Companies that wish to sell their products and services over the Internet will live and die by the attention they receive. Although the connection between attention and e-commerce may be obvious, the potential of attention management in this environment is largely unrealized. Such Internet features as personalization, search capabilities and multimedia content are natural attention-getters, but an organization's ability to execute them is still limited. The systems of measuring attention in e-commerce are likewise flawed.

One of the most critical attention issues in e-commerce is simply how to attract and hold attention. Not everybody can win at the game; gains in attention for some sites mean losses for others. This problem has a name — "stickiness."

A sticky site lures Web surfers, holds them and keeps them coming back for more. And while stickiness does not guarantee success, sites that aren't sticky can't possibly succeed.

The Parameters of Stickiness

Stickiness is measured by three essential parameters: total time spent at a site, number of visits per person, and number of pages viewed per person. Different measures of stickiness are appropriate in different circumstances. For example, an e-commerce site trying to sell goods over the Web might receive high marks for number of visits per person (indicating repeat business), but might want to be cautious about high time-spent marks, which could indicate problems in navigation or appropriate information.

The stickiest sites combine and fully use four tactics: relevance, engagement, community and convenience.

Relevance

The most successful sticky sites remain relevant to customers by addressing the following issues:

● **Content that fulfills a need.** User needs must drive the content of your site. For example, when TWA flight 800 crashed under mysterious circumstances, the airline reconfigured its Web site to give prominence to updates on the investigation. TWA understood people were coming to the site for information, and it provided that information to them.

● **Appropriate scope.** You must find a good balance of breadth and depth in the content you provide, without overwhelming customers. Users of eBay, for example, can find several "hits" on a given item, but not so many that the task of plowing through them becomes too vast an endeavor.

● **Frequent updating.** User needs are not static; things tend to change quickly on the Web. The key to sticky success for financial sites is to provide regular updates, for example on stock prices. The value in such a site comes from providing the latest information on its given topic.

● **More of what customers love.** The stickiest sites are (or claim to be) authoritative — Amazon.com boasts the "earth's biggest selection" of goods, while the 1-JOBS network calls itself the "fastest-growing Internet recruiting service." These sites use time-honored techniques to establish credentials with users.

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Insights from the Conversion Principle

Many companies seeking attention on the Web get so caught up in the intricacies and novelty of the medium that they fail to recognize their ultimate goal — to convert attention into cash. Thus, the authors of *The Attention Economy* devised the "Conversion Principle":

"Internet attention is only a starting point; online advertising must engage the viewer and lead to behavior change."

Some interesting insights emerge from this principle:

✓ **Eyeballs are much more valuable when you know to whom they belong.** If you can identify the actual person who has visited your site, you can start pursuing the multitudes of marketing strategies available (relationship marketing, one-to-one marketing, etc.). In order to get people to identify themselves by registering, though, you must offer something in exchange.

✓ **Not all eyeballs are created equal.** The more valuable eyeballs belong to those people who actually make purchases from your site, as well as those with the target demographics sought by the sponsor. Print and TV eyeball seekers have known this for decades; the Web is only just coming around.

✓ **If you can't measure attention, you can't get paid for it.** Through sampling or server-based tools, you can measure whether someone visited a site, whether he or she clicked on anything, and how long he or she stayed. Wouldn't it be useful, though, to know how the visitor felt about the content? Through exciting methods, such as brain-wave monitoring, galvanic skin response, heart rate and other means (which are being used to measure other kinds of attention), we will very likely have that information and more, sooner than later.

E-Commerce and Attention: The 'Stickiness' Factor

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Engagement

Sites keep customers engaged by providing the following:

● **Interactivity.** Although the act of clicking links on any Web site is a kind of interactivity, the best sticky sites have taken the concept a step or two further. For example, Atlantic Monthly readers can post their reactions to articles on the site's "Post and Riposte" message board, and revisit the board to see what others have written about the article and their post.

● **Competition.** Gaming sites offer competition as part of their overall experience, and are, as a result, among the stickiest sites on the Web. Many non-gaming sites (like Disney.com and Football365.com) offer interactive competition as well, encouraging people to linger and return.

● **Production values.** Faced with a multitude of competing sites, visitors often discriminate on the basis of what they see. Production values are therefore extremely important to stickiness. British clothing vendor Racing Green, for example, goes to great lengths to make its Web site look and feel like a high-quality catalog.

● **Entertainment.** At the highest level of production quality, technology can blur the lines between commerce and entertainment. You must be careful, however, to make sure your entertaining content feeds back into your overarching business goals for your site.

● **Narrative.** You must find a way to present your messages memorably, whether you develop original content yourself, or get it from users or some other online constituency.

Community

The stickiest sites engender a sense of community with customers by providing the following:

● **Co-creation.** Sites like Schwab's and Fidelity's are built around their customers' substantial investment of their own information, which drives the content of the site. Internet calendars like When.com also depend on this "co-creation" — the factor of stickiness is directly proportional to how much scheduling information the user has provided.

● **Customization.** Customization is a form of co-creation, but usually depends more on filtering and manipulation than on the addition of information by the user. Dell's Premier Pages site, for example, employs customization by letting corporate customers filter out information not relevant to their account.

● **Personalization.** Sites like Amazon.com and Buy.com achieve stickiness by targeting customers individually, through personalized greetings, e-mails that concern purchases and recommendations based on prior purchases.

● **Flattery and recognition.** Amazon also creates stickiness by allowing users to rate customer reviews of products, thus allowing their customers to have a modicum of recognition and flattery in their experience with the site.

Convenience

Sticky sites use the following to make the online experience as convenient as possible for customers:

● **Quick downloads.** Surveys of Internet users suggest that faster access speeds would drive additional usage to the Web, revealing a downside to the use of sound and video that may turn off visitors who tire quickly of waiting for such content to load.

● **Bite-sized chunks of information.** Thanks to its long experience in print, USA Today's Web site is a model of the successful delivery of information in bite-sized chunks. Such presentation is ideal when dealing with the low attention spans of many online users. ■

Leadership: Capturing and Directing Attention

Some seasoned business leaders have long used attention management tools, which constitute a large part of their success; unfortunately, many more leaders do not. While the business section of your nearest bookstore is probably well stocked with books on leadership, not many (if any at all) deal with the relationship between successful leadership and attention. Consider, however, the great business leaders of the century — Ford, Watson, Morita, Welch, Gates — and how they have always managed to capture attention (their own and yours) and use it to their ends.

But even these pillars of attention management would have a tough go in today's increasingly plugged-in world. Now, more than ever, leaders have to find innovative means of capturing and directing attention. As a leader, you need to secure the four elements of attention leadership:

1. Focusing your own attention.
2. Attracting the right kind of attention to yourself.
3. Directing the attention of those who follow you.
4. Maintaining the attention of your customers and clients.

Focusing Your Own Attention

Attention flows downstream, from leaders to workers

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Leadership: Capturing and Directing Attention

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to clients and customers. Research indicates that leaders who are more self-aware are the most successful at directing the attention of others. Attention leaders must thus be able to focus their own attention — recognizing where their attention is directed and determining whether it is appropriately and effectively aimed.

You can improve your own attention focus (as well as the impact it has on your employees) by doing the following:

- **Go public about where you spend your attention.** By telling others about items in your field of attention, you'll also become more self-aware.
- **Set attention goals for yourself.** Know where you want to spend your future attention.
- **Get feedback from the people around you.** Family, friends and employees may have a better sense of how you spend your attention than you yourself do.

Attracting the Right Kind Of Attention to Yourself

The most successful leaders, like Sony's Nobuyuki Idei (see box at left), have risen through their organizations by knowing how to get the right attention at the right time, and how to avoid inappropriate attention. Whether by instinct or luck, their ability to attract attention to or divert attention from themselves (depending on the situation) is key in their rise and ability to flourish on top.

Directing the Attention of Those Who Follow You

Leaders require followers who pay attention to their beliefs and actions. Without these people, the progression from attention to self to captivating the attention of others gets interrupted. Self-awareness becomes pure vanity. Although old methods of leadership (the "command-and-control" style) are effective at getting the attention of followers, they are increasingly ineffective at maintaining that attention. While most employees will follow their boss' lead, positional authority alone will not keep the attention of employees.

The key to directing attention is to accept that you cannot control anyone's focus. Certainly, you can control many related things — how much time people spend at the office, where they sit, what they talk about, etc. Ultimately, though, people direct their own attention — it is a freedom individuals will always possess.

Attention leaders influence behavior by creating a meaningful context for information. By selecting and contextualizing information — choosing what to focus on and deciding how to focus on what they've chosen — leaders are able to successfully manage attention.

One way of doing this is to eliminate extraneous information by filtering or removing the means by which that excessive data flows. John Browne, CEO of British Petroleum (BP), instructed his information systems managers to delete half of the IT applications in the firm's internal system, after determining that a spate of mergers and acquisitions had limited the company's attention resources. Other leaders limit the kind of e-mail their people send out, noting, for example, that broadcast e-mails typically divert attention from priorities that require more focus.

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Sony's CEO Seizes The Attention Advantage

Nobuyuki Idei became the CEO of Sony by staying in the shadows of the company until the time was right to seize the attention advantage. According to staff members, he was "practically invisible," diverting attention away from his nontraditional management style by taking positions away from the company's headquarters. Indeed, Idei lived outside of Japan for much of his career, having created the company's French subsidiary in 1968 and spending a good portion of his career in France and Switzerland. All in all, though, he kept quiet, managing communications channels to accentuate his positive accomplishments and minimize the negatives in his bid to maintain a certain level of attention, while never attracting too much of it.

When he saw his management acumen matched the needs of the company, he came out of "hiding" and captured the attention of board members by taking over the entertainment arms of the firm (Columbia Music and Pictures) and turning them from underachievers to successes. He was the only executive in Sony who did not come strictly from an electronics background, and was thus perfectly positioned to bring the company's electronics and entertainment wings together and make both profitable. He was, above all else, an expert at securing and managing appropriate attention.

As a result of his acumen, Idei was able to jump over 15 more senior members of Sony's executive staff to become CEO. He now openly displays his nontraditional, energetic management style, seizing the attention advantage not just for himself, but also for Sony as a whole.

Leadership: Capturing and Directing Attention

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Maintaining the Attention of Their Customers and Clients

Even if you get 100 percent of your employees' attention directed in the right ways 100 percent of the time, your company will still fail if you can't secure and maintain your customers' attention — positioning your organization's products and services in the minds of customers, then maintaining that attention to get repeat business from them. Leaders try to get different types of attention:

- **Michelin's "There's a lot riding on your tires" campaign (with the baby riding in the tire) uses aversive attention.**
- **Pirelli uses attractive attention to sell its tires, making them look sleek, stylish, and high performing.**
- **Coke takes a front-of-mind position on its cola advertising, enticing customers to think "The Real Thing" every time they get thirsty.**

Remember, as an attention leader, you need to manage not only the amount of attention, but also the type of attention your customers give you and, where possible, to your competitors. ■

Strategy: Allocate Attention To One or Two Frameworks

Strategy requires an organization's executives and management to shift their attention away from the specific tasks involved in the business to more abstract and long-term issues. Managers focused on day-to-day concerns must often be convinced to pay more attention to strategy.

When developing strategy, you will have to choose from a multitude of potentially valid alternatives, each of which could take your business in a different direction. Some attention-oriented strategy choices you'll address might include the following:

- **Should we focus our attention on market share or profitability?**
- **Should we focus our attention on growth within our existing business, or on diversification?**
- **How much attention should we focus on traditional competitors, versus new entrants?**
- **On what new technologies should we focus our organization's attention?**
- **Can we ignore the prospect of changes in financial markets during our strategy, or must we focus on that as well?**

Strategy is not just about choosing the right strategic option, but also about what point of view to take on strategy itself — who does the strategy, when it's done, and so forth. Though you can view a strategy from many different perspectives, you cannot pay attention to each and every one of those perspectives. You must allocate your attention to one or two strategy frameworks, temporarily ignoring the others.

Another factor to consider is the dissemination of strategy. The traditional assumption has been a top-down assumption — that strategy is formulated by senior executives and disseminated through other parts of the organization. While this might be valid in some organizations, some argue that senior management is perhaps the least likely to propose revolutionary new ideas, because their attention is fully allocated to existing business. Current perspectives indicate that there be a broader participation in strategy — from secretaries and forklift operators and other employees on the front line. In these cases, managers must cast their attention nets widely if they want to include more nontraditional elements in their strategies.

Once strategy is set, it must be communicated. Communicating strategy across multiple organizational channels is the key to getting attention for that strategy and producing change. You must build awareness, focusing individuals' attention on what is important in the strategic environment, as well as what they must do individually to accomplish this strategy. ■

Jack Welch's Stealth Strategies

When it comes to communicating strategy across the breadth of an organization, few can touch General Electric CEO Jack Welch. Upon taking the mantle of CEO in 1981, he challenged the company's many business units to become Number 1 or Number 2 in their field by 1990, or they would be dissolved.

While this might seem like a simplistic goal in and of itself, it actually incorporated several important goals that fed into Welch's overarching strategy for solving GE's problems. While it was true that a business could be profitable without a Number 1 or Number 2 market share, Welch wanted a stable of champions whose enormous revenues and profit margins would give GE the financial flexibility it needed to dominate its markets. The focus on being Number 1 or Number 2 was a stealthy way of achieving numerous other goals to get GE on top and keep it there.

Structure: Focusing on Certain Aspects of the Business

Organizational structure is a powerful vehicle for focusing attention. Organizational structures focus attention on certain aspects of the business and ignore others. For example, one way to show employees, customers and external observers that a company believes quality is important is to create a quality department. Structure is not the only way to bring attention to a goal, but along with attention, it often pulls other means (performance evaluation, compensation, communications, etc.) toward the purpose of achieving the goal.

When determining on what the structure of your organization should focus its attention, you typically have many possibilities, but one overarching concern — there is only so much attention to go around. Thus, you must choose wisely. Among the options from which you might have to choose are the following:

- **Product-oriented structures.** These are for companies that make multiple products, each with different customers and markets.
- **Geographical structures.** These are for companies that must do business in various ways across its target geographical markets.
- **Functional structures.** These structures focus attention on peoples' technical specialties — marketing, finance, manufacturing, etc. — when business problems are too large and complex to be addressed with a generalist approach. Functional structures are persistent in part because that is how people are educated and trained — students take courses in functions, major in functions, and are then predisposed to devote attention to functions.

Switching the Focus

Even if an organization structure has only one dimension, a manager must take concerted action to draw attention to the new dimension if it is new or different from a prior way of doing business. If you are switching from, for example, product orientation to geographies, there will likely be a considerable transitional effort to undertake.

Let's look at an example: Business processes — the activities by which work is accomplished in an organization — typically cut across other dimensions of structure (such as business units). Some management thinkers suggest that firms adopt **process management** — rather than products, geographical units or functions — as the primary dimension of organizational structure. (Terms such as the "process-centered organization" or the "horizontal organization" refer to structures focused on process management.)

From an attention management point of view, however, this approach is misguided. It is not easy to transfer an entire company's attention to a new dimension of organizational structure, abandoning previous dimensions. Therefore, some alternative but more workable methods for focusing organizational attention on processes might include the following:

- **Tying process management to information systems initiatives (for example, large enterprise systems upgrades or revamps);**
- **Relying on senior executive exhortation;**
- **Evaluating and rewarding employees on the basis of performance.** ■

The Future of Attention-Oriented Policy

Policies in organizations have not, thus far, focused on attention to a significant degree. This will likely change, however, as managers recognize the limits of technology to sufficiently filter out unneeded data and focus attention on important information. Here are some policy initiatives of which we may see more in the coming years:

- Companies may have strict policies for who can send information to employees and who cannot. Wasting another employee's attention will be frowned upon in the most extreme manner; access to corporate e-mail addresses will be strictly limited.
- Executives of companies will probably suggest to employees how much off-hour attention should be devoted to work-related topics.

Firms will establish "information-free zones" or times during which employees will be able to concentrate on their work.

- It may also become common for employers to instruct employees about the amount of attention an employee can devote to non-work-related topics while at work, considering the new emphasis advertisers are placing on reaching prospects through workplace Internet connections.
- Firms will probably also make suggestions to their employees about the amount of attention they should devote to specific work issues or information. This will force management to monitor the allocation of their employees' attention and focus them on productive topics.
- Firms will establish "information-free zones" or times during which employees will be able to concentrate on their work, free of e-mail or phone distractions. Although many people find such isolation difficult to imagine, firms will institute such policies to allow their people to get non-communications-intensive work done. ■

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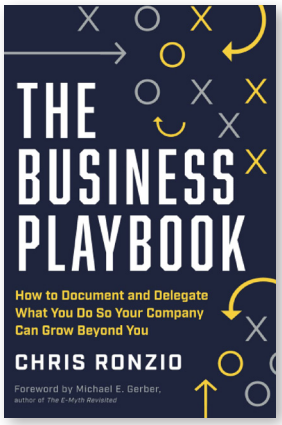
The Business Playbook

Chris Ronzio

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The Business Playbook

How to Document and Delegate What You Do So Your Company Can Grow Beyond You



by **Chris Ronzio**

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THE SUMMARY IN BRIEF

You've probably learned the hard way that when you're the only one who knows what you know about the business, you can't get other people up and running quickly. Every owner wants the same thing: an efficient workflow that makes sense to everyone in the company. They and you, no doubt want to be able to trust the operation of their business to someone else. All of that knowledge is so much a part of you that you take it for granted--right up until the time the roof falls in because you can't be reached. Having a playbook that includes everything that makes your business your business allows it to exist beyond you.

No matter who ultimately takes on that day-to-day, building a playbook gets you thinking about how to successfully onboard your people so they understand what they need to know and when they need to know it. At the same time, you'll be shaping a culture that values process and efficiency, as well as gaining in all the other ways you'll learn about. ***The Business Playbook*** is a guide for the what, who, how, when, and why of building your company's playbook and making it stick.

IN THIS SUMMARY, YOU WILL LEARN:

- How to document your business in a way that leads to repeatable, effective processes.
- How to create a playbook that will serve as the ultimate guide for future success.
- Create sustainable business practices that will grow alongside your organization.

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The Four Elements of a Playbook

Like the periodic table, the elements of a playbook are universal. Unlike the periodic table's 118 elements, a playbook has only four (each starting with the letter "P" for playbook). The first element is your **Profile**. Similar to a profile on social media, the company profile on your playbook is how you introduce what your business is about. It includes your brand, culture, values, mission, vision, and history. The profile section also explains to new hires or potential investors/acquirers why you exist, who you serve, basically how you serve them, and how you differ from other businesses in the same category.

The second element is the **People** who work in the business-a matter of intense curiosity for new hires. They're already looking everyone up on LinkedIn to get a feel for who they'll interact with; they'll appreciate it if you put everything in one place for them. This element helps everyone understand who's who, and who does what in your company.

Third is your company's **Policies** — the operating rules and standards that would typically go into an employee handbook. They include everything from office-access hours, dress code, and vacation time to legal compliance: state and federal regulations, and anti-harassment and safety information. (Start with the policies that apply to everyone.)

The final element is **Process** — the "plays" part of the playbook. It's my favorite element: while Profile, People, and Policies make up the foundation of the building, Processes help you grow into a skyscraper because they scale your business's capacity to produce. They result in more people delivering more products and services to more customers, and doing it consistently. Processes are the step-by-step, start-to-finish sequences of accomplishing a task or meeting a responsibility inside a business.

When, Where, How, and Whether to Start

To help you decide whether your business is ready for a playbook, look closely and objectively at your business and answer these questions:

Is your business mature enough? It might be if you have at least some separation of roles and responsibilities. But it's definitely not mature enough for a playbook if only one person is doing every job.

Do you want a playbook for the right reasons? What's a bigger problem for your business: Is it getting more customers? Or is it being able to consistently and efficiently deliver to the customers you are already getting?

The first— getting more customers — is a revenue problem, and as you saw with our real estate client, a playbook can't solve that. If that's what you're dealing with, spend your time and energy working on marketing and sales. Delivery is an operations problem, which a playbook does solve. Documenting repeatable processes enables you to scale and meet the demand.

Why else do you want a playbook? Maybe you plan to sell the business. Or you want to create a better work-life balance; instead of continuing to allow the business to dominate your life, you want to be able to take a vacation now and then or spend more time with your family. Maybe you aspire to open multiple locations or develop a franchise. Or you might want to pass along the hands-on part of your business to free up your time for your next venture. Keep your answer to "why" in mind for when we talk about how to enlist the help of your team.

Is your team ready and willing to get behind your vision? Regardless of your rationale for building your playbook, if you don't have a good relationship with your people, you'll find it hard or impossible to get them on board. Never start work on a playbook before you're confident that you'll get their help and support— even their excitement.

Your Profile: Defining What Makes Your Business Unique

A number of items belong in the profile of your company— the first section of your playbook. Here they are in their most logical order.

Say Hello

A warm welcome is the best way to begin this section. Although it may sound obvious, give your newcomers a soft landing by starting with a simple hello. Give every new person the same enthusiastic greeting to get them excited about working with you and the process to come.

Share Your Vision and Mission

Your vision is where you expect your company is headed— an imagined end state. It's tied to your passion for the business, who you want to serve, and what kind of impact you want to make on the world. For example, back when only

the biggest companies had computers, Microsoft's vision was "a computer on every desk."

Share Your Core Values

Your values are the traits and principles that you and your team members share. Establish them early before you document your processes. Documented core values make employees confident about taking action. Even before you have specific responses for every scenario you can anticipate, having core values in place will help guide your team's decisions in the right general direction.

Communicate Your Brand

This part of your playbook is your chance to convey the look and feel of your business to your new team members. It's your business's personality, voice, and tone— whether professional and structured, quirky and casual, or something else entirely.

Introduce Your Market/Industry, Customers, and Competitors

When people search for your company online, in what category do they find you? How are you represented in the marketplace? To orient new hires to the space your business belongs in, start this part of the playbook by touching on your category or industry.

Introduce Your Products and Services

Use this part of the playbook to list your company's menu of products or services and their approximate prices.

Introduce Company-Wide Software

Provide a basic intro to only the software tools that apply to everyone, like your email and calendar programs, and chat app, if you use them. New hires will be expected to use these programs early on.

Include a Glossary

Every industry and business has its own jargon. Help new hires get acclimated to it before they find themselves lost or confused in their first meeting.

Introduce How Your Business Works

The final piece of the profile is a start-to-finish look at what actually goes on in your company so that each employee understands their place in the big picture.

Your People: Making the Map for Who's Who and What They Do

People are the most important part of your business. Even though every company's profile is unique, it can be similar in some ways to that of another business. But it's the people who really make the difference. They're who make your business what— and who— it is. It pays to invest in helping everyone feel welcome and get acquainted and in keeping their responsibilities aligned with them.

When you think about the dramatic difference between my two conference experiences, I know there's no question about which experience you want for your new employees. By building a directory, an org chart, friendly bios, and detailed roles and responsibilities, you're creating a sense of belonging for your new team members and setting them up for success.

Your Policies: Writing the Rules of Play

Your policies should never be about eye-roll-worthy layers of red tape. They need to be useful, fair, clear, and never over active. There are dozens of potential policies you may want to consider for your business. That said, there should never be any 'forever' policies. Make it a policy to regularly review your policies. To avoid overwhelming your team, throw away policies that no longer— or never did— make sense. In most businesses, people are doing obsolete policy-based tasks that were established years ago because no one has questioned them since. To avoid this waste of time, regularly review your policies and ask your team to suggest ones to get rid of.

Your Processes: Shifting from "How You Do It" to "How We" Do It"

Answer each of the questions about the responsibility or process to be able to thoroughly and clearly document it.

1. What's the process called? That might sound too obvious, but if the name isn't clear -if it doesn't match what team members expect it to be-no one will be able to find the instructions. Keep names simple and intuitive, like "Replying to Support Tickets," "Extending a Job Offer," or "Sending Out the Weekly Newsletter."

2. Who owns the process? Every process should have just one owner whose job it is to keep it up to date (and post the date it's updated), make sure people are trained in it, answer questions about it, and confirm it's getting done right.

3. What physical or software-based tools are needed to perform this process and where can they be found? Does it require a blank form or company letterhead? Is there a template for, say, a client presentation? Are there required logins and passwords? Or is background information needed, like a client profile including their order history?

4. How often and when is it performed? If you're training on the process for answering phone calls at the reception desk, provide useful context, such as whether the phone rings five times a day or five times an hour. This knowledge will help team members determine how much time to allow for this task and plan their schedules in general.

5. How long does it tend to take? This is especially useful because it communicates how long you expect someone to spend on the process. For creative shops, like web designers, do you allocate two days or two weeks for creating mock designs? To avoid applying unneeded pressure, you might add a range or mention that the process will go faster with practice.

6. How is it measured? Many processes come with important key performance indicators (KPIs) that show how good a job someone is doing. For example, a KPI might measure how quickly team members respond to customer-support tickets or the maximum percentage of tolerable waste in a manufacturing process. Some processes will lend themselves to including in the playbook how they look when they're done well. And for other processes, it might be useful to show a process done right next to how not to do it.

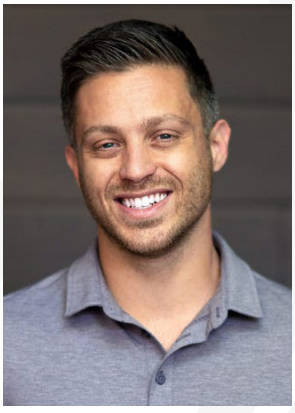
7. Why does it matter to the company that it's done correctly? Understanding this context helps team members buy into learning the process. If they know why the standards matter, they're much more likely to want to uphold them and to work like a human being with a heart, rather than like a robot.

8. Finally, what are the steps? Make them comprehensive and clear. Break up the steps into manageable chunks of content, no more than the approximate length of a half page of paper. This helps keep the content on the screen, readable at a glance, rather than requiring the team member to scroll through endless text. Better yet, whenever possible, incorporate screenshots, videos, or screen recordings. If a picture is worth a thousand words, a video is worth thousands of pictures!

Conclusion

Your small business will stay small if you can't manage to remove yourself from the day-today hands-on running of it. You can scale only if you delegate tasks and operations to your team and trust them to deliver. A playbook that documents your processes, policies, and culture is the best way to get your business out of your brain and into theirs.

Now that you have the tools to collaborate with your team and capture the knowledge and uniqueness that exists in your company, I hope you'll use this book as a roadmap to create a playbook that will do wonders for you, your business, and everyone on your team.



Chris Ronzio is the Founder and CEO of Trainual, a leading SaaS platform transforming the way small businesses onboard, train, and scale teams. A two-time EY Entrepreneur of the Year Mountain Desert Region Award finalist and Phoenix Business Journal 40 Under 40 Awards recipient, Chris is on a mission to help business leaders document and delegate so they have more time to focus on the things they love. Serving businesses in over 170 countries, Trainual has been recognized on Inc.'s 2021 Best Workplaces list and landed #1 on AZ Central's inaugural top workplaces list for 2021. Chris hosts The Fastest Growing Companies and Organize Chaos podcasts.

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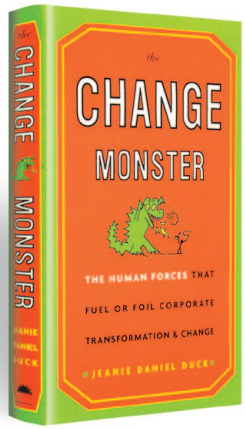
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The Change Monster

Jeanie Daniel Duck

SOUNDVIEW Executive Book Summaries®

FILE: Hands-On Management



By Jeanie Daniel Duck

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The Human Forces that Fuel or Foil Corporate Transformation and Change

THE CHANGE MONSTER

THE SUMMARY IN BRIEF

Most mergers and acquisitions fail to deliver their promised value. Even many internal restructuring projects often succeed only so far before employees and managers backslide into the old, less productive status quo. Why?

Despite careful management of the operational aspects of corporate change, many managers and executives ignore the human element — how changing a job description or corporate environment makes people feel. Because, ultimately, employees are the backbone of any company, aligning corporate change initiatives with your employees' inner workings — their emotions and reactions — as well as the necessary operational adjustments, can boost the success rate of any restructuring or merger.

In this summary, Boston Consulting Group Senior Vice President Jeanie Daniel Duck introduces a five-stage framework — called the "change curve" — for understanding and managing the human element of the change process.

The change curve consists of the following stages:

I. Stagnation: The organization is either depressed or hyperactive.

II. Preparation: Leaders engage in planning and communication.

III. Implementation: The initiative is expanded to involve more people in multiple layers.

IV. Determination: This is a period in the process that consists of conflicts, clashes, failures and minor successes.

V. Fruition: The results are realized.

With the help of two case studies — an actual case involving the Micro Switch division of Honeywell Systems and a fictional case (based on actual companies) involving the merger of two pharmaceutical companies — Duck leads us through the change process stage by stage.

Any major transformation of your company will awaken the "change monster" — the emotions and fears of those faced with radical change. As a leader, your job is to tame this monster.

This summary will show you how.

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The Change Curve — A Map To Find Your Way

"I don't like doing something different, unless I already know how to do it," might sum up how most people feel about change. Any change is stressful. Stress is a stimulus and one that can stimulate in either a positive or negative way. Studies have shown that in workplace situations, stress most commonly occurs:

- **When high demands are placed on employees**
- **When employees' actions are being carefully watched**
- **When employees are concerned about their competence**

In any merger or restructuring, all three of these stressors come into play, producing an even more negative stressful reaction among employees. Leaders of change initiatives and major change programs must address these concerns.

Five Stages

Organizational — as well as individual and personal — change is a process that proceeds over time and has been shown to have distinct observable stages or phases. By identifying and describing these stages, managers can more easily spot the problem areas ahead of time or identify where they are in the overall process.

The "change curve" is a five-stage framework that describes the typical process of change. The five stages of the change curve are **stagnation**, **preparation**, **implementation**, **determination** and **fruition**. Different parts of the organization can be at different locations on the curve, and sometimes you may need to revisit earlier stages. But these are phases that have been seen again and again in numerous companies and cultures. As the company moves further along the change curve, it has been shown, employee morale and confidence rise. ■

Three Essentials Of Change Management

Strategy: A passionate belief in where you're going. Communicating and translating your strategy into action is as important as the strength and depth of your belief in it.

Execution: Good, basic management. This element is even more critical when a company is undergoing a change.

Sensitivity to emotional and behavioral issues: Recognizing and addressing the emotional and behavioral issues involved in change.

This summary focuses on this third essential element of change.

The Dimensions of Change

Some changes can be relatively simple, like installing a new computer system. Generally, there are eight areas addressed in any corporate change initiative:

- ✓ **Strategy**
- ✓ **Business model**
- ✓ **Key processes and IT systems**
- ✓ **Organizational structure**
- ✓ **Roles and responsibilities**
- ✓ **Compensation**
- ✓ **Locations of operation and facilities**
- ✓ **Size and capability of work force**

The more areas that need to be addressed and the more people involved, the more complex a change initiative becomes, and the longer it will take to accomplish.

The author: Jeanie Daniel Duck is senior vice president of The Boston Consulting Group. Her article in the *Harvard Business Review*, "Managing Change: The Art of Balancing," is a bestselling reprint used in executive education programs and business schools. Duck is also an artist with a master's degree in sculpture.

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Stage 1: Stagnation

Stagnation, the first stage of the change curve, can be summed up in two words: demoralization and denial. A depressed or demoralized company exhibits the same symptoms as a depressed person: a general slowness, difficulty or inability to make decisions, and lack of motivation or energy.

A company can also exhibit stagnation at the other end of the spectrum by being hyperactive — engaged in frenzied activity but accomplishing very little. This type of atmosphere leaves employees feeling exhausted, abused and very (negatively) stressed.

In some cases, consultants have seen both symptoms exhibited in the same company. In a company experiencing this type of stagnation, there can be many change initiatives in progress, but none that reach fruition. The danger is that management loses credibility and the work force builds up a resistance to any and all change initiatives.

A depressed or demoralized company exhibits the same symptoms as a depressed person: a general slowness, difficulty or inability to make decisions, and lack of motivation or energy.

Stagnation can be caused by poor strategy, lack of leadership, a shift in the market, a lack of new products or services, too few resources (including employees), outdated technology and poor execution. Employees of a stagnating company often express feelings of being safe and secure in their jobs and having faith that their jobs, and the company, will continue forever.

One example of a company in stagnation is Mattel, which comes up with endless spin-offs for its Barbie product line, but has trouble creating anything new. Its acquisition of The Learning Company was an attempt to infuse new ideas and technology into the company, but this move did neither.

Diagnosing Stagnation

Constant vigilance against stagnation is required of all company leaders, most especially in the high-technology and dot-com sectors. Analysis of quantitative data, and external and internal qualitative (or emotional) data is necessary for correctly diagnosing stagnation within a company. You need to talk — and listen — to your customers, suppliers, service providers, distributors and industry experts.

For example, some questions to ask your customers include:

- **Do you like doing business with us? Why or why not?**
- **Do you see our product or service as integral to the health of your business?**
- **Do we provide unique value or are our competitors as attractive as we are?**
- **How has your relationship with us changed over the years?**
- **What one thing could we improve that would make a difference to you?**
- **How would you describe our company to a colleague or friend?**
- **How would you compare us to your ideal?**

Just as important is talking and listening to your employees, whether through structured surveys and focus groups, hallway meetings, presentations or even just spending a few of your lunch hours at the cafeteria. Use as much face-to-face time as possible with both customers and employees.

Overcoming Stagnation

Once you recognize and diagnose stagnation, the next

(continued on page 4)

Micro Switch: First Steps

Make Micro Switch competitive for the 21st century. This was the challenge presented to Ray Alvarez, the new general manager of Honeywell Micro Switch — a company with 5,000 employees spread among 11 factories or offices in the United States, Mexico and Europe. Accomplishing this task would not be easy.

When he came on board, Alvarez found a company using outdated equipment and processes — the antiquated working conditions in the first factory he visited seemed to date from the 19th century. Not surprisingly, workers were demoralized. Willing to accept poor working conditions and little empowerment in exchange for the paycheck, Micro Switch had what Alvarez called "wage earners" (rather than employees) who saw no value in trying to do things differently. The company's work force exhibited no energy or team spirit.

From the start, though, Alvarez was determined to collect soft data — the emotional considerations of the employees — as well as hard financial data. He visited every plant and immediately began forming a change management team. He found that he would need to address all eight areas of change: His company needed a new strategy, a refined business model, revamped processes, adoption of new technologies, entry into new markets, a new management team, new team-based work units, and the reshaping and retraining of its work force.

Pharmaceutical Merger: Denial

A long-standing European pharmaceutical firm, renowned for its research and sense of mission in serving humanity and science, was due to lose its best-selling patent; in addition, one of its drugs far along in the pipeline suddenly lost regulatory approval. While the firm's management was aware of these dangers, its scientists were not. When the announcement of a takeover bid from an American rival came, the company's scientists and researchers were stunned. For them, the acquisition was driven by the greediness of a profit-driven American interloper. The R&D function was in denial because management, by keeping the company's serious problems to itself, had not prepared its scientists and researchers for the possibility of a merger or acquisition.

Stage 1: Stagnation

(continued from page 3)

step is to develop and implement a strategy that will free your company from stagnation and bring it success.

Before you can implement a sound strategy, however, you have to attack the culture of the company — its beliefs, habits and attitudes — that is probably hindering its progress. Many companies have corporate cultures frozen in the past. How much is your corporate culture in sync with today's reality? You can find out by asking questions such as:

- **Where do we stand competitively?**
- **Where do we think we stand competitively?**
- **How does our culture compare to the current reality?**
- **What beliefs and behaviors drive our organization?**
- **What beliefs and behaviors do we need to change in order to compete effectively?**

The managers at Honeywell Micro Switch, for example, continued to think of their company as the leader in the electric switch market for years after most customers viewed electric switches as dinosaurs.

In another example, Merrill Lynch & Co. resisted the "do-it-yourself" investing of online trading until the company finally realized that online trading was the future — and the company had no choice but to become a major player.

To burst free of stagnation, you need to ask yourself: "What outdated beliefs and behaviors are prevalent in our organization that will prevent us from conceiving or executing a winning strategy?" ■

Stage 2: Preparation

During this stage of the change curve, many operational issues are addressed: a new structure for the organization is designed; new employee roles and responsibilities are defined; and management determines which products, services and capabilities will become critical in the future.

As with any preparatory phase, this stage is filled with anxiety about the future ("Will I be laid off after the merger?" "Will I be relocated to New Jersey?"). Expect emotions — yours and your employees' — to be on a roller coaster. Emotional responses seen during this phase include anxiousness, a feeling of being threatened, excitement, betrayal, annoyance and irritation, disbelief and cynicism. Employees become more distracted as changes start to occur, causing productivity to drop.

Three Main Tasks

Leaders of the change effort have three main tasks in the preparation phase:

- Aligning and energizing the management team around the corporate strategy and vision.
- Articulating and detailing the vision and plan so it can be clearly understood and executed by others.
- Generating a healthy dissatisfaction with the status quo and a genuine appreciation for change within the entire work force.

Aligning Top Managers

Leaders of any corporate change movement should begin the preparatory phase by holding one-on-one conversations and group discussions with top management team members. The process involves listening, sharing and refining. The goal is to develop group thinking about the change. This can't happen, however, if the leader isn't open to hearing criticism of his or her ideas.

For example, Ray Alvarez of Micro Switch knew one of his most important tasks at this phase was getting to know each of his three direct reports so that he could determine each person's value to the organization. Each had a different style and relationship with their employees. Alvarez needed to determine the depth of the three managers' knowledge of the industry, their willingness to collaborate with other members of the management team, and, if any of them were let go, their potential reaction to being fired (for example, would they take customers with them?).

It quickly became apparent that he was dealing with a collection of individuals, not a team. They didn't know what to expect or how to collaborate. There was much work to be done before this group was ready to lead a change initiative.

(continued on page 5)

Stage 2: Preparation

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Aligning Cultures

Aligning the cultures of your company can be as important as aligning your management team. While differences in national cultures are addressed in multinational mergers, the generational or attitudinal cultures within corporations themselves are often overlooked.

Overall, these differing internal cultures are much harder to bring into alignment than cross-national ones.

The goal is to develop group thinking about the change. This can't happen, however, if the leader isn't open to hearing criticism of his or her ideas.

Plants at different locations, or business units defined by product category or business discipline (i.e., marketing, engineering), can have vastly different approaches to their daily tasks and long-term goals and objectives. The ideal is to create one core set of values that unites and leverages these many subcultures, not to make every department or group a clone of the other.

Are Employees Ready for Change?

Once the company's leadership is unified behind the change initiative, you can broaden your focus from top managers to the entire work force. (In reality, there will be some overlap here: Your entire leadership team may not be aligned before you start focusing on the rest of the organization.)

It's important in this step to quantify and assess how your employees feel about the change. One technique that will help you do this is called the Ready, Willing and Able Assessment (RWA). The RWA survey can be customized to a particular company and yields both quantitative and qualitative data. The quantitative data is helpful for determining the pervasiveness, area and extensiveness of a perception while qualitative data can help you get a better picture of the intensity of feelings toward a particular interpretation.

The RWA focuses on three aspects of change preparedness:

- **Readiness to change.**
- **Willingness to change.**
- **Ability to change.**

An RWA survey can be administered via e-mail, one-on-one discussions or as part of focus groups. The survey needs to create relevant questions for its own employees and its market situation. Respondents are asked to comment on their beliefs about the need for changes in the firm's operations (i.e., due to competitive threats or poor performance); their personal willingness to change (are they confident that the change initiative is the correct plan?); and their own ability to carry out such changes (do they have the skills they will need or do they believe the firm will provide the necessary training?). Questions can be drawn up that invite both quantitative and qualitative answers. The qualitative data (agreeing or disagreeing with a given statement) gives leaders a snapshot of where major issues exist. Asking for input also adds the more human elements and emo-

(continued on page 6

Never Assume Employee Concerns Can Be Addressed Later

When an American company acquired a blue-chip European pharmaceutical firm, it saw the merger as a way to strengthen its lead position in the industry. Another goal was to add new talent and economies of scale to its product development. The European employees, however, felt they had been sold out to a competitor that was purely profit-driven.

To make matters worse, the Executive Integration Team (EIT), formed immediately after the merger was announced, worked in almost total secrecy, fueling the rumor mill at both companies. After two months, the EIT announced a planned reduction in work force at both companies, but offered no details. The result was an even more intensified anxiety level among the 45,000 employees on both sides of the Atlantic.

Ignoring Alienation

Marco Trask was the executive in charge of research and development at a new pharmaceutical group created from the merger.

Trask hesitated about meeting with or addressing the combined research and development staffs of the two companies because he felt he had no hard facts. Nevertheless, he undertook visits to all eight research facilities to introduce himself to the staffs, an interactive company intranet was set up and a bi-monthly employee electronic newsletter was launched. A video was even produced which was circulated to other departments in the companies. Still, it became clear in follow-up surveys that a strong "us versus them" chasm existed between the research departments of both companies. Trask mistakenly believed these feelings would go away once the operational issues were settled.

Stage 2: Preparation

(continued from page 5)

tions.

Just administering the survey is not enough. Employees must know that their input has been taken into consideration. Management's follow-up actions are critical for building credibility. By learning more about employee resistance, managers can better focus their efforts and assess how they can best communicate the change process effort to the organization.

Communicate, Communicate, Communicate

Communication is key in articulating the vision and plan and building an appetite for change in the organization. You don't need a lot of bells and whistles to communicate effectively. The most important criteria for effective communication are a genuine belief that you need to exchange and provide information, and to care about your audience.

Always be on time or early with announcements — even announcements that there is nothing new to announce. Never be late or skip an expected announcement. It's human nature for people to make up their own versions — usually the worst scenario possible — in the absence of any hard facts.

Micro Switch: Using Symbols to Communicate

Ray Alvarez and his Micro Switch management team came up with two symbols to announce its diverse work force, which included employees from scientists to factory workers, the company's perilous state and its need for change. Initially he used a visual image the Midwestern employees could easily see — "storm clouds on the horizon" — to symbolize the competitive threats the company faced in the future. Next, he used the symbol of a "death spiral" the company could fall into if necessary changes weren't made.

But it wasn't just symbols that Alvarez and his team used in their messages. Because of the dire need for change, Alvarez broke some of Micro Switch's "unwritten" rules and decided to share sensitive customer and competitive data with employees. ■

Implementing Change: The 'Build Behavior First' Method

At Honeywell Micro Switch, General Manager Ray Alvarez used the "build behavior first" method. In fact, he refused to tell people how to achieve improved on-time delivery (OTD), one of the change initiative's goals. He set up weekly meetings with his management team to ask them what they had done that week to improve OTD and what they were planning to do the next week. One manager admitted that delivery times did improve — not because he felt they had developed any new "gee whiz" tools or methods, but because there was so much more focus on delivery time. And more important, these managers learned that with this success, they could approach other challenges by being more focused.

A Missing Vision Impedes Implementation

The leaders of the merger between two pharmaceutical companies focused almost exclusively on operational issues. In the research and development function, for example, R&D knew which capabilities would be required in each area, where employees would be located, what their compensation would be and what their new job descriptions were. There was much activity; in focus groups conducted during this phase of the change process, however, it was clear there were strong feelings of mistrust toward the integration team. Most notable: No strategy or vision was being developed for the newly merged entity. Leaders felt this could occur after the organizational issues had been addressed.

Stage 3: Implementation

The point at which preparation becomes implementation is different for each organization and each change. But it can't happen until the employees not only know what their company is trying to be, but what new tasks they will be asked to perform when they show up for work on Monday morning.

Leaders are responsible during Implementation for managing the expectations, energy and experience of the firm. It's not easy to ask a person to change; it usually creates resentment, embarrassment and tension. You need to find the people in your organization who understand (or have the potential to understand) the desired change and allow them to show others how it can work.

Here are some suggestions for getting this phase started:

- **Test and Deploy —** If a new process is being implemented, start it with one product line or within one department first, rather than company-

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Stage 3: Implementation

(continued from page 6)

wide. Then you can see how it works and figure out any "bugs" in the system.

- **Build Behavior First —** This approach is recommended for companies in which there is high resistance to change, or where the required change is substantial. Focus on a single objective and ask all employees for input. This technique allows you to empower employees by letting them show you how they can come up with a solution.
- **Use Attraction to Convert —** After testing a new process or method successfully in one department, use this example as a model.
- **Plan Replication —** When the change efforts begin, give managers in each department time to observe, reflect and document what they've learned as the processes evolve. Let them observe best practices with other managers so that the success in one department can be transferred to others.

Building Informal Communication Networks

One danger in any merger or restructuring is the loss of informal communication networks (i.e., when Bill in accounting can no longer call up Sally in purchasing with a quick question because Sally has been relocated). Managers need to identify and hook into these types of networks. They can tell you a lot about how employees are reacting to changes and where any bottlenecks exist. There are three types of informal networks:

1. **Cassandras:** These employees (usually middle managers or line supervisors) are the first to spot impending problems and "sound the alarm."
2. **Networkers:** These employees, usually due to their personality, are keenly attuned to what's happening within a company. They may interact regularly among the different departments or different levels of employees. They can be extremely helpful in identifying which plans are working and which aren't.
3. **Influencers:** These are the employees who can affect the opinions of others. Like thermostats, they can literally "cool down" a department or "heat up" another.

If At First You Don't Succeed…

Avoid the trap of glossing over or ignoring parts of your change plan that fail. Employees know when something has flopped; when management doesn't talk about a failure, they lose credibility. Instead, focus on learning from the failure. ■

Learning Teamwork

Honeywell Micro Switch was able to achieve its Determination phase by ensuring that all of its employees were involved. General Manager Ray Alvarez accomplished this by setting up six teams, dubbed "Building Block Councils." Each had a specific goal, from improving customer satisfaction to employee training, and involved employees at every level. Besides providing stronger focus on core issues, the Building Block Councils helped managers and employees learn to work as a team, to learn the value of explaining the reasons behind the change initiative's goals, and appreciate the importance of things as simple as saying "thank you" to contributors.

Stage 4: Determination

At this point, early successes seem far away, and many employees, even former champions of the change initiative, may begin to have doubts. This period is often punctuated by clashes, conflicts and failures.

Often, service levels drop or production problems arise. This is the time when competitors can come and "cherry pick" the best talent from recently merged companies. By not addressing the underlying emotional and behavioral causes, a company can actually slide back into stagnation.

Therefore, the role of leaders during the Determination phase is critical. It's too easy to simply

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Vision is Energizing

It took the resignation of three key researchers and a drop in share price for Marco Trask, who led the R&D function of a newly merged pharmaceutical group, to see the value of developing a vision plan (as well as the means for achieving it) and paying attention to the emotional aspects of an organizational change. One day after a critical article on his management style appeared in the business press, Trask reconvened his integration team. Within two days of continual meetings, Trask and his team announced to the research and development staff that a long-range strategy, vision statement and values statement would be developed within three months. They began to regularly communicate with not only the R&D team, but the entire organization. Once the plan and vision statement were announced — on time — employee cooperation, energy and excitement rose noticeably.

Stage 4: Determination

(continued from page 7)

throw up your hands and say, "They're not doing what we told them to!" As a leader, you must question your own perspectives and assumptions to understand why employees are having difficulty achieving goals.

Don't mistake your own perceptions for reality. The managers of the merger between two pharmaceutical companies believed that all they had to do was concentrate on operational issues; the scientists they were managing, however, were more motivated by ethical issues than profits. Detailed operational edicts were not going to convince these scientists that the change was necessary and should be supported.

Executives and managers involved in leading a change effort need to observe the overall dynamics of an organization and understand the motivations of its key players.

Although many CEOs understand the value of staying in contact with people at every level of the organization, not enough know how to do that effectively. One executive who does routinely asks employees, "What do you have to tell me today?" At first, employees were taken aback, but gradually they felt more comfortable with sharing ideas with him.

Determination from the Top Down

Most disastrous Determination phases can be linked to the withdrawal of the scrutiny and support of executives. It's important to keep an eye on outcomes to be sure what you or your team have designed is actually producing the desired results. This requires you to manage dynamics and align beliefs and behaviors. Don't assume that new operational procedures will automatically lead to necessary changes in attitudes and beliefs.

Often, leaders mistakenly assume that at this stage employees fully support the change. Thus, they announce new structures or processes, without making any concerted effort to get employee buy-in and support. The result is that the change process stalls, and the company slips back into Stagnation. ■

Stage 5: Fruition

No change is easy, and achieving long-sought-after goals is a truly rewarding experience. Once a targeted goal is reached, success can often beget more success. Employees become more confident, and work goes smoother. People may be busy, but they are not engaged in busywork.

This is the time to reward employees for their work, while at the same time communicating that management was capable of designing a change plan that worked. You need to get concrete and tangible with rewards: Give performance bonuses or establish an incentive compensation plan. Put your money where your mouth is.

Inculcate a sense of learning at your company. Let employees internalize their experience of the change process, so they will be able to use these skills, approaches and attitudes in the next change initiative. After all, companies will ultimately need to go through many change processes.

The Fruition stage can, though, lead to a sense of complacency — that can lead again to Stagnation.

To avoid re-entering Stagnation:

- **Don't make today's innovations into tomorrow's sacred cows.**
- **Stay abreast of the external environment.**
- **Keep listening to and communicating with the organization.**
- **Recruit fresh blood.**
- **Leverage your champions.**
- **Build skills of self-observation and correction; teach the change curve.** ■

Learning from the Process

Every change initiative can be a learning experience for managers involved in the process.

At the merged pharmaceutical company, Marco Trask learned first-hand how much commitment is required of executives leading change initiatives. He came to understand the value of recruiting different opinions and perspectives. Within three years of this merger, he was involved in another merger, for which he was named executive vice president for the new entity's R&D department. His first priority was establishing communication, including talking one-on-one with the key researchers and scientists involved.

At Honeywell Micro Switch, the organization as a whole learned the importance of keeping its competitive advantage. Whenever a new competitive threat was spotted, management no longer had to spend as much time explaining to employees the reasons needed for change.

The change at Micro Switch has implications beyond the plant and offices. Because employees felt more secure, they invested more in their homes. Real estate in the town became more valuable, attracting more businesses and homeowners. General Manager Ray Alvarez and his managers became involved in community projects, and local community leaders credited Alvarez with helping to revitalize their area.

· Book 238 of 304 ·

The Channel Advantage

Lawrence G. Friedman and Timothy R. Furey

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By Lawrence G. Friedman and Timothy R. Furey

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Going to Market with Multiple Sales Channels

THE CHANNEL ADVANTAGE

THE SUMMARY IN BRIEF

Today, many leading companies are putting at least as much effort and creativity into *how* they go to market as into *what* they bring to market. Companies have a wide variety of options for connecting products with customers, from sales forces to distributors, from direct mail to the Internet, and everything in between. Each channel has unique strengths as well as weaknesses. For example, sales forces handle complex transactions well, but are expensive. The Internet isn't suitable for sales that require a lot of training or hand-holding, while using distributors can create sales at the expense of direct contact with the customer.

The use of a single channel limits a company's market performance. If you use only a sales force, you may provide great customer service, but you will be at a cost disadvantage to any competitor using another channel. On the other hand, if you use only the Internet, you will be limited to the sale of simple, low-cost products. In short, no single channel does everything well or competitively. Therefore, your challenge is to choose and integrate the right mix of channels to reach the most diverse group of customers and deliver the right product to each at the least cost. The result: a competitive advantage in revenue growth, market reach, customer loyalty and profits.

To build a channel system that will yield world-class performance and a durable competitive advantage, you must:

✓ know which channels you should be using;
✓ know how to build those channels into world-class performers;
✓ and manage them together as an integrated go-to-market system.

This summary will lead you through each of these three steps. You'll learn how to identify the right channels for your company by analyzing customer behavior and product characteristics. You'll learn how to build the different types of channels, from sales forces to the Internet. Finally, you'll learn the importance of effective channel mix and channel integration.

Turn the page to take the first step in building the high-performance, competitive multi-channel system that will set your company apart from its competitors.

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THE CHANNEL ADVANTAGE

by Lawrence G. Friedman and Timothy R. Furey

— THE *COMPLETE* SUMMARY

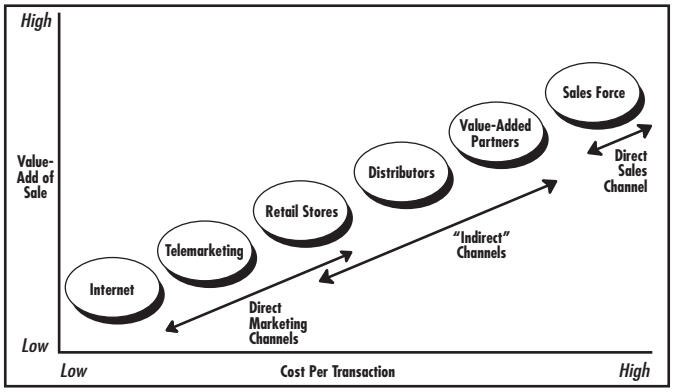
Choosing the Right Sales Channels

Today, the companies at the top sell products that are not substantially different from those sold by the competition. This is because successful and profitable businesses don't try to compete on the basis of product differentiation. They recognize that a new and improved product no longer yields a long-term advantage. As the rate of change has accelerated, a product advantage today is gone tomorrow.

Instead of differentiating themselves through products, top companies differentiate themselves in the way they reach their customers. Companies are achieving strong revenue and market share growth primarily by making it more attractive for more customers to do more business with them through more convenient sales channels. This is the channel advantage. ■

The Starting Point: Product-Market Focus

Before choosing the best sales channel or channels for your products, you need to take a hard look at your product/market strategy — what products you sell to what markets. Don't add new products (and new channels to distribute those products) without considering whether you aren't better off sticking with your current products and pushing further into your present core market. The truth is that sales growth within existing accounts is usually far easier to achieve than through expensive, risky forays into new products or markets. Remember that it's harder and more expensive to get new customers than to retain established customers. It's also harder to sell new products than established products. The further a company moves away from its core base of existing products and customers, the more difficult it is to achieve high levels of profitable growth.



Sales Channels - connecting products with customers
Source: Oxford Associates, adapted from Dr. Rowland T. Moriarty, Cubex Corp.

Thus, when developing your product/market strategy, start by concentrating on those product-markets characterized by "partially-penetrated" accounts, with low to medium market share.

In other words, customers tend to buy similar products from three to four vendors. Thus, each vendor may have just 25 percent of the total potential sales from that customer — that is, a 25 percent market share.

These low-to-medium market share accounts will yield the greatest profit for the least cost. And don't neglect "dormant" accounts. These customers typically

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Channeling at Dell

Dell Computer makes personal computers that are about the same as its competitors' machines. Yet Dell's sales have grown 53 percent annually over the past three years, far faster than its competitors. During the same three years, profits grew 89 percent per year. Why is Dell outperforming the competition? The answer lies in Dell's distribution channels. At a time when other computer manufacturers are struggling with direct sales forces and distributors, Dell markets its computers in ways customers find attractive. Dell customers can configure and order a system over the Internet, or buy from efficient call centers. Together, these channels allow Dell to reach a varied group of customers where they want to be reached.

The authors: Lawrence G. Friedman, co-author of the best-seller *Getting Partnering Right*, is a channel strategy consultant whose clients have included AT&T, Microsoft and Bell Atlantic. Timothy R. Furey is CEO of Oxford Associates, a global go-to-market consulting firm.

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Southwest Demonstrates Product-Market Payoff

Southwest Airlines provides an outstanding example of the wisdom of focusing on the right product-markets. For the last 24 years the airline has been the only carrier to turn a consistent profit. Southwest's strategy has been simple: Focus on short-haul intrastate routes, use less congested airports and set prices low enough to fill planes.

The airline has avoided setting up shop in expensive hub-and-spoke airports and focused on serving high-volume city pairs instead. Those pairs are its core market, and it continues to concentrate on growth within the core. Its target customers are price-sensitive local travelers seeking to get from one city to another as quickly and inexpensively as possible. By eliminating in-flight meals and most advance reservations and using smaller airports and standardized aircraft, the airline delivers what the customer base wants. So successful is its strategy that it consistently wins awards for best on-time performance, least complaints and fewest lost bags.

The Starting Point: Product-Market Focus

(continued from page 2)

are easier to sell to than new customers.

You cannot, of course, ignore new products and new customers completely. But you must weigh the cost against the benefits and concentrate your efforts accordingly. Remember that the cost of acquiring a new customer is three to six times that of retaining an existing one. While new customer growth may drive up sales, they paradoxically drive down overall selling profitability.

In sum, make sure that you are not focusing on new customer acquisition at the expense of increasing your market share of current customers — a more profitable use of your resources.

You must be equally careful in planning new product introductions. Relying too much on a growth strategy that pushes selling new products to new customers almost guarantees lower profitability.

In short, your strategy should develop as follows:

- ✓ first, deeper penetration of existing accounts with existing products;
- ✓ reactivation of dormant accounts;
- ✓ selective acquisition of new customers with market-validated products; and, finally,
- ✓ selective introduction of new products for existing customers. ■

Aligning Channels With How Customers Buy

To get customers to buy more, you must meet them where they're ready to do business, whether in a retail store, on the Internet or in their homes through a mail-order catalog. In evaluating new channel options, the acceptance and willingness of customers to use it is more important than any other factor in a channel's favor.

The first step is to identify your customers' channel preferences and buying behaviors.

Customer Surveys

Use a customer survey to acquire the information or data you will need to know about your customer. This data should include:

- key information about the customer including transaction volume and market segment;
- channel usage and preference, correlated with product or service purchased; and
- customer speculation on what channels will be used in the future.

Analyze your survey results to determine which channels are being used and which customers indicate a willingness to use them. From this list, design a flexible mix of channels that meet customer needs — that are, in other words, aligned with proven buying behavior and key buying criteria.

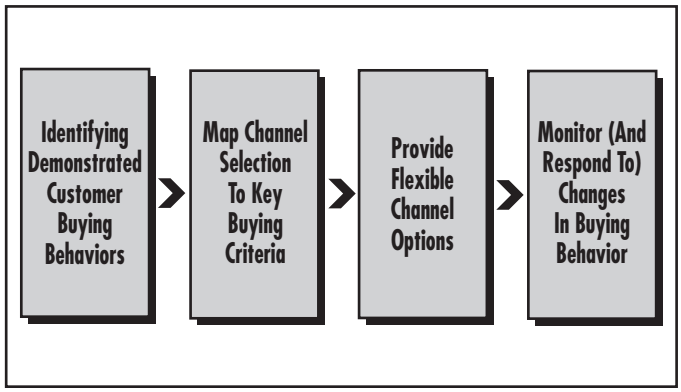
The cutthroat world of the flower business illustrates the channel approach. Customers who value making personal selections and expert advice over price and

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Survey Questions

Your channel survey should answer these questions:

- Who are your current customers?
- What criteria do they use to make a purchase?
- When and how do they do business?
- Do they want to buy different products through different channels?
- Do they buy the same product through more than one channel?
- Do you have different customers with different channel preferences?
- Who will your new customers be and will they want different channels?
- What channels do you need to add to meet customer needs?



Aligning customer buying behavior

Aligning Channels With How Customers Buy

(continued from page 3)

speed buy from retail florists. Those who value speed and delivery flexibility may choose a call center florist. Those who value price, speed and delivery flexibility chose an Internet web site.

Of course, the same customer may value different channels for different flower buying occasions. For an anniversary, when customization rather than price is the main consideration, he might choose a local florist. For a less personal business occasion he might choose the convenience of a call center or web site.

Buying Behavior Is Not Static

You will have to continue to monitor and respond to changes in buying behavior. This is particularly true if you use premium (and expensive) channels to close sales. Over time, customers become less willing to pay for premium channels. Be prepared to move into lower-cost channels as time goes on. ■

Amazon Takes Advantage Of New Channel

Amazon.com sells one of the oldest, lowest tech products in the world over an entirely new sales channel, the Internet. Back in 1996, when the Internet was very new, Amazon.com took the concept of bookselling, self-service and technology, and created a virtual bookstore which reached the market capitalization of Borders Group and Barnes & Noble combined within three years. By recognizing that bookbuyers are sophisticated individuals who like self-service and technology, the company took advantage of an entirely new channel to deliver books at significantly lower cost than competitors with physical stores.

How Product Characteristics Affect Channel Selection

Not every product can be delivered through every channel. Some products are simply better suited for one channel over another. You must consider channel touch when matching product to appropriate channel. Channel touch refers to the amount of customer interaction, service and support provided by a channel. For example, a high-touch channel would be a direct sales force because it is capable of touching a customer frequently, intensely and in many different ways. On the other hand, direct mail and the Internet are low-touch channels that offer virtually no interaction with customers.

A highly defined product that is easily recognizable as useful can usually be sold in any channel. For example, a pencil is a highly defined product whose usage and benefits are obvious. It can be sold in any channel, but the most suitable channel is the lowest-touch channel. On the other hand, a mid-definition product like insurance or business software may need a higher-touch channel to explain its benefits. Retail stores or value-added partners may be appropriate sales outlets. Finally, a low-definition offering such as a professional service can't be sold without education and explanation, and needs a high-touch channel such as a sales force. ■

The Economics of Channel Selection

You can't ignore the economics of channel selection. Why, for example, do almost all retail banks severely limit the hours their lobbies are open? "Banker's hours" aren't an accident, but instead reflect an industry wide effort to force customers to use lower cost channels to transact business. The cost per transaction for a do-it-yourself Internet or ATM transaction is far lower than using a teller.

When selecting channels, don't just select the channels that customers want to use. Select the lowest-cost channels customers will use.

In other words, when choosing channels, first identify every possible sales channel available. Next, use the customer survey information to determine which of those channels customers will actually use. Of those channels, determine which of those are a good fit for your product. Finally, identify which of these are likely to perform well economically by determining the channel's profitability.

You can identify the lowest-cost channel through the channel's profitability, which is expressed in terms of its

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The Economics of Channel Selection

(continued from page 4)

expense-to-revenue ratio, or E/R. E/R is the average transaction cost divided by the average order size. Say, for example, that you sell home office copiers for $400. If when you sell them through a distributor, the cost per transaction is $40, the E/R is 10%. If the same copier costs $20 to sell through telemarketing, the E/R is 5%. The lower the E/R, the more profitable the channel because the ratio shows that less money is being spent on selling cost for every dollar of revenue.

To determine the cost per transaction needed to calculate the ratio, take the total expense your company incurs to operate the channel and divide it by the total number of transactions.

As a general rule, choose the lowest-cost channel that is accepted by customers and that is a good fit for the product. Using this channel will yield the highest profits. Of course, you also need to make sure the channel you select is capable of producing a target level of sales revenue. Each channel also must be evaluated in terms of its channel capacity. The channel must be able to deliver enough sales to meet targets. ■

Building the Right Sales Channels

Once you have selected the channels that can best deliver high growth and profitability for a product market, you need to develop those channels. Most companies will end up using a combination of a sales force, business partners, telechannels or the Internet. Each channel presents unique challenges and can yield rich rewards. ■

Using the Leveraged Sales Force

The direct sales force is alive and well even in the world of Internet commerce and other technologically driven marketing. They perform a critical function in most organizations. A sales force is still the only channel that can sell complex products and solutions to large key accounts with a high degree of control over the sales process. For companies whose market includes such accounts, a sales force is indispensable.

Because sales forces are an expensive way to make sales, companies are redesigning them to maximize the opportunity for profit. That means that sales forces are no longer expected to chase every account. In a multi-channel system, other channels can often deliver sales at lower cost. By limiting sales force participation to the kinds of complex transactions that require high-end field representatives, companies are leveraging their sales forces to maximum benefit. Their time and energy is spent focusing on the most important market opportunities.

What a Leveraged Sales Force Looks Like

- Large account focus
- Complex, customized product focus
- Fewer accounts per representative, but with higher per account expectations
- Focus on the right call and the right deal
- Use inside sales to leverage time and energy
- Integrate field sales with other channels
- Training in skills to grow large, complex accounts
- Emphasis on partnering with key customers
- Compensation is realigned to reward key account development and discourage low-end selling

Sales forces must be pushed away from chasing every account and into cultivating key accounts. Smaller accounts or products that don't require high-touch selling must be redirected to other channels. The traditional sales training emphasis on aggressively closing sales doesn't work. That approach makes sense if the goal is to sell as much product as possible into as many accounts as possible. But that's not the way a leveraged sales force works. Instead of emphasizing closing any and all sales, salespersons must learn to use problem-solving skills to develop a partnership orientation with customers and the ability to work collaboratively with other channels.

Five Principles

A leveraged sales force is built around five principles. First, you must focus sales activity on large account acquisition. Don't let the force spend too much time with existing customers and small transactions. They need to get out there and acquire new, major accounts. One trick is to stop assigning the sales force to a geographic area. Instead, assign salespeople to a minimum **account size**, **sales complexity** and **growth potentia**l.

To help sales reps focus on the right accounts, be sure to define what you mean by "right." Articulate at least two or three concrete characteristics of the "right" account. You must also reduce the number of accounts per representative.

Second, the sales force must use other channels to offload "low value" selling tasks. Let the sales force be responsible for account planning, customer negotiation

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Using the Leveraged Sales Force

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and sales closure. Give other tasks like lead generation, proposal writing, order fulfillment and post-sale support to others. For example, lead generation may be better and more economically done by a telemarketing group.

Third, provide extensive technological support to field representatives. Computers and up-to-date business planning software are essential. You must also provide appropriate information to the reps. The focus of that information should be industry news, key account events and business development opportunities.

Fourth, redesign sales force training programs to emphasize large account acquisition and penetration. Teach sales representatives to conduct needs analysis for customers. Reps must stop using aggressive closing techniques and instead learn to develop and court large accounts.

Finally, align performance measurements and compensation with a large account focus.

To refocus attention to larger accounts, you may also need to redesign the compensation structure. You can, for example, discourage retention of small accounts by eliminating commission payment for them. ■

Using Business Partner Channels

A business partner might be a giant multinational company or a housewife selling home baking equipment to her friends. Partners include manufacturer's agents, brokers, wholesalers, retailers, distributors, resellers and value-added dealers. They are intermediaries who sell, support or build a manufacturer's products for its customers in return for a commission or other payment.

Using a business partner is using an indirect channel to reach your customers. When used correctly, business partners can help a company penetrate deeper into dispersed markets and reach more customers, thus growing revenue and market share.

Generally, using a business partner is less expensive than using a sales force. The trade-off, of course, is control and direct contact with the customer. There are seven best practices you should apply to a business partner alliance. These are:

Define the scope of the channel by determining how many partners you need. Some factors to consider are how many partners the market can accommodate. Remember, each partner will have to benefit economically from the partnership. If you sign up too many partners, there may not be enough profit to sustain partner efforts.

Amazon.com Associates

An example of the use of partners to generate leads is Amazon.com's associates program. Through the program, companies or individuals with Internet web sites can set up web sites reviewing or recommending books. Review readers then click through to Amazon.com. The associates' function is strictly to generate leads. In exchange, they receive a portion of any sale resulting from the lead.

Define the partners' role. Will they provide leads, sell or perform a support role after the sale?

Make sure channel policies for your partners are complete, clear and written.

Build a strong base of partners. You must carefully recruit appropriate partners. Create a perfect partner profile and use it to screen candidates.

Build a strong channel support infrastructure, including marketing support, advertising allowances, opportunities for co-branding, opportunities for training and sales promotions.

Measure and manage partner performance. Although partners don't work for you directly, you can still measure their usefulness. Set realistic expectations, and cut loose partners who aren't up to par.

Get good channel feedback. Partners may come up with some of your most promising innovations since they observe firsthand what customers want. ■

Telechannels and Strategic Call Centers

The telechannel, that is, using a telephone-based channel, is a versatile and potent way to do business as well as a low-cost channel. Generally, telechannels are designed to increase revenue growth, reduce selling costs and improve customer satisfaction.

There are five telechannel applications. These are telesales, telecoverage, teleprospecting, customer service, and technical support. Using the telesales application, orders from catalogs or other advertising are closed over the phone. Telesales staff may also do outbound calling.

When the application is telecoverage, the phone team maintains and nurtures key account relationships as support for a field sales force. Duties may include reactivating and reestablishing relationships with dormant buyers. Telecoverage is very cost effective since team members can be anywhere.

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GEICO

GEICO is an insurance company that saw the advantages of a telechannel and used that advantage to sell low cost insurance to thousands. Originally a small insurance company for government employees, the company became a market leader with a campaign proclaiming, "Give us 15 minutes and we could save you hundreds of dollars." GEICO built eight call centers and began selling insurance over the phone rather than the traditional face-to-face way. The company is able to offer low cost insurance because it has lower overhead and because it can check an applicant's driving record online while on the telephone. Poor risks are quickly screened out.

Telechannels and Strategic Call Centers

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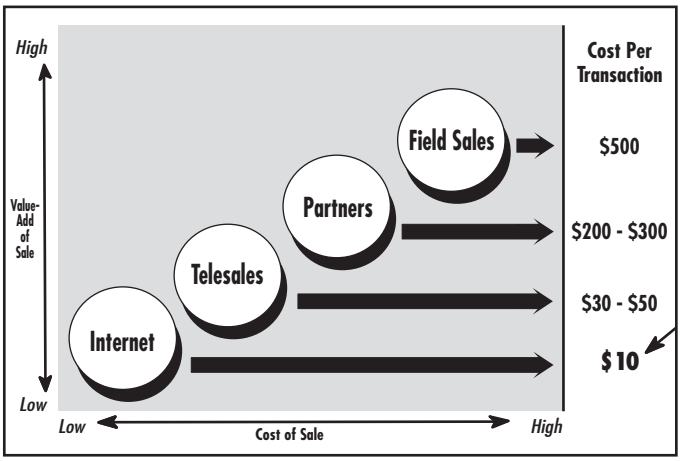
Teleprospectors generate and qualify new leads for closure by another sales channel. Using telechannels to provide customer service and technical support is also very cost effective.

A company developing a call center to perform telechannel functions would do well to create a strategic plan first. The plan must clearly identify the telechannel business objective. For example, is the goal to retain customers or to cultivate new ones? Will the center close sales, or simply pass prospects on to another channel? Obviously, each telechannel serves a different goal. Be sure to allocate adequate funds for appropriate technology. The plan also must determine how the call center will coordinate with other channels such as the sales force or business partners. The plan also needs to outline how customers will be driven to the telechannels. Customers need to know when they should call their sales rep for support and when they should call the center. They also will need to be told why they should call the center. ■

The Internet as Sales Channel

A few years ago the Internet wasn't a sales channel at all, but a research tool for academics and a communication tool for the Department of Defense. Its original purpose was to ensure that during a nuclear attack the military would be able to continue to communicate. Today the Internet is developing into a low-cost sales channel at a dizzying pace.

As a sales channel, the Internet may be able to provide the lowest cost per transaction of any channel. Typically, an Internet channel costs only a quarter that of other channels. Advantages of using the Internet to go to market are many. The Internet provides expanded market reach by reaching an unlimited number of people at the same cost as reaching a few. It costs no more to reach a million than it does to reach a thousand.



Transaction cost by channel — industrial products: $2,000-$5,000 sale (aggregated from industry data — manufacturing, chemicals, paper, 1996)
Source: Oxford Associates

The real power of the Internet may well turn out to be in business-to-business commerce. Even large accounts can benefit from a combination of self-service, lower prices, 24-hour access, product training and pushbutton connections to another channel like a call center. But the most important factor may well be that buyers like this new channel. It offers them fast, efficient service, as well as the ability to do their own research and purchase on their own schedule.

Doing Business on the Internet

As an e-commerce channel, the Internet can be used in four distinct ways. It can:

- ✓ serve as a customer awareness-building site, providing basic information about your company to stimulate interest in your brand;
- ✓ serve as an open market catalog center, allowing customers to purchase directly online;
- ✓ provide a secure, customized Extranet for key cus-

(continued on page 8)

How Customers Use the Internet

Today, customers use the Internet to accomplish four things. They visit web sites to learn about companies and their capacities. They also want to get detailed information about a company's products or services. They want to buy online, paying electronically. And finally, they seek out a web site for help with a purchase after the sale. Your web site must eventually provide solutions for all these customer needs.

The Internet as Sales Channel

(continued from page 7)

tomers and suppliers where contracts can be reviewed and where orders can be placed, tracked and confirmed; and

✓ serve as a business partner "portal" to broaden exposure.

To take advantage of the Internet, you must start building an e-commerce strategy. Most companies can begin by using the Internet to serve the low-end segment of their markets. The site should be built and deployed in phases. First, put the information technology infrastructure in place. Then design the content, accounting for operating costs for maintenance and updating. Finally, realize that there will be costs associated with driving customers to your web channel just as there are for driving traffic to other channels. That may mean purchasing advertising in traditional media, featuring the www address on all other promotional material, registering with search engines and advertising at other sites. ■

Managing Channels for High Performance

By now, you should be convinced that using one channel to reach your customers is probably not the way to go. But having chosen and developed multiple channels is only the beginning. Now you must learn to mix and integrate the channels you have chosen for maximum impact on profitability. ■

Channel Mix and Channel Integration

The key to success is both channel mix and channel integration. Channel mix refers to a company's coverage of the market with multiple channels. Channel integration is a measure of how well the channels work together. When designing your channel mix, guard against having independent channels chase the same sales.

This is where proper channel integration is important. Channel integration uses different channels to perform different functions within a single sales process. Examples of channel integration include office supplier Staples' use of a direct mail operation to drive customers to a call center as well as stores and Oracle's use of educational seminars to build interest in software solutions.

To achieve successful channel integration, you must assign tasks to different channels, manage channel hand-offs and assign appropriate account ownership across channels. It is crucial that hand-off procedures be in place and that every hand-off be documented. You must also ensure that each channel receiving a hand-off knows what to do next to move the customer from lead to closed sale.

Investing In and Across a Portfolio of Channels

A key task in channel integration is the allocation of your resources to different channels. Suppose, for instance, that you have $30 million to spend on sales and marketing this year. Do you create a new call center, invest in a sales force, seek new partners, experiment with the Internet or buy a few Superbowl ads?

In fact, on what basis do you make the decision? Should you consider:

- the anticipated revenue contribution of each channel;
- the expected cost of each channel;
- funding levels carried over from last year; or
- a gut feeling about where to spend the money?

The bottom line is that as your company expands its channel mix, it must learn to manage those channels collectively as a go-to-market system. Tradeoffs must be made between competing channel needs, and resources put to use in the best places.

Start the process with a top-down approach. The starting point is projected revenue for each market segment. Map these revenue predictions against what coverage each channel can expect, and you get the revenue forecast per channel. Using that, you can calculate the channel E/R. Allocate your resources accordingly. ■

Measuring and Managing Channel Performance

In addition to managing the cost of a multi-channel system, you must also manage its performance. Sound performance management is essential for any company working with several channels. Performance must be measured against expectations. It isn't enough to design a go-to-market system. Once in place, you need to know whether it is performing as promised.

The first step is to define and articulate a set of overall (cross-channel) sales objectives. Next, break down those objectives by channel and let those responsible for meeting those objectives know what they are. Then, develop very specific channel objectives for meeting those goals. For example, translate goals into concrete measures like "increase the average order size" and "make more sales calls." Finally, review the results against the goal and realign as needed to improve channel performance. ■

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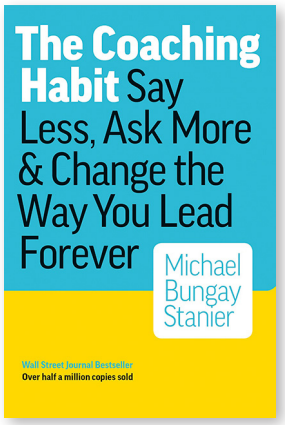
The Coaching Habit

Michael Bungay Stanier

Executive Book Summaries®

The Coaching Habit

Say Less, Ask More & Change the Way You Lead Forever



by **Michael Bungay Stanier**

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THE SUMMARY IN BRIEF

Everyone now knows that managers and leaders need to coach their people. You've probably already tried. And failed. Research in 2006 from leadership development firm BlessingWhite suggested that 73 percent of managers had some form of coaching training. However, only 23 percent of people being coached thought that the coaching had a significant impact on their performance or job satisfaction. Ten percent even suggested that the coaching they were getting was having a *negative* effect. The real secret to success here is building new habits, one which ignites curiosity to both the coach and the people it is helping.

In ***The Coaching Habit: Say Less, Ask More & Change the Way You Lead Forever***, Michael Bungay Stanier explores various aspects of coaching and ways people can be more effective in their techniques. What is already known about coaching may not be the best way to go about it due to various reasons covered in this book. The author describes how to break coaching down into Seven Essential Questions to properly motivate people to open up and respond in training sessions.

IN THIS EXECUTIVE BOOK SUMMARY:

- Review why current coaching techniques may not be effective.
- Discover ways to think twice about what is already known about coaching.
- Learn new and more effective ways to coach people through essential questions.
- Explore how to become a better listener and how to respond accordingly.

You Need a Coaching Habit

You're probably not getting very effective coaching; and you're probably not delivering very effective coaching. There are at least three reasons why your first go at developing a coaching habit didn't stick.

The first reason is that the coaching training you got was probably overly theoretical, too complicated, a little boring, and divorced from the reality of your busy work life. Here's reason number two- you likely didn't spend much time figuring out how to translate the new insights into actions so you do things differently. The third reason is that the seemingly simple behavior change of giving a little less advice and asking a few more questions is surprisingly difficult.

But it's not that hard. Coaching is simple. You can coach someone in ten minutes or less. Coaching should be a daily, informal act. There are three vicious circles that plague our workplaces: creating overdependence, getting overwhelmed, and becoming disconnected. At the heart of this book are seven questions that will break you out of these three vicious circles and elevate the way you work.

How to Build a Habit

Before we look at what to change, we need to understand how to change. To build a new habit, you need five essential components: a reason, a trigger, a micro-habit, effective practice, and a plan.

Make a Vow

You need to get clear on the payoff for changing something as familiar and efficient as an old behavior.

Figure Your Trigger

The more specific you can be when defining your trigger moment, the more useful piece of data it is.

Double-S It: Be Short and Specific

You should define your new habit as a micro-habit that needs to take less than sixty seconds to complete.

Practice Deeply

For his book The Talent Code, Dan Coyle researched why certain parts of the world were talent "hot spots" for certain skills. Coyle calls it "Deep Practice", and the three components of Deep Practice are:

- Practicing small chunks of the bigger action.
- Repetition, repetition, and repetition.
- Being mindful and noticing when it goes well.

Plan How to Get Back on Track

Resilient systems build in fail-safes so that when something breaks down, the next step to recover is obvious. Make your habit a resilient system.

Put it Together: The New Habit Formula

There are three parts to the formula. Identifying the trigger, identifying the old habit, and defining the new behavior.

Identifying the Trigger: When This Happens…

Define the trigger. Charles Duhigg says that there are just five types of triggers: location, time, emotional state, other people, and the immediately preceding action.

Identifying the Old Habit: Instead Of…

Articulate the old habit, so you know what you're trying to stop doing.

Defining the New Behavior: I Will…

Define the new behavior, one that will take sixty seconds or less to do.

Question Masterclass Part 1

Ask one question at a time. When questions come hurling at you left and right, there's no time to answer any of them and you're left feeling dazed and confused.

Here's Your New Habit

When this happens: After I've asked a question

Instead of: Adding another question

I will: Ask just one question. (And then be quiet while I wait for the answer.)

1: The Kickstart Question

Breaking the Ice

One of the reasons managers don't coach more often than they do is that they don't know how to start. One of these three situations might be at play: the Small Talk Tango, the Ossified Agenda, or the Default Diagnosis.

The Small Talk Tango

An almost fail-safe way to start a chat that quickly turns into a real conversation is the question, "What's on your mind?"

Small talk might be a useful way to warm up to people, but it's rarely the bridge that leads up to a conversation that matters.

The Ossified Agenda

The agenda may have been perfect a week, a month or a year ago, but now it's putting process in front of what really matters.

The Default Diagnosis

There's no question or conversation about what the issue is. Digging faster or smarter isn't going to help.

The Kickstart Question: "What's on Your Mind?"

An almost fail-safe way to start a chat that quickly turns into a real conversation is the question, "What's on your mind?". Because it's open, it invites people to get to the heart of the matter and share what's most important to them. And yet the question is focused, too.

Coaching for Performance vs. Coaching for Development

Coaching for performance is about addressing and fixing a specific problem or challenge. Coaching for development is about turning the focus from the issue to the person dealing with the issue.

Deepen the Focus with the 3Ps

The 3P model is a framework for choosing what to focus on in a coaching conversation. A challenge might typically be centered on a project, a person or a pattern of behavior.

Projects

A project is the content of the situation,the stuff that's being worked on.

People

When you're talking about people, though, you're not really talking about them. You're talking about a relationship and, specifically, about what your role is in this relationship that might be currently less than ideal.

Patterns

Here you're looking at patterns of behavior and ways of working that you'd like to change.

Question Masterclass Part 2

Cut the intro and ask the question. If you know what question to ask, get to the point and ask it.

Here's Your New Habit

When this happens: When I've got a question to ask…

Instead of: Generally taking forever to get to the point…

I Will: Ask the question. (And then shut up to listen to the answer.)

2: The AWE Question

The AWE Question: "And What Else?"

With seemingly no effort, it creates more–more wisdom, more insights, more self-awareness, more possibilities–out of thin air. There are three reasons it has the impact that it does: more options can lead to better decisions; you rein yourself in; and you buy yourself time.

Channel Your Inner Ron

Remember that the first answer someone gives you is almost never the only answer, and it's rarely the best answer. When you use the "And what else?" you'll get more options and often better options. Better options lead to better decisions. Better decisions lead to greater success.

You Tame the Advice Monster

Even if it's the wrong advice–and it often is–giving it feels more comfortable than the ambiguity of asking a question. There's a place for giving advice, of course. But it's an overused and often ineffective response. Talk less and ask more. "And what else?" breaks the cycle. It's a self-management tool to keep your Advice Monster under restraints.

Buy Yourself Some Time

When you're not entirely sure what's going on, and you need just a moment or two to figure things out, asking "And what else?" buys you a little extra time.

Four Practical Tips for Asking "And What Else?"

- Stay Curious, Stay Genuine
- Ask It One More Time
- Recognize Success
- Move on When It's Time

Going Too Far: The Paradox of Choice

Options are good. The power of "And what else?" is that it's the quickest and easiest way to uncover and create new possibilities. But having lots and lots of options isn't always best, either. The goal isn't to generate a bazillion options. It's to see what ideas that person already has.

Finding the RIght Moment

"And what else?" is such a useful question that you can add it into almost every exchange.

Question Masterclass Part 3

Should you ask rhetorical questions? Stop offering up advice with a question mark attached.

Here's Your New Habit

When this happens: I've got the answer, which I want to suggest…

Instead of: Asking a fake question, which is just advice with a question mark…

I will: Ask one of the Seven Essential Questions

3: The Focus Question

Eureka. Kind Of.

Stop spending so much time and effort solving the wrong problem. When you start jumping in to fix things, things go off the rails in three ways: you work on the wrong problem; you do the work your team should be doing; and the work doesn't get done.

You're Solving the Wrong Problem

You might have come up with a brilliant way to fix the challenge your team is talking about. However, the challenge they're talking about is most likely not the real challenge that needs to be sorted out.

You're Solving the Problem Yourself

Your team has trained you well to do their work for them. Any time there's a problem, rather than trying to figure it out themselves, they now come to you for the answer.

You're Not Solving the Problem

It's not like you don't have your own work to do. And now you've found yourself responsible for solving everyone else's problems, too. You need a way to manage the temptation to jump into fixing that opening challenge. Slow down just a little and you'll get to the heart of the issue.

The Focus Question: What's the Real Challenge Here for You?

Here's how it builds to become such a useful question:

What's the challenge? Curiosity is taking you in the right direction, but phrased like this the question is too vague.

What's the real challenge here? Implied here is that there are a number of challenges to choose from, and you have to find the one that matters most.

What's the real challenge here for you? The "for you" is what pins the person you're talking to. It keeps the question personal.

How the Focus Question Cuts Through the Fog

We call them the Foggy-fiers, and we call the three most common ones the Proliferation of Challenges, Coaching the Ghost, and Abstractions & Generalizations.

Proliferation of Challenges

With every problem listed, you feel a little uptick of anxiety. The only question is where to start: with the first challenge mentioned, or with the one you're most confident about providing the answer. Or you ask the Focus Question: "What's the real challenge here for you?"

Coaching the Ghost

The key thing to know here is that you can coach only the person in front of you. As tempting as it is to talk about a "third point", you need to uncover the challenge for the person to whom you are talking to.

Abstractions & Generalizations

This conversation can feel more like a slightly academic discussion or an executive summary of what's going on. This

Stick to questions starting with "what" and avoid questions starting with"why."

is the time you need to ask the Focus Question: "What's the real challenge here for you?".

Moving from Performance to Development

The simple act of adding "for you" to the end of as many questions as possible is an everyday technique for making conversations more development than performance-oriented.

Three Strategies to Make This Question Work for You

- Trust that you're being useful.
- Remember that there is a place for your advice.
- Remember the Second Question: "What else".

Question Masterclass Part 4

Stick to questions starting with "what" and avoid questions starting with "why."

Here's Your New Habit

When this happens: When I'm tempted to ask them why…

Instead of: Beginning the question with "Why"...

I will: Reframe the question so it starts with "What".

An Irresistible 1-2-3 Combination

The first three questions can combine to become a robust script for your coaching conversation.

4: The Foundation Question

The Foundation Question: "What Do You Want?"

Here's why the question is so difficult to answer:

- We often don't know what we actually want.
- It's often hard to ask for it.
- It's often hard to say it in a way that's clearly heard and understood.
- It's often hard to hear the answer to your request.

Ask a Question. Trade Answers.

There are times when simply asking a question is the thing to do. And there are other times when sharing your answer to that same question can increase impact.

Wait, Come Back!

So how do you influence others' brains and your own so that situations are read as rewarding, not risky? There are four primary drivers that influence how the brain reads any situation.

T is for tribe: The brain is asking, "Are you with me, or are you against me?"

E is for expectation: The brain is figuring out, "Do I know the future or don't I?"

R is for rank: "Are you more important or less important than I am?"

A is for autonomy: "Do I get a say or don't I?"

Your job is to increase the **TERA quotient** whenever you can.

Question Masterclass Part 5

Get comfortable with silence. Silence is often a measure of success.

Here's Your New Habit

When this happens: When I've asked a question and she doesn't have an answer ready within the first two seconds…

Instead of: Filling up the space with another question…

I will: Take a breath, stay open and keep quiet for another three seconds.

5: The Lazy Question

The Lazy Question: How Can I Help?

The power of "How can I help?" is twofold. First, you're forcing your colleague to make a direct and clear request. Second, it stops you from thinking that you know how best to help and leaping into action.

Be Blunt…

The more direct version of "How can I help?" is "What do you want from me?"

…But Be Careful

You can likely guess that how "What do you want from me?" lands will depend in no small part on the tone of voice in which it's asked. A way to soften this question is to use the phrase "Out of curiosity".

Question Masterclass Part 6

Actually listen to the answer.

Here's Your New Habit

When this happens: After I ask a question…

Instead of: Going through the motions of looking like I'm actively listening…

I Will: Actually listen. And when I get distracted (which I will), I'll come back and start listening again.

6: The Strategic Question

More Impact. More Meaning

You know there's some work that you do that you absolutely love? It's not just that the work is making a difference and having an impact; it's that the work means something to you.

The Strategic Question: If You're Saying Yes to This, What Are You Saying No To?

This question is more complex than it sounds, which accounts for its potential. To begin with, you're asking people to be clear and committed to their Yes. But a Yes is nothing without a No that gives it boundaries and form.

What gets us into trouble is how quickly we commit, without fully understanding what we're getting ourselves into or even what we're being asked. The secret to saying No is to shift the focus and learn how to say Yes more slowly.

Question Masterclass Part 7

Acknowledge the answer you get. This isn't about judging people; it's about encouraging them.

Here's Your New Habit

When this happens: The person gives an answer to the question I've asked…

Instead of: Rushing on to the next question…

I will: Acknowledge the reply by saying "Yes, that's good."

7: The Learning Question

How People Learn

As a manager and a leader, you want people to get stuff done. But you want more than that. You want them to learn so that they become more competent, more self-sufficient and more successful.

The Learning Question: "What Was Most Useful for You?"

Your job as a manager and a leader is to help create the space for people to have those learning moments. And to do that, you need a question that drives this double-loop learning. That question is, "What was most useful for you?".

Why "What Was Most Useful for You?" Tops the List

"What was most useful?" helps hit the spot in at least six ways:

- It assumes the conversation was useful.
- It asks people to identify the big thing that was most useful.
- It makes it personal.
- It gives you feedback.
- It's learning, not judgement.
- It reminds people how useful you are to them.

Question Masterclass Part 8

Now that we've covered the Seven Essential Questions, you understand that you're going to have to change the way you have conversations with the people you manage, influence, and engage with.

And yet–a hefty and ever-increasing amount of our lives is spent staring at the screen, tapping away as we exchange emails and IMS and texts and Slack messages. And these Seven Essential Questions work just as well for those communication channels as they do face-to-face.

Use every channel to ask a question. Questions work just as well typed as they do spoken.

Here's Your New Habit

When this happens: When I get an email that triggers the Advice Monster…

Instead of: Writing out a long, thorough answer full of possible solutions…

I will: Decide which one of the seven questions would be most appropriate, and ask that question by email.

Anyone who has been a manager or been managed, coached managers or trained managers to be more coach-like may find that too many conversations between managers and those they're managing feel too much like an ill-fated expedition through a roughly-terrained nature park.

There may be:

- Too much baggage.
- Too much certainty, thinking you know the destination and the path to get there.
- Wandering off the path too quickly.
- Working way too hard to get back on the path.
- And being exhausting at the end, having got a lot less far down the track than you hoped you would.

If that description feels true to you, then you'll be well served to build a coaching habit of your own. The questions presented in this book are the ones that have been found to have the most impact.

If you can make just these Seven Essential Questions part of your management repertoire and everyday conversations, you'll work less hard and have more impact, and your people, your boss, your career, and your life outside work will thank you for it.

The change in behavior that's going to serve you most powerfully is simply this: a little less advice, a little more curiosity. Find your own questions, find your own voice, and above all, build your own coaching habit.



Michael Bungay Stanier has a gift for distilling big, complex ideas into practical, accessible knowledge. His books have sold over a million copies, with The Coaching Habit topping The Wall Street Journal bestseller list. MBS has been featured on the blogs and social media platforms of thought leaders including Seth Godin, Tim Ferriss, and Brené Brown, and has appeared on ABC, BBC, CBC, Ted.com, and innumerable podcasts—as well as the Harvard Business Review, Forbes, Inc., and Fast Company. MBS is the founder of Box of Crayons, a learning and development company, that helps organizations move from advice-driven action to curiosity-led transformation.

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The Coaching Manager

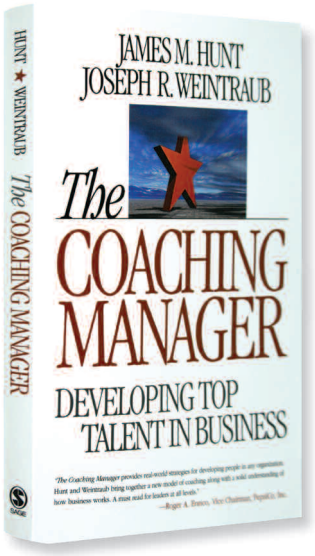
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Management: Hands-On

The Coaching Manager

Developing Top Talent in Business



by James M. Hunt and Joseph R. Weintraub

THE SUMMARY IN BRIEF

When managers communicate a genuine interest in helping rather than evaluating their employees, they create opportunities for everyone to learn. Managers who try to help employees, as a *routine* part of their management activities, learn and become more productive in the process.

In *The Coaching Manager,* James Hunt and Joseph Weintraub introduce an easy-to-implement developmental coaching model based on their extensive work with thousands of managers, executives and MBA students. The goal is for managers to help employees learn to be more productive on a day-to-day basis. This model encourages employees to take greater responsibility for their learning and development while forging a helping relationship between manager and employee. Such an approach to management lightens the emphasis on evaluation and creates learning opportunities for all involved.

The Coaching Manager includes true stories, tools and action checklists to deepen skills and understanding. The lessons it provides will benefit managers, leaders and entrepreneurs in business and not-for-profit organizations; those in MBA programs; students in leadership, organizational development and human resources management; and participants in executive training programs.

This summary is about how business leaders, often simply referred to as "managers," help their employees learn and develop through coaching.

IN THIS SUMMARY, YOU WILL LEARN:

- How to use real-world strategies to develop the leadership potential of your people.
- Ways to create a coaching-friendly environment within your organization.
- How to create real opportunities for your people to learn.
- How to use a new model of management coaching to become a master coach.

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THE COMPLETE SUMMARY: **THE COACHING MANAGER**

by James M. Hunt and Joseph R. Weintraub

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Introduction: The Coaching Manager

Effective coaching managers are successful because they not only give feedback, but they give feedback to people they have *helped make ready for feedback* through the process of reflection. Reflection is the step too often missing in employee development. Reflection allows individual learners to pursue what is important to them, not just what is important to the manager. Reflection allows people to take ownership of their own problems.

Learner ownership of the learning process drives development because it fosters and validates the importance of self-directed learning as an important aspect of successful job performance.

Isaac Stern, the great violinist who died in 2001, captured the power of this concept when he described the outcome of his work with his own mentor: "He taught me to teach myself, which is the greatest thing a teacher can do."

The Transition to Becoming a Coaching Manager

The new coaching manager must be willing to take the small amount of time necessary to be effective at harvesting the opportunities for learning at the individual and organizational level, which are readily available in most firms. The challenge for the manager has as much or more to do with changing his or her mind-set as it does with finding more hours in the day.

There does seem to be one ingredient that is critical to the success of coaching managers: The best all seem to have an interest in helping others. You can't help people learn if you see them as simply a means to an end. Although most organizational mission statements these days say something about respect for the individual, effective coaching really requires that respect. Inherent in this respect is a bit of trust in the notion that most people want to grow. The coaching manager has to be willing to step back and trust that his or her employees share the same overall goals and want to be entrusted with their own learning.

The most effective model for leadership is one that promotes shared effort toward and responsibility for achieving a goal, and builds organizational capability along the way. ●

An Overview of Developmental Coaching

The basic model of developmental coaching includes the following elements:

• **A coaching friendly context**. Coaching interactions need to be "safe." Normally, such interactions should have little or nothing to do with evaluation or performance appraisal.

• **A helpful mind-set**. There are two related components of a coaching mind-set: developing a coaching identity and learning to be helpful rather than evaluative.

• **A "coach-able" learner**. Good coaching requires a motivated coachee who (a) wants to learn, (b) is able to tolerate the process of reflecting on his or her work and (c) therefore can deal with feedback that may be appropriately challenging.

• **Stopping the action and starting the coaching dialogue**. Coaching requires that the manager stop the

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Edward O'Neill**, Graphic Designer; **Chris Lauer**, Contributing Editor

action and instigate a dialogue using techniques of inquiry.

• **Knowing what is important**. The coaching manager needs a sense of what good performance looks like in order to know what to look for and what kind of feedback is likely to be helpful.

• **Observing without inferring**. Unfortunately, even with firsthand data, observer bias quickly becomes a problem. The most important point, however, is to acknowledge that such bias exists and is a potential problem for all of us.

• **Providing balanced and helpful feedback**. Ideally, feedback holds up an accurate mirror to coachees, so they can see themselves and take ownership of their actions or results.

• **Collaboratively interpreting what needs to change**. Coaches and coachees must maintain a collaborative dialogue that will encourage coachees to consider the reasons for their behavior.

• **Setting a goal for change and following up**. Change requires that the coachee have an opportunity to practice the desired behaviors; just attending a course, for instance, may not be sufficient. ●

The 'Coaching Mind-Set'

Coaching managers have an overriding attitude of helpfulness when trying to coach others.

Managers who coach want to *help*, as opposed to fix or change others. They like seeing others succeed. They seem to get a kick out of having a chance to admire the good work of others. As one coaching manager said, "I keep track of them in their careers. I hear about their accomplishments. I like to think that in a way, I have contributed to their success."

Coaching managers believe that by helping their employees develop, everybody comes out ahead. By coaching their employees and aiding their development, coaching managers assume that they will build the overall capability of their businesses.

Coaching managers also show less need for control. An emphasis on "results no matter what" can make it hard for managers to coach rather than do. The coaches who do the best jobs are those who are able to tolerate the potential for at least some failure.

In addition, coaching managers believe that most people really do want to learn. Coaching managers are much like gardeners. They plant the flowers (hire the right employees), create a context, provide some support and are there to help out. However, having done that, they don't always expect every effort to bear fruit. Most coaches report that, as they mature, they come to accept that some people don't want to be coached and that they may not be able to make a difference in their development.

Coaching managers also show empathy in their dealings with others. They tend to be able to put themselves in another person's shoes, rather than judging an individual solely on the basis of surface behaviors. ●

The Goals of Coaching

The ultimate goals of coaching are:

- To promote employee development through learning.
- To build organizational capability through sharing learning with others.
- To build better relationships and more effective communications in general in an organization.
- To promote employee retention through the provision of experiences that help employees meet their personal goals for growth.

Seizing the opportunity to create positive, learning-oriented dialogues presents a simple way to meet those goals.

The 'Coach-Able' Learner

What behaviors does the individual demonstrate who is capable of effectively engaging with a coaching manager? Despite the diversity of styles, personalities and cultural backgrounds found in today's work force, it is possible to make some useful generalizations.

First of all, a coachee must be able to reflect on his or her behavior — to step back and examine it from a somewhat objective frame of reference. If you had a particularly troubling meeting with your team and you want to learn something from the event, you need to be able to describe to yourself and to someone else what happened. Furthermore, you need to be able to think about what you did differently this time in contrast to your previous efforts.

Ideally, effective coachees are curious about their performance and the challenges of continuous improvement. The coachee is like a scientist, trying to understand the laws that govern his or her actions and the actions of others, and to exercise some control through that understanding.

Shame

Effective coachees are able to accept that someone else may have more knowledge or be more effective than they are. Feelings of shame make an individual want to keep awareness of his or her mistakes from others, which can make coaching nearly impossible. Effective coachees are able to honestly raise their concerns with their coaching managers, rather than succumb to such inhibitions.

The effective coachee needs to be able to listen. He or she needs to be able to tolerate balanced feedback and consider the meaning of what the coach is trying to say.

Finally, effective coachees are motivated by coaching. Having received feedback, considered its meaning and considered what they might do differently next time, they are anxious to practice. They take full responsibility for change and want to exercise their responsibility so that the learning can continue and they can assess their progress.

Creating a Coaching Friendly Context

In the coaching friendly context, learning is taken for granted to be an important, if not always directly discussed, ingredient of both personal development and business performance. People in a coaching friendly context naturally and informally reflect on their actions, discuss their problems and goals, and ask for feedback and advice.

Here are the values and beliefs that serve as a foundation for such a coaching friendly context:

- **Trust and a large measure of openness are valued.** Trust in the relationship between manager and employee is probably the most important element of a coaching friendly context.
- **Mistakes are tolerated because they are useful for learning.**
- **The organization pays careful attention to hiring the right people.** It is easier to trust people, even to allow them to make mistakes, if you see them as fundamentally in the right job and being able to perform that job to at least a minimal degree.
- **Learning for the long term is important.** Attention to learning, which ultimately validates a manager's efforts to coach, signals to everyone that the group exists for both today and tomorrow.
- **Reward systems encourage managers to spend time coaching.** Closely related to a value on learning are reward systems that create tangible positive outcomes for managers who are effective at employee development.
- **People should feel valued as individuals.** People who feel valued are much more likely to want to learn. They feel that there is a more genuine overlap between the organization's goals and their own personal goals.

Stopping the Action and Starting a Coaching Dialogue

In the coaching friendly context, people seize learning and coaching opportunities both formally and informally whenever they can. Most likely, your work is fast-paced and your business unit is filled with people who incessantly focus on action. They need to get it done, now. Somehow, you have to find a way to stop that action, if only briefly, and engage potential coachees in a useful coaching dialogue.

Maintain a Coaching Mind-Set

The first step to stopping the action and starting the dialogue is maintaining a coaching mind-set. Make sure you are ready to coach, not evaluate or appraise performance.

Next, look for useful coaching opportunities before, after and at natural stopping points during an activity. Ask yourself, "What is the learning potential?"

The next step is assessing the timing. Determine if the employee is able to engage with you now about this issue or topic. Decide if you and the employee can make adequate time for the dialogue. Make sure the employee is in a receptive frame of mind and emotional state. Then, take a minute to establish rapport.

Now is the time to ask reflective questions, listen and probe for understanding. When appropriate, ask follow-up questions. While being empathic, help employees think about their roles, their intent and their actions.

Advice

Help the employee define and take ownership of the real issue, challenge or problem about which he or she needs to learn more. Avoid providing premature or gratuitous feedback. Also, avoid giving advice or jumping in with the solution.

Next, ask the employee what he or she would find useful as a next step, unless you feel that, on the basis of the issue or the potential costs of failure, you need to direct the employee to a next step.

Finally, the employee might find targeted advice use-

ful. However, be wary of giving advice prematurely. Make sure that the employee has done a thorough job of independently thinking it through. The employee must own the solution. ●

Focusing on What Is Important

The notion of the "coaching mirror" can be of enormous value in teaching managers about the somewhat abused concept of feedback. A mirror can send us a powerful message, but it can't change us. Feedback at its best isn't designed to change the recipient of the feedback, it is offered as a tool that recipients can use to help them achieve goals to which they are committed.

The coaching manager can greatly enhance the power of the feedback, and therefore the value of the mirror, in two ways. First, the manager can help the coachee focus on what is truly important. Second, the manager can provide the feedback in a way that makes it as useful as possible.

Competency

Coaching managers can't pay attention to everything, so their focus should begin with what the organization needs for business success. However, it is important to encourage employees to drive the coaching process and their own development. Competency is more than skill. Competencies are skills that are used routinely. We all know people who are extremely good at executing a particular task but hate doing it.

Managers who insist on focusing only on the ability of an employee to deliver should be aware that the mix of great skill and low motivation doesn't yield sustainable superior results. The best coaching managers are able to manage the tension between the organization's needs and the individual's goals. To understand what the employee wants, you must ask, and you must be willing to listen. Although you must focus your coaching efforts on what your organization needs, that goal will be best served by making sure that the people who are trying to fulfill those organizational needs are not only good at doing so, but want to do so as well. ●

Observing What Is Important, Effectively

A tendency to draw inferences can make it difficult for managers to draw an accurate picture of a coachee's job performance.

Effective feedback is possible only when it is based on *accurate observations (or other kinds of performance data)*. If the coaching manager has bad data, the feedback will be flawed and the result will be a lack of learning and even greater defensiveness on the part of the employee.

Coaching managers must gather information about the performance of others and make that information useful.

To get the most from various sources of performance data, always strive for specific examples of work. This is easiest to do when the source of data is your direct observation as the coaching manager. It is the standard against which all other sources of data must be judged.

Always follow up on formal and informal multi-rater feedback assessment activities. Get specific examples from the people involved to reflect the generalizations that are offered by the feedback report.

Beware of Unsolicited Feedback

Be cautious of how you interpret unsolicited feedback provided by others that is delivered by e-mail or by hearsay. Impromptu and unsolicited feedback may be of low quality and may draw heavily on inference. E-mails can be sent impulsively, before the sender has had time to think through whatever is provoking the feedback.

Differentiate feedback from interpretation. You may have good data that accurately describe someone's behavior, but you don't know why they are behaving the way they do. Coaching managers stress the importance of keeping an open mind.

The Coachee's Role

The coachee needs to be an active participant in the coaching process. He or she must keep track of the learning goal, results to date, feedback from others and thoughts about what needs to happen next.

When it comes to learning, the coachee, not the coaching manager, is in the driver's seat. ●

Providing Balanced and Helpful Feedback

Feedback represents a form of communication, or a message. What should the message include?

Feedback content usually includes a description of the *situation* in which you observed the employee; a description of the *behavior* of, or *actions* taken by, the employee you observed; and a description of the *impact* of the behavior or actions of the employee on others or on a relevant business outcome. "Here is what I saw, and here is what I think was the impact of what I saw" is the basic structure of a feedback message. Note what is included and not included in the message.

What *is* included is factual information to the highest degree possible.

What is *not* included is an interpretation. If you describe the impact of a particular action or behavior from your vantage point, you're making very few inferences. After all, an individual's manager is a key stakeholder in the actions of that individual. The impact on you, as manager, does count, and the impact you experience from the actions of an employee may be similar to the impact experienced by others. You can therefore state, "This was the impact on me," with real authority.

The Importance of Goals

Always consider the importance of the employee's goals while delivering feedback. If you *focus on what the employee is trying to accomplish or has told you he or she wants to learn*, you have been given license by the employee to be clear and direct.

Feedback is likely to be most useful when it is offered as part of a systematic approach to coaching. A *systematic approach* means following the steps of creating a coaching friendly context, looking for coaching moments, creating a coaching dialogue, knowing what to look for, providing balanced feedback, collaboratively interpreting the causes for any gap between actual and desired performance and setting some meaningful goals. ●

What Does It All Mean?

Once the coaching manager and the coachee have determined that it is appropriate to search for the root cause or causes for any performance gap, a continuation of the coaching dialogue can help both of them look for those causes. The coaching dialogue encourages the coachee to reflect on the feedback the coaching manager has presented. Provide the feedback, ask the employee for his or her thoughts and wait. See what the employee has to say.

The coaching manager can aid in this process if the coachee is having trouble by using the basic coaching questions: "What were you trying to do?" "What is the impact of what you did?" "What do you need to do differently to have the impact you're hoping for?" Along the way, the coaching manager can encourage the coachee to consider alternatives other than the obvious.

The Importance of 'Getting It Right' When Interpreting Performance

There are times in life when it may be better to do nothing than to do something poorly. This lesson is brought home through a story told by an employee working with a very effective coaching manager. This young engineer was evidently known for his ability to solve enormously complex problems and explain those problems in lay terms to business people. He was about to give the most important presentation of his young life in front of his own CEO and the leaders of several important customers.

When the time came, he stood up and froze. He was absolutely unable to put his thoughts into words or make sense of his own overheads. The CEO was clearly not pleased but said little. In an effort to end the pain, the young engineer's manager stood up and took over. The manager was very upset after the meeting but held her temper in check. The engineer was shocked and fearful. Clearly they needed to talk.

The manager, who basically trusted the engineer, asked him what was going on. The engineer was at a loss. Finally, the manager asked, "Is something wrong? Is anything bothering you?" The engineer, who was loath to talk about his personal life at work, confided that he'd just put his mother in a nursing home. Perhaps he didn't realize, he said, just how much that had shaken his concentration. The manager expressed confidence in his ability to handle situations like this in the future. Although he was quite anxious in light of this incident, his manager assigned him to do another presentation several weeks later. Once again, his anxiety did detract from his performance, but not nearly so badly. He got through it and covered the necessary material. His manager noted the improvement and predicted a slow but sure recovery. Over time, that is exactly what happened.

Criticism

If the manager had criticized the employee after the original incident, she would have been doing so on the basis of an inference that the cause of the problem was a lack of preparation or even a lack of ability to work with senior managers. Working from such an inference would have undermined her ability to accurately understand the source of the problem. In criticizing the employee, she would also have undermined what little confidence he had left. She would not have helped him develop an awareness of the impact of his personal life on his performance and the need to address work and life stress proactively. Ultimately, she might have lost a great engineer.

Most of us can tolerate criticism when it is directed at a real fault, but to be criticized for not being prepared when, in fact, we are struggling with an overwhelming level of stress can generate long-term resentment. Notice how often you rush to interpret the actions of others

before finding out the true cause of their actions. To put it another way, *try to precede every conclusion with an open-ended question.*

Goal Setting and Follow-Up: Making Change Happen

The most effective learning goals are *specific and measurable, time-bound, challenging, few in number, developed in a participatory fashion and aligned with the goals of the business.* Alignment supports all phases of the learning process (unfreezing, change and refreezing) and supports maximum commitment to the goal.

The coaching dialogue question "What are you going to do differently?" is one way of asking an employee to commit to a particular action or goal

Personal Transformation

Personal transformation that addresses a learning goal involves three steps: unfreezing, change and refreezing.

Unfreezing requires developing a readiness for change. For example, the employee knows he or she needs to change and is ready to begin the work of doing so. Critical feedback delivered by a manager has begun to unfreeze the employee.

In the *change* stage, people are more open to learning. Indeed, they have come to accept that the learning is necessary and are ready to drive the learning themselves. They scan their world for helpful information. They may read about the topic at hand and seek out others who can help them.

Refreezing is making the connection between the new behavior, knowledge or skill and the rest of the employee's life. If the change is not consistent with the rest of the employee's life, refreezing may not occur. Changes must also be consistent with the individual's personality, at least to an extent. Likewise, those in the employee's network of relationships must be able to cope with the employee's newly learned skill or new routine. They may need to change their behavior too.

Be ready to support employees along the way. Access to learning resources, including the opportunity to practice, is a critical aspect of the learning process. Remember, employees may need some encouragement, particularly if the goal is a challenging one.

Coaching and Career Development

The following tactics should be helpful to coaching managers while trying to assist their employees with career development:

- In the coaching dialogue, *from time to time, encourage employees to reflect on what they find satisfying about their work.* Ask them how they feel about what they are doing, where they are and where they want to be.
- *Provide balanced feedback whenever possible in your reaction* to the employees' reflection. Your feedback may include your thoughts about employees' strengths and weaknesses in relation to their career interests; or it may include information about opportunities, or the lack of opportunities, that relate to employees' interests.
- *Whenever possible, encourage employees to build relationships with others who work in areas associated with their career interests.* Facilitate networking opportunities if you can.
- *If possible, use "job-sculpting" tactics to reshape the employee's job in line with his or her career interests when possible.* However, always keep the needs of the business in mind while job sculpting.

Listening

Listening may be the most important intervention the coaching manager can offer. Listening to someone talk about his or her career seems easy on the surface, but this is not always the case. After listening, it is important not to jump into helping. *Encourage the coachee to define a goal or a need and a next step.* You may then provide useful feedback on the basis of your understanding of what the business unit or organization can offer.

Developmental Coaching and Performance Problems

At the simplest level, the hallmark of a performance problem is an *ongoing gap* between actual and desired performance, a gap that is not closing and may be worsening. Even the worst performers will be successful on occasion, but for those with performance problems, the gap is there much more often than not. Almost anyone can close a deal sometimes, but organizations need salespeople who can close deals consistently. If someone in a sales role can't sell consistently after he or she has had an opportunity to learn the job, with appropriate support, a performance problem exists.

Addressing Performance Problems

The success of coaching managers rests on their having a helpful attitude, and they need to follow that impulse wherever it takes them. However, they also have their limits, which is a sound insight to keep in mind.

Make sure that the employee with the apparent per-

formance problem clearly understands what is expected of him or her. View coaching as an experiment. If progress is not forthcoming, consider the possibility that coaching may not be working.

Seek input from others who may have knowledge of the employee and the performance problem. You want to be sure that bias and various perception distortions aren't clouding your assessment.

It may be necessary to alter the balance between self-assessment and feedback. Reflection and self-assessment by the coachee are critical to encouraging employee learning and ownership of the issue at hand.

Follow-up is absolutely essential. When unfreezing is necessary, the employee may need frequent feedback and frequent assessments of the impact of their actions.

Make sure that your coaching offers are aligned with other organizational factors, such as job design, compensation and team functioning. ●

Using Coaching to Leverage the Investment in the Classroom

A series of simple but important practices can help the coaching manager and employee get the most out of an investment in formal classroom education.

First, define the learning goal or goals. Will a classroom experience be helpful? It is likely to be helpful when the employee has to learn new skills or concepts, particularly in a short period of time, or the employee is "stuck," and an educational intervention can address the specific problem that is causing this.

The second practice is choosing the right program. Make sure it is aligned with the employee's learning goals. Also, consider whether or not the content of the program is aligned with the needs and culture of the business unit. If it is not, proactively address any barriers that may make transfer of learning more difficult.

Follow Up

Finally, provide coaching follow-up to the employee on completion of the classroom experience. Immediately after the learner returns from the program, set aside a one- to three-hour block of time during which you and the learner review the content of the program. Discuss what the learner thought, saw and/or felt that might be relevant to his or her performance or the organization.

Either at the end of this meeting or within the next day or two, ask the learner to describe one to three personal learning goals that emerged from his or her experience in the executive education program. Help the learner define what effective performance would look like if he or she were successful in attaining the goal.

Support the learner by helping to make sure that he or she has meaningful work related to the learning goals the two of you have identified. ●

Coaching and Organizations

The employee's relationship with his or her manager sets the tone for how the employee feels about the work and the organization.

Employees are much more likely to be loyal to the company through the manager. The stronger the personal connection with the manager, the less of a problem, on balance, retention is likely to be. Note that employees choose to remain in such a relationship not just because the manager is charismatic or fun, but because the employee is getting something invaluable from the relationship: learning and growth.

What Should Organizations Do?

An organization should work to create an open and honest culture in which people can talk freely, without fear of reprisals. Encourage people to take manageable risks. Don't punish innovative failures — reward them. Show interest in new ideas. Stay current as a firm. Make sure all levels of management are paying attention to their industry, community and the larger business world. In other words, show that you value learning in general. It is critical for the firm's leadership to make sure that its compensation practices don't actively discourage coaching and learning.

Coaching is a skill. Most managers will need quality training to get a basic sense of what coaching is and how to do it. Most organizations are capable of providing the basic training for their managers. However, as in most adult learning, on-the-job learning is what counts the most. The learning for coaching managers comes from thinking about the specifics of each case: What can I learn from this effort to help this specific employee? ●

RECOMMENDED READING LIST

If you liked *The Coaching Manager*, you'll also like:

1. ***The Enthusiastic Employee* by David Sirota, Louis A. Mischkind and Michael Irwin Meltzer.** Learn the specific management practices that have the greatest impact on employee performance.
2. ***Primal Leadership* by Daniel Goleman, Annie McKee and Richard E. Boyatzis.** Discover how leaders use their Emotional Intelligence (EI) to get results. Learn how the four quadrants of EI impact your style of leadership.
3. ***First, Break All the Rules* by Marcus Buckingham and Curt Coffman.** Great managers know that conventional wisdom about human nature doesn't hold up. Learn what great managers do differently.

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The Core Value Equation

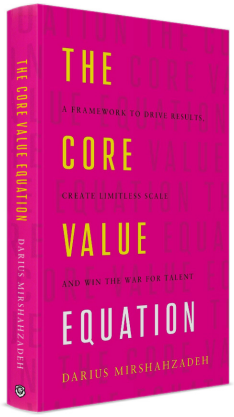
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The Core Value Equation

A Framework to Drive Results, Create Limitless Scale and Win the War for Talent

by **Darius Mirshahzadeh**



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THE SUMMARY IN BRIEF

As a CEO, three of the biggest challenges you will face include making tough decisions in less than clear situations, creating and maintaining a consistent culture, and attracting the right people who fit that culture. These problems often make or break a company, and you must learn how to tackle them in order to create and grow a business that you recognize and can manage effectively. In ***The Core Value Equation: A Framework to Drive Results, Create Limitless Scale and Win the War for Talent,*** Darius Mirshahzadeh explains how creating and implementing core values is the key to tackling all of these problems.

Once you know your core values, you can more easily make decisions that create a consistent culture and attract the right people. All in all, Mirshahzadeh helps business leaders create and grow a business based on core values that lead and inform their decisions every step of the way.

IN THIS SUMMARY, YOU WILL LEARN:

- Why core values matter in business.
- How to create core values for your business.
- How to create and implement an invisible scale.
- How to use core values when making decisions and hiring.

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Introduction

By identifying the lack of core values, explaining how to create core values, and offering advice for implementing those values within a growing business, *The Core Value Equation* helps CEOs, business leaders, and entrepreneurs create businesses that reflect a consistent culture with the most desirable and professional talent on their team.

Are You Managing A Monster?

So, you are finally where you want to be—the CEO of a successful business. Your team is rapidly growing, and you are achieving a lot of success for your company. Despite this success, you feel overwhelmed and discouraged by the business you see in front of you. Even though the company is growing, you barely recognize the business in front of you and don't know what's the matter. What gives?

If you feel this way about your business, you very well may be managing a monster. Even if your business is financially successful and seems to be doing well for the community, your business can still be a monster in how it is patched together with conflicting ideas and cultures that don't match. From a CEO's perspective, managing a monster makes your already high-stress job even more stressful.

As the CEO, it is your job to make decisions in uncertain scenarios, create a consistent culture, and set the standards for recruiting successful team members. If your business includes different cultures and ideas that are simply patched together like a business Frankenstein, then it will be much more difficult to do your job. When your company is conflicted on its culture and attitude, you have very little to go off of when making hard decisions or hiring.

There Is A Solution: Core Values

Luckily, there is a solution to business Frankenstein monsters. If you can create a consistent culture with consistent values, you can compare your decisions based on your business's accepted core values and assumptions. You may be wondering, "OK, but how do you create a consistent culture?" The answer is quite simple: core values.

Core values are the beliefs, goals, and assumptions that your business and workers hold to be true for the business. The purpose of the core value is to get everyone on the same page to work together for a single cause. Without these core values, your team members may have different attitudes and goals for work, making your job harder.

Now, it isn't enough to just establish core values. Tons of businesses have core values that mean nothing. To simply claim you have core values but don't do anything to implement them means that your core beliefs are nothing more than words on paper. When your core values are nothing more than words on paper, they do nothing to help you and leave you in the same place as before.

Companies Do Not Have Core Values; People Have Core Values

Instead of letting your core beliefs simply be words on paper, you need to implement your core values so that all of your employees and customers can recite your business' core values by heart. That's right. It isn't enough for you alone to know your core values. Every employee and customer should also know the core values to work together under the same assumptions.

The reason for this is that companies do not have core values; People have core values.

Think about it this way: companies are simply an amalgamation of a group of people. If the people do not have the core values, then the business doesn't have it either. In contrast, the business has the core values of the people within it do. In order to make your job easier, you have to make sure that every member of your team has the same core values so that everyone has the same starting basis and motivation to get the job done.

How To Build Core Values

OK, so it's time to establish your core beliefs, but what if you don't know where to start? How can you create core values that are more than just mere words on the page?

For starters, it is important to incorporate the user and success of the core values into the discovery process. You don't want your core values to be meaningless. Instead, create them, so they actually are indicative of the successful business you want to create. The best way to create a core belief system that is effective is to discover them, not define them.

When you discover your core beliefs, you find out where your beliefs actually lie and figure out what works and what doesn't. Defining your core values, in contrast, is nothing more than creating a wish list that turns into words on paper. Let your senior management team discover the core values they hold so that they can organically trickle throughout the entire business, creating an invisible scale by which everyone is measured.

As you discover your core values, you need to build them in a conducive way to your company. No matter what you find out in the discovery process, it will be meaningless if you don't view your core values as an opportunity for craftsmanship. Only if you build up your core values will you be able to incorporate them into your business in a meaningful and effective way.

Launching Your Core Values

Unfortunately, here is where the real work kicks in. Discovering and building your core values are relatively easy compared to launching them and making them stick. Anyone can create values, but it takes a real disciplined leader to implement them within the company.

The first step for implementation is launching them for the company. During the launching process, you should have the goal of making them stick in mind.

First and foremost, your core value launch should be described to be used in the decision-making process. If the core values are not set up in this way, your company will not know how to utilize the core values to transform the culture properly.

More than this, though, you need to have an effective rollout so that all members of the organization have a clear and distinct understanding of the company's core values. The rollout should include 6 general stages. It begins with prework, which includes group dynamics and working agreements. Then, you should implement exercises so that employees can learn firsthand how the core values work in real life.

Before closing your rollout, you have to end strong. Most people remember the beginning and end of presentations but often forget the middle. Make sure you end strong so that all of the employees understand the core values. Your strong ending should include HR paperwork so that they are obligated to follow the core principles. You should also close with a warm thank you and a core value celebration.

Make Your Core Values Stick

Let's be clear: core values are not static. After your rollout, you have to be intentional and decisive in making your core values stick. As the CEO, it is your job to implement the invisible scale so that the core values permeate the entire company, starting at the top-level management and working its way all the way down. In fact, you should think of your core values as being the oxygen for your organization.

You could also think of core values as the language of the business. With this analogy, think back to your high school days when you learn a foreign language. You didn't start out by reading philosophy books in that language or a 400-page novel. Instead, you started with single words and little practices to help you build your knowledge. You should do the same thing when learning the language of your core values.

Start by incorporating your core values in small ways. This helps you and your employees get the hang of the core values to commit to memory. Once the smaller acts are memorized and understood, you can start incorporating other acts and practices of core value into your system. Eventually, the entire organization will be completely fluent in the language that is the core values.

If you have an effective rollout and then do a step by step integration initiative, your core values can stick. More than that, it creates a firm foundation on which you can continue to build and succeed.

Just like with anything else, you cannot grow and flourish if the foundation is rocky. Create a firm foundation with an effective rollout and implementing the initiative intentionally.

Proving That Your Values Are More Than Fluff

Even if you have a successful rollout and initiation of the core values, you have to continue to prove that your core values are more than fluff. In other words, you have to be able to measure your core values, or else they just become words on paper and fluff for the business. If you can't prove that your values are more than fluff, then all of your work has been meaningless thus far.

In order to prove that your values are more than fluff, you have to be able to make them tangible. If your core values are not tangible, then there's no way to measure them. From the CEO's perspective, an intangible core value means that you can't make changes or fix any problems that may be there. From an employee's perspective, intangible core values mean that they are hard to implement within the business. Only by making values tangible can they be more than fluff or words on paper.

Using Your Core Values

Once your core values become tangible, you and other employees can use them as a measurable scale on which to make decisions. As the CEO, this will make your job immensely easier since you have a firm foundation to make

consistent and well-informed decisions. Even when situations are unclear, and you are unsure what decision you should make, you can use your core values as a foundation for making the decision. This makes it more likely that you will make a decision that is good for the company and not simply based on whim or intuition.

More than making hard decisions, tangible core values can also help you snag team members and win the war for talent. Without clear core values, it can be hard to know what kind of a worker you are looking for. Now that you know your values, however, you can compare every applicant based on the values. See how their life, actions, and mentality interact with the core values of your company.

By selecting applicants based on your core values, you are more likely to snag coworkers and employees that are excited to be there. Not only this, but this will also then enhance your core values more because it ensures that your employees understand and believe in your core values too.

No longer do you have your monster company. Instead, you have a business that works under the same core values. After all, businesses don't have core beliefs; People have core beliefs.

Keep The Ball Rolling

As your business begins to succeed, and your core values become apparent in everyday work life, you must continue to enforce the core beliefs. The second the core beliefs go static in top management is the second that the invisible scale fails to exist.

Keep challenging your company by adding more and more initiatives and exercises to keep the core beliefs fresh and integrated within the workers' minds.

Conclusion

All in all, CEOs must create, establish, and implement core beliefs within their business. When you do this, you will have a firm foundation on which all decisions can be made. Your core beliefs create a foundation for a consistent and lucrative business, from risky business ventures to employee selection.



Darius Mirshahzadeh is a high growth CEO, serial entrepreneur, and culture building mad scientist who was ranked #9 on Glassdoor's list of Top CEOs of Small and Medium Companies in the US. He's led organizations that have won numerous Stevie awards, been named "#3 Best Place to Work" by San Francisco Business Times, and have landed at #40 on the Inc. 500 list of fastest-growing companies. Darius has been recognized in the New York Times and Inc. Magazine for innovation in corporate culture, and his business insights and thought leadership have been published in Huffington Post, Entrepreneur.com, Fast Company, and Forbes.

The Core Value Equation: A Framework to Drive Results, Create Limitless Scale and Win the War for Talent by Darius Mirshahzadeh. © 2020 by Darius Mirshahzadeh. Summarized by permission of the publisher, Lioncrest Publishing.. 232 pages, ISBN 978-1544506722. Summary copyright © 2021 by Soundview Book Summaries ®

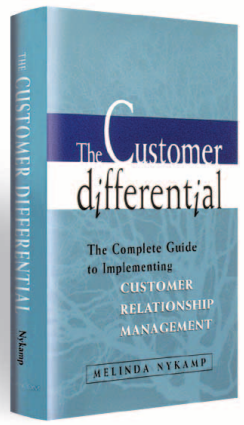
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The Customer Differential

Melinda Nykamp

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Melinda Nykamp

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The Complete Guide to Implementing CRM

THE CUSTOMER DIFFERENTIAL

THE SUMMARY IN BRIEF

One company took 12 months and 12 employees to institute a data warehousing project as part of a corporate-wide customer relationship management (CRM) effort, without any appreciable results. Another company was stymied by the incredible complexities of the processes needed in its CRM effort and had to put the effort on hold almost a year before the right data collection and storage systems were in place. Any company that has begun to implement a CRM plan knows it can be a time-consuming task involving a multitude of business processes and infrastructure dependencies; much broader organizational change than initially thought; and extensive learning of customer-centric and data-driven marketing concepts.

Nevertheless, although it might be easy to dismiss CRM as just another management fad, there are some compelling reasons to take another look at this trend.

First, customers — aided by the technology of the Internet, in particular — have much more power and influence than ever before. Customers today have higher expectations on service, price and delivery.

Second, advances in computer systems are giving companies the ability to collect and analyze specific, up-to-the-minute customer data.

In this summary, you will learn how to transform the five fundamental areas of your company — business focus, organizational structure, business metrics, customer interactions and technology — from a production orientation to a customer-focused orientation.

You will also learn how to:

✓ **Recognize the four stages of CRM.**

✓ **Measure the effectiveness of your CRM program.**

✓ **Calculate the ROI of CRM.**

✓ **Identify barriers to successful CRM implementation.**

The Customer Differential is about differentiating your company by meeting the stringent expectations of today's customers.

Here's how.

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Defining Customer Relationship Management

Although the term "customer relationship management" (CRM) is often equated with the old saying, "the customer is always right," it is much broader. True CRM is a revolutionary, enterprise-wide refocusing of how you develop and maintain dialogues with your customers. It requires a careful focus on providing the best value to your customers based on how you communicate with them, how you market to them and what levels of service you can provide—without forgetting the traditional areas of product, price, promotion and distribution.

Most important, CRM is not just a technology solution. While the Internet and other advances in technologies have enabled companies to obtain vast amounts of customer data, these same technologies also have given more power to consumers, who now demand much higher levels of service, greater choice in product features and the lowest prices. Businesses need to know which data are the most important to collect and how to best assimilate and utilize this information while at the same time providing personal "mass customization" to individual customers. This new paradigm calls for a new way of looking at and interacting with customers.

Four Stages of the CRM Process

CRM is a continual process that involves four interlinked stages:

1. **Acquire and Retain.**
2. **Understand and Differentiate.**
3. **Develop and Customize.**
4. **Interact and Deliver.**

As this process evolves, you will be able to add levels of sophistication to your customer strategies. This ongoing, enterprise-wide effort yields unique sustainable competitive advantages that can help increase customer loyalty that will improve your company's bottom line.

Understand and Differentiate

Although business starts with the acquisition of customers, any successful CRM initiative is dependent on a solid understanding of customers. Therefore, the first stage of the continual process that we will examine is how to understand and differentiate customers.

To have a successful relationship with customers, you must understand what services are important to your customers, which products they want to buy and how and when they prefer to interact with you (e-mail, direct mail, telephone, in-person). You can gather this information in the following ways:

- **Perform Customer Profiling.** Gather demographic and geographic information for consumers; for businesses, gather information such as number of employees and company revenues.
- **Segment Customer Groups.** This is a practical place to begin one-to-one marketing. Identify unique groups of customers through similar characteristics relative to the purchase and use of your products. As you continue to narrow segments of customers, you get closer to actual one-to-one marketing.
- **Conduct Primary Research.** You gain insight into your customers' needs and attitudes toward your company's products and services and about your organization as a whole.
- **Rank Each Customer's Value to Your Company.** No customer is created equal. Using the type of information listed here, you can more specifically identify which customers or groups of customers offer the most profitability for your company.

Develop and Customize

In the product-oriented 20th century, manufacturers built products, defined distribution networks and then searched for customers. In the customer-focused 21st century, companies must let the customer drive the choice of product and distribution channel. The most successful organizations are those that base products

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Defining Customer Relationship Management

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and services and distribution channels on customer needs and wants.

For example, financial services providers now offer ATM and electronic banking, which benefits both the provider and the customer. In the travel industry, wireless-based reservations and electronic ticketing offer customers flexibility.

Interact and Deliver

Companies now have many different customer touchpoints—from retail stores to catalogs to Web sites — and creating a common look and feel and assuring superior service at each site is an essential step in CRM. Most of these touchpoints have been built around the concept of efficiency for the company, not for creating two-way interaction with customers. In fact, although the term "interactive" is usually associated with online initiatives, most Web sites are less interactive than a bricks-and-mortar store staffed by salespeople.

To foster relationships with customers at the various customer touchpoints, companies must make sure:

- that all departments have ready access to relevant customer information; and
- that all employees are trained how to use this information.

Provide them with frameworks (step-by-step scripts, if necessary) for identifying and interacting with individual customers and customer segments.

Acquire and Retain

Learn as much as you can about your most valuable customers, then target prospects who "look like" those valuable customers. The better you understand your customer, the more effective your acquisition efforts; you'll be able to choose the right channels, media, product, offer, timing and message for the target prospect base.

Once you have acquired a new customer, you need to make that person a repeat, loyal customer. By focusing on the following three areas, you can improve your chances of retaining your valuable customers:

- **Continue to provide an ongoing forum for a two-way dialogue.**
- **Consistently meet the customer's definition of value.**
- **Be alert for changes in your customer's needs so you can modify your products or services to meet these evolving needs.** ■

CRM: An Integrated Approach

✓ CRM is not exclusively a marketing initiative. But CRM can involve customer-facing and data-driven marketing and can result in more effective marketing campaigns.

✓ CRM is not exclusively a sales initiative. Sales is just one piece of the CRM puzzle, and a CRM focus can improve sales strategies, account management and SFA efforts.

✓ CRM is not exclusively a service initiative. Rather, service is merely one functional area of a CRM effort.

✓ CRM is not exclusively a technology initiative. While IT and IS are big parts of CRM, it is important to remember that they are simply the tools that allow a company to focus more narrowly on its customers.

CRM Requires Complete Transformation of the Company

CRM is an enterprise-wide effort, involving nothing less than the transformation of your company from the traditional product/transaction orientation to a customer-focused orientation. Specifically, CRM requires the transformation of your company's business focus, organizational structure, business metrics, customer interactions and technology. The chart on page 4 outlines the stages of transformation in each of these business areas.

Business Focus

Moving from the old "product-focused" business approach requires a radical change that is best accomplished by completely shifting both a company's vision and resources. This shift entails more than just trying to "redirect" customers and customer segments into existing plans and processes or "repackaging" existing products.

What is your company's current focus? Conduct an audit to identify where you can become more customer-focused. Without a true, company-wide focus on anticipating and meeting customer needs, companies can become stuck in intermediate stages, and such half-hearted CRM initiatives usually don't succeed. Even though marketing and service are oriented toward customers, very often these initiatives can become overly tactical and operational. Similarly, with a heavy focus on sales, the emphasis is usually only on customer acquisition, not creating ongoing dialogues with customers.

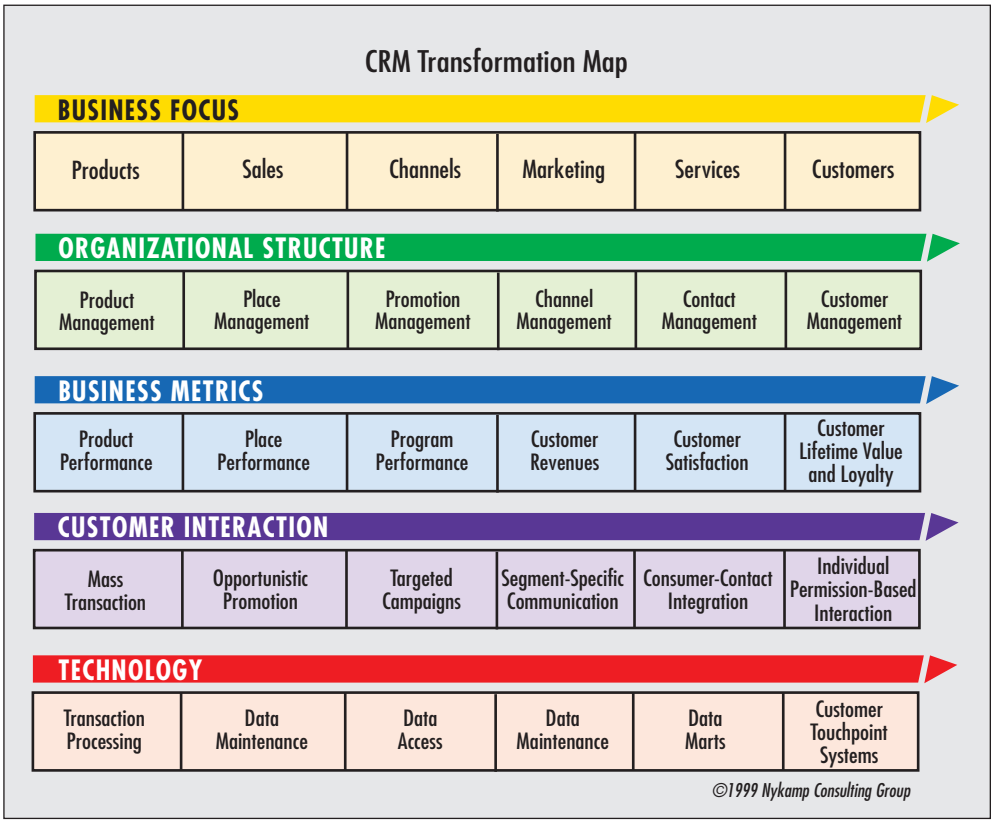
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CRM Requires Complete Transformation Of the Company

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Organizational Structure

This area can be one of the most difficult to transform to a customer-facing emphasis, and can be one of the major barriers to successful CRM implementation. Traditionally, companies have organized around products or regions. Transforming the entire structure of an organization requires a complete shift in thinking for managers within all departments, and often entails adding to the existing product line or channel structure, as well as hiring additional employees. Some companies have even created "customer relationship" departments.



Business Metrics

Today, different departments within a company usually measure different sets of metrics. And it is rare to find metrics based on customer-oriented areas. When a CRM transformation is successful, you will have established a way of measuring and tracking customer lifetime value and loyalty. The goal of CRM is therefore to blend traditional metrics (i.e., on product, place) with customer value.

Specifically, you must measure:

1. Product performance: The traditional "build a better mousetrap" ideology.

2. Place performance: Measuring and comparing productivity by regions/territories.

3. Program performance: Marketing efforts are tracked by campaign.

4. Customer revenues: Quantifying the short-term profitability of each customer.

5. Customer satisfaction: A first-stage attempt to measure the quality of customers' experiences with a product or company.

The biggest benefit of these new metrics is that you gain a long-term view of how all of your customer touchpoints factor into overall profitability.

Customer Interaction

The ultimate goal of CRM is to initiate and maintain a back-and-forth dialogue between customers and employees that is individual-based rather than segment-based. This requires a tremendous amount of integration and coordination among employees, departments and information systems. It also requires large investments of time and resources, often on an ongoing basis.

Technology

Rather than creating silos of customer data, the key to successful CRM is using technology to give any employee the right customer information at the right touchpoint at the right time, all the time. But the technology itself is only a tool. ■

The Case for CRM

Results of successful CRM initiatives at organizations in various industries show that:

- ✓ Short-term results often can turn the opposition around quickly.
- ✓ What you learn from these systems tends to strengthen the data, process and functionality of a longer-term solution.
- ✓ Advanced features and functions often are not necessary.

Implementing CRM

Is your company's current organizational structure conducive to optimizing customer relationships? Which employee(s) will take responsibility for the CRM program? Will your CRM project involve hiring any new staff, offering new training, or changes in performance measurement or your compensation structure?

These are critical questions that must be addressed before any CRM initiative is launched. The following checklist is a good guide for assessing your organization's readiness for launching a successful CRM program:

Is senior management tasked with ensuring that the organization understands and is meeting customers' needs? Are they responsible for seeing that the CRM vision and goals are understood?

- **Is management accountable for the P&L of customer performance and responsible for measuring and monitoring customer performance?**
- **Are customer relationship responsibilities clearly defined, assigned, and understood? Are methods for measuring results and providing rewards established?**
- **Are customer-centric performance standards in place at all customer touchpoints?**
- **Are all customer communications viewed as important?**
- **Are policies and procedures critical to managing customer relationships well-documented and consistent across all customer touchpoints?**
- **Are customer-critical functions staffed with well-trained, motivated employees?**
- **Is employee performance measured and rewarded based on meeting customer needs?**
- **Does your company have the necessary sales and marketing expertise and resources?**
- **Does your company have the necessary service and technical resources and expertise?**
- **Have you addressed how you will continue to allow the CRM program to evolve and expand?**

Building the Case for CRM

As budgets for IT equipment (a part of most CRM initiatives) have tightened over the years, it is important to clearly identify the cost benefits and increased effectiveness that CRM offers. Development and implementation of CRM is particularly challenging not only because of the time and money it involves but because you may need to upset deeply entrenched systems and processes and coordinate disparate departments and divisions. The essentials of any CRM business case include:

1. Qualifying your effort. Know the roadblocks you will face and determine which factors will help you or hinder you.

2. Identify the necessary components, and create separate business cases for each one.

3. Project results and improvements in a context that reflects your business setting.

4. Gather case studies and success stories, particularly from your own industry and on companies that operate within similar business models.

5. Create a prototype. It's easier to prove the value of a low-cost option, and it can bolster your longer-term solution.

The CRM Department

Microsoft, American Express, Bell South and Hewlett-Packard have created new departments charged with optimizing customer relationships at all points of interaction. Such CRM departments recruit staff from all customer-facing groups and serve as liaison for CRM implementation in existing functional departments. These firms have found that employees with skills in change management, customer valuation, customer interaction and integrated communications, customer information management and training and performance measurement are essential for their CRM departments.

The Customer Information Management Plan

Another approach to presenting the value of a CRM plan is to develop a Customer Information Management Plan. Typically, this should address: Where and how to efficiently collect customer data, and how to transform these data into meaningful, practical information. You

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CRM Hurdles

Lack of Planning is the number one reason CRM initiatives fail. Therefore, be ready to sustain an aggressive effort that spans departmental boundaries and reaches into all functional areas of the firm.

Overdoing Planning also can cause CRM efforts to stagnate. Plan to start small and keep it simple at first.

It Takes Time to reap the results, but it is worth the wait. Don't think of CRM as just a buzzword or "theory of the month." The combination of today's increased customer expectations and rapidly advancing technology, if handled consistently with a CRM focus, can provide you with significant, sustainable competitive differentiation—The Customer Differential.

Implementing CRM

(continued from page 5)

may want to consolidate information into an account or household basis, into monthly transaction summaries, or linked to regional sales territories. You will need to suggest a method to readily distribute customer information throughout your organization.

There are five stages to creating a Customer Information Management Plan:

1. Define where customer data is needed or could be utilized across your organization, and why.

2. Conduct a customer information audit. This is crucial and identifies what data is gathered and how; the quality and quantity of this data; where data is maintained and how frequently it is updated; how this data is maintained and by whom.

3. Using your findings from steps 1 and 2, develop a specification document that will include requirements for data, process, functionality and architecture.

4. Conduct a gap analysis; i.e., find out what information you need that you are not currently collecting.

5. Define a solution that reflects your situation and your prioritized requirements. ■

CRM and Technology

The ideal CRM system includes operational and analytical, online and offline offerings in the following categories:

- **Customer databases**
- **Marketing applications**
- **Data mining applications**
- **Sales force automation (SFA) systems**
- **Customer care applications**
- **Online applications**

Barriers to achieving such an integrated approach include the inability—so far—to blend a speedy operational system with the slower analytical systems. For instance, Online Transaction Processing Systems must use lean customer files for assessing real-time online actions and reactions, while an analytical system such as a reporting tool, needs to sort through huge customer databases to identify trends. Another stumbling block to a total CRM application system is the distinct nature of the sales, customer service and marketing groups within companies. Often, these departments can have independent information processing systems that make it difficult to share data. Finally, the need to integrate established businesses with e-businesses is still a learning curve for most organizations.

Internal Development vs. Outsourcing

In deciding whether to build your CRM technology in house or to outsource, consider the following:

✓ **Solution Scope.** Make sure you know exactly what you want to accomplish — from something as simple as outbound e-mail capability or as sophisticated as multichannel integrated sales. Generally, the broader the scope of your solution, the greater the value in insourcing.

✓ **Core Competencies.** If becoming customer-focused is highly unlikely to be a strength of your IT department, the better it is to outsource this area.

✓ **Time Horizon.** If your goals are shorter-term, outsourcing is recommended, at least for starting a CRM effort.

✓ **IT resources.** If you have no internal technology resources, or your IT department lacks enough experience in managing customer information, outsourcing is recommended.

Dealing with CRM System Vendors

With the volatility in the IT market, there are risks of delays and product and service changes as companies merge. Longer term there may even be dangers of monopolistic pricing. However, the bright side of the continuing M&A activity in the IT sector could mean improved products and services as well as the possibility in the future of "one-stop" shopping as opposed to the many niche players now selling in this market.

Be sure you document the details of both your internal and outsourced services. Your contracts should specify assignment rights, solution specifics and service levels. Ask the important questions, and if a vendor is hesitant to answer forthrightly, find another vendor. And, if a company you have contracted with is merged or acquired with another, this may be an opportunity for you to renegotiate your contract. ■

Changing Your Metrics

Because the traditional business model has been focused on either products or channels, these are the areas where most measures of profits originated. However, none of these metrics capture a comprehensive view of customer behavior. Program performance metrics calculate how many leads were generated in certain promotions, for example, while product-based metrics illustrate the most profitable products, but these two findings alone don't address customer attitudes.

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Changing Your Metrics

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Customer metrics are difficult to establish, and because customer behavior is dynamic, they also need to be adjusted over time. Even customer satisfaction statistics can often yield only limited information. Some studies, for instance, show that customer dissatisfaction has an inverse correlation with attrition—i.e., that customers who did express a level of dissatisfaction were actually less likely to switch to a competitor. This finding could be because customers willing to participate in a survey in the first place had some loyalty to the brand.

Customer Scorecard

Using a customer scorecard is a good way to begin transforming your company's metrics. This is an iterative process that involves collecting relevant customer data, building on your customer intelligence incrementally, and communicating results across the organization.

To build a customer scorecard, you first need to collect the right customer data by asking the following questions:

1. Who Are Our Customers?

- Unique customer identifier.
- Customer name.
- Name of the customer's organization.
- Department or group in which the customer works.
- Title, role in organization, or other designation.

2. Where Can We Reach Our Customers?

- Home and business addresses, phone number(s), e-mail and fax addresses.

3. What Are Our Customers' Key Characteristics?

- Consumer: Gender, age, household size, estimated income, presence of children, segment classification.
- Business: Industry classification, number of employees, annual revenues, number of locations, role of individual in the purchase process.

4. How Do Customers Prefer to Interact with Us?

- Media preference (mail, e-mail, phone, fax).
- Channel preference (Web, retail store or branch, salesperson, phone).
- Opt-in or opt-out for any media or specific communications.

The Lifetime Value Of Your Customer

One of the key metrics in your customer scorecard will be the estimated lifetime value (LTV) of that customer. LTV estimates the annual profitability over the expected lifetime of a customer, using net present value financial calculations. Some calculations assume statistics of spending, while more complicated models include cross-purchase behavior and changes in spending over time.

Estimated lifetime value will tell you which customers are most valuable to your company — and which customers are just costing you money.

5. What Has Been Our History of Interaction?

- Outbound marketing promotion history.
- Outbound sales contact history.
- Inbound customer-initiated queries.

6. What Has Been Our Customers' Purchase Behavior?

- Purchase dates, number of transactions, items purchased.
- Prices paid.
- Channels utilized.
- Sale vs. nonsale items.
- Returns or exchanges.

7. What is the Customers' Value to Our Organization?

- Revenue to date.
- Profitability to date.
- Estimated lifetime value (see box above)
- Estimated share of wallet. This is the percentage of business a customer is giving you, versus your competitors.
- Estimated probability of: response to specific promotions, specific purchases, attrition, and nonpayment or bad debt.

The next step is to analyze the data that you have collected. Answers to the questions above should allow you, for example, to develop profiles of your customers, to segment the customer base according to different needs and behaviors, and to determine the value of different customer segments.

Once you've collected and analyzed the data, you can create the scorecard, which is basically a snapshot of your customers that can be easily communicated to your organization.

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Changing Your Metrics

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First, decide on the segments or group of customers you wish to measure. Then choose the metrics you will put on the scorecard. Number of current customers (by segment and tenure), product penetration (percentage of customers that purchased certain product categories) and current profitability are some examples of the metrics that you will want to chart. Another key metric is the customer lifetime value (see box).

Once you decide which metrics are important, set annual goals for each metric — per customer segment — and compare with current performance statistics.

Remember that your customer scorecard needs to tell a story by highlighting trends over time and providing comparisons by customer segment and other relevant criteria. ■

Measuring the ROI of CRM

You've implemented your CRM effort; now you need to show how this initiative has helped increase revenues, decreased costs and improved your firm's competitive differentiation. How do you do this? To begin with, before you make any investment in CRM technology or other resource, scrutinize each CRM business plan by examining its broad-scale quantification of potential return on its investment. By doing this you prioritize each of these initiatives.

It is important to create organization-wide measurements of CRM success as well as establishing metrics for measuring the progress of the CRM effort once it is implemented. Don't just set up the program and forget about it!

Specifically, you will want to measure the progress of the CRM effort in five interrelated areas of your business: internal CRM capabilities, customer interactions, customer dynamics, operational efficiencies and business metrics.

Internal CRM Capabilities

Using best practices, continually monitor your progress with CRM methods to assure that your business focus, organizational structure, technology and customer interaction capabilities are customer-centric. Such ongoing monitoring can help spot over-investment in some areas. Ideally, you want your business focus to be centered on customers, your organizational structure to be tailored to customer management, your metrics to provide information on customer lifetime value and loyalty, your customer interactions to be individual, permission-based dialogues, and your information technology to be able to deliver the right information at the right time across all customer touchpoints.

Customer Interactions

There are potentially hundreds of customer interaction points in an organization. Once you've prioritized the most important interaction points, assess how well you are meeting customer expectations by using a Customer Interaction Scorecard. A typical Customer Interaction Scorecard might track interaction opportunities (for example, "Customer visits our Web site three times daily) according to "past performance," "current performance," "importance to customer relationship" and "improvement priority." For each of these measurements, the interaction opportunity would receive a "3" for high performance, "2" for medium performance and "1" for low performance.

Customer Dynamics Among All Departments

It is essential to link CRM efforts among all departments. Each department needs to study how it can improve customer acquisition, growth and development, retention and reactivation. All CRM initiatives should be linked to these metrics. This can be easier said than done, however, since within many organizations each department has a different way of measuring success. For example, the marketing department may be able to show how its new targeting model has resulted in improved customer response, without mentioning the firm's investment in improving its data collection techniques, implemented by the IT department. Different departments need to be made aware of how their efforts affect other departments and ultimately the company's ability to competitively differentiate itself.

Organizational Structure

Once you have implemented more customer-centric processes in business focus and customer interactions, it is common to see increased operational efficiencies as a result. Some benefits realized by companies using CRM include cost reductions in data collection, maintenance or fulfillment; easier identification of fraud or other problems; and increased integration of other core business processes. ■

Lessons Learned

Here are key lessons learned by companies who have begun implementing enterprise-wide CRM:

1. **CRM initiatives need to be driven by business goals and objectives.**
2. **CRM requires aggressive, ongoing organization and planning.**
3. **Balance planning with action.**
4. **Stick with it!**

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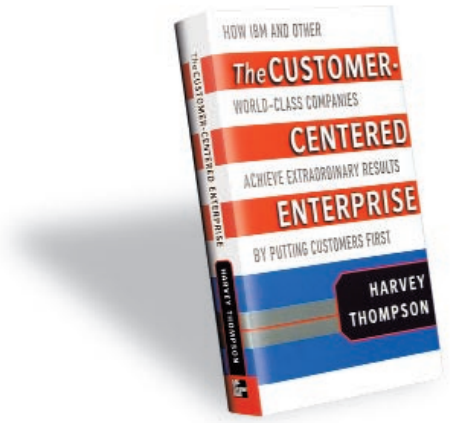
The Customer-Centered Enterprise

Harvey Thompson

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FILE: STRATEGIC MANAGEMENT



Achieve Extraordinary Results by Putting Customers First

THE CUSTOMER-CENTERED ENTERPRISE

By Harvey Thompson

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THE SUMMARY IN BRIEF

If you are going to succeed in business today, you have no choice but to become customer-centered. Gone are the days when you could compete on price or a unique product alone. Customers can get just about any product they want from a choice of producers at about the same price. Companies who want to distinguish themselves from the competition will have to do so by offering something else. That something else is most likely superior service, delivering exactly what the customer wants when he wants it.

In this summary, you will learn exactly what steps you must take to become customer-centered. You will learn from leaders in the field what they did to change their focus and vision from an *internally* driven idea of what the customer wants to an *outside-in* vision of what the customer wants.

You will see how you can implement an operational strategy that differentiates and competes on service and value to customers rather than merely on products and price. You will begin creating value at touch points to attract and retain customers.

As you learn to listen to your customers, you will see which group can create the greatest profit and be of the greatest value to your company. Then you can tailor your services and products to satisfy the needs of this group by providing value to customers commensurate with their value to you. You will see how you can harvest the information your customers provide to improve your targeting and personalize the services you deliver.

Finally, you will learn how to realign your entire company to meet customer needs and increase profitability. You will harness the power of technology to deliver what your most profitable customers want. Your employees from the top down will see why the changes are being made. You will create an entirely new culture that is customer-focused and able to undergo continuous change.

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Customer Value Management

The last two decades have seen companies reinventing themselves over and over. First, they downsized to boost profits. Then they reorganized and reengineered themselves. But through it all, promised profitability didn't soar. What was missing in all these efforts was a focus on the customer. That has to change.

Achieving the Vision

In today's business environment, the world can be characterized by overcapacity, and customers have become kings and queens. The old management philosophy, "If you build it they will come," is being replaced with a new executive order, "Find out what they want and give it to them." But putting the wish to put customers first into action isn't easy. The key is the use of customer value management, or CVM.

Customer value management provides a rational set of techniques, methodologies and strategies to weave the needs and wants of customers into the key process designs and management activities of a company. Customer value management is a way of doing business. Employed correctly, it can help you understand what your customers want and how you can go about aligning your business to deliver that product or service consistently.

Easy to Say; Hard to Do

Implementing a customer-focused vision requires a major shift in most companies' strategic thinking, often including a radical move from product or price to process or service as the basis for competition. Today, one company's products look about the same as another's. What were once exclusive and unique products have become more like commodities. Virtually any product can be bought from several companies for about the same price.

In order to beat the competition, your company must find something other than product features to differentiate you from a dozen other competitors. That something

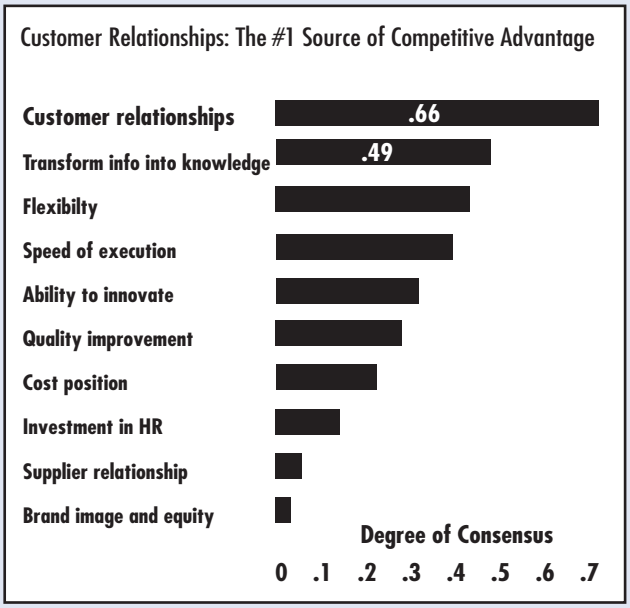
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Stemming Customer Attrition Is Key to Profits

A multi-industry study by the University of Pennsylvania's Wharton School of Business found that companies who managed to reduce their customer attrition by only 5 to 10 percentage points actually increased their profits by an astounding 25 to 75 percent, depending on the industry. When you consider that many American businesses report customer attrition rates approaching 20 percent, the value of becoming more customer centered is obvious. Even if a business doesn't add new customers, keeping the ones it does have can reap rich rewards.

Top Executive Concerns

Global senior executives see customer relationships as most important to their businesses in the new millennium.



The author: Harvey Thompson is the IBM Global Executive for Customer Value Management Consulting. He has led the development and deployment of customer-focused business process improvement approaches within IBM, Fortune 500 and Global 1000 companies worldwide.

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Customer Value Management

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is customer service and value. The shift requires that you understand what the customer wants and that you align your business processes with the customer's needs. To do that, of course, requires intimate knowledge about your customer. That's where customer value management comes in. Using CVM, you will be able to systematically acquire customer information that is linked to customer behavior. You must get information that tells you what will make the customer buy your product or service.

CVM requires you to take an outside-in customer vision of your company as the ideal provider of goods and services. You start by identifying the target customers and seeing what they really want from your company. This includes identifying:

- **what the customer gets out of interactions with your company,**
- **the minimum value level needed to retain customers,**
- **the optimal value level the customer imagines, and**
- **the customer's vision of the ideal vendor delivering ideal value.** ■

Visioning: Let Customers Set the Goals

The fundamental problem that makes it so hard to become customer-centered is that traditional management principles focus on where you want to be and how to get there. This process, embodied in management by objectives, is a process taught for decades in introductory business courses. It has been programmed into the decision-making DNA of thousands of business school graduates. If you use management by objectives, you decide what objectives you will meet and then set an agenda to get there.

The fundamental problem with management by objectives is that the objectives you set are yours, **not your customer's**. To succeed today, the end goals must be your customer's. That means you must find out what the customer wants. The old management by objectives paradigm must change from an inside-out model of internally defined goals to a radically different, outside-in, customer-defined set of objectives.

Obtaining the Customer Vision

At this point, you may be thinking that it should be obvious that the best way to understand the customer view is to do what thousands of companies have done for years: survey customers. Unfortunately, even that isn't simple. You have to ask the right questions, or you risk collecting a lot of useless information.

Surveys have to ask questions linked to buying behavior to be of any use. An American luxury automaker prided itself with high customer satisfaction marks on surveys, but couldn't understand why those "satisfied" customers were defecting to Lexus and Infiniti. A close look at their surveys revealed that they were asking all the wrong questions. The company learned that its customers appreciated the leather chairs in the waiting room and the clean condition of the shop floors, but learned nothing about what would make the customer buy their

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Car Maker Finally Gets It

Becoming customer-centered is a lot harder than it sounds. When a major European automobile manufacturer decided to make customer needs the focus point of its revamped business plan, it was clearly on the right path. But when it came time for the CEO to come up with a new vision statement, his first draft demonstrated exactly how hard it is to move from an inside-out to an outside-in view of business. His draft declared that the company's vision was "Selling a car is the beginning of a lifelong relationship."

The draft had it all wrong. An outside-in view is essential. Only when the CEO changed the vision statement to "*Buying* a car is the beginning of a lifelong relationship" did he get it.

Great Execution, Wrong Vision

Consider the case of a utility company that embraced management by objectives and the related concept of total quality control. Realizing that customers didn't like long power outages during frequent inclement weather, the company embarked on a plan to improve their performance, and, in turn, satisfy customers. The utility reasoned that reducing the duration of power outages would be valuable to customers.

The utility managed to cut the duration of power outages from a few minutes to a few seconds, and congratulated itself for a job well done. When customer surveys revealed declining customer satisfaction, management was perplexed. After all, hadn't they improved their processes and met their goals?

Of course they had. The problem was that they had met **their goal**, not their **customer's goal.** What customers really wanted wasn't shorter outages. They wanted **fewer** outages.

Visioning: Let Customers Set the Goals

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brand again. To be effective, surveys must get to what it is that would make the customer buy again. ■

Focus: Listen to the Right Customers

Not every customer is a desirable, high-value customer whose opinions and viewpoint should drive business design and investments. You must identify and focus on a targeted set of customers whose view counts. That customer is the one who receives value from your goods and services, who generates demand and a market for your company.

The Customer View at the Point of Contact

Sometimes the customer is the one at the direct point of interaction with your company's products and services. If that person has an impact on the purchasing decision, his view counts. Take as an example the secretary who makes reservations for business travelers. He or she isn't the ultimate consumer of the goods or service, but does control some of the purchase decision. Should his or her view matter? It may very well. The same goes for others your company directly impacts but who are not end users of the product or service. These "customers" include shipping clerks, purchasing staff and accounts payable clerks.

Customer View from Non-Point-of-Contact Personnel and Influencers

Those who have indirect decision-making power in the decision to make a purchase also count. These include consultants, reviewers and staff expert advisers. When Comerica bank commissioned a CVM study to understand the needs and wants of a targeted market segment — small business owners — they asked customers from where they received information about financial products. Their answers included from manufacturers, service vendors, journalists and publications, software and accountants. But they also revealed that their preference would be to get the information from the bank with whom they already had an ongoing relationship.

In response to the survey, Comerica took two major steps. They made sure every key customer had access to financing information and made sure the customer's other identified sources of information also knew about the bank's financing programs.

Customer View from the Channel or Third Party Value Chain Intermediaries

Another customer whose view must be considered is the channel. Channels are intermediaries for delivering products or services, and can be internal (i.e., call centers) or external (i.e., retailers, agents, dealerships). Many companies are dependent on channels and the relationship those intermediaries have with the end user. Their views must be considered in addition to the views of the ultimate consumer.

Customer View from Internal Customers

Often, companies focus too much on the needs of so-called internal customers at the expense of the paying customer. Programs and processes need to be designed with the paying customer in mind, and you must get internal customers to focus outward rather than inward. Everyone must agree that even internal processes must be designed with the end user in mind.

Targeting the Right Customer

You cannot be all things to all customers. The battle to attract and retain loyal customers will be fought and won on the ability to identify potential profitable current and future markets and then meet their specific needs. You must go beyond analyzing current customers and identify non-customers who are members of desirable market segments.

Technology makes it possible to do just that. Customer transactions and behavior can be analyzed to reveal patterns. By taking a look at the characteristics of a profitable segment and seeing if another customer segment shares characteristics with the profitable group, you can identify potentially high-profit customers within your base.

You may discover that in some cases the cost of meeting a customer group's needs is too high. In that case, you must be willing to "fire" the customer. You cannot be all things to all customers, without regard to how profitable the customer actually is. Sometimes the

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Harley-Davidson Turns Around

Harley-Davidson Motorcycles has gone from the edge of bankruptcy to cult-like loyalty and high customer retention by focusing on two customer groups: motorcyclists and dealerships. All its products, processes, services, employee team incentives and measures of satisfaction were linked and aligned with the two groups. Central to Harley-Davidson's success are two customer satisfaction indices: a customer satisfaction index and a dealer satisfaction index. By focusing on both groups, the company has managed to grow a powerful brand that inspires dealer and rider loyalty.

Focus: Listen to the Right Customers

(continued from page 4)

answer to a low-profit segment is to stop recruiting from that group. Sometimes you actually have to "deselect" the segment altogether.

You may also want to vary the level of service provided to different customer groups based on their profitability. One way to do that is to provide a consistent level of service to everyone with a single common support infrastructure but varying the fees for that service based on the profitability of the customer. Another approach is to provide extraordinary service only to the most desirable customers. Low-value customers get only their basic must-have needs met while high-value customers get high-value services to attract, delight and retain them. Airline frequent flyer Bronze, Silver and Gold level services do this. Travelers are grouped based on their value to the business and provided with a commensurate level of service. If low-value flyers want additional services, they have to pay a fee. ■

Scope: Select Highest-Leverage Customer Interactions

Once you have identified those customers whose opinion counts, you are ready to focus on the business activities that directly touch those customers, make them feel important, and let you distinguish yourself from the competition. These interactions become **moments of truth** which can be managed and leveraged to affect customer acquisition, retention, loyalty and growth.

The interaction may be a single process. Take, for example, MasterCard. The company wanted to develop call center standards to improve customer service. They began by identifying cardholder and customer demographics (high, low and moderate income; professional and non-professional; location and member banks.) Next, they determined each customer group's needs and designed the new system to meet those needs.

During the analysis, the company discovered there were far more moments of truth than they had guessed. While the company saw making a call center call as a simple process, customers reported that it was not. The process took a long time and required navigating voice mail systems and providing information several times to several people. What customers wanted was to be able to explain their question or problem once. MasterCard acted on customer needs and developed a system to address those needs. The system was then shared with affiliated banks so every MasterCard customer could benefit from the new design. ■

Getting the Mittens to Granny

Sometimes you must redesign your processes across the entire enterprise or even to an extended enterprise. That is, the entire company may have to be redesigned to meet customer needs, and others in the chain of distribution may have to be included. A perfect example is the interaction between L.L. Bean and Federal Express. L.L. Bean understands that it must manage the entire delivery process beyond the time the customer's order leaves its premises. From the customer's viewpoint, the moment of truth is whether the mittens get to Granny by Christmas. Continued business success for everyone in the value chain depends on the mittens getting where they are supposed to be on time.

L.L. Bean and Federal Express have partnered so that FedEx processes have been integrated into L.L. Bean's processes. When a customer calls L.L. Bean about an order, she is told exactly where her package is and when it will arrive.

Value: Identify Actionable High-Leverage Customer Needs

Your customers' expectations are often set based on their experiences with other businesses. When another industry or company sets its standards high, you will have to respond. The problem is that you don't always know whose standards you must meet. For example, if your customer gets a loaner when he has his Lexus in for service, he probably expects a loaner computer when his laptop is in for repairs. When Sears offers him a specific time for repairs to his dishwasher, he will also expect you to offer a specific time for automobile repairs.

The performance bar is rising relentlessly. Your challenge is two-fold:

- You must understand what your customer values, especially since those values change constantly, and
- You must maintain a balance between what customers value and what you can actually deliver.

You must keep tabs on customers' changing expectations by developing new ways of listening. One approach is to meet customer expectations. The other is to exceed those expectations. The first will effectively manage dissatisfaction, while the second will go much farther. It will let you manage loyalty and attract a

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Value: Identify Actionable High-Leverage Customer Needs

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greater share of the market through competitive advantage. Which approach you take depends on where you are and where you need to go.

If your strategy is to be the low-cost provider, and you want to compete on the basis of price as a commodity vendor, you may just need to meet minimum expectations. Or you may have so many complaints and such a high rate of attrition that simply meeting minimum expectations will turn things around. On the other hand, if you want to distinguish yourself as a high-service premium provider you will want to exceed expectations. Either way, you need to find out what expectations your customers have. The following techniques will let you do that:

- **Establish customer complaint outlets like 1-800 hot lines, customer reply cards or Internet-based feedback systems.**
- **Interview front-line, customer-facing personnel.**
- **Interview customers who recently defected.**
- **Interview recently lost prospects.**
- **Use customer focus groups.**
- **Use customer satisfaction surveys with blank spaces for write-in comments.**

Once you know what customers want and aren't getting, you can go to work closing the gap. You must align your service promises against your ability to deliver. For example, if you promise zero defects in the hotel rooms you rent, customers will expect you to deliver. That means you must set in place processes that guarantee there will be functioning televisions, clean bathrooms and working air-conditioning before a guest checks in. Providing zero defects is the minimum expectation.

Many companies can't stop at just meeting minimum expectations. Instead, they can strengthen their competitive advantage by providing superior customer value and service. This requires a real understanding of what customers want and what drives their buying behavior. There are three steps to this kind of satisfaction. They are:

- Meet basic needs.
- Exceed basic expectations in ways that make the customer feel good about your company. For example, when a bank teller calls a customer by name, the customer feels good about the bank. Remembering a name isn't enough to bring new customers in nor is its absence enough to drive customers away. But it does drive satisfaction.
- Provide so high or unexpected value that a customer would leave a satisfactory relationship with another company to get it. ■

Finally Hearing the Voice of the Customer

A car rental company held a focus group to determine what improvements it could make for business travelers. The group's facilitator was focusing on a particular moment of truth: when the customer is dropped off at the rental car. The group was asked what would make that moment ideal. One customer replied, "I'd like a light on the side of the bus." When asked why she needed a light, she replied, "Because it's dark out there." After more probing, the real reason emerged. She and the others in the room were worried about their personal safety given that rental lots are often located in high crime areas.

Once the real reason for the request came to light, the group was able to come up with other ways to solve the problem. They suggested that the rental car company bring the car to them instead. The end result was that the company found a way to delight customers by listening to what they had to say.

Prioritization: Make Investment Decisions Based on Buying Behavior

You cannot and should not strive to be world-class at everything. You must learn what is necessary and what isn't. A perfect example is answering the telephone. If your company doesn't answer the phone when customers call, they won't be your customers for very long. But investing millions to answer the phone on the first ring won't help either. It's unlikely new customers will flock to you because you answer on the first rather than the third ring. Being the world leader in this case won't provide a significant incremental customer value or competitive advantage.

On the other hand, providing access to critical information once the phone is answered can give you a competitive advantage. You must decide how important each need is to your customer and if meeting that need will boost your bottom line.

Once you have identified the "voice of the customer," you must translate it into the "voice of the company." After all, the company has other constituents, such as its

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Prioritization: Make Investment Decisions Based on Buying Behavior

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shareholders, employees, the community and regulatory agencies. The customer's needs must be converted into business decision-making criteria.

Linking Customer Needs with Buying Behavior and Bottom-Line Results

If you want to do more than the minimum required to satisfy customers, you will need to use advanced methods to tie needs to behavior and bottom-line results. You can use focus groups to identify creative, new, added-value interactions that move your company from "meeting customer expectations" to "establishing and fulfilling new value propositions that exceed expectations."

You can also use quantitative surveys to identify actual buying behavior. This serves as a check on whether satisfying the needs you identified actually results in additional buying by those customers.

Prioritization Scenarios

When choosing and applying CVM methods for prioritizing, there are four methods you can use:

- Design a totally new process or service. The most important needs become the top design priorities regardless of how well they were being performed in the old one.
- Design improvements to an existing process or service. In this approach only those important needs that are being poorly performed move to the top of the improvements list.
- If you choose to focus only on the customer's voice, prioritize according to the customer's identification of which needs are most important.
- If you choose to focus on actual buying behavior, choose to focus on those needs that bring bottom-line improvements. ■

High-Tech Call Centers

Today's high-tech call centers demonstrate the power of designing systems from the outside in. These call centers can identify who is calling before the call is answered. By searching internal databases and analyzing the calling history, the center already knows what language to answer in, the caller's buying history and preferences. External databases can also be searched, giving instant access to credit history, risk management data, and fraud protection assessments. In addition, all the gathered data can be analyzed and a prediction made about what the customer is calling about, or what he or she might want to buy. The call can then be routed automatically to a specialist. All this happens seamlessly.

Design: Envision "Ideal" Customer-Defined Business Capabilities

The contenders for high profits and customer loyalty will be the companies that are willing to make fundamental changes in their infrastructure and process capabilities to align themselves with the needs of their customers. Customer value management can be visualized as a pyramid with three layers. The *customer's viewpoint* is at the top, and it is here that CVM begins. Once the customer's vision is identified and business priorities are established, the focus shifts toward the next two levels of the pyramid: the organization's essential *process capabilities* and the required *infrastructures* (including organization structure, business practices, measures/rewards/culture and technology). The capabilities and required infrastructures are designed to support and fulfill the customer's vision.

Let's look at an example of how this is done. Customized service is quickly becoming a universal chorus from customers who are becoming used to personalized treatment from high-service industries. Today, the customer vision is increasingly to have things "my way." For your company, the issue is to identify exactly what that means in terms of new business capabilities and infrastructure investments.

Customers also want businesses to recognize them. That means you need to put processes in place that capture information early on in the relationship. Take a bank loan application as an example. Although a new bank customer will have to supply lots of information up front, an established customer shouldn't have to. If you captured basic information up front and made it available to those who need it, the established customer wouldn't have to repeat information.

Designing the Bottom of the CVM Pyramid

The starting points for CVM are customer desires and company strategy, such as the decision to compete on price or value. Then, you should data mine your company's transactional data to identify high- and low-profit target segments and identify common buying behavior.

With that data in hand, you can conduct primary market research using focus groups and quantitative surveys. This will give you an idea of the relative importance of customer needs, size up where the competition

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Design: Envision "Ideal" Customer-Defined Business Capabilities

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is, and identify the behavior that drives customers. You can then do on-site benchmarking by visiting other companies in different industries that customers have identified as the best at meeting their needs. You should also do secondary research in journals to see which companies have distinguished themselves. Finally, you and others in your company can brainstorm to come up with the infrastructure and capabilities required to meet the needs identified at the top of the pyramid. ■

Implementation and Maintenance: The Holistic Approach

For a company to become and to remain customer-centered requires a balanced holistic approach. The challenge is to calibrate and align all the major elements of the business so they are mutually supportive, holistically balanced, and aligned and linked with the things that drive customer buying behavior. Once the alignment and balance are attained, however, the reality is that the environment will not remain constant. Changes will take place that must be integrated into the business without upsetting the balance.

Well-articulated business direction and a clear statement of where the company is going are required to help employees understand and support company goals. Employees need a framework for business decision-making. This requires that customer-centeredness must be incorporated into your company's values, vision and mission. It also requires that you change employee incentives, measurements and objectives to align with the customer-centered view. ■

Reaping the Benefits of Being Customer-Centered at IBM

When IBM transformed itself into a customer-centered company, the employees had to be convinced it was necessary; they had to "get it."

Some of the actions taken to assure they would come onboard included educational programs about the changes coming and why they were being made. In addition, the company elevated the customer to the position of final arbiter of whether IBM's performance was satisfactory. Employees were ranked and rated on their individual performance and their team contributions toward customer-focused objectives. Executive compensation, which had been based primarily on business unit performance, was now based on overall business results and customer satisfaction.

The result was that the culture changed and aligned around a new set of values and vision for the company. Together, these efforts assured that the employees "got it."

Sustaining CVM, Always

You're ready. You have arrived at a customer-defined state for your business. Your marketplace has been segmented into groups of customers based on their current and future value and then subsegmented into clusters of customers with common needs and wants. Target market segments have been divided into buying behavior drivers and prioritized based on their relative potential to improve your business. You have redesigned your business capacities and infrastructure to align them with your customer's vision. Your employees are with you. Congratulations!

You must institutionalize becoming customer-centered. You must continually monitor changing customer and market perceptions.

Now, get set to do it again. Because today you are already one day out of sync with your customers. The answer is that you must institutionalize becoming customer-centered. You must continually monitor changing customer and market perceptions.

Remember that the business world today is characterized by an intense but often disorganized desire to become more customer-centered. Virtually every corporation is grappling with how to develop and implement strategies to move closer to their customers. The pressure for a company to become customer-centered will only increase as more and more consumers get used to doing business on the Internet.

As affordable Internet access continues to rise, so will the number of people using the Internet. These consumers will get used to personalized transactions and will have access to new vendors as never before. They will seek out new deals and expect great service. And if these consumers are unhappy with your service or product, they have the power to let the world know.

In light of these realities, you have no choice but to intensify and accelerate your ability to understand customer needs. But if you integrate CVM into your business approach and management, you can be the leader who sets the bar others will have to meet. ■

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The Fearless Frontline

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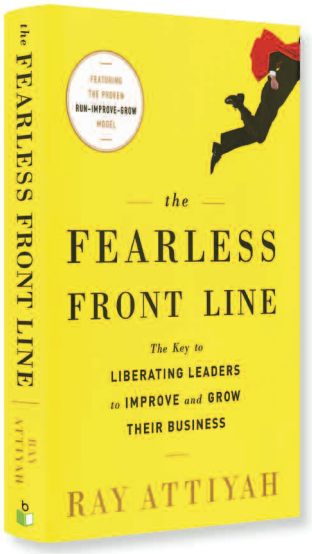
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Management

The Fearless Front Line

The Key to Liberating Leaders to Improve and Grow Their Business



by Ray Attiyah

THE SUMMARY IN BRIEF

Leaders are committed to improving and growing their businesses, but all too often they find themselves mired in operational details and daily issues, leaving no time to pursue bold visions. *The Fearless Front Line* is a call to action for these leaders to set a standard of fearlessness where frontline workers have an "I run this place!" mindset that reflects pride and ownership of their critical role. This, in turn, liberates leadership to focus on the big-picture, bold strategies to improve and grow the business.

Featuring author Ray Attiyah's Run-Improve-Grow (RIG) model — a perpetual model for continuous improvement that stimulates a culture of consistent growth and constant innovation — organizations can master the Run, begin to Improve, and through bold leadership watch themselves Grow.

The Fearless Front Line is designed to help organizations move from a place of slogging through (mediocrity) to a place of joy and engagement (excellence). Attiyah provides readers with critical processes and tools to create responsive, innovative and nimble organizations and inspired, accountable and confident teams. It is a must-read for any manager who is looking for ways to invest in human assets and frontline supervision.

IN THIS SUMMARY, YOU WILL LEARN:

- How to benefit from a proven program to drive perpetual and transformational improvement and growth.
- How to think about improvement and growth by focusing on core processes and supervision.
- How to ask the right questions to move your frontline workers from their current state to world class.
- How to add meaningful value to your business.

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THE COMPLETE SUMMARY: **THE FEARLESS FRONT LINE**

by Ray Attiyah

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Introduction

While managers are stuck in the front line, they're not leading or pursuing activities that propel growth and innovation. The precondition for liberating managers is having a front line that can operate reliably, excellently and independently day in and day out every day of every week of every year. The front line needs to feel powerful, not powerless. It needs to be trusted, encouraged and accountable to itself. It needs to be emboldened.

Run-Improve-Grow can get you and your organization to fearless. Run-Improve-Grow is a perpetual model that approaches improvement as a continuously moving system that stimulates a culture of consistent relevancy, new growth and constant innovation. Run-Improve-Grow is based on fundamental principles that are universally true for every system and collection of people. The principles work for any organization.

PART I — RUN: CREATING A FEARLESS FRONT LINE

Meet the Marathon Manager: Running All the Time

Business is inherently complex, but all too often we make running a business more complex than it needs to be. Too many people involved in too many processes. It only takes one or two moving parts falling out of synchronization to cause systems and processes to become unreliable. Over time, the inherent complexity that comes with running a business seems too difficult to overcome. How do we let that happen?

Our goal is to return business to its simplest state by removing negative complexity. To do that, we first need to look at how we got here in the first place.

The Run

The concept of Run-Improve-Grow can be explained by drawing a triangle and dividing it horizontally into three sections. At the base of the triangle is the Run, or the day-to-day activities necessary to produce your products or deliver your service, which includes securing orders of existing products and services from customers in existing markets and in existing geographies. When the Run can't function reliably and independently of management involvement, it strains resources by pulling managers away from their most value-added functions.

When leaders can't delegate, they're stuck in the Run, so they can't innovate. Without new and innovative ideas, products and services, organizations can't grow. Without innovation and growth, organizations don't have capital to invest in the future, so managers don't attempt growth initiatives. And the cycle continues. So the ability to Improve and to Grow starts with a rock-solid, reliable Run.

Having a solidified Run led by an organization's front line is crucial to Run-Improve-Grow sustainability. Most mid-level and top leaders spend time in the Run out of necessity because they are doing whatever it takes to get product out the door. Without a solidified Run led by the front line, managers get dragged down in the Run, preventing them from working in areas where

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they can add the most value to their organization and its customers — in the Improve and Grow functions.

A Run-Centric Culture

A Run-centric culture is actually the opposite of what a business needs to be successful. It is a lack of thought that can foster a Run-centric culture in which too many people who shouldn't be are involved in the Run.

Running around is not the Run. Remember that the Run consists of the day-to-day operations of the organization that sustain the organization's existence. Needless meetings, extra emails and layered processes do not sustain an organization's existence.

When managers enable this Run-centric culture through their involvement in the daily operations, the managers themselves become part of the dysfunctional Run system — they become institutionalized. Institutionalized managers are constantly Running — I like to call them marathon managers. Marathon managers who don't change their frontline systems end up becoming part of the frontline system itself. Work gets done through them.

As marathon managers become firmly embedded in the Run, a vacuum intensifies in the Improve. The company now lacks the right level of focus on the Improve, and that inattention either prevents the Grow or creates chaos and lower profitability when the Grow comes. The Run is, in effect, disconnected from the Grow and, therefore, from long-term organizational relevance. ●

Develop a Fearless Culture: 'I Run This Place'

Before the front line can really start flawlessly executing the Run in accordance with specified performance standards, the organization needs to clean up its processes and clear out the clutter that's clogging up its systems. And that's why the first order of business in a Run-Improve-Grow implementation is identifying and making reactive improvements that simplify the Run.

With so many superfluous systems clouding the view of a defined performance standard, how can leaders identify and prioritize the systems and processes that need simplification? The first step involves going down to the most fundamental level. Ask,

- What is the basic deliverable our customer wants?
- What does our customer do with our deliverable?
- How can we give that customer what he or she wants in the fewest steps possible?

Simplify the Run

Imagine you are a one-person company and you have to do it all — take the orders, buy the materials, make the product or deliver the service, collect payment. You would probably figure out the fewest steps, or the purest process, to get all of that done. That's simplification. Companies with more than one employee find a way over time to add layers to that purest process.

In Run-Improve-Grow, you want to get back to that pure process. So identify those basic elements, and then ask yourself why you're doing anything else — and when you started doing all those extras. This is an opportunity to understand how the organization has evolved. (You need to know how that evolution has occurred because later in the process, you're going to need to justify why you're eliminating steps.)

The organization needs to throw all its clutter on the floor, empty all its metaphorical drawers, cupboards and closets, and really see how much junk it has. Only when you see the entirety of what you're dealing with will you be able to identify the essential elements for making the organization run at peak performance and recognize those superfluous systems, process and practices that are impeding progress and performance.

Why Getting to Fearless Matters

Eliminating the need for marathon managers of any type is critical to your organization's overall success and long-term health. It's the only way to get to fearless. Relationships of trust create positive dividends throughout the organization. In a trusting environment, employees are more likely to bring up ideas or share some other information that could be vitally important to future strategic and operational decision making. That willingness to bring up new ideas reflects courage. ●

Empower the Front Line to Lead: Move Over, Management

Surmounting the impediments to creating a fearless culture in the Run isn't as difficult as you might be thinking. There are three very practical ways to shape the leadership culture you want to pervade the Run:

- Raise the bar of excellence by investing in top performers and removing obstacles that frustrate them.
- Foster quick-win success by removing frustrations and making meaningful changes quickly to bolster team confidence, enthusiasm and trust.
- Implement daily huddles to foster a positive "what went well" environment, communicate your standards

of performance, and create a simple touch point for communicating the status of reactive improvements.

Raise the Bar of Excellence

Recall that leadership is an interpersonal development of trust that inspires a higher standard of performance. So, to foster a fearless front line, leaders need to shift from spending too much time with the wrong people, the organization's worst and neediest employees, to the right people, the organization's top performers. Frontline leaders can rekindle the motivation of disenchanted top performers with a simple shift of attention and simple actions like pursuing their suggestions and publicly giving them credit for their ideas.

One of the most successful methods of raising the bar of excellence is enlisting top performers to share their techniques, processes and best practices with the entire team.

Foster Quick-Win Success

Sometimes, finding an improvement area that galvanizes the team is not so easy. The key to positioning talent with the right skills, strengths and behaviors is identifying a uniform objective toward which everyone can work. A team-building exercise called a *quick win* is one such uniform objective.

Quick wins solve problems rapidly to remove chronic frustrations. They are initiatives intended to spark confidence and trust by tackling obstacles that have become institutionalized. The most successful quick wins are those that resolve the problems people have been managing around on a daily basis.

Implement Daily Huddles

Quick-win projects form the connective tissue between management and leadership. Management involves refining the organization's systems and processes to an efficient perfection. A project that satisfies the quick-win criteria will inherently involve system and process improvement. Yet instead of marathon managers implementing the solutions, the employees themselves do the heavy lifting — that's where leadership and management connect.

Leadership and management also connect in the daily huddle, a forum where leaders can change the type of conversation they have with their employees. Every day at a set time, all members of the frontline team, including the frontline leader, congregate in the same location to openly discuss daily Run topics, daily general Run performance objectives, and reactive improvement suggestions and plans.

Daily huddles produce three outcomes:

- Behavior modeling
- Communication in a common language
- Raised bar of excellence

These three outcomes occur in the process of identifying and executing quick-win projects. Huddles should provide more than enough quick-win opportunities as long as frontline leaders (and top performers) ask the right questions and gather the right data. ●

PART II — IMPROVE: LIBERATING LEADERS TO DO THEIR BEST WORK

Transfer the Winning Momentum: Ignite the Spark

Nothing builds team camaraderie more quickly and effectively than winning momentum.

After a successful quick-win project, a leader's challenge is to keep energy in the system so that employees stay engaged, and the new behaviors become unconscious and establish the new baseline performance standards. Now that you've had this success from the quick win, you have a very narrow window of opportunity to make bold changes. If you wait for complete across-the-board buy-in before capitalizing on the quick win, the energy you've created will dissipate. That's because waiting for everyone to be on board with a change is unrealistic. You might as well not do anything.

But you must.

Changing Gears to Lower RPMs

Once one team, department or division is fired up and energized by a quick win, it's time to quickly transfer that momentum. The goal is to drive transformational change across the operation, and that starts by driving it across the entire front line and continues across departments, functions and the entire organization.

In the Run-Improve-Grow system, what drives that change in vision, attitude and momentum is a spark. At the individual level, the spark is engagement and ownership of a new function. On a team level, it is a quick win. On the frontline level, the spark can come from seeing the impact Run-Improve-Grow practices make.

Mutual Accountability, Ownership and Engagement

In the context of Run-Improve-Grow, genuine sparks are produced from interaction between mutual accountability, ownership and engagement of all frontline employees across all Run functions:

• Accountability: having enough confidence in yourself and others that you are willing to be responsible for flawlessly executing functions where you maximize your value to the organization. Accountability is a function of ownership and engagement. Autonomy is a benefit of accountability.

• Ownership: when an individual performs because it is part of his or her DNA. A person who owns a function takes pride in it and persists despite any obstacles. Commitment is the essence of ownership.

• Engagement: when a person's motivation is aligned to a function's purpose. People feel engaged when their individual purpose is connected to a team's purpose. When a function is more than just "work," a person will be engaged when approaching that function.

When those three behavioral elements bond together, powerful energy is released on the front line.

Upgrade Management Systems: A Liberated Manager Emerges

Even as you enjoy the positive effects of the changes happening around the organization — frontline employees taking complete responsibility of the Run and daily reactive improvement and mid-level leaders fueling proactive improvements to support newer, bolder initiatives — you need to think of the scaffolding that supports and reinforces these new behaviors. That scaffolding is an organization's management systems. This is where most improvement efforts collapse. The management systems and processes used prior to Run-Improve-Grow will be insufficient to support enthusiastic, empowered employees. In fact, using the old scaffolding may cause your organization to revert to its old ways.

A good way to visualize the point is by thinking about dieting. Say you lose 25 pounds by exercising with consistent vigor for several months. You run, swim, bike or hike, but you don't change your eating habits. If you stop exercising because you've met your goal, it won't be long before some or all of those 25 pounds come back, and you are right back where you started. Your system of eating is flawed even as you lose weight, so once your temporary exercise system breaks down, there is no backstop to prevent your old behaviors from destroying your progress.

But let's say that the exercise routines that helped you lose 25 pounds spurred you toward a greater goal, such as a marathon or a triathlon. To support such a rigorous goal, you would have to adhere to strict training and eating routines. You would turn your old, less-organized fitness routines into a new, more complete system tailored to your future goal, right? Doing so would make returning to your old lifestyle impossible, even unattractive, as long as you stay committed to your goal and find new purpose in maintaining a healthy lifestyle and being fit.

The process and rationale for continuously improving management systems in our organizations are very similar. After frontline employees come to own the Run, and marathon managers stop running the operations, management systems need to be tailored to align those new behavioral standards. Because Run-Improve-Grow is a model that creates a process for perpetual improvements, your management systems will need to constantly evolve to meet your new behavioral standards and growth goals.

Setting New Priorities

A key part of adapting management systems is redefining priorities and therefore the questions you ask. What should employees be focusing on now that's different from what they focused on before? Our questions say a lot about our priorities. We ask about topics that we believe are important or confusing. The more questions we ask, the more involved we are, and the more those around us can see our increased involvement.

One of the best ways to establish new priorities is by changing the questions you ask. In the Improve phase, employees need to continue to expand their thinking to come up with and act upon creative ideas and solutions. And the best tool for getting employees to think and act more broadly on a daily basis is the question.

Asking Better Questions

The question "How is everything running today?" is a wonderful question for a marathon manager but not suitable for a Run-Improve-Grow organization. That's because the question is phrased to keep everything and everyone laser focused only on the Run and not what the Run means to the organization.

Let's say that, instead of just getting product out the door, an organization's management team wants its frontline leaders to spend more time listening to their people, soliciting improvements, and then taking the initiative to drive the improvement efforts. In that situation, the question "How's everything running?" has to change. Consider these options to drive the intended frontline behaviors:

• What are the two or three improvements your team put in place this week that came out of last week's huddles?

• Which employees did you recognize for the ideas that they brought up last month, and how did they respond to your recognition?

• What changes have you made to get improvements implemented more quickly?

For organizations that strive to raise the bar of excellence, leaders must be committed to asking questions that spark confidence and influence peak performance behaviors. ●

Fuel Proactive Improvements: A Play-to-Win Culture Emerges

With a reliable Run in place, a front line initiating improvements every day as part of their routine work habits, and redesigned management systems, you might assume you should jump right into your new Grow phase without giving another thought to Improve. But first, you need to build on the more concrete aspects of improvement and cast your view toward more forward-thinking measures.

There are two main reasons that drive people to begin using the Run-Improve-Grow system in general and to focus on making reactive improvements in particular:

• Increased complexity in their operations: They either launched a new offering, landed new customers who have higher and more complex requirements, ventured into a new market and/or surged in volume in a short period of time.

• New leadership has higher expectations: Leaders who have experienced higher standards of excellence and performance and are hired or promoted tend to see more problems than their colleagues who, over the years, have simply adapted to the environment.

Optimized Run-Improve-Grow Systems

Optimized Run-Improve-Grow systems combine proactive improvements with reactive improvements. Reactive improvement makes the Run more reliable and predictable, and that keeps daily work simple. Proactive improvement fuels the new Grow initiatives by enabling the team to offer high standards and bolder promises to current and new customers. Both reactive and proactive improvements are vital to the health and relevance of an organization.

Frontline team members must implement reactive improvements to solve the urgent problems brought on by lack of reliability. Quickly meeting these needs creates relief and buy-in among other departments and develops confidence. Once reactive improvements are part of the front line's DNA, so to speak, management can more confidently pursue bold proactive improvements through a deliberate and purposeful process.

The transition to proactive thinking energizes those who have a vision of excellence and encourages them to think creatively about the entire organization without the constraints of reacting to day-to-day problems — and doing so without compromising long-term success for short-term results. And that's what you need for the Grow. The foundation for a successful Grow phase requires you to fuel proactive improvements.

How Do Proactive Improvements Differ from Reactive Improvements?

Before you commit solidly to proactive improvement (PI), you really need to be able to distinguish reactive from proactive improvements. Reactive improvements help ensure consistent performance of current standards by solving immediate problems that are causing inconsistent Run execution. Rarely do organizations not have some form of a reactive improvement process. Most companies refer to that as "continuous improvement."

The goal for you in the Improve phase is to empower the front line to make reactive improvements as they're needed so that non-frontline leaders and their staff can focus primarily on proactive improvements. ●

PART III — GROW: BLAZING A TRAIL FOR GROWTH

Make (Then Keep) Bold Promises: Confidence in Flawless Execution

Once you've got your Run locked into place (R1) and your management systems focused on the Improve (I1), the next step is to move into Grow mode. But how do you spark your organization to that Grow level? What gets you to G1 to begin with?

The spark is making and keeping bold promises. For example, Mike Neary, a builder of luxury log homes in the Pacific Northwest, embraces a philosophy of always saying yes to customer requests. When Walt Disney was planning to build its Fort Wilderness Lodge in Orlando, the company recruited four contractors who would be given a preliminary trial of 10 percent of the overall project. Time and again during discussions, the Disney architects would ask, "Can you do this? Can you do that?" Mike would reply, "Yes, we can do that." At one point, the architects asked, "Can you bend logs?" Neary said, "Sure," even though his team had never bent logs before.

Bending logs is a pretty bold promise. Some might have said it was impossible to keep. Not Neary. Instead of responding reflexively "we can't do that and here's why," Neary's response is more representative of a culture focusing on what it will take to accomplish the most demanding requests. He and his team invented a warehouse-sized steam cabinet for logs. Logs would steam for days, and when they came out, they were like gigantic spaghetti strands that could be shaped into place. Problem solved. Bent logs shipped to Orlando. Promise fulfilled. Neary went on to win the contract to complete the construction of Disney's Wilderness Lodge. Without having said yes to a demanding request — one that many contractors might have deemed impossible — Neary would not have created his next level of competitive advantage and growth.

To launch your organization up to the level of Grow, you need to make and keep bold promises, just like Neary did. So, what's keeping you from doing just that?

Bold Promises Propel the Grow

Bold promises not only matter to the Grow; they propel it. Making and keeping promises is not necessarily transformational. If you promise the expected, the standard or the conventional and then deliver the expected, the standard and the conventional, your organization will not generate any excitement or energy — either internally or externally. Bold promises, however, allow a company to Grow in new and different ways, to develop new capabilities (bent logs) and to perfect its legacy capabilities. ●

Place (and Win) Bold Bets: Fail Fast, Then Go Big

To survive and thrive in business in today's markets, Run-Improve-Grow organizations need to be able to pivot from their internal culture transformation based on execution to an external transformation based on innovation and relevance. Organizations that don't innovate or scale are quickly lapped by those that do. Even organizations that execute perfectly based on aging standards of performance soon find that perfection of an old metric puts them on the fast track to irrelevance.

Relevance and Survival

Growth requires staying relevant to the market — whatever that market is for your organization. If customers don't see your offerings as relevant, you're bound to wither. It might not happen overnight, but when you're not considered relevant, withering will definitely happen over time. So placing big, sure bets matters to your organization's long-term survival and sustainability as well.

Similarly, placing and winning the biggest, surest bets play a role in your organization's financial strength. You have a more focused and deliberate use of resources. Instead of dribbling resources on every seemingly interesting idea or opportunity that comes your way, you have a process for vetting possibilities and investing in the best, most promising ones. It might seem like an oxymoron to suggest you invest in bold, sure things as a way to increase growth and increase your organization's financial strength. Can a sure thing be bold at the same time? It can. Think about iPhones and iPads, Swiffer and Chipotle. Those might be extreme, but they weren't random gambles on fly-by-night ideas. They were calculated bets by Apple, Procter & Gamble and McDonald's on bold opportunities, and each bet increased the financial strength of its organization.

Organizational Health and Purpose

Placing bets on the biggest and surest opportunities is the essence of relevance. Converting those bets into success is the essence of growth and organizational transformation. By that I mean that beyond boosting metrics related to financial strength and market values, making bold, sure bets matters for the health of the overall organization. Engagement, purpose and the culture all benefit from going after bold possibilities and making them a reality.

Bold bets that become bold road maps to new growth stimulate most everyone in the organization, especially top performers. New opportunities create a new medium through which the excitement and confidence of top performers can continue to expand.

Bolder bets and road maps also give your organization an opportunity to align with your existing suppliers — and potentially new and better suppliers — under a common language with common objectives. In essence, incorporating suppliers into the new road map built around bold bets enables your organization to spread your Run-Improve-Grow experience to your supplier organizations. The benefits to your organization are significant. You have lower costs, increased predictability and new opportunities for collaborating on bold initiatives with partners you trust.

The key ingredient in that engagement is purpose. People engage with others, with ideas and with organizations when they find meaning and purpose in them. ●

Scout (Then Place) Talent: Building Your Grow Team

Attracting talent can be less difficult for world-class organizations because they set the industry standard for innovation and boldness. As a result, people and organizations vie for positions in and partnerships with the company.

Remember, when an organization has a reputation for raising the bar of excellence, more people want to be a part of it. To assemble a talent fleet, you've got to up your game, identify what you need, and scout for specific skills and complementary talents.

Up Your Game

Top performers always want to win, so they join the organizations that provide an opportunity for success. Talented individuals like to know that they are going to be a part of greatness; they look for more than just stability and a paycheck.

Professional sports teams of all kinds know the value of talent. Why doesn't business? Whether an organization needs a few key talents or a partnership or acquisition, scouting is critical.

The level and speed of play propels your organization to talent magnet status. Keep in mind that the depth of your organization's talent fleet determines the power with which it can grow.

Identify What You Need

Not all organizations understand exactly what they need in terms of talent. This is particularly true if an organization's leaders don't have a clear vision of growth. Without this vision, it's difficult to know what skills support a new, bold road map. Not knowing undermines confidence in both any investment in scouting talent and the talent's confidence in their ability to be successful. Managers don't look for the next talented individual because they don't currently have a need for his or her expertise or skills. But how are you to know what you need before you need it? By visualizing what you need to get started and finding people to talk to about what it will take. That means being curious and asking questions.

Anticipating a more comprehensive list of future needs requires the ability to imagine both wild success and significant challenges.

Scout for Skills

Leaders should always be scouting for talent so that when the need for a certain skill arises, they can select bold people with that skill. In the Run-Improve-Grow system, scouting is being aware of, listening to and watching out for talented top performers wherever they are. Those performers may — or may not — actively be seeking new opportunities. An essential part of talent scouting is looking for passive candidates as well as active ones. Your most compelling scouting resource should be your organization's new, bold road map. Share it with people; share it with customers; share it with suppliers. As talented people catch wind of your organization's innovative journey, they'll want to be part of it.

As you share your story, ask your network questions specifically related to scouting:

- Who do you know who has picked the proverbial high-hanging fruit?
- We are seeking to innovate and expand in the following areas: __, __ and __. Who would know talented people who have the passion to explore with us?
- We're always looking for outstanding talent to challenge how we are doing business and going to market. Can you help me identify any top performers who would thrive on this challenge?

Potential top performers with initiative add value to Grow teams. They understand current conditions in the marketplace, proactively engage existing and potential customers with solutions, and trigger demand. Very often, top performers will stand out over the masses because they are confident in their problem-solving abilities and have empathy for others.

Talent is the linchpin for transformational growth. No organization can Grow beyond where it is without involving talented people who can help it achieve ever-higher levels of excellence. Your job as a leader is to be constantly scouting talent both inside and outside the organization. ●

RECOMMENDED READING LIST

If you liked *The Fearless Front Line*, you'll also like:

1. ***The Hands-Off Manager*** **by Duane Black, Steve Chandler.** The hands-off approach allows you to learn to take your power back and live in a world of quiet action and nonjudgment.
2. ***Leadership and the Art of Struggle*** **by Steven Snyder.** Snyder shows how to navigate intense challenges to achieve personal growth and organizational success. He details strategies for embracing struggle.
3. ***Care to Dare*** **by George Kohlrieser, Susan Goldsworthy, Duncan Coombe.** The authors explain how to become an effective secure base leader and tap into your own secure bases and also become a secure base for others.

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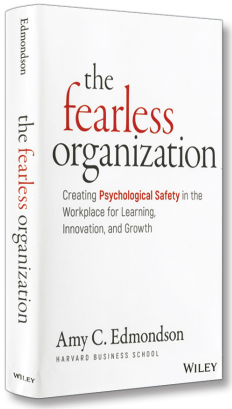
The Fearless Organization

Amy C. Edmondson

soundview
Executive Book Summaries®

The Fearless Organization

Creating Psychological Safety in the Workplace for Learning, Innovation and Growth



by **Amy C. Edmondson**

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THE SUMMARY IN BRIEF

The traditional culture of "fitting in" and "going along" spells doom in the knowledge economy. Success requires a continuous influx of new ideas, new challenges and critical thought.

The Fearless Organization offers practical guidance for teams and organizations who are serious about success in the modern economy. Author Amy C. Edmondson explores the culture of psychological safety and provides a blueprint for bringing it to life. People must be allowed to voice half-finished thoughts, ask questions from left field and brainstorm out loud. This creates a culture in which a minor flub is no big deal, where actual mistakes are owned and corrected, and where the next left-field idea could be the next big thing. Informative scenario-based explanations provide a clear path forward to constant learning and healthy innovation.

Shed the "yes-men" approach and step into real performance. Fertilize creativity, clarify goals, achieve accountability, redefine leadership and much more. ***The Fearless Organization*** helps you bring about this most critical transformation.

IN THIS SUMMARY, YOU WILL LEARN:

- The connection between psychological safety and high performance.
- To nurture a culture where it's safe to express ideas, ask questions and admit mistakes.
- To use a tool kit that helps to establish psychological safety in teams and organizations.
- Compelling, real-life stories of organizations that got it right — and those that learned the hard way.

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PART I: THE POWER OF PSYCHOLOGICAL SAFETY

The Underpinning

The tiny newborn twins seemed healthy enough, but their early arrival at only 27 weeks' gestation meant they were considered "high risk."

Fortunately, the medical team at the busy urban hospital where the babies were delivered included staff from the neonatal intensive care unit: a young neonatal nurse practitioner named Christina Price and a silver-haired neonatologist named Dr. Drake.

As Christina looked at the babies, she was concerned. Her recent training had included administering a medicine that promoted lung development as soon as possible for a high-risk baby. But the neonatologist had not issued an order for the medicine, called a prophylactic surfactant.

Christina stepped forward to remind Dr. Drake about the surfactant and then caught herself. Last week she'd overheard him publicly berate another nurse for questioning one of his orders. She told herself that the twins would probably be fine — after all, the doctor probably had a reason for avoiding the surfactant. Besides, he'd already turned on his heel, off for his morning rounds, white coat billowing.

Like most people, Christina was spontaneously managing her image at work. As noted sociologist Erving Goffman argued in his seminal 1957 book, ***The Presentation of the Self in Everyday Life,*** as humans, we are constantly attempting to influence others' perceptions of us by regulating and controlling information in social interactions. We do this both consciously and subconsciously.

In one study investigating employee experiences with speaking up, 85% of respondents reported at least one occasion when they felt unable to raise a concern with their bosses, even though they believed the issue was important.

The problem with sitting on our hands and staying within the lines rather than speaking up is that although these behaviors keep us personally safe, they can make us underperform and become dissatisfied. They can also put the organization at risk. In the case of Christina and the newborns, no immediate damage was done, but the fear of speaking up can lead to accidents that were in fact avoidable.

Airplanes have crashed, financial institutions have fallen and hospital patients have died unnecessarily because individuals were, for reasons having to do with the climate in which they worked, afraid to speak up. Fortunately, it doesn't have to happen.

Psychological Safety

Most of us have been exposed to, and internalized, the figure of a villainous boss who rules by fear. Worse, many managers still believe in the power of fear to motivate. They assume that people who are afraid (of management or of the consequences of underperforming) will work hard to avoid unpleasant consequences, and good things will happen. But for jobs where learning or collaboration is required for success, fear is not an effective motivator.

Research in neuroscience shows that fear consumes physiologic resources, diverting them from parts of the brain that manage working memory and process new information. This impairs analytic thinking, creative insight and problem solving. This is why it's hard for people to do their best work when they are afraid. As a result, how psychologically safe a person feels strongly shapes the propensity to engage in learning behaviors, such as information sharing, asking for help or experimenting.

Psychological safety is the belief that the work environment is safe for interpersonal risk taking. The concept refers to the experience of feeling able to speak up with relevant ideas, questions or concerns. Psychological safety is present when colleagues trust and respect each other and feel able — even obligated — to be candid.

In psychologically safe environments, people believe that if they make a mistake or ask for help, others will not react badly. Instead, candor is both allowed and expected.

The Paper Trail

In today's organizations, psychological safety is not a "nice to have." It's not an employee perk, like free lunch or game rooms, that you might care about so as to make people happy at work. Psychological safety is ***essential*** to unleashing talent and creating value.

In any company confronting conditions that might be characterized as volatility, uncertainty, complexity and ambiguity (VUCA), psychological safety is directly tied to the bottom line. This is because employee observations, questions, ideas and concerns can provide vital information about what's going on — in the market and in the organization.

Add to that today's growing emphasis on diversity, inclusion

. . . even the extremely smart, high-powered employees at Google needed a psychologically safe work environment to contribute the talents they had to offer.

and belonging at work, and it becomes clear that psychological safety is a vital leadership responsibility. It can make or break an employee's ability to contribute, to grow and learn, and to collaborate.

Over the past 20 years, scholars, consultants and company insiders have published dozens of rigorous studies showing effects of psychological safety in a variety of industry settings. Here are some of the highlights, with groups of studies divided into five categories.

1. An epidemic of silence. Collecting and analyzing data from interviews with employed adults, studies have investigated when and why people feel unable to speak up in the workplace. This work shows, first and foremost, that people often hold back even when they believe that what they have to say could be important for the organization, for the customer or for themselves.

In one early study of workplace silence, the two most frequently mentioned reasons for remaining silent were fear of being viewed or labeled negatively and fear of damaging work relationships. As later research demonstrated more systematically, people at work are not only failing to speak up with potentially threatening or embarrassing content, they are also withholding ideas for improvement.

2. A work environment that supports learning. A growing number of studies find that psychological safety can exist at work and, when it does, that people do in fact speak up, offer ideas, report errors and exhibit a great deal more that can be categorized as "learning behavior." For example, in a study of nurses in four Belgian hospitals, a team of researchers led by Hannes Leroy explored how head nurses encouraged other nurses to report errors, while also enforcing high standards for safety. They found that psychologically safe teams made fewer errors and spoke up about them more often.

3. Why psychological safety matters for performance. With routine, predictable, modular work on the decline, more and more of the tasks that people do require judgment, coping with uncertainty, suggesting new ideas, and coordinating and communicating with others. This means that voice is mission critical. And so, for anything but the most independent or routine work, psychological safety is intimately tied to freeing people up to pursue excellence.

A multi-year study of teams at Google, code-named Project Aristotle, found that psychological safety was the critical factor explaining why some teams outperformed others, as reported in a detailed feature article by Charles Duhigg in the ***New York Times*** Magazine in 2016. They discovered that even the extremely smart, high-powered employees at Google needed a psychologically safe work environment to contribute the talents they had to offer.

4. Psychologically safe employees are engaged employees. A study in a Midwestern insurance company found that psychological safety predicted worker engagement. In turn, psychological safety was fostered by supportive relationships with co-workers. Another study looked at the relationship between employee trust in top management and employee engagement. With survey data from 170 research scientists working in six Irish research centers, the authors showed that trust in top management led to psychological safety, which in turn promoted work engagement.

5. Psychological safety as the extra ingredient. In these studies, psychological safety has been found to help teams overcome the challenges of geographic dispersion, put conflict to good use and leverage diversity. For example, an ambitious study of 14 innovation teams with members dispersed across 18 nations showed that with psychological safety, team members felt less anxious about what others might think of them and were better able to communicate openly.

PART II: PSYCHOLOGICAL SAFETY AT WORK

Avoidable Failure

In May 2015, the Volkswagen Group had every reason to feel proud. It had sold over 10 million vehicles the previous year, thereby laying claim to the title of world's largest auto maker. One of the largest employers in Germany, the com-

pany was credited with helping the country recover from the global financial crisis of 2008.

Ironically, as it would turn out, its Jetta TDI Clean Diesel won the Green Car of the Year at the 2008 Los Angeles Auto Show. A firm with a 78-year history in Germany, made famous by the iconic Beetle of the 1960s, and with a pristine reputation for engineering prowess, Volkswagen's star shone bright enough to be blinding.

As the saying goes, pride cometh before the fall. Merely months later, Volkswagen, the world's largest automotive company, was facing unimaginable scandal. The clean diesel engines that had anchored its impressive U.S. sales were discovered to have been — essentially — a hoax.

In the following years, prosecutors in the United States and Germany would identify more than 40 people, "spread out across at least four cities and working for three VW brands," involved in an elaborate scheme to defraud government regulators. "Dieselgate," as the scandal was dubbed, referred to VW's deceptiveness in complying with the regulations required by the U.S. Environmental Protection Agency to sell automobiles in the United States.

Unreachable Goal, Culture of Fear

How could this have happened? CEO Martin Winterkorn had taken the helm in 2007, and he'd set a goal that was both precise and ambitious: to triple the company's U.S. sales within 10 years, thereby surpassing rivals Toyota and General Motors to become the world's largest automobile maker. The company's so-called clean diesel vehicles, touted for their high performance and excellent fuel economy, were essential to this strategy. There was only one problem: Diesels produced more nitrous oxide than gasoline engines and would not pass the United States environmental regulations.

Somewhere in the millions of lines of software code the engineers wrote for what became the "clean diesel" vehicles, they embedded instructions that would enable the cars to pass the strict U.S. emissions tests. Soon enough, the "defeat device," as the instructions were called, came to light. For the next two years, the U.S. environmental agencies presented their findings; VW denied, covered up and finally confessed.

How could this failure have been avoided? Martin Winterkorn is certainly a good candidate to be cast as the villain. He had a reputation as an arrogant, perfectionistic martinet with an obsessive attention to detail. But Winterkorn's leadership was not born in a vacuum.

The root cause of VW's Dieselgate scandal in 2015 cannot be located in the personality or leadership of any single person or small group. Perhaps one could say the failure was caused by holding fast to an outdated belief about what motivates workers.

Perhaps most stunning about the VW emissions debacle is that it's by no means a singular event. The same script — unreachable target goals, a command-and-control hierarchy that motivates by fear, and people afraid to lose their jobs if they fail — has been repeated again and again.

Volkswagen, and other organizations that have experienced such crises, boasted deep reservoirs of expertise, driven, intelligent leaders and clearly articulated goals. They didn't lack capable employees in any of the relevant fields required for the organization to succeed in its industry. In short, they had talent. What they lacked was the leadership needed to ensure that a climate of psychological safety permeated the workplace, allowing people to speak truth to power inside the company.

Dangerous Silence

More than just business failure is at stake when psychological safety is low. In many workplaces, people see something physically unsafe or wrong and fear reporting it. This reticence unfortunately can lead to widespread frustration, anxiety, depression and even physical harm.

On February 1, 2003, NASA's Space Shuttle Columbia experienced a catastrophic re-entry into the Earth's atmosphere. All seven astronauts perished. Although space travel is obviously risky and fatal accidents seem part of the territory, this particular accident did not come "out of the blue."

Two weeks earlier, a NASA engineer named Rodney Rocha had watched launch-day video footage, a day after what had seemed to be a picture-perfect launch on a sunny Florida morning. But something seemed amiss. Rocha played the tape over and over. He thought a chunk of insulating foam might have fallen off the shuttle's external tank and struck the left wing of the craft.

To resolve the ambiguity, Rocha wanted to get satellite photos of the Shuttle's wing. But this would require NASA higher ups to ask the Department of Defense for help.

Rocha emailed his boss to see if he could get help authorizing a request for satellite images. His boss thought it unnecessary and said so. Working with an ad hoc team of engineers

to assess the damage, he was unable to resolve his concern about possible damage without obtaining images. A week later, when the foam strike possibility was briefly discussed by senior managers in the formal mission management team meeting, Rocha, sitting on the periphery, observed silently.

A formal investigation by experts would later conclude that a large hole in the shuttle wing occurred when a briefcase-sized piece of foam hit the leading edge of the wing, causing the accident. They also identified two, albeit difficult and highly uncertain, rescue options that might have prevented the tragic deaths. Reporting on the investigation, ABC News anchor Charlie Gibson asked Rocha why he hadn't spoken up in the meeting. The engineer replied, "I just couldn't do it. I'm too low down [in the organization]…"

> Having something to say yet feeling literally unable to do so is painfully real for many employees.

The psychological experience of having something to say yet feeling literally unable to do so is painfully real for many employees and very common in organizational hierarchies, like that of NASA in 2003.

Many who analyze events leading up to tragic accidents such as this cannot help pointing out that people should demonstrate a bit more backbone. Courage.

Exhorting people to speak up because it's the right thing to do relies on an ethical argument but is not a strategy for ensuring good outcomes. Insisting on acts of courage puts the onus on individuals without creating the conditions where the expectation is likely to be met. For speaking up to become routine, psychological safety — and expectations about speaking up — must become institutionalized and systematized.

The Fearless Workplace

A growing number of organizations are making the fearless workplace an aspiration. Leaders of these organizations recognize that psychological safety is mission critical when knowledge is a crucial source of value.

When people speak up, ask questions, debate vigorously, and commit themselves to continuous learning and improvement, good things happen. Workplaces where employees know that their input is valued create new possibilities for authentic engagement and stellar performance.

Making Candor Real

If you were over the age of three in 1995, chances are you were aware — or would soon become aware — of a movie called ***Toy Story***, the first computer animated feature film released by a company named Pixar. That year, ***Toy Story*** would become the highest grossing film and Pixar the largest initial public offering. The rest, as they say, is history.

Pixar Animation Studios has since produced 19 feature films, all of which have been commercial and critical triumphs. This is a remarkable statement in an industry where hits are prized but rare, and a series of hits without fail from a single company is all but unheard of.

How do they do it? Through leadership that creates the conditions where both creativity and criticism can flourish. Pixar co-founder Ed Catmull credits the studio's success, in part, to candor.

Catmull encourages candor by looking for ways to institutionalize it in the organization — most notably in what Pixar calls its "Braintrust." A small group that meets every few months or so to assess a movie in process, provide candid feedback to the director and help solve creative problems, the Braintrust was launched in 1999, when Pixar was rushing to save ***Toy Story 2***, which had gone off the rails.

The Braintrust's recipe is fairly simple: A group of directors and storytellers watches an early run of the movie together, eats lunch together and then provides feedback to the director about what they think worked and what did not. But the recipe's key ingredient is candor. And candor, though simple, is never easy.

As Catmull candidly admits, "… early on, all of our movies suck." In other words, it would have been easy to make ***Toy Story*** a movie about the secret life of toys that was sappy and boring. But the creative process, innately iterative, relies on feedback that is truly honest.

Pixar's Braintrust has rules. First, feedback must be constructive — and about the project, not the person. Similarly,

the filmmaker cannot be defensive or take criticism personally and must be ready to hear the truth. Second, the comments are suggestions, not prescriptions. There are no mandates, top-down or otherwise; the director is ultimately the one responsible for the movie and can take or leave solutions offered. Third, candid feedback is not a "gotcha" but must come from a place of empathy.

Braintrusts — groups of people with a shared agenda who offer candid feedback to their peers — are subject to individual personalities and chemistries. In other words, they can easily go off the rails if the process isn't well led. To be effective, managers have to monitor dynamics continually over time. It helps enormously if people respect each other's expertise and trust each other's opinions.

Safe and Sound

Speaking up is easier said than done. There's no switch to flip that will instantaneously turn an organization accustomed to silence and fear into one where people speak candidly. Instead, creating a psychologically safe workplace requires a lot of effort to alter systems, structures and processes. Ultimately, it means that deep-seated, entrenched organizational norms and attitudes must change.

And it begins with what can be called "stage setting." Let's look at how Anglo American, one of the world's largest mines, headquartered in South Africa, prepared for and then institutionalized speaking up.

When Cynthia Carroll was appointed in 2007, with much fanfare, as the first female CEO of an international mining company, she was appalled by the number of worker fatalities occurring in the company — nearly 200 in the five years prior to her arrival.

Realizing that she was "in an unprecedented position to influence change" as both an American/outsider in a foreign country and as a woman where "until very recently women hadn't been allowed to visit underground at mines in South Africa, let alone work there," she immediately used her position to speak up and demand a policy of zero fatalities or serious injuries.

At first, others in the company, especially members of the old guard who saw themselves as upholding tradition, refused to take Carroll seriously. Serious injuries and deaths were considered an inevitable hazard, part of mining's dangerous physical demands.

An Unprecedented Move

Carroll's response to the resistance could not have been more unambiguous. She shut down one of the most problematic and dangerous mines. Even more shocking, Carroll insisted that before the mine could restart, she wanted to find out what the workers were thinking, and she intended to get input from every single worker about how to improve safety. This, she knew, was a direct challenge to Anglo American's strict hierarchical culture and rigid, top-down management style, which had begun with the mine's founding in 1917 and was further strengthened by South Africa's apartheid history.

Here's where things get interesting. Psychological safety had to be created in the mines by finding a culturally appropriate approach. With help from the unions, Anglo American leadership adopted a traditional South African method of conducting village assemblies, called "lekgotla."

Traditionally, in these assemblies, everyone sits in a circle and has a chance to speak without being interrupted or criticized; conversation continues for as long as it takes to reach consensus on whatever issue is at stake. During Anglo American's "lekgotla," senior managers reframed the initial question. Instead of asking workers to give their opinions directly about safety issues, they asked, "What do we need to do to create a work environment of care and respect?" That was when workers started to feel safe enough to speak up about specific concerns.

The dialogue continued until each group had developed a contract stating what specific actions were needed to maximize safety. In a powerful symbolic gesture of shared commitment, workers and Anglo American executives both signed the contract.

PART III: CREATING A FEARLESS ORGANIZATION

Making It Happen

Let's talk about specific ways leaders can build psychological safety in their organizations. The process involves a tool kit with three main strategies: setting the stage, inviting participation and responding productively. With some practice and reflection, this tool kit is available to any leader wishing to create psychological safety.

How to Set the Stage for Psychological Safety

Whenever you are trying to get people on the same page, with common goals and a shared appreciation for what

> Whenever you are trying to get people on the same page, with common goals and a shared appreciation for what they're up against, you're setting the stage for psychological safety.

they're up against, you're setting the stage for psychological safety. The most important skill to master is that of framing the work.

Framing the work includes reframing failure and clarifying the need for voice.

Reframing failure starts with understanding a basic typology of failure types. Failure archetypes include preventable failures (never good news), complex failures (still not good news) and intelligent failures (not fun, but must be considered good news because of the value they bring).

Preventable failures are deviations from recommended procedures that produce bad outcomes. If someone fails to don safety glasses in a factory and suffers an eye injury, this is a preventable failure.

Complex failures occur in familiar contexts when a confluence of factors come together in a way that may never have occurred before; consider the severe flooding of the Wall Street subway station in New York City during Superstorm Sandy in 2012. With vigilance, complex failures can sometimes, but not always, be avoided. Neither preventable nor complex failures are worthy of celebration.

In contrast, intelligent failures, as the term implies, must be celebrated so as to encourage more of them. They are the result of a thoughtful foray into new territory.

Clarifying the need for voice. Framing the work also involves calling attention to other ways, beyond failure's prevalence, in which tasks and environments differ. Three especially important dimensions are uncertainty, interdependence and what's at stake.

Emphasizing uncertainty reminds people that they need to be curious and alert to pick up early indicators of change in, say, customer preferences in a new market, a patient's reaction to a drug, or new technologies on the horizon.

Emphasizing interdependence lets people know that they're responsible for understanding how their tasks interact with other people's tasks.

Finally, clarifying the stakes is important whether the stakes are high or low. Reminding people that human life is on the line — say, in a hospital, a mine or at NASA — helps put interpersonal risk in perspective. People are more likely to speak up — thereby overcoming the inherent asymmetry of voice and silence — if leaders frame its importance.

How to Invite Participation So People Respond

The second essential activity in the leaders' tool kit is inviting participation in a way that people find compelling and genuine. The goal is to lower what is usually a too-high bar for what's considered appropriate participation. The invitation to participate must be crystal clear if people are going to choose to engage rather than to play it safe. Two essential behaviors that signal an invitation is genuine are adopting a mindset of situational humility and engaging in proactive inquiry.

Situational humility. The bottom line is that no one wants to take the interpersonal risk of imposing ideas when the boss appears to think he or she knows everything. A learning mindset, which blends humility and curiosity, mitigates this risk. A learning mindset recognizes that there is always more to learn.

Keep in mind that confidence and humility are not opposites. Confidence in one's abilities and knowledge, when warranted, is far preferable to false modesty. But humility is not modesty, false or otherwise. Humility is the simple recognition that you don't have all the answers, and you certainly don't have a crystal ball.

Proactive inquiry. The second tool for inviting participation is inquiry. Inquiry is purposeful probing to learn more about an issue, situation or person. The foundational skill lies in cultivating genuine interest in others' responses.

Genuine questions convey respect for the other person — a vital aspect of psychological safety. Contrary to what many may believe, asking questions tends to make the leader seem not weak but thoughtful and wise.

How to Respond Productively to Voice –– No Matter Its Quality

To reinforce a climate of psychological safety, it's imperative

that leaders — at all levels — respond productively to the risks people take. Productive responses are characterized by three elements: expressions of appreciation, destigmatizing failure and sanctioning clear violations.

Express appreciation. Imagine if Christina, the NICU nurse discussed at the beginning of this summary, had spoken up to Dr. Drake. Her quiet fear was that he would have berated or belittled her. But what if he had said, "Thank you so much for bringing that up"? Her feeling of psychological safety would have gone up a notch.

This is an example of an appreciative response. It does not matter whether the doctor believes the nurse's suggestion or question is good or bad. Either way, his initial response must be one of appreciation. Then he can educate — that is, give feedback or explain clinical subtleties. But to ensure that staff keeps speaking up so as to keep patients safe from unexpected lapses in attention or judgment, the courage it takes to speak up must receive the mini-reward of thanks.

Destigmatize failure. Leaders who respond to all failures in the same way will not create a healthy environment for learning. When a failure occurs because someone violated a rule or value that matters in the organization, this is very different than when a thoughtful hypothesis in the lab turns out to be wrong.

A productive response to intelligent failure can mean actually celebrating the news. Some years ago, the chief scientific officer at Eli Lilly introduced "failure parties" to honor intelligent, high-quality scientific experiments that failed to achieve the desired results.

Sanction clear violations. Firing can sometimes be an appropriate and productive response — to a blameworthy act. But won't this kill the psychological safety? No. Most people are thoughtful enough to recognize (and appreciate) that when people violate rules or repeatedly take risky shortcuts, they are putting themselves, their colleagues and their organization at risk. In short, psychological safety is reinforced rather than harmed by fair, thoughtful responses to potentially dangerous, harmful or sloppy behavior.

Leadership is a vital force in making it possible for people and organizations to overcome the inherent barriers to voice and engagement. We must be realistic about the fact that "driving fear out" of any organization, as W. Edwards Deming (the father of total quality management who helped transform manufacturing practices around the world) put it, will be a journey.

We don't have a magic wand to make psychological safety happen overnight, but by committing to the aspiration to build it, one conversation at a time, leaders take the first step of a perpetual journey toward building and nurturing organizations that can innovate and thrive in the knowledge economy.

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As the Novartis professor of leadership and management at the Harvard Business School, Amy C. Edmondson studies leaders seeking to make a positive difference in the world through the work they do in organizations of all kinds. The central thread that has run through her academic career is creating work environments where people can team up and do their best work.

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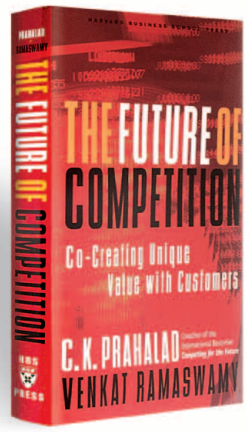
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The Future of Competition

C.K. Prahalad and Venkat Ramaswamy

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By C.K. Prahalad and Venkat Ramaswamy

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THE FUTURE OF COMPETITION

THE SUMMARY IN BRIEF

In a world of infinite choice, instant gratification, and unbounded opportunities for innovation, why, ask University of Michigan Business School professors C.K. Prahalad and Venkat Ramaswamy, are companies still unable to satisfy customers or sustain growth and profitability?

The answer lies in the evolving role of the customer — from passive recipient to active co-creator — in the value creation process. No longer do customers receive value through the purchase of products and services alone. Instead, individual customers are interacting with a network of firms and consumer communities in order to satisfy their unique preferences — and the value they obtain comes from the sum total of those personal experiences.

To compete in this developing marketplace, companies must fundamentally alter their value creation infrastructures. They make information and operations transparent and accessible to all collaborators, and transform their interactions with customers from transactions to meaningful dialogues. For their part, customers must be able to understand and assess all the risks, as well as the rewards, of the choices they make.

Exploring the issues that will shape strategy for years to come, the authors reveal what organizations must do to co-create value in the future.

What You'll Learn In This Summary

The consumer and the firm are intimately involved in jointly creating value that is unique to the individual consumer and sustainable to the firm. This summary's purpose is to help your company:

✓ Break out of its old entrenched ways and discover new methods for creating strategic capital.

✓ To recognize the limitations of what it knows — its *zones of comfort* — and identify and occupy new *zones of opportunity*.

✓ To understand how today's industrial system is morphing and evolving and how it will change the way it will compete in the future.

✓ To understand the new value paradigm, in which the firm and the consumer co-create value at points of interaction and can no longer act unilaterally.

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The Future of Competition

In 1999 and again in 2000, one of us taught an M.B.A. course called "Emerging Issues in Strategy." Its basic premise was straightforward: The old, established corporations (let's call them "A-type" firms) would not disappear. The new, energetic dot-coms ("B-type" firms) would not necessarily survive. A new class of firms ("C-type") would emerge, signifying a morphing and evolving of both the A-type incumbents and B-type startups.

In the conventional realm of A-type and B-type firms, almost all of the work has centered on the firm. But, what if the individual consumer (whether in an enterprise or a household) were at the center, and not the firm? What if we spoke of "consumer-to-business-to-consumer" (C2B2C) patterns of economic activity?

We challenge the traditional notion of value and its creation, namely that firms create and exchange value with consumers. We believe that, increasingly, the joint efforts of the consumer and the firm — the firm's extended network and consumer communities together — are co-creating value through personalized experiences that are unique to each individual consumer.

The Changing Role of the Consumer

The emerging reality is forcing us to reexamine the traditional system of company-centric value creation that has served us so well over the past hundred years. We now need a new frame of reference for value creation. The answer, we believe, lies in a different premise centered on co-creation of value. It begins with the changing role of the consumer in the industrial system — from isolated to connected, from unaware to informed, from passive to active. The impact of this new consumer role is manifest in many ways:

Information Access: With access to unprecedented amounts of information, knowledgeable consumers can make more informed decisions.

Global View: Consumers can also access information on firms, products, technologies, performance, prices and consumer actions and reactions from around the world.

Networking: "Thematic consumer communities," in which individuals share ideas and feelings without regard for geographic or social barriers, are revolutionizing emerging markets and transforming established ones. The power of consumer communities comes from their independence from the firm. Thus, consumer networking inverts the traditional top-down patterns of marketing communications.

Experimentation: Consumers can also use the Internet to experiment with and develop products, especially digital ones.

Activism: As people learn, they can better discriminate when making choices; as they network, they embolden each other to act and speak out.

What is the net result of the changing role of consumers? Companies can no longer act autonomously, designing products, developing production processes, crafting marketing messages, and controlling sales channels with little or no interference from consumers. The use of interaction as a basis for co-creation is at the crux of our emerging reality.

The Emerging Reality of Value Creation

Let us examine the changing dynamics of interaction between a consumer and the firms that participate in the wellness space. Twenty years ago, doctors thought they knew how to treat me, and since I wasn't a physician myself, I probably agreed. Similarly, most businesses figured they knew how to create customer value — and most customers agreed.

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The Future of Competition

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Now the health care process is far more complex. I can investigate alternative treatments for my condition and develop an opinion about what might and might not work for me. Ultimately, I can cut my own path through the wellness space, thereby constructing a personal wellness portfolio. As a health care consumer, I can more actively determine the "value bundle" that is appropriate for me, cutting across customary industry boundaries.

Let's move beyond doctors and patients. What if consumers inappropriately use or modify your products and then hold you responsible for any resulting damage? Increasingly, consumers seem to want power without accountability. They want to choose for themselves but not be liable for the consequences of their choices. But no matter how the future unfolds in terms of the roles, rights and responsibilities of companies and consumers, companies *will* have to engage consumers in co-creation of value.

Thus, when we amplify the weak signals reverberating in the wellness space and scrutinize consumer-company interactions, we glimpse the emerging reality of the active involvement of consumers, whether as thematic communities or as informed individuals. This fundamentally challenges two deeply embedded, traditional business assumptions: (1) that any given company or industry can create value unilaterally; and (2) that value resides exclusively in the company's or industry's products and services.

Co-Creation of Value

The new value creation space is a competitive space centered on personalized co-creation experiences developed through purposeful interactions between the consumer and a network of companies and consumer communities. In this space, value lies in the co-creation experience of a specific consumer, at a specific point in time, in a specific location, in the context of a specific event.

In the conventional value creation process, companies and consumers had distinct roles of production and consumption. Products and services contained value, and markets exchanged this value, from the producer to the consumer. Value creation occurred outside the markets. But as we move toward co-creation, this distinction disappears. Increasingly, consumers engage in the processes of both defining and creating value. The co-creation experience of the consumer becomes the basis of value.

In the emerging reality, the patterns of interaction between the consumer and the firm will shape the value creation process, challenging existing ways of doing business and creating value. Simultaneously, they create tremendous new opportunities. The future of competition lies in an altogether new approach to value creation, based on an individual-centered co-creation of value between consumers and companies. To see this future, we must escape the past. ■

The 21st-Century Paradox

Our industrial system is generating more goods and services than at any point in history, delivered through an ever-growing number of channels. Supermarkets, boutiques, online retailers and discount stores proliferate, offering thousands of distinct products and services. The burgeoning complexity of offerings, as well as the associated risks and rewards, confounds and frustrates most time-starved consumers. Product variety has not necessarily resulted in better consumer experiences. For managers, the situation is no better. Thus, the paradox of the 21st-century economy: Consumers have more choices that yield less satisfaction; managers have more strategic options that yield less value.

Escaping the Past

Traditional business thinking starts with the premise that the firm creates value. Employees focus on the quality of the firm's products and processes, potentially enhanced through internal disciplines, such as Six Sigma and Total Quality Management. Innovation involves technology, products and processes. Matching supply and demand has long been the bedrock of the value creation process.

The co-creation experience depends highly on individuals. Each person's uniqueness affects the co-creation process as well as the co-creation experience. A firm cannot create anything of value without the engagement of individuals. Co-creation supplants the exchange process.

A New Frame of Reference For Value Creation

If the new starting premise is that the consumer and the firm co-create value and the co-creation experience is the very basis of value, managers must attend to the quality of co-creation experiences, not just to the quality of the firm's products and processes. Quality depends on the infrastructure for interaction between companies and consumers, oriented around the capacity to create a variety of experiences. Eventually, the roles of the company and the consumer converge toward a unique co-creation experience, or an "experience of one."

(continued on page 4)

A New Frame of Reference For Value Creation

(continued from page 3)

Notice what co-creation is not. It is neither the transfer nor outsourcing of activities to customers nor a marginal customization of products and services. Nor is it a scripting or staging of customer events around the firm's various offerings. The change we are describing is far more fundamental. It involves the co-creation of value through personalized interactions that are meaningful and sensitive to a specific consumer. The co-creation experience, not the offering, is the basis of unique value for each individual. The market begins to resemble a forum organized around individuals and their co-creation experiences rather than around passive pockets of demand for the firm's offerings.

In the emergent economy, competition will center on personalized co-creation experiences, resulting in value that is truly unique to each individual.

DART — The Building Blocks of Co-Creation

The four building blocks of co-creation are dialogue, access, risk assessment, and transparency.

- *Dialogue* encourages not just knowledge sharing but even more important, qualitatively new levels of understanding between companies and consumers. It also allows consumers to interject their views of value into the value creation process.
- *Access* challenges the notion that consumers can experience value only through ownership. By focusing on access to experiences at multiple points of interaction, as opposed to simply ownership of products, companies can broaden their business opportunities.
- *Risk assessment* assumes that if consumers become co-creators of value with companies, then they will demand more information about potential risks of goods and services — but they may also bear more responsibility for dealing with those risks.
- *Transparency* of information is necessary to create trust between institutions and individuals. Companies have traditionally benefited from an information advantage in the marketplace, but that asymmetry between the firm and the consumer is rapidly disappearing.

Creating New Capabilities With DART

Combining the building blocks of transparency, risk assessment, access and dialogue enables companies to better engage customers as collaborators. Transparency facilitates collaborative dialogue with consumers. Constant experimentation, coupled with access and risk assessment on both sides, can lead to new business models and functionalities designed to enable compelling co-creation experiences. Even conventional companies, such as Sony, now engage in collaborative dialogues with consumers, who helped co-develop Sony's PlayStation 2. From Intel to Microsoft to Nokia, companies are enlisting consumers in the shaping of new technologies that range from Web-enabled devices and networking software to cellular phones. Consumers contribute to the debate, both technically and in terms of their expectations and views of value. In doing so, they are co-shaping the future. When companies combine the four building blocks in different ways, they create new and important capabilities.

Beware the Zones of Comfort

Most managers are reluctant to let go of familiar practices and tools — their zones of comfort. The result is an emerging tension between the traditional "company think" and the emerging "consumer think."

Like all humans, business managers are socialized into a dominant logic — that is, they are shaped by the attitudes, behaviors and assumptions they learn in their business environments. Unfortunately, most managers seem to forget that they are also consumers. Their thinking is conditioned by managerial routines, systems, processes, budgets and incentives created under the traditional framework of value creation. They focus on technology road maps, plant scheduling, product quality, cost reduction, cycle time, and efficiency. Unsurprisingly, opportunities for interaction with consumers are approached in a similar fashion.

Simply understanding the framework of co-creation does not suffice in the effort to escape our zones of comfort. We must explicitly recognize how deeply etched ways of thinking limit our ability to shift into co-creation mode.

Most managers implicitly assume that their physical product — the digital camera, for example — is the vessel of value. They rarely consider the aspirations, frustrations and wishes of the heterogeneous group of consumers who experience their product or service. Instead, they focus on the efficiency of production and logistical systems or on advanced technology for its own sake. Misled by company think, they clutter the marketplace with products that are feature rich but experience poor. Meanwhile for the consumer, "technology convergence" can often create "experience divergence."

The disconnect between consumer think and company think is not new. However, as we move toward co-creation, this disconnect becomes more pronounced at *points of interaction*, those intersections where choice is exercised and the consumer interacts with the firm to create an experience.

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For Additional Information on examples of DART in action, go to: http://my.summary.com

A New Frame of Reference For Value Creation

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Dimensions of Choice

Dialogue, access, risk assessment and transparency — DART — form the foundation for co-creation of value, but these factors alone may not produce compelling experiences in co-creation. We also must pay close attention to the *dimensions of choice* in consumer-company interaction. These condition the co-creation experience. We have identified four such dimensions:

- Consumers want the freedom of choice to interact with the firm through a range of experience gateways. Therefore, the firm must focus on the co-creation experience across *multiple channels*.
- Consumers want to define choices in a manner that reflects their view of value. Therefore, the firm must provide experience-centric *options* that reflect consumer desires.
- Consumers want to interact and transact in their preferred language and style. They want quick, easy, convenient and safe access to experiences. Therefore, in consummating individual choices, the firm must focus on the co-creation experience through *transactions*.
- Consumers want to associate choice with the experiences they are willing to pay for. They want the price of these experiences to be fair. Therefore, the firm must focus on the totality of the *price-experience relationship* in the co-creation.

The Price-Experience Relationship in Co-Creation

The over-arching dimension of choice in co-creation experiences is the price-experience relationship. This is the critical intersection of price and the co-creation experience, where consumers judge economic value.

Witness how Federal Express enhanced the price-experience relationship. Its customers, both shippers and receivers, can log on and check the progress of packages in real time, viewing the same information that FedEx employees have. While this system has reduced the burden on FedEx call centers and trimmed costs, it simultaneously allows for an individual-centric view of interactions. Just knowing a package's whereabouts can reduce customer anxiety. The transparency of the system gives individuals choices otherwise unavailable and thereby enhances the co-creation experience and the totality of the price-experience relationship.

Businesses have typically associated price with cost and often set prices based on the company's cost structure. This traditional methodology is becoming increasingly problematic, because it has little meaning to the consumer. The experience associated with a product or service, and therefore its associated value, varies from one consumer to another. A gadget-loving techie may buy a digital camera just to experiment with new technology. A parent may buy it to capture her child's first steps, a different experience. A small business owner may buy it to record images of inventory for insurance coverage, still another experience. The cost of producing the cameras may be the same, but each camera's value varies from consumer to consumer.

When determining a consumer's "willingness to pay," managers conventionally focus on what they can offer customers in isolation from the experiences they desire. A pricing system that recognizes the existence of experience-based value begins to reflect the nature and quality of heterogeneous consumer experiences. ■

The Call Center Opportunity

The ubiquitous call center is an excellent example of "company think" vs. "consumer think." The company call center represents a unique opportunity for interacting with the consumer. A well-run call center can transform a consumer's experience from negative to positive, not only by solving problems and answering questions but by offering entirely new ways to enjoy the product or service. Yet most firms squander the opportunity by establishing automated call centers, manned by inexperienced, narrowly focused operators whose productivity is measured in terms of calls handled per hour — not the quality of the consumer experience. The managers who develop these systems mean well. They are simply applying the customary management techniques. But most consumer experiences with call centers are unpleasant, irritating — and potentially disastrous.

For Additional Information on how the brokerage industry has been transformed by co-creation across multiple channels, go to: http://my.summary.com

The Experience Environment

We need a generalizable view of the co-creation process that can accommodate large numbers of consumers of varying interests, skill levels, needs and desires. To accomplish this, we need an *experience environment* — a framework that allows the firm to facilitate a variety of co-creation experiences with millions of consumers.

We need to understand that when an experience environment is sufficiently compelling, consumer communities can evolve beyond the firm's control and potentially without the firm's knowledge. Suddenly, whole communities of individuals can directly co-create value.

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The Experience Environment

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On the positive side, these consumer communities can serve as multipliers for in-house R&D efforts. Managers whose firms have met the preconditions for effective co-creation can use them to augment their creative resource base. On the negative side, enthusiastic, but untrained and unrestrained, consumers can unwittingly ruin other customers' experiences without liability for quality or safety, thereby tainting the company's reputation.

Regardless of a manager's preference, consumer communities will form whenever an experience environment lets them, and they will influence consumer experiences in unpredictable ways. More fundamentally, the role of consumer communities evolves and cannot be predicted *a priori*. As a result, the firm is forced to concentrate on innovating experience environments with consumer communities — environments within which consumers, individually as well as collectively, can co-construct their own experiences. We call this new challenge *experience innovation*.

Experience Personalization

To co-create unique value with customers, we must appreciate what constitutes a *personalized* co-creation experience. The co-creation experience springs from the interaction between a single consumer and an experience environment. Our goal is to create an experience environment that accommodates not just the individual, but *how the individual changes in relation to space, time and events.* Designing an experience environment in which many heterogeneous consumers can enjoy truly personalized co-creation experiences is by no means trivial.

Delta Air Lines, for example, has rolled out information systems that let passengers access information previously available only to gate agents, such as the real-time progress of flights, seating status, and upgrade and standby lists. This transparency can reduce passenger anxiety and gate agent job stress. This example conveys the basic dimensions of an experience and its personalization: events, context, individual involvement and personal meaning.

Events form the basis for experiences. An event is a change of state in space and time that affects one or more individuals. Context is the space and time in which an event occurred. Individual involvement is the form and level of the individual's participation in the event. Personal meaning is the knowledge, insights, enjoyment, satisfaction and excitement that the individual derives from the event. These four dimensions — events, context of events, individual involvement and derivation of personal meaning — put the individual at the heart of a co-creation experience.

Designing Experience Environments

We can develop a broad specification for designing an experience environment. At a minimum, the experience environment must:

✓ Offer opportunities for consumers to co-construct their own experiences on demand, in a specific context of space and time.

✓ Accommodate a heterogeneous group of consumers, from the very sophisticated and active to the very unsophisticated and passive.

✓ Recognize that every consumer (including the active, smart consumer) does not always want to co-create; sometimes he or she just wants to consume.

✓ Facilitate new opportunities afforded by the evolution of emerging technologies.

✓ Accommodate the involvement of consumer communities.

✓ Engage the consumer emotionally and intellectually.

✓ Explicitly recognize both the social and the technical aspects of co-creation experiences.

Migrating to Experience Networks

The following are some of the key points and organizational challenges in building an *experience network* — the infrastructure for effectively co-creating value through personalized experiences:

- The company must facilitate the continuous co-creation of experiences at points of interaction. We must view products, distribution channels, technologies and employees as experience gateways.
- The experience environment should be oriented around the experience space, allowing consumers to initiate experiences on demand.
- Accommodating consumer heterogeneity is crucial. The company must understand its various sources and forms as well as its implications for co-creating unique experiences.
- The experience network should provide consumers with various levels and forms of access, mechanisms for dialogue with the company and other customers, and ways to manage risk.
- The logistics infrastructure should link closely to the experience environment, balancing the customer's desire for access with the company's desire for control. To win the customer's trust, a significant level of transparency in the company's information infrastructure is required.
- Managers need the capacity to react quickly and

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The Experience Environment

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continuously based on events, along with the capacity to reconfigure resources flexibly and quickly.

● All infrastructures have both a technical and a social side. An effective experience network requires both technical and social enablers of experiences.

The strategic architecture of the experience network is a creative combination of the appropriate technical and social experience enablers, along with selective activation of the competence base to facilitate heterogeneous, individual-centric experiences.

The Market as a Forum

The traditional concept of a market was company-centric. In the emerging concept of a market, the focus is on consumer-company interaction — the roles of the company and the consumer converge. The firm and the consumer are both collaborators and competitors — collaborators in co-creating value and competitors for the extraction of economic value. The market as a whole becomes inseparable from the value creation process.

Co-creation converts the market into a place where dialogue among the consumer, the firm, consumer communities, and networks of firms can take place. We must view the market as a space of potential co-creation experiences in which the constraints and choices of individuals define their willingness to pay for experiences. In short, the market resembles a forum for co-creation experiences.

The Experience Is the Brand

The brand has traditionally been the centerpiece of a firm's communication with customers. Today, the rise of the active consumer has shattered the old company-centric model of brand creation. Advertising has been supplanted as the chief shaper of consumer attitudes by word-of-mouth, which today's Web-linked consumer communities have put on overdrive. Consumers now have access to the information they need to make informed choices, assess value on their own terms, influence the expectations of other consumers, and decide for themselves how they want to transact with the company. As a result, the power of advertising to create or sustain a product or company image is steadily shrinking.

At one time, brands could be created by companies through advertising and other communications. No more. Now, brands evolve through experiences. Consider some of the major survivors of the dot-com decade: Yahoo!, AOL, Amazon and eBay. All are brands that evolved through the personalized experiences of an increasing number of individuals within a social fabric. Individuals legitimized these brands and gave them meaning.

Co-Shaping Expectations

Let's take as an example the movie *Lord of the Rings: The Fellowship of the Ring*. No film in history was released to a larger audience of pre-primed, passionate fans: the tens of millions of readers around the world who had been enthralled by the epic novels of J.R.R. Tolkien. These fans were thrilled by the news that a major film was in the works. They were also ready to denounce the movie en masse if it violated their vision of the fantasy realm of Middle Earth.

Wisely, rather than try to shut down or drown out the vast worldwide network of Tolkien fans, New Line Cinema worked to co-opt them. As Gordon Paddison, senior vice president for worldwide interactive marketing, notes, "It would have been arrogant to say, 'We are *Lord of the Rings*, come to us.'" Instead, Paddison treated the most rabid Tolkien followers as early influencers, whose response could make or break the movie. He reached out to the more than 400 unofficial Tolkien Web sites, giving them insider tips, seeking their feedback on the details of the movie, and offering them access to the production team. With the help of director Peter Jackson, the Web site *www.LordoftheRings.net* was created, including rough sketches of costume designs, handwritten production notes, and other exclusive content. Millions of fans have visited the Web site. Although Tolkien fans still debate the merits of the movie, nearly all appreciate the respect with which the filmmakers have treated the material — and them.

Thus, as companies transition toward the new opportunity space, the co-creation experience and the brand become embedded in each other. In the end, the co-creation experience is the brand. The new focus must be on fostering a consistent quality of co-creation experience. The challenge to managers is one of ensuring a consistent quality of experience across multiple channels, while simultaneously enabling a personalized co-creation experience for each individual. ■

For Additional Information on how to use consumers as a source of competence, go to: http://my.summary.com

The New Theory of Strategic Capital

Managers must build new strategic capital — a new theory of how to compete on experiences and how to build new capabilities consistent with that theory. New strategic capital is about challenging the traditional

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The New Theory of Strategic Capital

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approach to competition and value creation. It entails new ways to consider and analyze opportunities, access competence, leverage and reconfigure resources, engage the organization, and compete to co-create value based on experiences.

The current capabilities of companies reflect an implicit theory of how to compete, based on the traditional system of value creation. The ideas in this summary collectively embody an emerging theory of the meaning of value and the value creation process.

Bridging the Manager-Consumer Gap

Managing the co-creation of unique value demands a new capability: the ability for managers to relate to consumer interactions with the experience network. Managers must increasingly experience and understand the business as consumers do, and not merely as an abstraction of numbers and charts.

To co-create value effectively, managers must also have the capacity for agility. Agility is the ability to act fast — to improve the cycle time for managerial action. We believe that agility depends above all on the readiness of the line managers to respond quickly to changes on demand. And it is important to recognize that line managers, like consumers, are a heterogeneous lot. No two managers react the same way to similar events. Business agility is largely a function of the capacity of the managerial environment to respond to the needs of heterogeneous line managers.

Rapid Knowledge Creation

To co-create value continually, we must continually co-create new knowledge. To make this happen, we must create knowledge environments that facilitate discovery and action in the new competitive space.

Consider Buckman Laboratories, a $300 million specialty chemicals company based in Memphis, Tennessee, with around 1,300 employees in over 100 countries. Buckman produces more than 1,000 different specialty chemicals in eight factories around the world. Like most multinational corporations (MNC), Buckman operates in many countries, with many businesses — from paper processing and water treatment to personal care, leather and agriculture. Unlike a typical MNC, it is small, enjoying a competitive edge due to its ability to apply the power of all its employees to every customer experience. Central to this capability is its global knowledge-sharing network called K'Netix, which is integral to Buckman's information infrastructure.

An Example of Rapid Knowledge Creation

This story illustrates a typical application of K'Netix. A managing director for Buckman in Singapore — let's call her Mary — must propose a pitch-control program to an Indonesian pulp mill. Pitch is a chemical released from wood that affects paper quality and can cause problems in paper mill operations. Thus, developing an effective pitch-control program is an important and complex aspect of paper mill management.

Mary logs into K'Netix and asks for an update on recent pitch-control approaches around the world. Three hours later, she gets a response from Memphis that refers to a master's thesis by an Indonesian student in the United States on pitch control of tropical hardwoods, and offers some specific suggestions on Buckman chemicals that might be appropriate for this application. About an hour later, a Canadian manager sends a note about his experience in solving the pitch problem in British Columbia. Still later, Mary receives data from Sweden, New Zealand, Spain and France, followed by an offer of technical expertise and scientific advice from the company's central R&D group. In all, Mary receives 11 postings from six countries, forming several conversational threads that enable each participant to learn something new.

The contextual knowledge that was created helps Mary secure a $6 million order from the Indonesian mill.

Lastly, remember that while knowledge creation must be rapid, knowledge environments evolve over time. We must create and nurture mechanisms that enable the emergence of knowledge threads and facilitate the rapid creation of new knowledge. Such mechanisms, or "knowledge catalysts," are critical for integrating the information infrastructure, which is typically designed for managing explicit information (structured and unstructured data), into an effective environment for rapid knowledge creation. ■

Managers As Consumers

Three basic requirements must be met if managers are to share the experiences of consumers and others who play an important role in co-creation:

✓ Managers must get as much real-time event-centric data as possible regarding consumer experiences.

✓ Managers must understand and intervene selectively in individual consumer events even as they manage the overall operation. "How did we do with Hilda Schmidt today?" is just as important as "How did we do around the world this week?"

✓ Managers must be able to respond quickly by mobilizing and reconfiguring resources as needed.

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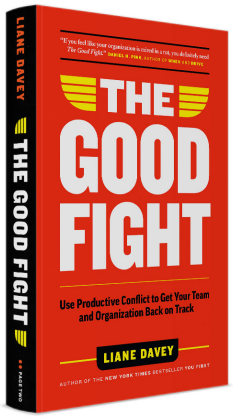
The Good Fight

Liane Davey

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The Good Fight

Use Productive Conflict to Get Your Team and Organization Back on Track



by **Liane Davey**

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THE SUMMARY IN BRIEF

In ***The Good Fight,*** Liane Davey teaches managers, employees, and people from all backgrounds about the power of positive conflict.The truth is that conflict can actually make our teams, our decisions, our execution, and our results better—as long as it's managed correctly. Avoiding conflict and disagreement can actually devastate our businesses and our relationships, holding us back when positive conflict could be pushing us forward. That said, not all conflict is good conflict. To discover which fights are worth having, it's important to identify the mechanics of what makes conflict productive—and what makes it unproductive.

In order to create an environment where positive conflict can thrive, we can't just rely on our instincts. We need to create, execute, and refine a system for conflict that makes it a clearly defined part of how we work. If we can do that, we'll be rewarded with conflict that builds momentum, trust, and success, rather than tearing them down.

IN THIS SUMMARY, YOU WILL LEARN:

- Why conflict in business can be a good thing, and why avoiding difficult conversations can hold businesses back.
- The mechanics of productive conflict, including how to proactively establish communication and build trust.
- How to systematize conflict, so it becomes a natural part of how you work.
- How to apply productive conflict skills to your most important relationships in work and life.

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Introduction

Productive conflict makes businesses more profitable and more innovative. It makes their teams more trusting and helps them enjoy the work they do more than ever. Finally, it makes our lives more rewarding and less stressful.

Avoiding tough discussions and decisions holds businesses back, making teams dysfunctional and causing stress. A gap is created when we avoid contentious issues that need to be resolved. But when you foster productive conflict, you can proactively establish a line of communication and build trust with your colleagues. You just need to learn the techniques to create a srong connection that turns colleagues into adversaries.

In this summary, we'll find practical strategies to short-circuit unproductive or adversarial conflict and start to contribute to a solution, realizing along the way that it's possible to prevent the majority of conflicts and make those you can't prevent more productive and less aversive. Finally, we'll learn how to systematize conflict so that it can become a natural and empowering part of the way we all work.

Conflict Debt

Conflict debt is the sum of all the contentious issues that need to be addressed to be able to move forward but instead remain undiscussed and unresolved. Conflict debt can be as simple as withholding the feedback that would allow your colleague to do a better job and as profound as continually deferring a strategic decision while getting further and further behind the competition.

As with financial debt, conflict debt starts off innocently. An issue comes up that's a little too hot to handle, so you defer it. You promise yourself that you'll revisit it when things are less busy, or when cooler heads prevail. You buy yourself time and space. But days pass, and no spontaneous resolution materializes. Instead, the issue becomes more contentious and the factions more entrenched. Suddenly, you're in conflict debt.

Avoiding interpersonal conflict hampers teamwork. Managers who fail to deal with team members who have insufficient skills or destructive behaviors set up a conflict debt that affects every member of the team.

Conflict Aversion and Avoidance

Conflict aversion is a general unease with the thought of getting into a disagreement. It starts when you're young and can stay with you your whole life. As humans, we're wired to dislike conflict, having evolved to get along with others as a means of staying safe. As children we were encouraged by influential adults to avoid conflict because being disagreeable was considered bad manners. Now, in the workforce, we're encouraged to go along and get along. Those who violate this norm are often given critical feedback and labeled as poor team players.

But in fact, conflict is a natural part of healthy relationships and a critical defense against unhealthy ones. While conflict aversion is normal, it's important that it not turn into conflict avoidance. Disliking conflict will not hurt us, but disavowing it entirely certainly will.

The New Conflict Mindset

Overcoming conflict avoidance requires a new mindset. We need to tune out the naysayers and focus on the positive outcomes that we'll achieve when we work through our conflicts. Although delivering difficult messages might not feel nice in the moment, in the long run, telling someone what they need to hear is often the kindest thing we can do. Rather than remaining a bystander to conflict, weigh in to help those in the thick of the argument solve their problem more objectively.

Don't fear emotion; think of it as a valuable clue that something important is wrong. Calmly and kindly draw out the person to rectify the underlying issues. Disagree with your boss when adding a different view will contribute to a better decision. Speak deliberately and respectfully, and leave a way to backtrack if necessary.

The Conflict Code

In exploring the conflict code, we'll focus on what you can do to prevent the majority of conflicts and make the rest more productive and less aversive. You'll learn how you can proactively establish a line of communication and build trust with your colleagues. Next, you'll see the techniques you can use to create a strong connection that turns adversaries into allies. Finally, you'll get practical strategies for diverting adversarial conflict and constructively developing a solution, through communication, connection, and contribution.

Establish a Line of Communication

Conflicts often arise because we act without a clear understanding of what's expected of us. It's important to establish

a line of communication and to build trust, with your boss, your teammates, and your colleagues in other departments, before there is an issue to address.

To build trust, create a connection that allows your colleagues to understand you as a person. The more predictable they find your behavior, the more they will trust you. Earn credibility even before you have a track record by asking good questions and demonstrating how you will tackle your work. Demonstrate reliability and show your colleagues that you will prioritize their needs. Ooze integrity by being transparent, especially if you are struggling.

Actively strengthen your trust in your colleagues by behaving as though you trust them, even before you really do.

Create a Connection

Making the effort to create a strong connection with a person will allow you to problem-solve as allies rather than fight as adversaries. When a discussion gets heated, the facts and information presented provide excellent clues about what is important to the players. Pay attention to what is (and isn't) said to zero in on what's at stake.

Explore the feelings and emotions the person is signaling with their body language. When emotions are present, it's likely that there are more substantive issues you haven't exposed yet. Use questions and observations to uncover the values and beliefs that underlie their position. It's these values and beliefs that will unlock the solution to the conflict.

Regardless of whether or not you agree with the person, validate what they are saying and ensure they feel heard and understood. Use everything at your disposal to strengthen the connection you have with the other person, including your physical situation, your language and tone, and your body language.

Contribute to a Solution

Once you've established a line of communication and created a strong connection, you are in a good position to contribute to a solution. Use the Two Truths strategy to validate the other person's priorities while adding your own. Assume that both opposing opinions are right in their own way, then work toward a solution that solves for both.

Next, use the Root Cause approach to demonstrate alignment on the problem when you want to offer alternate solutions. Show that you agree on the underlying cause of the problem, even if your proposed solutions differ. Rather than contradicting or criticizing a flawed solution, expose the risks of their plan by showing its potential impact, then redirect the person toward a feasible solution.

Use the Hypothetical technique to overcome resistance by asking the person to imagine the benefits of a plan before solving for the obstacles.

When you have multiple stakeholders with competing interests, use the Common Criteria approach to get everyone aligned on what a good solution would look like. This is a powerful step towards finding common ground on a solution you can all move forward with.

When all else fails, Own the Misunderstanding and use enough clarifying questions to figure out which approach would help resolve the issue.

Codifying Conflict

The Conflict Code—establishing a line of communication, creating a strong connection, and contributing to a solution—definitely works. It just takes a lot of effort. If you had to go through that process for every single conflict in your organization, you'd be exhausted. In the next segment, we'll focus on what you can do to systematize conflict by setting expectations for everyone on your team. Then we'll work through a process to normalize the tensions that, if left unlabeled, can turn into unhealthy conflicts. Finally, we'll talk about how you can create a healthy conflict habit that increases the frequency and decreases the impact of conflict until you hardly notice it at all.

In this section, we'll dive into the processes and tools you can use to get your team out of conflict debt. This is where you'll learn the secrets of how teams systematize conflict so that it takes less toll on the people in your organization or team.

Clarify Expectations

Failing to set clear expectations will lead to subpar work and inefficient rework, which creates frustration and conflict for all involved. You can neutralize conflict by articulating what's expected at different levels of your department and when that value needs to be added. This will help you get value you need from your boss, while heading off unpleasant micromanagement and deep dives.

Your team will have greater focus on your unique value and the activities that are most valuable for your business. Working through this process with your direct reports will allow you to raise the bar, while setting the expectation that you will challenge, critique, and improve your team's work, even when they do a great job.

Normalize Tension

Tensions are a natural part of cross-functional teams, but many people misinterpret tension as contrary to teamwork. Failing to recognize the value of different and opposing perspectives and priorities on a team can set up unproductive conflict.

You can help normalize productive conflict by articulating what's expected of different roles and how those roles will often be in tension with one another. You can use this method to coach team members who are under- or over-contributing and address the imbalance caused by having a mix of multi-incumbent and single-incumbent roles on your team.

Discuss the implications of making trade-offs between team members to reduce the friction caused by win/lose scenarios. Make use of effective goal setting to proactively manage the interdependencies on your team.

The Conflict Habit

The best way to keep conflict productive is to make small, frequent disagreements part of your daily habits. Begin to sprinkle a little conflict to help your teammates develop a taste for it. Invest time up front in clarifying expectations whenever you face a new task, a new project, or a new role. Make dissent more normal by adding tension to even the most routine conversations. Get more skilled at delivering feedback to help your colleagues understand the unintended impact of their behavior. And, when appropriate, use humor and code words to keep difficult discussions light and to avoid triggering defensiveness.

Set clear expectations for how meetings will support productive conflict, and use the start and close of your meetings to reinforce those expectations.

Conclusion

Organizations dole out a steady stream of conflicts, from agonizing strategic trade-offs to petty interpersonal squabbles. You need to work through these issues to keep operations running smoothly. Giving in to conflict aversion and letting issues pile up will lead to conflict debt that stalls your organization, sabotages your team, and stresses you out.

Instead, fight the good fight. Make the effort to establish effective lines of communication and build strong connections with your colleagues. Contribute in creative ways to come to solutions that, if not perfect for everyone, are at least the best choice given your constraints. You deserve to work on a team where productive conflict supports great decisions, strong relationships, and a positive working environment. Now you know fighting the good fight will give you the team you deserve.



Dr. Liane Davey is a New York Times Bestselling author, a regular contributor to the Harvard Business Review, and the host of the ChangeYourTeam blog. As the co-founder of 3COze Inc., she advises on business strategy and executive team effectiveness and has worked with executives at companies such as Amazon, Walmart, Aviva, TD Bank, and SONY PlayStation. Liane has a Ph.D. in Organizational Psychology and has served as an evaluator for the American Psychological Association's Healthy Workplace Awards.

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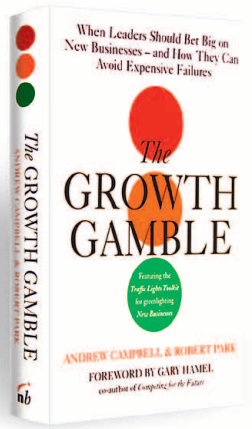
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The Growth Gamble

Andrew Campbell and Robert Park

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FILE: STRATEGIC MANAGEMENT



When Leaders Should Bet Big on New Businesses — And How They Can Avoid Expensive Failures

THE GROWTH GAMBLE

By Andrew Campbell and Robert Park

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THE SUMMARY IN BRIEF

Conventional business wisdom dictates that companies should focus their sites on growth. But growth is no certain thing, say the authors of The Growth Gamble. *Not all companies are built for rapid growth: Their markets are unsteady or extremely competitive, their infrastructure is not sufficiently flexible, or they don't have the quality or quantity of people to lend to the effort. For these companies, a slow or steady growth curve, over years or even decades, is the healthiest option. While this flies in the face of convention, the business landscape is littered with organizations that went belly up because they tried too hard to expand their businesses too far from what they did best, or did so too rapidly to keep themselves solvent. Much of the damage was caused by a lack of rigorous analysis, or the want of a screening tool to help leadership determine what new avenues were right for their companies, and when. With* The Growth Gamble *and its invaluable New Businesses Traffic Lights Toolkit, businesses have what they need to grow smartly and avoid potentially fatal errors.*

What You'll Learn In This Summary

✓ **New business expansion has rules.** Don't stray too far from your core strengths without knowing exactly what you're doing and without knowing, within reason, how your efforts will turn out.

✓ **It's OK to grow slowly.** Do not be seduced by "sexy" business opportunities or driven by inappropriate motivations. For many companies, taking the path of low growth is the smartest option and the one best suited to their business.

✓ **Red means stop; green means go (sometimes).** You cannot be sure a new business opportunity will fit your organization without doing some strategic analysis — the more detailed, the better. The New Businesses Traffic Lights tool distills that strategic thinking in four key areas of consideration — areas you must consider in order to determine whether a new business is right for you.

✓ **Is the profit potential good enough?** Do you know if your potential market is "rare game" or a "dog"? The answer to that question goes a long way toward determining whether your new business is profitable, or a waste of resources.

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THE GROWTH GAMBLE

by Andrew Campbell and Robert Park

— THE *COMPLETE* SUMMARY

The Challenge of New Businesses

Microchip maker Intel has made many attempts in the last 10 years to enter new businesses. Some have been successful, but most have not. After initially making its name as a maker of integrated circuits for electronic memory products, by the early 1980s, Intel's main business — in terms of profits and technical commitments — was manufacturing microprocessors. Intel then entered a golden period of about 15 years during which its dominance of the microprocessor market for PCs and servers powered the company's growth and profitability.

During this period, the company made several attempts to enter new businesses, some of which were intended to extend its core microprocessor business into new areas, while others attempted growth outside the core business strategy. The latter businesses included the manufacture of motherboards, LAN adapter cards, fax modems, PCMCIA cards, video conferencing, and supercomputers.

Few Successes

By 1999, few of these businesses had achieved their purpose of extending Intel's reach outside the microchip industry. Part of Intel's problem was positive: Its core business was growing so fast and demanding so much support that initiatives that did not extend the core were viewed with suspicion, resulting in weak follow-through for businesses outside the core.

Intel also had difficulty in managing businesses with a different business model than its microprocessor business. The company's culture, functional structure and managerial rules of thumb were driven by the needs of the core business, with its largely predictable technological progress. Intel struggled with businesses that had different rules that depended on insights about the future.

With new executive leadership, however, Intel pushed to redefine its core business from microprocessors to "Internet building blocks." This change was reinforced by a slowdown in microchip sales in the late 1990s. In 2003, however, Intel announced it was withdrawing from this strategy, writing off $1 billion in the process.

Burger Maker Bites Back

McDonald's likewise found itself in an industry experiencing its share of decline. By the late 1990s, growth potential in the core hamburger business was becoming limited, and McDonald's strong position in the United States was being threatened. Growth opportunities in international markets were also disappearing, and customers were beginning to raise health concerns about beef and fatty foods.

The company responded by reinvesting in existing franchise locations, as well as by making some key acquisitions in an effort to enter new businesses: acquiring a minority stake in the small Chipotle Mexican Grill chain and buying the 143-restaurant chain Donatos Pizza, as well as British coffee chain Aroma Café. These initial forays were followed by a more aggressive buying spree, including:

- The acquisition of the 900-restaurant chain Boston Market.
- An investment in Food.com, the Internet food takeout and delivery service.
- A minority stake in Pret A Manger, the British sandwich chain.

McDonald's also attempted new business concepts, including a sit-down diner with table service, and McCafe, offering gourmet coffee and related products.

McDonald's still retains some of its businesses, but has scaled back its ambitions. Four of its newer acquisi-

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The Challenge of New Businesses

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tions have been placed into McDonald's Ventures, a subsidiary charged with deciding whether any of these businesses can become significant for McDonald's without distracting from its core.

Companies such as Intel and McDonald's can only find significant new businesses under two circumstances. Either they discover a business that "fits in" with their existing businesses and responds well to the habits and rules of thumb that apply to the core. Or, they go through a crisis that breaks their commitment to the old habits and rules of thumb, and brings in new leadership and new ideas. ■

Beating the Odds

Most companies fail to find new growth businesses when their core businesses mature. Intel and McDonald's illustrate this important new reality: They have not found a significant new business that will enhance their growth prospects. In fact, as many as 99 percent of companies fail to create successful new growth platforms. Less than 10 percent of companies manage to restart growth once it has slowed. Only 3 percent sustain a restart for more than three years. Less than 1 percent do so by creating new growth platforms.

These sobering statistics do not, however, keep companies from trying. There are only a tiny percentage of management teams that settle for sticking to core businesses, and declining gracefully as those businesses mature. The challenge of finding new businesses is a growth gamble. To even take on the challenge is to bet against its odds. There are no easy answers.

Theory Versus Reality: An Opportunity Shortage

Current business theory instructs companies to be more entrepreneurial and to copy approaches used by the venture capital industry in building processes for developing new businesses. According to these theories, the high failure rate of new businesses is due to poor processes and skills.

The reality is quite different. Established companies have entrenched mind-sets and managerial habits, which are normally well tuned to the needs of their existing businesses. When companies delve into new businesses that are compatible with those mind-sets, they achieve success. When they try to do things that do not fit, they fail. The problem is, there are very few opportunities that fit.

A New Approach

There needs to be a new approach to the problem. The shortage of opportunities suggests that a screening tool that helps managers identify opportunities with a reasonable fit is likely to be more useful than a series of process steps for developing new businesses. Trying to make dramatic changes to ensconced managerial mind-sets — such as following venture capital processes — is also unlikely to achieve much. The mind-sets and rules of thumb that have served successful companies in good stead are likely to continue to influence success, and deviating from them will likely end in defeat. ■

Six Rules for New Businesses

The shortage of significant business opportunities that fit is the single biggest challenge for managers seeking new growth. Managers should observe the following six key rules about new businesses:

Rule 1: Continue to invest in the core. Investing in core businesses is the first thing senior management must do. It is imperative that these company leaders have their feet firmly on the ground when they decide in which new businesses to invest. One certain way of killing off a company is to invest unwisely in new opportunities.

Patience is key. Even if a business does not grow quickly over a period of years, it is still most often best to focus on core businesses. Companies should continue to regularly review potential opportunities outside the core, but it might take years for the right opportunities to come along. Trying to force the pace can speed an organization's decline.

Rule 2: Don't be seduced by sexy markets, but recognize rare games. The attention given to growth markets is understandable. To create value, managers should focus on markets in which they have an advantage, instead of markets that are growing. It may, in fact, be easier to create value in less popular areas than in "businesses of the future" that attract every manager hungry for quick growth. Managers should, instead, look for opportunities where their company can bring some special competency or resource to the game.

There are, of course, exceptions to this rule: "dog markets" and "rare games."

Dog markets are those where most competitors currently earn less than their cost of capital or are likely to

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BP's 'Biggest Mistake'

British Petroleum's former CEO, Sir Peter Walters, described his company's attempts to enter new businesses as "my biggest mistake." Driven by concerns about the oil industry's future following the 1970s oil shortage, BP entered nutrition, IT, minerals and other businesses either because of the similarity of the skills required or because of their growth potential.

"If we had put even half the effort into our core businesses that we put into new businesses," Walters noted, "we would have come out ahead."

Six Rules for New Businesses

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do so in the future. They normally occur because the competition in that market has become too intense. These markets are to be avoided, regardless of whether the company has advantages in them.

Rare games are markets where even average competitors are likely to do well. They usually occur because a new market suddenly opens, creating more demand than supply. Companies that get in early have an advantage, in terms of assets or stronger brands. A company can enter a rare game without an advantage, because it is an easy environment. To be sustainable, however, the company needs to create an advantage during its initial years in the market.

Rule 3: Look for advantage, but don't play the numbers game. There is an argument that companies need dedicated venturing units in order to process large volumes of existing work while managing a large number of investment opportunities, as well. Since one or two successes may take a number of years to emerge, companies require a pipeline of new initiatives.

A Losing Game

This numbers game is a losing game. If the presumption is of many failures and few successes, each new initiative will be expected to fail, and will thus not receive the attention it deserves. The alternative is to be selective — to invest in opportunities only when the company has a significant advantage — when it believes it can serve the market and earn 30 percent better margins than competitors. Sometimes, this may mean no new initiatives; sometimes two or three: At no time should it be 10 or 12 (or, as in one company, 44).

Rule 4: Be humble about your skills when looking for new businesses. When it comes to new businesses, humility is a good thing. One of the reasons the advantage hurdle must be set at 30 percent or greater is because managers are frequently overoptimistic about their skills. Also, competitors have advantages that are difficult to observe. Moreover, there are learning and ramp-up costs inherent to entering any new market. In unfamiliar situations, people make mistakes, managers chief among them: They invest too much in marketing, overdesign products, mismanage suppliers, and more.

The Impact of Learning Costs

It is the learning costs that explain why, for any specific company, there are few opportunities. By understanding the impact of learning costs, managers can discover good prospects for new businesses where much of the learning has already been done, as well as avoid potential disasters where the learning cost is likely to be larger than any of the company's existing advantages.

Keep Your Eyes Open for Saplings

Learning costs are an unknown that upset many plans, but they can also suggest one type of new business idea to look for — "saplings," or operating units that already exist within the company. These units are usually forgotten and/or minimally funded, but they exist for historical reasons or reasons connected to the core business, and can be used to grow new legs for the company. Their special feature is that they tend to have strong managers with insights about how to grow the activity, and most of the learning is already done.

Hewlett-Packard, for example, had a computer processor unit that in the 1970s began selling minicomputers for technical applications. In 1980, after many requests, the unit's management team was allowed to enter the commercial computer application market. HP is, of course, now one of the largest computer manufacturers in the world.

Rule 5: Search for people as much as potential. Large companies get lulled into presuming that somewhere, within their talent pool, managers can be found to lead projects. The challenge, they believe, is to find good projects for them to lead. Within an existing business, there are many managers who understand the products, the markets and the essence of the business model needed to make a profit. In new businesses, all three of these areas of knowledge may be absent.

Often, this leads to projects starting out with the wrong leadership. A company may have a huge advantage in technology or brands or customer relationships, but if it does not have the managers with the talent, experience and will to exploit these advantages, it will create no new value. Any process to search for new business ideas should be complemented by a search for managers with the experience, talent and passion to lead.

Rule 6: Be realistic about ambitions. The successes managers have had using stretch goals to power performance in their existing businesses cloud them from realizing that the same techniques cannot be used to drive the creation of new businesses. Stretch goals work in existing businesses because managers get stuck in ruts and stretch goals unlock their thinking.

In the search for new businesses, managers have no ruts to break out of. Goals should be set only after the opportunities for new businesses have been screened, not before. ■

The Case for Low Growth

When it comes to growth, managers are often driven by inappropriate motivations when they should be more selective rather than more energetic in their approach to

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The Case for Low Growth

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new businesses. They should assess opportunities to enter new businesses with a tough set of criteria, only investing in those that pass a strategic business screen.

This means, of course, that some companies will, at some points in time, screen out all ideas for new business, relegating themselves to a rate of growth determined by core businesses. If the core market is slow to grow, the company will likewise grow slowly, until a promising and appropriate business opportunity arises.

While most managers believe growth to be an imperative, it can, in many instances, also be a dilemma. In some circumstances, it is acceptable to choose to be a low-growth company.

Arguments for Growth

There are a number of arguments for growth. For one, the value of a company, in terms of market capitalization, is greatly affected by its growth rate. If a decision to impede rapid growth reduces expected future growth rates, the value of the company will decline, sometimes dramatically.

Second, success breeds success. A decision to stop growing may break a company's momentum, allowing managers and employees to lower their sights and encouraging them to be satisfied with less. Also, growing companies attract the best talent because they can provide more interesting career opportunities. Once growth slows, opportunities for advancement decline, and capable younger managers are more likely to leave.

There are also "moral" arguments. The assertion is that, if everyone stopped investing in new businesses, progress itself would slow down. Under this argument, companies have a duty to society to innovate and develop new businesses. While such an argument should not be dismissed out of hand, it is, in essence, an argument based more on hope than on logic; managers cannot be driven by hope rather than by strategic logic.

When Is Low Growth the Right Choice?

Low growth is the right choice for companies under two conditions: 1) when there are few opportunities for the core businesses to grow, and 2) when there are few new businesses that have a good chance of outperforming the average company on the stock market. Companies that follow a low-growth strategy under these circumstances minimize their risks of value destruction and increase their chances of value creation.

When deciding on a company's growth policy, the following principles should guide the choice:

- Companies must exceed market expectations — just growing is not enough. High growth is an expectation treadmill.
- Investments in new businesses need to have a good chance of exceeding average returns to justify management attention.
- If a company cannot find new business projects that are likely to earn more than the cost of capital, surplus funds should be returned to shareholders.
- Low-growth companies can still produce good returns to shareholders.
- As long as there are no tax differences between income and capital gains, shareholders are indifferent between dividends and share buybacks.

Low-Growth Strategies Can Succeed

Despite the logic of the low-growth strategy, many managers remain unconvinced. Growth has been deemed a necessary objective for so long that managers find it hard to accept low growth. Their perception is that low growth will lead to problems that simple financial theory has overlooked. They need proof that it works. Fortunately, examples of low-growth successes do indeed exist. ■

Crown Cork and Seal Uncorks Low-Growth Success

A focused, low-growth strategy benefited Crown Cork and Seal. In the early 20th century, the company was in a dominant position in the market for bottle caps. After a corporate shakeup in the mid-1950s, Crown was being faced down by much larger competitors. The company's management decided to stay focused on bottle caps, where it was still a market leader, and specialist segments of the canning industry, such as cans for motor oils and soft drinks.

In the 1970s and 1980s, soft drink companies began to manufacture their own cans, which led Crown's competitors to invest in new and untested packaging solutions. Crown, on the other hand, kept its focus on bottle caps and cans, helping customers convert from steel to aluminum, and investing in plants close to its customers' canning sites. By the late 1980s, Crown's competitors were investing in growth sectors such as insurance and oil, diversifications that unfortunately produced low returns.

Alone at the Top

By going so far away from their core, these competitors wound up taking huge losses and, eventually, one by one were sold. Crown did eventually get into other packaging opportunities, but only when the company's skills were suited to enter into those areas. By the early 1990s, "new packaging materials" was a maturing market, and Crown stood virtually alone at its summit.

For additional information on Gerstner's low-growth triumph, go to: http://my.summary.com

New Businesses Traffic Lights

Managers can and should use the power of basic strategic analysis to help them find business opportunities that fit. The *New Businesses Traffic Lights* is a screening tool to help them do just that. The Traffic Lights are a distillation of strategic thinking. There are four lights: the size of the value advantage, the attractiveness of the profit pool, the quality of the managers running the new ventures and their corporate sponsors, and the likely impact on existing businesses.

What Each Color Implies

Each element is scored as follows:

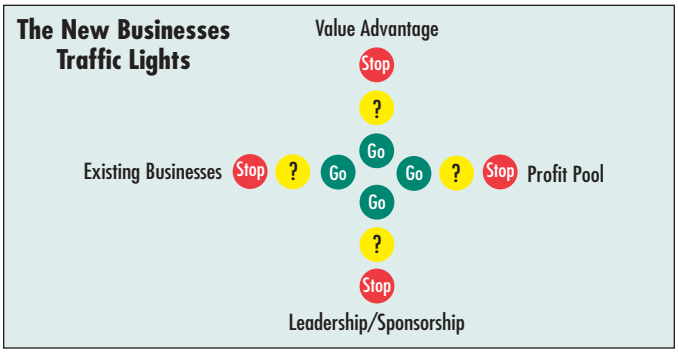
- **Red.** Red implies a significant disadvantage, or that the market segment has little available profit, or that managers or sponsors are inferior to those of competitors, or that there is a big negative for existing businesses. A red light signals a low probability of success, even if some other lights are green.
- **Green.** Green implies a big advantage, or that the market segment is an easy one in which to make money, or that managers and sponsors are clearly superior to competitors in the market, or that there are big benefits for existing businesses. A green light indicates probable success, as long as no red lights exist and a viable business plan can be drafted.
- **Yellow.** Yellow lights indicate marginal situations. Managers should be asked to reformulate their proposal so that at least one light can be green, or an experimental investment can be made in the hope that one of the yellow judgments might actually be revealed to be green.

Let's take a look at the questions raised by each of the four elements in the Traffic Lights tool, and the insights and implications that accompany them:

Value Advantage

Do we have value advantage? A superior return on capital is usually the result of some area of advantage — success is difficult to achieve without it. To assess whether an organization is likely to have an advantage, consider this value advantage equation:

- Unique value we bring.
- Less percent of value we could trade.



- Less unique value our competitors bring.
- Less cost of learning the new business.
- Equals our value advantage (green if positive, red if negative).

Value advantage discussions should center around the value a company can trade and the cost of learning a new business, if its trade value is low.

Value in trade. Managers do not usually consider the tradability of their unique value when assessing new businesses. The value reason for entering a new business is the extra value that can be created. Hence, managers should deduct from their calculations that part of their unique contribution that can be turned into value without entering a new business. Since many types of unique value, such as brand or patent, can be licensed or "cashed through a joint venture," the value advantage equation is often neutral (yellow) or negative (red).

Cost of learning a new business. Managers do not usually assess the likely costs, at both the operating level and the corporate level, of learning a new business. Because learning costs are hard to quantify, they are often left out of the equation. Fit analysis — one way of identifying likely learning costs — usually focuses on what fits, rather than what does not fit. Since learning costs are rarely less than 10 percent of profits and can be 50 percent or more, at least initially, the value advantage is often neutral (yellow) or negative (red).

Profit Pool Attractiveness

How attractive is the profit pool? Analysis of markets should focus on identifying extremes in profit potential. The profit pool question is about whether a market is a "rare game" (green) — a golden opportunity likely to generate good returns, or a "dog" (red) — a rotten market either too small, uncertain or competitive, leading to low returns. All other situations — markets that are neither rare games nor dogs — are "possibles" (yellow). Five criteria must be assessed to determine the attractiveness of the profit pool:

1. Business model potential for high margins.
2. Industry structure potential for high margins.
3. Opportunity for you to be a leader in the market.
4. Cost of trying, relative to the size of the profit pool.
5. Business model vulnerability.

Strategy analysis demonstrates that in most markets, companies with an advantage will earn above-average returns. Thus, detailed analysis of growth rates and likely margins, while necessary for a financial plan, is often unnecessary for making a strategic decision. Since most markets are neither red nor green, they offer little infor-

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For additional information on questions related to the potential of the profit pool, go to: http://my.summary.com

New Businesses Traffic Lights

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mation for or against the strategic decision.

Finding Management Talent

Managers often do not give sufficient attention to the issue of who is going to run a new business and, in particular, to whom the new business is going to report. New business projects are frequently launched on the presumption that the operating management team can be recruited at another time. This is a reasonable approach if the activity is familiar and the company has good managers in place who can step up and deliver. For less familiar activities, however, finding the right management talent can be challenging.

The questions for finding management talent that need to be addressed are as follows:

- **Do the leaders of the new business have the passionate commitment, personal insights, entrepreneurial flexibility, execution skills, and influence with the parent company that will enable them to overcome any setbacks and roadblocks, and win in the marketplace?**
- **Does the new business have a sponsor who will provide a compatible home for it in the portfolio, exercise effective oversight, protect it from negative influences, and support it through setbacks?**

Managers, particularly in large companies, believe that their managerial resources are considerable or that good talent can be brought in from outside the company. They also presume that they can learn most new businesses. However, when an objective assessment is made of the quality of the project's managers and sponsors compared to those of current and likely competitors, it is often evident that they are inferior (red) or at least not superior (yellow).

Impact on Existing Businesses

What is the impact on existing businesses? The impact a new business has on existing businesses might be significantly positive as a result of customer or cost synergies (green), significantly negative as a result of conflicts of interest and/or distraction of key managers (red), or somewhere in between (yellow). There are two dimensions to consider:

- How big are the synergies? The synergy criterion is about the benefits for existing businesses. In many cases, there are no positive or negative synergies for existing businesses — the criterion is often neutral.
- What are the distraction risks? Managers often underestimate the loss of performance in the core businesses that occurs when attention shifts to new businesses and some of the most energetic managers are allocated to new business projects.

Indeed, on the latter point, some significant analysis is critical. Distraction risks — the best way of capturing the risk of lower performance in existing businesses — depend on two factors:

- The degree to which the challenges in the existing businesses demand scarce management and financial resources.
- The degree to which the new business will compete for these scarce management or financial resources.

When managers invest in new businesses, they often underestimate both the opportunities for growth in their existing businesses and the threats these businesses face from competition. In order to understand the risks of distraction, managers must first understand in what areas their existing businesses most need attention. Armed with this analysis, it is easier to ascertain whether a particular new business is likely to distract from the attention that the core needs.

Summarizing the Traffic Lights

The Traffic Lights might seem daunting. There are four major judgments that need to be made, each depending on a number of sub-judgments. Frequently, it takes less than an hour to talk through the four Traffic Lights and reach a preliminary conclusion. Parts of such a conclusion may be easy to challenge, but frequently the overall judgment (red, yellow or green) is not in disagreement.

The Traffic Lights are a set of questions that managers need to answer that in aggregate form a strategic business case. They are designed to be used early in the life of a project, and as a sanity check for a financial business plan. They can be used even before much information is available to assess a business' potential.

The Traffic Lights do not focus on execution issues. They will not, for example, assess whether suitable partners can be found or whether a technology will work. They assume any operational issues can be surmounted. The Traffic Lights also do not provide clear go/no-go decisions for every situation. They do, however, screen out a large percentage of new business projects that would subsequently fail, saving managers time and money.

In all, the intention of the Traffic Lights is to pull together the fundamentals of good strategic thinking, in a way that will help managers arrive at better judgments. ■

For additional information on how companies harness synergies, go to: http://my.summary.com

New Businesses, Right Processes

All companies face the question of what they should do to increase the chances of successfully creating new businesses. One of the primary questions managers have is how to set up the right processes for new business development. The following three guiding rules help accomplish this:

Rule 1: Manage the flow of new business ideas.

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New Businesses, Right Processes

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Failure to understand the dynamics of the existing businesses leads managers to underestimate their potential or the challenges they face. Without a thorough analysis of existing businesses, managers do not have a sound platform from which to approach the screening of new business projects. Such a strategy review should not only focus on the current business model and current product-market segments, but also on adjacent business models and on new disruptive competitors. Senior management needs this kind of information for developing top-down ideas for new businesses.

Rule 2: Diligently use the New Businesses Traffic Lights. Whether a company invests in new-ideas workshops or limits itself to looking at opportunities that emerge, the Traffic Lights can help ensure that foolish ideas do not get through the screening process. If the Traffic Lights are widely communicated as a tool for assessing the "strategic business case," managers at all levels will feel empowered both to propose ideas that fit and reject ideas that will not pass the Traffic Lights.

Rule 3: Effectively parent each new business initiative. Once a new business idea passes the Traffic Lights, managers need to pay considerable attention to parenting it appropriately. The toughest decision is faced when progress deviates from the original plan in some serious manner. The choice between repositioning the initiative, altering its objectives, increasing the commitment of resources, or pulling the plug often involves agonizing judgments. ■

Positioning and Supporting a New Business

There are four common questions managers face when developing new businesses that are critical to their success. They are:

1. How far should the new business be integrated with or separated from the existing businesses? In most cases, the new venture should be separate from the existing businesses unless the design of the organization suggests otherwise. Among the questions to ask are:

- Does the new business sell to the same market, use the same technology, or draw on a shared source of advantage (marketing advantage)?
- Does the business unit need to draw on the skills of particular managers or teams that cannot be allocated to the new business (people test)?
- Do the cultures and business models of the new businesses integrate well with those of the parent business (specialist cultures)?

Integration is more possible when the answers to those questions are in the affirmative.

2. At what level in the organization should the new business report? Make sure the new venture reports to a level in the organization where it is an important part of the strategy, good sponsorship is available, and there is some objective governance of the venture.

3. What support should be provided to the new business by the layers of management above it? Analyze the potential parent/new business relationship to decide what guidance and support the new venture needs and limit parenting to these elements.

For example, list the major tasks managers in the business unit will need to complete in the next period (six months to a year) and assess whether the management team of the business is likely to do each task well, averagely or poorly. Where scores are lower, more parent involvement will be required.

4. How should corporate managers monitor progress, and when should they pull the plug? Perform a "confidence check" to assess progress and head off crises. Among the things to check are whether your value advantage is large enough and the profit pool is still good enough to justify the project, whether leaders/sponsors of the business are still good enough for the project, and whether the impact on existing businesses still justifies the project.

The Age of Realism

In the age of realism, the strategic business case will have as much status in decision making as the financial business case. This will make optimistic forecasting less necessary and easier to spot.

The age of realism will be a new enlightenment for business, where rational thought has more weight than chief executive ambition, and where managers at many levels will have the tools to challenge weak thinking. Managers, customers and shareholders will all benefit. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *The Growth Gamble*, you'll also like:

1. ***The Alchemy of Growth*** **by Mehrdad Baghai, Stephen Coley and David White.** The authors introduce the concept of strategic planning built around three "horizons" that reflect the present, short-term future and long-term future of a company.
2. ***Fast-Track Business Growth*** **by Andrew J. Sherman.** Sherman provides an A-Z manual on how to formulate and implement the right growth strategies.
3. ***Driving Growth Through Innovation*** **by Robert B. Tucker.** Tucker guides companies through the process of designing a custom innovation strategy that will satisfy the organization's needs.
4. ***Double-Digit Growth*** **by Michael Treacy.** Treacy shows managers how to follow a few basic principles and build solid portfolios of growth initiatives.
5. ***Customer-Centered Growth*** **by Richard Whiteley and Diane Hessan.** The authors explain how to grow by focusing on your customers with the intensity of a laser beam.

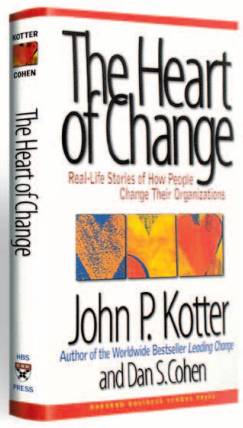
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The Heart of Change

John Kotter and Dan Cohen

SOUNDVIEW Executive Book Summaries®



By John Kotter and Dan Cohen

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Real-Life Stories of How People Change Their Organizations

THE HEART OF CHANGE

THE SUMMARY IN BRIEF

If you've ever tried to change anything, you know how hard it is. How do you go about getting your message across to truly change people's behavior?

While most companies believe change happens by making people think differently, that isn't the case. Instead, according to John Kotter and Dan Cohen, change happens when you make people feel *differently.*

You have to appeal more to the heart than the mind.

In this summary, you will learn about a new dynamic — the "see-feel-change" dynamic that fuels action by showing people potent reasons for change that spark their emotions. Built around the eight steps of change first introduced in Kotter's bestseller, Leading Change, The Heart of Change *gives straight advice on successful change — and true stories of companies making change happen.*

What You'll Learn In This Summary

In the following pages, you will learn about:

✓ **The Heart of Change:** Why people succeed and why they fail at large scale-change and how you can use an eight-step path to success.

✓ **The Need for Urgency:** You will see why you must raise feelings of urgency so that people start telling each other "we must do something."

✓ **Building the Guiding Team That Gets the Vision Right:** You need the right group of people with the right vision to start the change process.

✓ **Communicating for Buy-in:** You will send clear messages about change and remove barriers to those changes.

✓ **Creating Early Wins and Not Letting Up:** You will see why creating an early win is important and why you have to keep momentum up.

✓ **Making Change Stick:** You will learn how to change your organization's culture so that change will stick.

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The Heart of Change

People change what they do because they are shown a truth that influences their feelings. This is especially so in large-scale organizational change, where you are dealing with new technologies, cultural transformation, globalization and e-business. In an age of turbulence, when you handle this reality well, you win.

To understand why some organizations are leaping into the future more successfully than others, you need first to see the flow of effective large-scale change efforts. Change is an eight step process that few handle well. These steps are:

1. **Create a sense of urgency** so that people start telling each other "Let's go, we need to change things!"
2. **Pull together a guiding team** powerful enough to guide a big change.
3. **Create clear, simple, uplifting visions** and sets of strategies.
4. **Communicate the vision through simple, heart-felt messages** sent through multiple channels so that people begin to buy into the change.
5. **Empower people** by removing obstacles to the vision.
6. **Create short-term wins** that provide momentum.
7. **Maintain momentum** so that wave after wave of change is possible.
8. **Make change stick** by nurturing a new culture. ■

See, Feel, Change

Changing one person is hard enough, but changing 100 or 1000 is an almost Herculean task. Yet organizations are doing just that. Most that do so successfully focus on showing what needs to be changed. Once people respond emotionally to the lesson, their emotional reactions propel them into action. They see, then feel, then change. To help them make the leap, you must:

- ✓ Help people see the need for change with compelling, eye-catching dramatic situations to visualize problems and solutions.
- ✓ Let people feel as they are hit with the reality of their situation and feel the need to act.
- ✓ Let people take their emotionally charged ideas into action.

Increase Urgency

In successful change efforts, the first step is making sure sufficient people act with sufficient urgency — with on-your-toes behavior that looks for opportunities and problems and energizes colleagues, that beams a sense of "let's go." Without urgency, large-scale change won't happen.

Four sets of behaviors often stop change. The first is complacency, driven by false pride or arrogance. The second is immobilization and self-protection, driven by fear or panic. The next is "you-can't-make-me-move" deviance, driven by anger. And the last is a pessimistic attitude, leading to constant hesitation. These behaviors prevent people from taking action. Instead, they hold back or complain as others initiate new action. The result is that a needed change effort is derailed.

The first step is not to create a vision. This is especially true if your organization is in crisis, if alligators are nipping at your feet. If they stand on a burning platform, they have no choice but to take immediate action, to jump away from their comfortable positions. Assembling a team to discuss the organization's new vision won't be very successful, because team members will be worried more about self-preservation than the new vision.

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The author: John P. Kotter is a world-renowned expert on leadership at the Harvard Business School and the author of many books, including Leading Change. Dan S. Cohen is a Principal with Deloitte Consulting LLC.

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Angry Customer Videotape Spurs Action

How do you change years of ingrained habits and attitudes? You can try facts and figures, but nothing works better than a shock. That's how one company managed to inspire change in a group of craftsmen who had refused to listen to a key customer's needs and continued to do things their way.

The customer had ordered custom-designed equipment, but found he still had to make significant alterations to the equipment. He told management that he had talked to the craftsmen designing the equipment many times, but that they didn't seem to listen. Sure, they would nod their heads, he explained, but they wouldn't take action. The manager asked permission to videotape the customer's complaints. He then showed the craftsmen the tape. Many were genuinely surprised to see the angry customer complain they hadn't listened. Some thought they were right and the customer wrong. But the overwhelming reaction was that something had to be done. The videotape created a sense of urgency that propelled the craftsmen into action.

Increase Urgency

(continued from page 2)

One company brought the need for change to executive attention with a compelling demonstration. The company bought and ordered gloves for its factories through a decentralized process. As a result, the company bought 424 different types of gloves.

To make matters worse, each factory negotiated its own glove purchases. Some factories paid $5 per pair while another paid $17 per pair **for exactly the same glove!**

To spur action, a manager collected one pair of all 424 types of gloves, attached the price, and placed them on the board room conference table. The vice-presidents were shocked by what they saw and immediately took action to change the company's procurement practices.

Here's what works to motivate action:

- Show others the need to change with a compelling object that they can actually see, touch and feel.
- Show people valid and dramatic evidence from outside the organization that demonstrates that change is required.
- Look for cheap and easy ways to reduce complacency and don't underestimate complacency, fear and anger. ■

Build the Guiding Team

The team you put together to guide change needs a sense of urgency. When there is urgency, more people want to lead, even if there is personal risk and few short-term rewards. But urgency isn't enough. Large-scale change does not happen without a powerful guiding force. A fragmented management team cannot do the job, and a hero CEO doesn't work either. There aren't enough hours in the day for even the strongest executive to accomplish change single-handedly. Your challenge is to put together an effective guiding team.

A powerful guiding group has two characteristics. It is made up of the right people, and it demonstrates teamwork. The "right people" are those individuals with appropriate skills, leadership capacity, organizational credibility, and the connections to handle organizational change. The "right people" aren't necessarily part of the existing senior management.

How do you build a team of the right people?

A single individual who feels great urgency usually pulls in the first people. The people selected create a team with:

- Relevant knowledge about what's happening outside the enterprise (essential for creating vision).
- Credibility, connections and stature within the organization (essential for communicating vision).
- Valid information about the internal workings of the enterprise (essential for removing barriers that disempower people from acting on the vision).
- Formal authority and the managerial skills associated with planning, organizing and control (needed to cre-

(continued on page 4)

The New and More Diverse Team

What happens when an organization moves from acquisition mode to one focused on organic growth? Here's how one company created a new and more diverse team to make the transition. The company had just ended an acquisition phase and found there were no remaining competitors small enough to buy. The deal-maker team had been small and like-minded. It was dominated by people with years of combined banking experience, but few of the skills needed to manage organic growth.

The team the CEO put together was incredibly diverse. It consisted of representatives from every major function: finance, human resources, corporate affairs, IT, regional leaders, and asset managers. Together, the team members represented the entire company. As a result, all viewpoints were represented, and decisions about the path to growth were balanced.

Build the Guiding Team

(continued from page 3)

ate short-term wins).

● The leadership skills associated with vision, community, and motivation (required for nearly every aspect of the change process).

As change progresses throughout the entire organization, additional groups are formed at lower levels. These teams help drive action within their units. Together, these groups form a kind of guiding coalition.

Making Meetings Work

Even something as mechanical as how a meeting is run is important when creating a team. How often should you meet and for how long? What will be on the typical agenda? Who will run the sessions? Are nonmembers welcome? Get the format wrong, and frustration grows. Get it right, and the group pulls together into a powerful force.

Poor meeting structure hurts particularly when a group is new. For example, a meeting at which important issues are discussed over and over with no resolution will drive the team crazy. Bad meetings undermine trust, especially with a new group. How do you avoid this? Stick to one topic per meeting. Put someone credible in charge. The person in charge of the unit or department to be changed has to be a central force in the guiding team. For the sake of the credibility of the effort and to avoid the constant threat of the boss pulling the plug on change, this is essential. ■

Get the Vision Right

In successful large-scale change, a well-functioning guiding team answers the questions required to produce a clear sense of direction. What change is necessary? What is our vision for the new organization? What should not be altered? What is the best way to make the vision a reality? What change strategies are unacceptably dangerous? Good answers to these questions position an organization to leap into a better future.

Unfortunately, guiding teams often have neither clear direction nor are they encouraged to embrace sensible missions.

One reason that smart people create no or poor direction for change is that they have been taught that "charting the future" means planning and budgeting. Truth is, when pursuing large-scale change, the best planning exercise is never sufficient. Something very different is essential. In those organizations that have successfully implemented large-scale change, four things have helped direct action in the right direction. These are budgets, plans, strategies and visions. All four are different yet tightly interrelated, and each requires a different development process.

The *budget* is the financial piece of the plan, and is a math exercise in numbers crunching. The *plan* specifies step by step how to implement a strategy and is a logical, linear process. The *strategy* shows how to achieve the vision, and requires accurate and up to date information about customers and competitors. And the *vision* shows an end state where all the plans and strategies will take you. Visioning requires the creativity to see possible futures. Your vision can fit on a page, while your strategy might take up ten pages. Your plans should fit in a notebook, while your budgets probably will require a large notebook and many meetings.

Bold Strategies for Bold Visions

Today's change visions are becoming bolder by necessity. More and more executives believe that their visions must include being an industry leader, being the firm that's first into new markets, or being the low-cost competitor.

Bold visions require bold strategies, and that's where many change initiatives fall apart. People without experience developing bold strategies can't figure out what to do next because it's so different from what they've done before. They sometimes back away from the obvious because it's threatening. Or they convince themselves that small modifications in their current ways of

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The Body in the Living Room

The change process needs to move forward quickly or it won't go anywhere at all. If you use a strategy of slow change, chances are organizational inertia will take over, no matter what your original vision.

Consider the advice a real estate agent gave a young professional who had stretched his resources to buy a sixty-five year old house that could best be classified as a "real fixer-upper." She told the buyer that he should immediately make a list of the things he wanted fixed, and get it done in the first six months of ownership. If he didn't, she predicted, it would never get done.

He told her he would take five years of slow improvements and get everything he wanted done, done. She said, 'No you won't, because after six months you get used to it. It seems to fit. You get used to stepping over the dead body in the living room." Five years later, he had to admit she had been right. What hadn't been fixed in the first six months never was. It's the same with "slow and steady" organizational change. What isn't done when the momentum is rising won't get done later.

Get the Vision Right

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operating will achieve the vision — eventually. They may even come to believe that the vision is useless because they can't come up with a strategic plan.

The key is to focus on speed. Talking yourself into a very slow change schedule can be disastrous. Nothing may get done! Remember that this is the twenty-first century world. The pace of external change is only going to increase. That means that internal change has to accelerate also.

How do you get the vision part right? Here's what works and what doesn't:

- Articulate a vision that is so clear that it fits on one page and takes less than a minute to share.
- Articulate a vision that's moving — such as a commitment to serve people.
- Create a bold strategy and move ahead quickly.
- Don't assume that logical plans and budgets are enough.
- Don't rely on overly analytical, financially based vision exercises.
- Don't rely on visions that just slash costs. These produce anxiety and depression, but rarely change. ■

Communicate for Buy-In

In successful change efforts, the visions and change strategies can't stay locked in a room with your team. They must be communicated with as many people as possible, who in turn must buy in. The goal: to get as many people as possible acting to make the vision a reality.

When we communicate about a large-scale change, common responses are: "I don't see why we need to change that much," "We'll never be able to pull this off," and "Are you guys serious or is this a joke?" In successful change efforts, the guiding team doesn't argue with this reality. Instead, they find ways to deal with it. They address anxieties, accept anger, and evoke faith in the vision.

Communicating the need for change through a Question-and-Answer session can be effective if done properly. Make sure employees are given a well-prepared presentation about the change effort underway and are encouraged to ask any questions. During the Q&A session, each presenter responds quickly and clearly, with conviction, and without becoming defensive. This demonstrates to everyone that the ideas aren't muddled, that the presenters have faith in the vision, and that those answering the questions think the changes are good.

Nuking the Executive Floor

When one company started talking seriously about its vision of becoming the low-cost producer in its industry, many employees thought the idea was outrageous. After all, the company's executive offices were very grand.

The executive offices had huge rooms, and the joke was that you could play a half-court basketball game in the chairman's office. Almost every executive office had an adjoining conference room and private bath. There was enough polished wood around to build a ship and expensive art on the walls, as well as a private elevator. But discussions got nowhere since redoing the space would cost more than leaving it alone.

When a new CEO took office, he nuked the entire floor. It was gutted, and the expansive offices were replaced by smaller, more contemporary spaces. He sold the art and opened up the elevator. The effect was powerful. The club atmosphere was gone, and the changes would pay for themselves in about two years.

To be effective, the change messages communicated to employees must be simple and heartfelt, not complex and technocratic. Then fear, anger, distrust and pessimism shrink. Feelings of relief and optimism grow. Employees begin to buy into the changes. They waste less time being angry or anxious. They start to take steps to make change happen.

Matching Words and Deeds

People in change-successful enterprises do a much better job than most in eliminating the destructive gap between words and deeds. Deeds speak volumes. When you say one thing and then do another, cynical feelings grow. When you speak of a vision of innovation and then reward people who come up with good ideas or when you talk globalization and then immediately appoint two foreigners to senior management, employees begin to take the message of change seriously.

Matching words and deeds is usually tough, even for a dedicated guiding team. Team members have to help one another. At the end of meetings, for example, they should ask, "Have our actions in the past week been consistent with our change vision?" When the answer is "no," they should ask, " What do we do now and how can we avoid the same mistake in the future?" With a sense of urgency, an emotional commitment to others on the team, and a deep belief in the vision, change leaders will make the personal sacrifices needed to make the message consistent with action. ■

For more information on how one company created a communications portal, go to: http://my.summary.com.

Empower Action

When people begin to understand and act on a change vision, you need to remove barriers in their paths. One example: Take away a pessimistic skipper and give the crew an optimistic boss.

Often the biggest obstacle to change efforts is a boss — an immediate manager or someone higher in the hierarchy. Subordinates see the vision and want to help, but are effectively shut down.

The supervisor's words, actions, or even subtle vibrations say, "This change is stupid." The subordinate, not being a fool, either gives up or spends an inordinate amount of time trying to maneuver around the barrier.

How can you overcome a reluctant boss who has become a barrier to needed change?

Try easing the reluctant boss' attitude through creative approaches. Remember, change can be difficult, especially for someone who has invested psychologically in the status quo. For a fragile and insecure person, change can cause fear, which in turn can lead to the person becoming immobilized. When change does come, the experience can be life changing as the person moves from being stuck in the past to leaping into the future. When seemingly immovable middle-managers feel sufficient urgency, develop sufficient faith in the people leading the change, and see the change vision clearly, they, too, will embrace it.

Removing the "System" Barrier

A second common source of disempowerment is the formal arrangements we often call *the system*. A decade or two ago, this would mostly have been overwhelming bureaucracy — but today the performance evaluation and rewards part of the system is often the stickiest problem.

Evaluations and rewards can disempower when they are at odds with the direction of needed change. "We want you to boldly leap into the future," is the communication, yet the system says, "Boldly leap into the future and you will receive ten cents if you succeed and a hammer on the head if you fail." Conversely, evaluation and rewards can empower people by identifying and compensating behavior that is required by the vision.

When we think of evaluation and rewards, most of us think of money. Few people believe they have all the money they need, and many struggle, even on two incomes. Thus, when there are no economic rewards for transformation, you have a barrier that is very powerful. But the addition of bonuses and raises does not necessarily motivate a change in behavior, nor does it necessarily convince people that if change efforts fail, they won't be punished. Other rewards that strike a cord can include contests and competitions, so long as they aren't cheap manipulations designed to avoid paying for performance. They must be worthwhile.

Removing Other Barriers

After years of stability, incremental change, or failed attempts at change, people can internalize a deep belief that they are not capable of achieving a leap. They may not shout, "I can't do it!" but at some level, they feel it even

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Three Don'ts for the Boss Barrier

When confronted with the "Boss Barrier" to change, most companies take one of three approaches. They either:

- ✓ **Ignore the barrier.**
- ✓ **Send the "obstacle" to a short training course.**
- ✓ **Fire, demote or transfer him or her.**

None of these approaches work. Ignoring the problem won't make it go away. A short training course is equally unlikely to work, since the barrier probably will cynically view it as just another part of the misguided change effort underway. And firing, transferring or demoting the culprit is likely to spread fear to others — hardly the atmosphere you are trying to create.

Manufacturing Movies

At one company, senior managers for years came to the factory floor to "inspect things." The plant manager only received instructions about what needed to be fixed. The visits were never positive until one day a division executive announced that there would be no more plant inspections. Instead, he insisted, the company had to empower the work force. At first, the workers agreed they needed to hold meeting to discuss improvements. These quickly deteriorated into "bitching" sessions. They finally decided meetings did no good, and decided to try something entirely different.

Two workers volunteered to be filmed going about their jobs. They started out following how one product was manufactured, capturing on film everything from getting the raw material to taking it off the production line and preparing to ship it.

As people watched the tape, they could see some of the problems. Workers literally walked miles around the plant to finish one piece of equipment. Workers wasted time getting tools out of cabinets one at a time when they could keep them close at hand. The tape let ideas flow freely as the teams rethought options that would make their jobs easier and safer. The film became a very important tool for the work force. It helped spawn good ideas.

Empower Action

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when it isn't true. We've all seen this. "No," thinks the 60-year old. "I'll never be able to learn to use the computer." But it's all in his or her head — an irrational and psychological block. Never underestimate the power of the mind to disempower, but don't underestimate the power of clever people to help others see the possibilities either.

Another important barrier to remove is the information barrier. Information is a source of power, and lack of information can disempower. One of the most powerful forms of information is feedback on our own actions. We are often remarkably unaware of how we spend our time, how we interact with others, and how we physically move about. When we do get feedback, it comes from another person, often sounding and feeling subjective, biased, or like a precursor to sanctions. So we end up with information that seems suspect. It need not be that way. ■

For a look at how one company "retooled" a manager to enable change, go to: http://my.summary.com.

Create Short-Term Wins

In successful change efforts, empowered people create short-term wins — victories that nourish faith in the change effort, emotionally reward the hard workers, keep the critics at bay, and build momentum. Without early wins that are visible, timely, unambiguous and meaningful, change efforts invariably run into serious problems.

In successful change efforts, an empowered group of people are very selective in how they spend their time. They focus first on tasks where they can quickly achieve results. These wins:

- **provide feedback to change leaders about the validity of their visions and strategies;**
- **give those working hard to achieve a vision a pat on the back, an emotional lift;**
- **build faith in the effort, attracting those who are not yet actively helping; and**
- **take power away from the cynics.**

Without these achievements, large-scale change rarely happens, and no matter how brilliant the vision and how needed the changes, they never take place.

Focus is Essential

In large organizations, a change effort may require hundreds of projects. When people feel urgency and are empowered to act, they can easily charge ahead on all fronts. With scattered attention, you might find the first win in two years — two years too late! Don't focus on 150 projects (as if you could!) Instead, pick four that are likely to get results.

Not all wins are equal. In general, the more visible the victories, the more they help the change process. If you have been a part of enough successful change efforts, you will understand the power of visible, meaningful and unambiguous wins. If you have not, you can miss the mark. Too often we create wins that we can see, but which others do not, at least not to the same degree.

The order of projects can also make an important difference in large-scale change efforts. You can choose to first target a problem based on a logic that seems rational but does not supply enough wins fast enough to build momentum.

For example, suppose the vision is globalization. One choice that seems rational is to work on the manufacturing piece before the marketing. Make it before you sell it. But building the Frankfurt factory can easily take two years, cost a hundred million dollars, and then another year to assess whether the company can handle its first German manufacturing facility. During this time, wins are hard to find.

A less obvious but better choice is to sell a product,

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The Senator Owned A Trucking Company

Here's what happened when a state transportation department implemented a change plan. The agency knew one of the state's senators also ran a trucking company. They approached him to see what the department could do to help companies such as his operate better, thus making the agency's vision of better service to those the agency regulated become a reality. The senator's immediate response was that he was angry the agency made him fill out 15 forms every year, many asking for the same information.

When the change team heard about the problem, they were reluctant to find a solution right away. They had other, bigger plans in mind for transforming the agency, and changing the way trucking companies provide information didn't seem to be urgent. They needed to battle entrenched interests, and redesigning forms didn't seem to be important except that the senator could be in a position to help them later if he saw they were serious about changing. Making truck licensing more efficient could be the early and momentum-building win they were looking for.

A month later, the process had been streamlined from 15 forms into one. The senator was impressed, and the team was enthusiastic about the prospects for real change. A short-term result got the change process in high gear.

Create Short-Term Wins

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then build it. Put together a marketing plan for Germany. Implement a plan at minimum cost with a product from Chicago. Achieve a clear success in less than a year. Choose your first success carefully. It must satisfy the basic criteria: visibility, meaningfulness, unambiguity and speed. ■

For a look at how the U.S. Navy underwent change, go to: http://my.summary.com

Don't Let Up

After the first set of short-term wins, a change effort will have direction and momentum. In successful situations, people build on this momentum to make a vision a reality by keeping urgency up and a feeling of false pride down; by eliminating unnecessary, exhausting and demoralizing work; and by not declaring victory prematurely.

The most common problem at this stage in change efforts is sagging urgency. Success becomes an albatross. "We've won," people say, and you have problems reminiscent of those in step 1. It's easy for those driving change to allow organizational urgency to drop, especially when short-term performance rises. Don't become frustrated, and resist the temptation to "beat up" on your people.

Early in a change effort, you generally take on some of the easier problems in order to establish a few wins and create momentum. Picking up every piece of furniture in a house at once and moving it across the street isn't necessary or feasible. There aren't enough movers. In a successful move, the lighter pieces — pictures and side tables — go first. But sooner or later, you are faced with the credenza. For a move to be successful, you can't stop half-way through. You have to persevere.

It's the same with a major organizational change effort. Simple courage and perseverance help. Better still, structure situations so that people can take risks to deal with difficult bureaucratic and political situations without having to put their lives on the line. Structure situations so that people can gain the power to take on the most intractable problem. Power here means more than authority — it means time, resources and access to get the job done.

Not Killing Ourselves

Deep into a transformation, even if urgency remains high, even if people want to take on the big problems, and even if they succeed in generating waves of change, they can still fail because of exhaustion. After all, key people not only have to do the old work to keep things going, but have to handle the additional work to create the future. The answer is really very simple: When you have too much work, jettison some.

Just how do you do that? Start by looking at day-to-day activities, and deciding if a particular task adds value and absolutely needs to be done. Identify and agree on what people can stop doing, and you won't feel so overwhelmed. This needs to be done as early in the change process as possible. Purge your calendar of everything that has no current pressing relevance. Stop the unnecessary Tuesday morning meeting that's been a fixture for five decades. Eliminate the six reports that you don't need. Teleconference instead of hitting the road. Delegate up, down and sideways. ■

For a look at how one company made drastic changes, go to: http://my.summary.com

Make Change Stick

Tradition is a powerful force. Leaps into the future can slide back into the past. Change sticks only if you create a new, supportive and strong organizational culture. A supportive culture provides roots for new ways of working. Making it stick is difficult. If this challenge isn't met at the end of the change process, enormous effort can be wasted.

Change is often held in place solely by a guiding team, a central player in such a team, a compensation system, an organizational structure, initial enthusiasm over the changes created by the changes, or even less. It may not seem that way. You may think you have built a sturdy house, yet not notice that the walls are being held in place by the construction crew. Eventually, the crew leaves, and gravity takes over. The culture isn't there to support the building.

Culture means the behavioral norms and shared values in a group of people. It's a set of common feelings about what is of value and how we should act. In large-scale change efforts, we use the power of culture to help make a transformation stick. It's hard, because creating a new norm means you need to change deeply embedded norms.

Make sure that the cultural changes you have worked so hard to create are passed on to new employees. Be sure new employees are introduced to the culture early on. Create compelling visions that help new employees become part of the company fast. And don't forget the new culture when you hand out promotions. The right promotions make those that truly reflect the new norms more influential, thus strengthening those norms. By putting into power those people who have absorbed the new culture, you create an increasingly stable and solid foundation. ■

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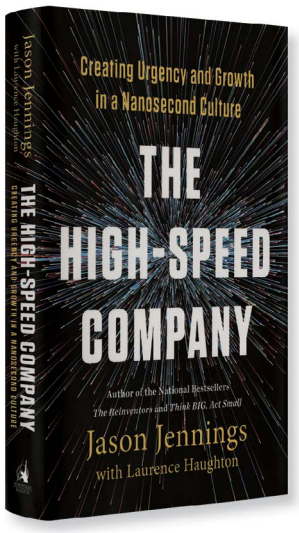
The High-Speed Company

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The High-Speed Company

Creating Urgency and Growth in a Nanosecond Culture



by Jason Jennings
with Laurence Haughton

THE SUMMARY IN BRIEF

Best-selling author Jason Jennings knows that speed is the ultimate competitive advantage. But in 2015, companies of all sizes still struggle to adapt quickly. They know it's crucial to their future but need help to get everyone implementing speed and urgency at all levels.

Jennings and his researchers have spent years up close and personal with thousands of organizations around the world — figuring out what makes them successful in both the short and long term. *The High-Speed Company* reveals the unique practices of businesses that have proven records of urgency and growth. The key distinction is that they've created extraordinary cultures with a strong purpose, more trust and relentless follow-through. These companies burn less energy, beat the competition and have a lot of fun along the way.

Jennings shows how you can implement the same strategies that have made companies such as CoBank, O'Reilly Auto Parts, Grainger, Henry Schein, Google, and Johnson & Johnson great, including encouraging employees to make the right moves without hesitation, doing more to constantly innovate and bring in new customers, and being transparent about management decisions.

Breathe easier. Handle any hurdle. Get things done faster. That's the way of the high-speed company. Jennings shows you how to build and sustain your own.

IN THIS SUMMARY, YOU WILL LEARN:

- The key traits of high-speed companies — and why they outperform.
- How purpose drives high-speed companies.
- How to address the "immutable law of suckage."
- Why high-speed companies are defined by stewardship.

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THE COMPLETE SUMMARY: **THE HIGH-SPEED COMPANY**

by Jason Jennings with Laurence Haughton

The authors: Jason Jennings is a best-selling author of research-based business books, including *The Reinventors*, *Think BIG, Act Small*, and *Less Is More*. He founded Jennings-McGlothlin & Company, a consulting firm. Laurence Haughton has served as the SVP and head of research and development for Jennings' consulting practice and has partnered on five of his books.

From *The High-Speed Company: Creating Urgency and Growth in a Nanosecond Culture* by Jason Jennings with Laurence Haughton. Copyright © 2015 by Jason Jennings. Summarized by arrangement with Portfolio, an imprint of Penguin Publishing Group, a division of Penguin Random House LLC. 240 pages, $27.95, ISBN 978-1-59-184736-6. Summary copyright © 2015 by Soundview Executive Book Summaries®. www.summary.com, 1-800-SUMMARY. For more information about the authors visit www.summary.com or www.jason-jennings.com.

Introduction

The number one priority for business leaders today is creating organizations that work with a fierce sense of urgency in our crazy-busy world and keep their eye firmly fixed on growth.

In 2014 the consulting firm McKinsey published a report titled "Grow Fast or Die Slow," an analysis of the fates and fortunes of 3,000 software and Internet-services companies. The study concludes that companies that combine urgency and growth (groups growing 60 percent or more a year) deliver five times the returns to shareholders and are eight times more likely to reach $1 billion in revenues.

The report also confirms that companies that don't maintain that culture or take their foot off the pedal have only a one in three chance of ever getting back in the fast lane. Less than one in two companies get back on the growth highway at all after they stall. Most are acquired, downsize or go bankrupt.

High-speed companies breathe easier, burn less energy, are never frantic and get to the destinations they've chosen before the competition. Most have a lot of fun along the way. The key to their cultures of urgency and growth is that their leaders have figured out that speed is the thrill, exhilaration and pride that comes with getting rid of the misguided things that most companies do that end up slowing them down and getting them stuck.

Real cultures of speed and urgency are able to solve problems the first time, keep good customers from defecting, empower the 70 percent of all employees who say they're not engaged, allow people to admit mistakes, encourage people to improvise rather than waiting for direction from the top, reduce resistance to new ideas, get more cooperation and coordination across functions and titles, fill open jobs with people who like being fast, and do all of the preceding simultaneously.

It's not easy to set up a culture ready to execute at this level. It requires stretching your organizational muscles in a way you might not be used to — but it's the only way to set your company up for success today.

Purpose

Nobel Prize winner Milton Friedman declared, "There is one and only one responsibility of business, and that's to make as much money as possible." Business needs to do well, according to Friedman — not do good.

Believing that great leaders must focus on making as much profit as possible, do this any way they're able and leave it to others to do good works creates a major obstacle for any business that wants to become a high-speed company. Companies with a proven record of urgency and growth have torn down that figurative wall between doing well and doing good.

Hundreds of companies of all sizes and across all industries prove the first step to building an organization with a sense of urgency is identifying a purpose that attracts, unites, ignites and fuels people. That purpose needs to address doing good outside the company with the inferred promise that benefits will accrue to those inside the company as well.

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A sense of purpose begins with the person in charge, be it the owner, founder, CEO or manager. Purpose might also naturally occur to a very small group of people who are about to start a venture together. Crucially, it's not something formulated by a committee, and it's definitely not the result of a joined-hands kumbaya exercise conducted and voted on at an offsite retreat.

Creating and Cascading Purpose

As the leader of a large company, a small business, an entrepreneurial start-up or a division within a company, you can find your purpose by reflecting on why the company was founded or on a moment when the company did something good or touched a customer in a profound way. Was it something a customer said? Are you remembering a time you swooped in and made a bad situation better? Was it an accomplishment the cynics said was impossible? The leader holds the establishment and protection of purpose in his hand, though the team has to support and execute.

Keep It Brief: You must be able to state your purpose clearly to another person and evoke a strong emotional reaction in only a few words.

Make It Memorable: Way back in 1930, Mike Cullen, an employee of Kroger Foods, wrote a letter to the company's president, Bernard Kroger, proposing a new type of store called a supermarket that would offer low prices on consumables but wouldn't offer delivery or allow customers to charge their groceries to store accounts. He never received an acknowledgment or answer from Kroger, so he took his life savings and moved his family to Long Island, where he opened America's first supermarket. What gave Cullen, his family and his employees the grit they needed to revolutionize the grocery industry? A clear purpose: "to become the world's greatest price wrecker."

It's Great to Be Foolish: What's big enough and important enough to you that you're willing to look (or feel) foolish for persisting and persevering?

Get Your Senior Team on Board: Unless all the senior leaders believe and are seen as believing in the same thing, the company will eventually become filled with discord and subversion and eventually go off the rails or implode.

Hire Only Those Who Believe in the Good You're Trying to Do: James Archer, founder of Multi-Chem, says, "Hire hard and manage easy. When you hire people of integrity who are capable of doing the job, want to be part of what you're trying to do and share your purpose, you don't need a lot of rules. Rules are for the 2 percent of people who need them. We'd just rather weed those people out before hiring them."

Give the People the Why and They'll Give You the How: If you want to build and lead an enterprise with a culture of urgency and growth, the only proper and logical starting point is to begin by making certain that everyone knows and believes the company's purpose, the why. It will change your destiny. Bob Engel, CoBank's CEO, said it best in sharing his insightful observations on purpose: "When people know and buy into the why, they'll figure out the how."

Principles and Values

Guiding principles are rules that leaders use to select the tactics they're going to use. Think of them as the "shalls" and "shall nots" of the company culture that keep everyone true to their stated purpose.

Without guiding principles, companies end up clutching any available tactic in order to try to hit their numbers. Just as you would never build a house without a foundation because it would topple, trying to have a culture of urgency without a set of guiding values will ensure only that the company is in constant turmoil and eventually will careen out of control.

Creating and Cascading Your Guiding Principles

Guiding principles should be simply stated and easy for everyone to understand but based on tremendous underlying wisdom. Each should be broad enough to guide actions at every level, from the shop floor to the C-suite, yet specific enough that people can see where they are accountable. They should be inspirational and memorable enough to make your people proud of this call to action.

Make a Short List: You don't need more than five or six guiding principles. State each guiding principle in as few words as possible, and then hang some flesh on the bones with a brief explanation that provides context.

Buy-in at the Top: One of the best ways of gaining buy-in from the rest of the top leaders is by involving them in the creation and drafting of the guiding principles. Committing your guiding principles to paper shouldn't take long. Chances are good that there are already a number of values you share.

Flow Guiding Principles Through the Company: If you're leading a small company, the best way to move the guiding principles down through the company is in a series of one-on-one or small-group meetings. In a large enterprise, it's better to opt for a gathering of the top leadership and have the top dog present the guiding principles.

Post Them Everywhere: If it's true that calling someone a horse 10 times means they'll start looking for hay, then the same applies to guiding principles. When they're everywhere around people and when they encounter them scores of times throughout their typical workday, it's inevitable they'll eventually sink in.

Celebrate Them: Start every staff meeting by singling out someone who scored a win through the use of your guiding principles. Or feature on the front page of your website the employee of the month who best exemplifies living your values and putting them into action.

Get Rid of the CAVE people: Despite your best efforts to help them out, one of the big challenges occasionally faced by leaders is facing card-carrying members of Citizens Against Virtually Everything. These are the whiners, whingers and complainers who believe that yesterday was better than tomorrow and that the company's best days were in the past. Go ahead and counsel them one more time; try to get them on board. But if you fail, they need to leave. Do it for cause, do it legally and do it quickly.

The Customer

By the time a company recognizes it sucks, it has sucked for a very long time. That's our immutable law of suckage. We call the law of suckage "immutable" because it happens to companies in all industries. All those top executives in organizations currently circling the bowl, and the ones that have already gone down the drain, failed to see that their companies sucked before they started massively hemorrhaging customers and their suckage soured their remaining client relationships.

Topping the list of guiding principles at companies with cultures of urgency and growth is the critical importance of anticipating and then exceeding customers' expectations. Whatever a client expects must be delivered, and when it's not, that has to be noticed and resolved with absolute urgency.

You need to get close to the customers, discover how they live their lives, and learn their hopes, needs, wants, aspirations and dreams. Only then can you have the understanding and the motivation to exceed your customers' expectations and totally satisfy them.

Creating and Cascading 'Customers First'

How do you stay ahead of the immutable law of suckage and stay tuned to your customer in order to keep your company nimble?

Know the Value of Your Customers: In order to think fast and move faster and grow the business, you need to do a checkup from the neck up. Your checkup starts with understanding the immense value of a regular customer. Here's an easy formula for determining the value of a customer: Average value of a transaction x Average number of repeat transactions annually x Years of average (or potential) retention rate = Lifetime value of a customer. Any business can generate sufficient data to determine the annual and lifetime value of a good customer.

Implement a Good Listening Program: No organization will ever become a high-speed company without having an institutionalized program of listening to the marketplace.

Learn to Say You're Sorry and Show You Mean It: If you want to avoid defections and recover from outrage and regret your company created when you failed to deliver what was expected, Bob Engel of CoBank says you've got to learn to say you're sorry for a misstep and show you mean it. Here's his advice:

- Use your "A" team.
- Listen, really listen.
- Don't jump to resolutions.
- Take heavy action.

Ban That Other F Word: Like the little kid who keeps pestering from the backseat with, "Are we there yet?" business has too many people who are always wondering, "Are we finished yet?" No business that hopes to keep thinking fast and moving faster will ever be finished when it comes to completely satisfying its customers. As expectations are met, customers want more. You are never finished combating suckage.

Transparency

According to the 2014 Edelman Trust Barometer, only one in five people believes business leaders tell the truth and make ethical and moral decisions.

Because employees across demographics tend to distrust business and business leaders, they're less likely to quickly adopt new thinking and follow through on new ideas. Only when you find a way to gain people's trust and get more buy-in can speed become your competitive advantage.

Creating and Cascading Transparency

Here are the steps you can take toward greater transparency and destruction of cynicism, things you can do that will make a huge impact by fostering openness among your team.

Connect the Dots: Everyone who works for you should know how their role creates value for the company. They should especially learn the economic value they create and how it can be measured (by you and them).

Stop All the "Closed-Door" Nonsense: In most instances, policies like keeping secrets, operating with a "need to know" mentality and asking people to sign nondisclosure agreements have gone over the top and exist only to confer special status on a few, to let them feel more special than the people they lead. This practice perpetuates the hierarchical BS machine the company has built. Such people's secrets, not their accomplishments, are the only things that allow them to feel important. You can't have transparency when paranoia is an integral part of the culture and everything's hush-hush.

Make Every Directive Clear: Transparency starts with clarity. A great step toward transparency in any organization is to say, "I don't know" when you don't know. Ask your team or fellow leaders for help or feedback. If you need time to formulate clarity of strategy, say so!

Keep It Simple: Physicist Michio Kaku believes that scientists must keep everything simple. He recommends that his peers accept Einstein's directive: "If you can't explain a theory to a child, it is probably worthless." That's good advice for everyone in business too.

Make It Okay to Make Mistakes: Making mistakes isn't a sign of poor leadership — and allowing your team to make, report and learn from mistakes in a united, fast-moving environment is a sign of great leadership. Fast companies gain velocity by making it okay to make mistakes, by being careful to learn from their failures.

End the Spin: Most people have great BS meters and are smart enough to know when they are hearing something authentic and when they are getting snowed. Every time you spin the truth or deceive them, you make them a little more cynical. In our nanosecond culture, you are better off being known as an honest, straight shooter than an evasive, double-talking politician.

Thank People for Their Vigilance: College students are 10 times less likely to cheat when they can see themselves in a mirror. In business, the concept of the mirror is one of the powerful tools for getting things done right faster; 360-degree feedback is a great mirror, as is the offsider (the trusted associate who will tell you your baby is ugly). Best of all is a boss who has a direct line encouraging straight talk about everything.

Systematize Everything

Over the last seven years, spurred by the financial meltdown of 2007 and global recession of 2008, high-speed companies have connected some dots that their slower and less adaptable competitors have not. The most successful companies understand that to make every part of business more reliable, productive and teachable, to quickly and dramatically speed things up and improve results for customers, workers and leadership, they need to systematize everything.

The steps of systematization are standard for any job at any level. High-speed companies start with a clear, specific, and measurable outcome and then examine the actions that currently produce the outcome, consulting data and history and looking for waste (of time or money) or gaps in the outcomes achieved. Then, by asking lots of questions, considering a lot of fresh ideas and consulting its guiding principles, the company aims to map out the best way to get to a desired outcome.

Good systems have four components:

- They offer the best way to achieve a specific outcome.
- They require that everyone receive training.
- They don't allow deviation.
- They offer a baseline for continual improvement.

Creating and Cascading Systematization

Here are four simple steps that guarantee the closest thing to flawless follow-through anybody has ever seen:

1. Involve the Top Dogs. There are three critical reasons why the top man or woman must be part of the systematization efforts: They and they alone negotiate the expectations outside the firm; they have the power to protect the tender green shoots of success; the CEO must also be the CGO — Chief Grit Officer. Grit is the ability to maintain momentum long after the mood has passed.

2. Select Your Fastest People. Eighty-three percent of people will sit on their hands at the introduction of any change in routine. Once you've decided to launch your systematization overhaul, you need to find enough 17 percenters to pitch in and make it work. They're the people who welcome change, show initiative and are the first ones to raise their hands and shout, "Pick me, boss, pick me!"

3. Choose a "Wow" Event. To melt resistance and get people off their hands, you need a powerful success story, one that will make people believe in the power of systematization and get them amped to apply systematization in other parts of the business. It can be small, just not insignificant. The idea is to get people to say, "Wow."

4. Follow Through Quickly. Coolertown is the space in the break room around the watercooler. That's where politicians hold their whispering town halls, explaining to anyone who will listen why things can't change and

won't work out as leadership wants. By nature, these people move slowly and hate speed. So when you actually follow through fast, you can catch them flat-footed. Before they are able to create fear, uncertainty and doom, you've already provided real examples of success and exuberant advocates from your organization's rank and file.

Always Let the Best Idea Win: Search for good ideas relentlessly. Ask, "Who has solved this problem or a problem with similar features?" and bring in outside voices. Adopt an inquiry mode of discovery, asking yourself and your team questions that draw out possibilities rather than shut down people who express unconventional opinions. Ban negativity in your problem-solving discussions. Statements like "I'm fundamentally opposed to that" or "We tried that and it didn't work" or "Let me play devil's advocate" have no place in this world.

Communication

If you believe that one reason high-speed companies are fast is because they do a good job of communicating from the top down, you're not wrong. But if you believe terrific top-down communication is the result of the "I talk and you listen" practiced by executives at most companies, you're mistaken.

The greatest leaders, those committed to building faster organizations, know there's no way to lead anybody anywhere — much less to do so quickly — without knowing where each person wants to go, how soon he wants to get there, what he is willing to invest to get to the destination and his level of commitment to the team.

Creating and Cascading Better Communication

Consider the following suggestions for how to communicate in your company.

Check Yourself: People have really good BS meters. Don't try to fake sincerity. If you can't bring your head and your heart to the discovery conversation, you're better off postponing or getting someone to help.

Timing is Everything: Don't try to have a discovery conversation in an office or cube without privacy. Open doors, constant interruptions, devices ringing and pinging, and people poking in for a quick response to a question aren't conducive to the flow you're trying to achieve.

Be Vulnerable: Most people will at least temporarily suspend any sense of disbelief when you approach them with the following: "Carol, I think I'd be able to be a better leader and help you get to where you want to go if I knew a little more about you and learned where you want to go and what you want to achieve in life. Can we spend some time talking about you?" In this case the two parties have both just made themselves a little vulnerable, the boss by saying she'd like to be a better leader and the employee by agreeing to the conversation.

Repeat What You've Heard: When you hear something that's potentially important, use a small gesture to pause the conversation and say, "I want to make certain I understood what you just said. Did I hear correctly that ____?" When you repeat information, you'll stand a better chance of remembering it.

Tie Their Goal to Yours: When you know what people want to achieve, you're able to (and should) employ every tactic of a great sports coach: Cajole, push, challenge, remind them of the championship they said they wanted to win, and passionately care about their getting to where they said they wanted to go.

What Are They Prepared to Invest? Once you've truly listened and heard about their hopes, dreams and aspirations, there's a final question you need to ask: "What are you willing to do, what are the things you're prepared to do to achieve what you say you want to achieve?" Their answers to questions about what they're prepared to commit and undertake will speak volumes about their character.

Hear Them, Then Lead Them: No matter who you are, you'll inspire more, motivate better, engage your team, and get people to put their hearts into being faster and following through when you ask great questions, learn everyone's story, commit to helping them reach their potential and connect the group's goals to where each individual wishes to end up.

Accountability

We've all seen accountability work miracles. It directs attention, focusing people toward completion of relevant actions and away from irrelevant tasks. It motivates individuals to search for new knowledge as well as to use all their current capabilities. Employees who are accountable to themselves, their teammates, their bosses and the organization for specific, measurable goals learn more new things than those who feel less responsibility for specific outcomes.

And when individual accountability is teamed with timely and relevant feedback from supervisors, especially feedback that shows how individual goals affect the outcomes of others, groups become more cooperative and coordinated, more likely to initiate problem-solving com-

munication to overcome obstacles and achieve the group's goals on time.

Creating and Cascading Accountability

Do these things consistently, and eventually you'll have a cult of clarity and engagement and a high-speed company that outperforms the competition.

Prioritize Fanatically: If you want to be an effective executive, Peter Drucker advised in his famous book of the same name, do "first things first and second things not at all." Time is a leader's most limited resource, and according to Drucker, that means managers have to really prioritize.

Be Obsessive About Clarity: As the leader, it's your role to serve as the destination expert, constantly reminding everyone about the importance of his or her role in reaching the places the business is trying to reach, the good you're going to do, and how you're making the world a better place for your customers and your employees through your company's work.

Negotiate All Expectations: The most successful leaders have learned that they need to manage both up and down, leading both their bosses and their subordinates to be more effective. Often they must turn the vague, general and conflicting goals of their bosses into specific, measurable and agreed targets so they can give their people clear directions. It's a lot of work and requires strong communication skills.

Give Competent Feedback: All year long people need to adjust, tune, get refreshed and put things in their proper perspective. Critiques can't really help if you get them in one big dose with the year-end performance review. It's just common sense. To sustain life, food needs to be consumed daily. The same is true of feedback. Even more important than regularity is that critiques be helpful, useful and knowledgeable.

Prosperity

Companies committed to the financial prosperity of their workforce have five traits in common. They are committed to consistent growth, quick advancement of talented team members, a culture of abundance, a fierce sense of fairness and security for team members.

Consistent Growth: If you fail to grow, you'll fail to create prosperity for your workers. The two are inseparable. Growth, therefore, must always be the top priority in a high-speed company.

Advancement: According to 2014 research reported in *Forbes*, an average of 2.5 million people wave goodbye to their boss each month in the United States. Turnover and employee churn are the enemies of cultures of speed and growth. Vast amounts of time and resources are spent on screening, hiring, training and trying to bring up to speed replacement workers. The best way to make certain that the entire workforce is aware of opportunities for advancement within a company is by practicing what you preach. If you truly have a policy of promoting from within, do it and make each promotion a cause for celebration.

Abundance: Leaders who don't believe there's enough to go around become takers. Eventually they will be surrounded by others who share their negative view of the world. These are not good ingredients for building a fast company.

Fairness: High-speed companies with cultures of urgency and growth are much more egalitarian in nature. There's nothing wrong with CEOs and senior leaders being justly and highly compensated for the economic value they create. What isn't right is when a few folks at the top have looted the coffers, and there's nothing left to compensate everyone else in the organization for the value they've created and provide them with a path to further prosperity as well.

Security: In recent years, knowing you'll even have a job tomorrow has become an important part of prosperity planning for people. Prosperity planning at O'Reilly means quickly promoting and rewarding workers as soon as it's become obvious they've bought into and become part of the culture and have mastered their jobs. Greg Henslee says, "Once people show us, 'Hey, I can do this job,' we say, 'Well, maybe they can do this other job too,' and we promote them and give it a try."

Creating and Cascading Prosperity

Companies that provide the right people challenging work, constant opportunities for advancement, fair compensation that acknowledges the value they've created, a solid benefits package that doesn't favor only a few at the top, stock or shadow stock options and/or a chance of buying in and becoming an owner, and thanks for a job well done will attract and keep the right workers.

What Would You Invest? Now it is your turn to prepare people to do their part in creating prosperity. Here are questions you should ask:

What would you like to be earning in the next 12 months? In 24 months? In five years?

What new responsibilities or professional advancement would you like to achieve in the next two years and in five years?

What do you believe are your top three skills that would qualify you for the kind of promotion you would like?

What do you need from me?

How can I help you?

What you are looking for here is for your direct report to help you construct a road that includes your participation as his leader.

Stewardship

The people who lead the fastest and best-performing companies don't see the world's problems, opportunities, rewards and costs through the lens of what these things mean to them. They understand that true happiness and satisfaction come when we focus on others. They are, at heart, caregivers who see their purpose as being the best stewards of the resources, both tangible and intangible, that have been entrusted to them and making sure that all assets are used efficiently, effectively and profitably.

Stewards share the understanding that their work and their effort are mostly about other people: inspiring them, celebrating them, serving them and genuinely liking them. They also have a humble understanding that their mission is to improve the well-being of five different groups: workers, customers, vendors and suppliers, investors and owners, and society.

A steward's purpose in a high-speed company is to cultivate assets and grow them successfully for the benefit of employees, customers, investors, suppliers and society. Assets are both tangible things like equipment, patents and customers and intangible things like how-to knowledge, brand reputation and great relationships. Stewards look to improve such assets through thoughtful action, sowing the right seeds, adding necessary nutrients to the environment, removing things that inhibit growth, reducing resistance and generally advancing the potential growth of the firm so they can provide a good return on investment for those same five groups.

Creating and Cascading Stewardship

Stewards starve the wolf of negativity, cynicism and bureaucracy. In contrast, they feed the wolf of adaptability and respect.

Adaptability: Jim Ryan, Grainger CEO: "You have to adapt to customers. Anything they buy from us they can go down the street and buy from someone else," he says. "We live and die based on our ability to deliver better and exceed expectations. But expectations are a moving target. The needs of customers change, behavior changes and the competitive environment changes. The challenge is to keep the cornerstones of our culture strong while we flex, adapt and grow."

Respect: Showing respect starts with what you believe is going on inside other people's heads. Do you believe most people are trustworthy? Do they like responsibility, or do they shirk it? Do you think most people prefer to work rather than sit idle? Do they want meaning from their daily work, or is it just about a paycheck for most of them? Do they like to learn, or is that just too hard? Finally, do you believe most people will resist or embrace adapting and bettering themselves? Your beliefs influence how you communicate, what you read between the lines, and the respect or lack of respect that is implied when you communicate freely or cut off any input.

It's time for you to ask yourself two important questions. The answers will reveal not only the real you but also how ready you are to lead a high-speed company that will be able to withstand the tests of the marketplace and of time.

1. Is everything mostly about you or mostly about others?
2. Are you ready to be a good steward in everything you do?

If you decide that you're prepared to be a good steward in all you do and everything you undertake, the only Fast Task you need to do is to pick one time every day to briefly renew the promise you've made to yourself and say, "I will be a good steward in all that I do."

RECOMMENDED READING LIST

If you liked *The High-Speed Company,* you'll also like:

1. ***Capturing New Markets*** **by Stephen Wunker.** Wunker advises the first step to discovering new markets is to stop applying traditional formulas of success and understand the dynamics in fast-changing new markets.

2. ***Escape Velocity*** **by Geoffrey A. Moore.** Moore offers a plan for moving beyond past success and driving next-generation growth from new lines of business.

3. ***Now...Build a Great Business*** **by Mark Thompson and Brian Tracy.** Straightforward, powerful strategies to ignite growth in your business, with insights from face-to-face interviews with world-class business leaders.

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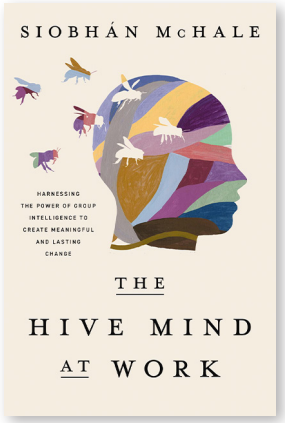
The Hive Mind at Work

Siobhan McHale

Executive Book Summaries®

The Hive Mind at Work

Harnessing the Power of Group Intelligence to Create Meaningful and Lasting Change



by **Siobhan McHale**

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THE SUMMARY IN BRIEF

Organizational leaders need a new approach in this era of relentless innovation, global crises, ferocious competition, and unstoppable disruption. Organizations need to adopt a new approach to change management by recognizing that they function as complex ecosystems rather than machines or social networks. In ***The Hive Mind at Work: Harnessing The Power of Group Intelligence to Create Meaningful and Lasting Change***, a powerful analogy between organizational change and the behavior of a bee colony is explored. The book emphasizes that organizations should be viewed as complex ecosystems rather than machines or social networks. The concept of group intelligence (GQ) is introduced as a more effective model for navigating the complexities of organizational change.

Drawing on the Hive LENS framework — Looking Beyond, Experimenting, Nudging, and Strengthening — the book illustrates how leaders must understand and leverage group dynamics to foster meaningful, long-term change. Key examples from industry leaders highlight how organizations can thrive by viewing themselves as interconnected systems where every part plays a unique role in the transformation process.

IN THIS EXECUTIVE BOOK SUMMARY:

- Recognize organizations as ecosystems requiring group intelligence (GQ) for successful change.
- Apply the Hive LENS model to drive meaningful, lasting transformation.
- Understand and leverage group dynamics to foster long-term shifts.
- Cultivate a balanced environment for adaptation and continuous progress.

EXPLORING THE HIVE'S WISDOM

Organization's change failures usually stem from two conventional ways of thinking about transformation:

1. Organizations function like machines, where managers can "fix" problems with an engineer's mindset (intelligence quotient or IQ).
2. People form social networks wherein individual influencers can make change happen by developing effective interpersonal relationships (emotional quotient or EQ).

This book introduces a third option: organizations are complex ecosystems that require a Hive Mind or group intelligence (otherwise known as group intelligence quotient or GQ) to get optimal results.

Major organizational change is complicated. It often requires groups of people to change: frontline employees, managers, executives, customers, potential customers, suppliers, investors, community members, and government bodies.

Organizations as machines: This traditional mindset views change through a mechanistic lens, treating organizations like machines that can be adjusted with technical precision.

Organizations as social networks:This emphasizes the importance of relationships and emotional intelligence (EQ) in driving change. Here, individuals are seen as nodes in a web of relationships, and change is driven by understanding and influencing those connections.

Organizations as ecosystems: A third option recognizes that organizations are more than machines or networks — they are living, adaptive ecosystems. This perspective focuses on understanding how all parts of the organization interact within their environment.

Leaders must develop group intelligence (GQ), focusing less on individual behavior and more on how the collective operates. Change is complex and requires time, patience, and an understanding of group dynamics. Leaders must learn to embrace the interconnected nature of organizations to drive lasting change.

Embracing this ecosystem approach, leaders can shift away from the rigid control of the machine metaphor or the hyperfocus on individual behavior from the social network view, instead fostering environments where the collective intelligence of the group can thrive.

CREATING A COMPELLING CASE FOR CHANGE

Bees instinctively understand the need for preparation when facing change. When the hive becomes overcrowded, the queen, along with half the colony, sets out to establish a new home. Worker bees carefully plan for this transition, constructing cells for new queens, and preparing the old queen for her journey by ensuring she is lighter and ready for travel. This meticulous process ensures the hive's survival and success.

In contrast, corporate leaders often fail to lay the necessary groundwork for change, leading to costly failures. A striking example is Apple's botched 2012 launch of Apple Maps. In its haste to compete with Google Maps, Apple rushed into a highly complex market without thoroughly considering the nuances. The lack of preparation tarnished Apple's reputation, demonstrating that reacting impulsively to a competitive threat can do more harm than good.

To create a compelling case for change, leaders must resist the temptation to react hastily, especially under pressure. Thoughtful planning, understanding the intricacies of group dynamics, and anticipating challenges are essential. Without a well-crafted vision, organizations risk making impulsive decisions that lead to inefficiency, financial losses, and damaged reputations. Leaders must take the time to envision a better future, build a solid case for change, and guide their teams toward success with clear, deliberate actions.

TESTING NEW FLIGHT PATTERNS

In the late afternoon light, as a swarm of bees leaves their overcrowded hive, they settle temporarily on a nearby branch. Time is of the essence — they must find a new home quickly or risk disaster. The bees don't rush into a decision but rather collect information from many sources, weighing the best options before selecting their new home. This thoughtful, experimental approach to change is crucial for survival.

Amazon founder Jeff Bezos embraces this same mindset. Despite the failure of the Fire Phone in 2014, Bezos saw it as a learning experience, leading his team to ultimately create the successful Echo. By encouraging experimentation, Bezos allowed Amazon to continuously adapt and thrive.

Too often, leaders attempt change using a rigid, step-by-step approach that ignores the complexities and unpredictabilities of real-world environments. Organizations must experiment with new flight patterns before committing to

For change to resonate across and entire organization, leaders must also generatate excitement and communicate effectively.

major changes. This requires shifting from a traditional Production Operating Model, focused on daily tasks, to a Change Operating Model, where every team member takes on a role aligned with the larger transformation effort.

Successful companies like Amazon, Apple, and Microsoft have all embraced this experimental, adaptive approach. By redesigning roles and fostering innovation, they've led their industries, proving that meaningful and lasting change is achieved through careful planning, experimentation, and continuous measurement.

MAKING THE CRITICAL CHANGE DECISIONS

When a colony becomes too crowded, the bees instinctively know it's time to split and find a new home. Through a collective process of gathering and evaluating information, the hive makes the best decision for its future home, ensuring survival and success.

David Novak, former head of marketing at Pepsi, learned a valuable lesson about the importance of collective wisdom after the failure of Crystal Pepsi. Despite warnings from others within the company that the product wasn't up to par, Novak pushed ahead, believing he knew best. The result? One of the most memorable marketing flops of the 20th century.

Successful organizations rely on the collective intelligence of their teams. James Dyson, for example, didn't single-handedly develop the Dyson Supersonic hair dryer. Instead, he activated a Hive Mind of over 100 engineers and experts who worked together, eventually leading to an award-winning product. This concept of "emergence" emphasizes that change doesn't come from one individual; it comes from the interaction of all parts of the organization working together.

The key to meaningful change lies in empowering those closest to the work to become creative problem-solvers. Organizations that resist bureaucracy and allow their employees to act independently can streamline operations and achieve record-breaking success.

For change to resonate across an entire organization, leaders must also generate excitement and communicate effectively. Leaders must similarly craft messages that are clear, concise, and compelling to ensure that the Hive Mind remains aligned with the vision for change.

Ultimately, leaders who embrace the collective intelligence of their teams, eliminate bureaucratic obstacles, and communicate effectively will foster an environment where change emerges naturally, leading to lasting success.

EMERGING HIVE-WIDE LEADERSHIP

During a hive's transition to a new home, each bee plays a vital role. Similarly, human organizations need every member to step into their change leadership roles when navigating transformations. This was a hard lesson learned by Jamal Jackson, the newly appointed CEO of AAADoorShop, who was tasked with making the company more competitive.

Jackson initially believed that as CEO, he could bring about the change single-handedly. However, he quickly realized that even the most charismatic leaders can't enact meaningful change alone — they need the support and leadership of the entire organization.

The key to successful change lies in understanding the four critical leadership roles: Delivery Leader, Performance Coach, Business Strategist, and Change Leader. Leaders must fluidly transition between these roles as needed, depending on the situation.

Leaders must avoid three common mistakes: carrying change passengers (people disengaged from the process), playing the Puppet Master (micromanaging), and failing to live by their organization's values. Leaders like Jackson who can overcome these pitfalls, empower their teams, and lead by example can drive meaningful, lasting change.

NUDGING THE HIVE FORWARD

After surviving a perilous night on the exposed branch, the bees know they have limited time to reach their new home.

Their urgency is clear, but instead of chaos, they nudge one another with gentle headbutts and high-pitched beeps, signaling it's time to move.

Similarly, change within human organizations often requires a gentle nudge rather than force.

Many leaders mistakenly believe that pressure and urgency are the keys to successful change. Some even use the "burning platform" approach, setting a fire under their teams, hoping fear will spur action. But this tactic is counterproductive. When leaders push too hard, it often ignites resistance rather than progress.

Take the case of Juliette Garnier, CEO of Metro City Hospital, who faced backlash after aggressively imposing a 10% budget cut on already strained departments. The result? Silent resentment followed by a planned nurses' strike. It wasn't until she softened her approach — asking for collaborative solutions — that her team came together and proposed a savings plan that improved efficiency without sacrificing patient care.

Leaders must also be prepared for objections and resistance, as was the case with Toys "R" Us, whose leadership resisted change and ultimately failed. Management blocked employee suggestions, clinging to outdated strategies until the company was forced into bankruptcy.

Had they nudged their business model forward in response to shifting customer behaviors, their story might have ended differently.

It's not just external forces but also internal assumptions that can block progress. When Clancy Builders resisted adopting new technology, their general manager, Aisha Sultan, didn't push back; instead, she nudged her team forward by piloting the new system on a small project. Once the benefits were clear, the entire company eagerly adopted the change.

In complex ecosystems, where every change can trigger a ripple effect, nudging is more effective than pushing. It's about understanding the interconnectedness of the system and guiding it forward with subtlety and care. Leaders who adopt this approach will find themselves guiding their organizations to meaningful and lasting change without the backlash that comes from pushing too hard.

REACHING CRITICAL MASS

As the sun rises and the bees swarm toward their new home, they embody a crucial phase in any change process: reaching critical mass. Much like a bee colony uniting to occupy a new space, successful leaders help their teams hit a tipping point where change takes root and spreads throughout the organization.

This tipping point, where small shifts lead to widespread transformation, is vital for momentum. Leaders need to nurture this moment carefully, ensuring that the energy and excitement don't fade into cynicism or inertia.

The same principle applies in the business world, where harnessing group intelligence can yield dramatic results. Take Nik Robinson.

With his company Good Citizens, he didn't just create sunglasses from recycled plastic bottles; he created a viral change movement that captured people's imaginations. His persistence paid off when his sustainable sunglasses were displayed alongside luxury brands at Selfridges.

Symbols, too, play a critical role. They help translate abstract concepts into something tangible and memorable. At Lego, the "war room" symbolized the company's fight for survival, rallying employees to work together and turn the company around.

Rituals further cement these changes. Just as Amazon's "6-pager" practice transformed how employees communicated new ideas, rituals help groups internalize and repeat behaviors until they become second nature. These daily habits, honed through repetition, build the confidence needed to sustain transformation.

In the end, reaching critical mass in any change initiative requires thoughtful leadership. Leaders must deploy stories, symbols, and rituals to guide the swarm, helping the group coalesce into a powerful, unified force for change.

Only then can they nudge the organization toward its tipping point, where momentum takes over, and lasting transformation becomes inevitable.

ALIGNING TECHNOLOGY AND PROCESSES

As the bees reach their new home, they instinctively know that constructing the right infrastructure is critical to their survival. In the same way, organizations embarking on transformation must ensure they have the proper systems, processes, and tools in place to support and sustain the change.

Even when new systems are introduced, people can slip back into familiar routines, derailing progress.

Chipotle's journey from crisis to recovery is a prime example of how essential it is to strengthen internal structures. After foodborne illnesses struck hundreds of customers, the company turned to food safety expert Mansour Samadpour. His efforts mirrored the bees' precise construction of their hive, as he implemented new safety protocols, centralized food preparation, and enforced wellness checks.

Clear processes and procedures are vital to the health of any organization. They act as the foundation that supports change. Toyota's renowned Toyota Production System (TPS), with its emphasis on jidoka (automation with human oversight) and just-in-time production, exemplifies the power of well-designed processes to drive a company forward. Through its meticulous adherence to these practices, Toyota grew from a small operation to a global powerhouse.

In the digital age, embracing technology can be the catalyst that accelerates transformation.

However, having the right tools is just as crucial as adopting new technologies. When Southwest Airlines faced a massive operational meltdown during the 2022 holiday season, it became clear that outdated systems hindered their ability to respond to crises.

Tracking progress is another key aspect of ensuring success. Organizations must use data and metrics to monitor their transformation. Hershey CEO Michele Buck exemplified this by setting measurable goals for diversity and inclusion within the company. By tying progress to executive performance, she ensured accountability and maintained focus on the company's goals.

By designing clear processes, embracing technology, using the right tools, and measuring progress, leaders can guide their organizations toward lasting success.

MAKING THE CHANGE STICK

Just as the bees tirelessly forage for nectar in preparation for winter, ensuring their hive's long-term survival, so must organizations press forward to make lasting change. Satya Nadella's leadership of Microsoft is a prime example of this relentless pursuit of innovation.

Taking over in 2014, Nadella transformed Microsoft from a company stuck in old patterns into a $1 trillion tech giant by consistently reinforcing a new path focused on collaboration and reinvention. Despite reaching such heights, Nadella warned his employees that resting on past successes would lead to decline, emphasizing that they needed to keep moving forward.

Old habits are tough to break. Even when new systems are introduced, people can slip back into familiar routines, derailing progress. This was evident at ANZ bank, where, despite years of improvement in customer satisfaction and profitability, old self-serving behaviors resurfaced, causing a setback.

Leaders need to be vigilant against these old patterns and maintain a focus on group behavior, knowing that the group's ecosystem is interconnected and dynamic. By understanding the complexity of group dynamics and adopting new approaches, change leaders can prevent reversion to outdated ways.



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The Ideal Team Player

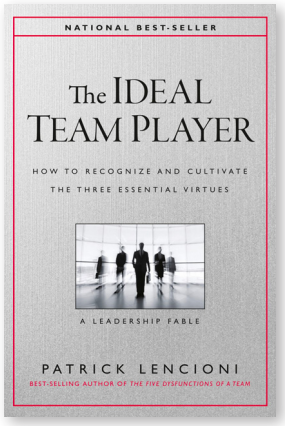
Patrick Lencioni

Executive Book Summaries®

The Ideal Team Player

How to Recognize and Cultivate the Three Essential Virtues

by **Patrick Lencioni**



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THE SUMMARY IN BRIEF

In his classic book, ***The Five Dysfunctions of a Team***, Patrick Lencioni laid out a groundbreaking approach for tackling the perilous group behaviors that destroy teamwork. Here he turns his focus to the individual, revealing the three indispensable virtues of an ideal team player.

In ***The Ideal Team Player***, Lencioni tells the story of Jeff Shanley, a leader desperate to save his uncle's company by restoring its cultural commitment to teamwork. Jeff must crack the code on the virtues that real team players possess, and then build a culture of hiring and development around those virtues.

Beyond the fable, Lencioni presents a practical framework and actionable tools for identifying, hiring and developing ideal team players. Whether you're a leader trying to create a culture around teamwork, a staffing professional looking to hire real team players or a team player wanting to improve yourself, this book will prove to be as useful as it is compelling.

IN THIS SUMMARY, YOU WILL LEARN:

- An entertaining story of how leaders discover and embrace the three virtues of the ideal team player.
- The distinct, surprising features of the three virtues and how to recognize those features.
- How people behave when they possess only one or two of the virtues.
- Principles and tips for hiring, assessing and developing people according to the three virtues.
- Tips for embedding the virtues in your organization.

THE FABLE

The Situation

After 20 years, Jeff Shanley had experienced more than his fair share of the Silicon Valley. The hours. The traffic. The pretentiousness. It was time to make a change. Where he would go and what he would do next was a mystery to him. He certainly didn't expect the answer to come via a phone call from his uncle Bob.

Robert Shanley had been the most prominent and diversified building contractor in the Napa Valley for three decades. Unfortunately for Bob, none of his kids was interested in taking over the family business. And that's why Bob called his nephew to see if he knew anyone who might be interested in running the company in a couple of years when Bob retired.

Bob thought so much of Jeff that he had absolutely no expectation that his ambitious nephew in the exciting world of high tech would ever be interested in working in construction. Which is why he was so stunned when Jeff asked, "Would you consider hiring someone without industry experience? Someone like me?"

Within the month, Jeff and Maurine Shanley had sold their tiny home in San Mateo and moved their two children and one dog to the northern end of Napa — the town, not the valley.

After eight weeks of observation and learning, Jeff came to the conclusion that the move to Napa was the right one and that the stress of his previous life in the Silicon Valley was over.

He was wrong.

Diagnosis

Sitting down for lunch at an upscale BBQ restaurant near the Napa River, Bob got right to the point. "Here's the deal. I am ridiculously happy that I hired you. You've already been a blessing to me and the company."

Jeff felt as gratified by this feedback as any he had heard in his career, probably because it came from a family member. But he could tell his uncle had more to say.

"In fact, I'm not going to wait a year to put you in charge. We're going to do it right away."

Caught completely off guard by the announcement, Jeff pushed back. "Whoa. I don't think we should get ahead of —"

Smiling, Bob waved his hand and interrupted. "Don't start telling me you're not ready, because I already know that."

He paused and struggled to get out the next sentence.

"Jeff, my doctor says I have a serious heart condition. The kind you don't recover from. I don't understand half the words the doctor uses. Something about ischemia and angina. All I know is that he says I need surgery and that my life needs to change. Immediately. If surgery goes well and I do what the doctor tells me, I should be fine. But it's going to be hard for me. Which is why I have to step away from the business. Honestly, Jeff, I don't know what we'd do if we hadn't hired you."

Jeff nodded, glad for the confidence but not loving the context of it all. That context was about to get much worse.

Jeff decided to dive into the details. "Well, I hate to do this, but I think it's time we talked about the balance sheet and the longer-term financials of the company."

Bob looked Jeff in the eye with a bizarre mix of excitement and worry.

"Jeff, we just landed two great projects. It's very exciting. The Queen of the Valley Hospital project, which I mentioned to you a few weeks ago, came through on Monday. And I signed the papers yesterday morning for the new hotel project in St. Helena."

He paused and seemed to force a big smile. "We're going to build both of them."

Jeff was confused. "That's good news, right?"

"It's fantastic news," Bob answered, in a tone that was something less than fantastic.

"When was the last time we had two projects like that on the books at the same time?" Jeff was more than a little curious to know.

Bob hesitated, looking down at his glass of water for a moment and back up at Jeff.

"That's the thing. We've never had two major projects like this at the same time." He paused. "In fact, both of these are as big as anything we've ever done."

First Meeting

Sitting down at a big table in the back of Maria's Mexican Restaurant a few blocks from the office, Jeff and his new di-

rect reports, Clare Massick, head of administration and HR, and Bobby Brady, head of all field operations, moved aside their plates and silverware to make room for paperwork.

"Okay, let's just identify the biggest levers that we're going to need to pull to make this work."

Clare explained. "We need 60 more people to staff the project. To do that we'll have to hire at least 80."

"Why?"

"We'll lose at least 20 of them along the way."

Jeff was shocked. "That's 33 percent turnover."

The Hammer

"Okay, I'm going to get pretty direct here, if that's alright." Jeff was trying hard to be polite.

Bobby and Clare looked at each other with a little concern on their faces, and then they nodded.

"You guys don't seem to know what you mean when you talk about team players. And so you can't possibly know who needs to change, who should stay and who should go."

"We didn't say —" Clare wanted to explain, but Jeff wouldn't let her.

"Oh wait. I forgot." Jeff was being sarcastic, but not rude. "You do have one clear definition. A person can't be a jackass."

They laughed, but in a guilty sort of way. After a moment, Bobby said something surprising.

"Actually, that's probably about right. Call them jerks or SOBs. Whatever the case, that's how I think about it."

Jeff smiled. "Let's stick with jackasses for right now. So, how do you know if a person is a jackass? And how do you avoid hiring them?"

Clare answered first. "I guess you know one after you've worked with one for a while."

Jeff shook his head. "Yeah, but by then it's too late. And you know what happens when you keep a jackass longer than you should?" They didn't respond, so he answered the question for them. "The non-jackasses start to leave."

Clare seemed to have a revelation.

"You know, we always just relied on Bob for knowing who fit and who didn't. He had a way with sizing people up. But even he couldn't get everyone right. And he couldn't interview and decide on every candidate at every level. I guess it just broke down."

Jeff seemed suddenly energized. "Well, I think it's time we figured this out. We have to stop hiring people who aren't team players. And we have to find out how many non–team players are still working here, and then get them to change or move them out."

He paused and looked at his notes. "Because if we can't do that, I don't see how we're going to build a hotel and new wing on a hospital in the next 18 months." He paused, and took a breath. "And as much as I hate to say it, if we can't do that, then I really don't know how we're going to keep VB in business."

Discovery

Jeff asked Clare to put together a list of all the former employees that VB had let go over the past few years and any current ones whom she had doubts about.

When Bobby and Clare arrived at his office the next afternoon, Jeff had written 23 names from Clare's list on the whiteboard.

"Let's go through these names one by one, trying to figure out any common denominators that might help us figure out what red flags we should be looking for."

As always, Bobby joked. "You mean jackass indicators?"

Clare countered. "Hey, remember that some of these employees still work here. We might want to be a little more careful about how we refer to them."

Jeff reinforced her point. "She's right. We need to remember that these aren't bad people. They just might not be right for a culture built around teamwork."

"Okay. So far, after all of our conversations and the analysis of the 23 people, it seems to me that there are two qualities, maybe three."

Jeff took his pen and wrote three phrases on the paper placemat so that everyone could see them: ego, hard work and people.

Clare frowned. "Don't use the word ego. Find a positive word."

"Oh, right." He scratched out ego and wrote unpretentious in its place.

The three teammates sat looking at the words Jeff had written.

"Again, this seems too simple," Jeff apologized.

Clare jumped in. "No, I think we may be on to something here, even if it's obvious. Let's go back to our list of difficult people and see if it explains their issues.

Implementation

Bobby kept the conversation going at their next meeting. "I've got another employee for us to analyze: Tommy Burleson."

Clare winced. "Oh, I'd almost forgotten about him."

"Was he a jackass?" Jeff asked.

Clare looked at Bobby. "What do you think?"

He thought about it. "I don't know. He wasn't a jerk, that's for sure. Which is probably why we kept him here for two years before we asked him to leave. But he certainly wasn't a good guy to have on your team."

"Why not?" Jeff asked.

"Tommy was one of the most frustrating people I've ever had to deal with," Clare announced. "The guy was funny. Charming. Bright. But as wonderful a guy as he was, we just couldn't get him to step up."

"You mean he wasn't hardworking? He was lazy?"

Bobby smiled and winced at the same time. "That's what was so hard about Tommy. You wouldn't say he was your classic lazy person. He would do what you asked him to do."

Clare finished, "And nothing else."

Bobby agreed. "He'd do just enough to stay out of trouble, but he'd never really tackle a project or a problem with a sense of urgency. Or passion."

"So he was lacking passion?" Jeff prodded, seeking closure around the right word.

Clare tried to capture it. "He just wasn't hungry."

Jeff wrote something in his notebook and then asked Clare, "What do you mean by that?"

"I mean, he wasn't the kind of guy who had a sense of personal motivation or a desire to do something big. Maybe it's because he came from a pretty comfortable background and just didn't have anything to prove. Or to accomplish. I don't know."

Bobby added, "He's the kind of guy who would be the best next-door neighbor in the world but not someone you'd want to depend on. Or go into business with."

Jeff was nodding and looking at his notebook. "Hungry. I like that."

"So do I," said Clare. "That's better than hardworking."

Jeff went to the whiteboard and wrote hungry.

"Okay," he announced, "I think that's the right word. We need to hire people who are hungry. They go beyond what is required. Passionate about the work they're doing. Hungry."

They all nodded, and Jeff continued. "And then there was the other concept we talked about."

Clare nodded."People. It had to do with being smart about people."

Jeff wrote smart on the board.

"That doesn't sound right," Bobby objected. "It sounds like you mean intelligent."

"I think that's why I like it," Clare said. "It's not your typical 'nice guy' description. It's like emotional intelligence but simpler. It just means a person has to know how to act and what to say and what not to say. People smart. Which is a lot more than being nice."

"And I think calling it smart will make people think about it in a different way," Jeff agreed. "They won't write it off as something soft or easy."

Bobby wasn't sold. "But you can't be a jackass if you're smart about people. This sounds like it should be the only thing that matters."

Jeff thought about it and pushed back. "I disagree. A smart person could be a jackass. In fact, that would be the worst kind of jackass."

"Explain that," Clare asked.

"Well, you could be really good about knowing what to say and how to say it and how to charm everyone you deal with," Jeff said. "But if deep down inside you were doing it for yourself, for your own ambitions, that would make you a duplicitous jackass."

"Use words I can spell, smart man," Bobby joked.

Jeff smiled. "Two-faced. Deceitful. Dishonest."

A light seemed to go on above Clare's head. "Maybe that's where the next idea comes into play."

"What idea?" Bobby asked.

Clare looked at the placemat. "Well, the word you wrote here was unpretentious."

Jeff nodded. "Right. That came from our discussion about Bob. People at VB don't fit in if they're pretentious."

"I think pretentiousness isn't the right concept." Surprisingly, it was Bobby who was pushing on this one. "Or maybe I'm wrong. I mean, pretentious people are definitely jackasses, but there's more to it than that. What makes someone stand out here, in a bad way, is when they're . . . arrogant."

He seemed confident that was the right word. "What's the opposite of arrogance?"

"Humility," Clare responded enthusiastically. "Jackasses aren't humble."

"That's it," Bobby said. "And that's Bob for sure."

Jeff drew three circles on the board, creating a Venn diagram of sorts. He then wrote the words humble, hungry and smart next to the circles.

For the next hour, they chose employee after employee, some who were difficult, others who were all-stars and others who fell somewhere in between. They evaluated them against the three new words, placing them in the circles where they belonged.

Every all-star easily met a pretty high standard for being humble, hungry and smart, and they were placed in the middle segment. Some barely failed to meet the standard in just one area and were close to the middle of the chart, while others struggled with more than one of the qualities and were further out from the middle.

Jeff insisted that the leadership team be evaluated the same way, and though each person made it into the middle segment, what was interesting is that they landed in different locations.

But Jeff was still uncertain. "It still sounds too simple to me." He kept looking at the three words. "And yet, I don't see anything missing. I guess it's just the combination of the three."

"That's it," Clare announced, walking to the whiteboard and circling the middle segment in bright red. "The magic here is just that if even one of the qualities is missing in a big way, you've got yourself a jackass."

They decided they should start using the model right away in the hiring process, which Bobby suggested they call the "no jackass test."

Indicators

Less than 30 days after everyone committing fully to the new hiring model, everything at VB had changed completely. All open positions had been hired with ideal team players, and the projects were both way ahead of schedule. And every single employee who lacked humility, hunger and smarts had chosen to leave the company on their own, with no animosity.

About a year later, the biggest change that the humble, hungry and smart model had made could be seen most starkly in human resources — not the department but the function. Though Clare and her small staff were certainly involved in maintaining the culture, Jeff had made it clear that his leadership team, and their direct reports, were responsible for ensuring that VB stayed humble, hungry and smart.

He also constantly reminded them that there was nothing theoretical or touchy-feely about it. From interviews and orientation to performance reviews and compensation decisions, "the three virtues," as they came to be known, were to be regular topics of conversation.

From a practical standpoint, there were a few indicators that VB's business had changed as a result of the clarity around teamwork. First, recruiting had shifted largely away from headhunters and outside agencies as more and more employees, from contractors to foremen, sought out jobs at VB through friends and references.

Second, morale at the company was undeniably higher, and turnover had dropped markedly. But Jeff was adamant that it shouldn't go away completely: "If no one is leaving or being asked to leave, then we're probably not truly living these values."

Finally, and most importantly from the standpoint of proof that the model worked, client satisfaction at the hospital and the hotel were better than Jeff and his team could have expected. Though fires had to be fought and unexpected challenges surfaced at inopportune times, the way the company rallied and addressed those issues no longer inspired panic and heroism. A new confidence,

even in the messiest situations, permeated the offices and worksites of Valley Builders.

THE MODEL

When team members possess significant humility, hunger and people smarts — they'll be more likely to be vulnerable and build trust, engage in productive but uncomfortable conflict with team members, commit to group decisions even if they initially disagree, hold their peers accountable when they see performance gaps that can be addressed, and put the results of the team ahead of their own needs.

Only humble, hungry and smart people can do those things without a great deal of coaching. Those who don't have all three virtues are going to require significantly more time, attention and patience from their managers.

The Categories

Let's take a look at the various categories of people, starting with those who have none of the required qualities and moving to the ideal team players who have all three.

Those who lack all three qualities, who are markedly deficient in humility, hunger and people smarts, have little chance of being valuable team members. It would take great effort over a long period of time for them to develop the capacity for all three, let alone two or even one. Fortunately for managers, these people are very easy to identify and rarely slip through interviews and make it onto teams.

For those who lack two of the three in a big way, it's also going to be an uphill battle — not impossible, but not easy.

Humble only: the Pawn. People who are only humble but not at all hungry or smart are the "pawns" on a team. They are pleasant, kind-hearted, unassuming people who just don't feel a great need to get things done and don't have the ability to build effective relationships with colleagues. They often get left out of conversations and activities and have little impact on the performance of a team. Pawns don't make waves, so they can survive for quite a long time on teams that value harmony and don't demand performance.

Hungry only: the Bulldozer. People who are hungry but not at all humble or smart can be thought of as "bulldozers." These people will be determined to get things done, but with a focus on their own interests and with no understanding or concern for how their actions impact others. Bulldozers are quick destroyers of teams. Fortunately, unlike pawns, they stand out and can be easily identified and removed by leaders who truly value teamwork. However, in organizations that place a premium on production alone, bulldozers can thrive and go uncorrected for long periods of time.

Smart only: the Charmer. People who are smart but sorely lacking in humility and hunger are "charmers." They can be entertaining and even likeable for a while but have little interest in the long-term well-being of the team or their colleagues. Their social skills can sometimes help them survive longer than bulldozers or pawns, but because their contributions to the team are negligible, they often wear out their welcome quickly.

Team members who lack only one of the three traits have a little higher likelihood of overcoming their challenges and becoming ideal team players. Still, lacking even one in a serious way can impede the teambuilding process.

Humble and hungry but not smart: the Accidental Mess-Maker. People who are humble and hungry but decidedly not smart are the "accidental mess-makers." They genuinely want to serve the team and are not interested in getting a disproportionate amount of attention and credit. However, their lack of understanding of how their words and actions are received by others will lead them to inadvertently create interpersonal problems on the team. While colleagues will respect their work ethic and sincere desire to be helpful, those colleagues can get tired of having to clean up the emotional and interpersonal problems that accidental mess-makers so often leave behind.

Hungry and smart but not humble: the Skillful Politician. People who are hungry and smart but lack humility are the "skillful politicians." These people are cleverly ambitious and willing to work extremely hard, but only in as much as it will benefit them personally. Unfortunately, because they are so smart, skillful politicians are very adept at portraying themselves as being humble, making it hard for leaders to identify them and address their destructive behaviors. By the time the leader sees what's going on, the politician may have already created a trail of destruction among their more humble colleagues who have been manipulated, discouraged and scarred. Most of us have worked with plenty of skillful politicians, as they tend to rise in the ranks of companies where leaders reward individual performance over teamwork.

Managers will need to be "smart" about how to use the terms with their employees. And remember, the real purpose of identifying these types is not to pigeonhole people

but to better understand what constitutes ideal team players so we can recognize or develop them on our teams.

Humble, hungry, smart: the Ideal Team Player. Ideal team players possess adequate measures of humility, hunger and people smarts. They have little ego when it comes to needing attention or credit for their contributions, and they are comfortable sharing their accolades or even occasionally missing out on them. Ideal team players work with a sense of energy, passion and personal responsibility, taking on whatever they possibly can for the good of the team. Finally, they say and do the right things to help teammates feel appreciated, understood and included, even when difficult situations arise that require tough love. Most of us can recall having managed or worked with ideal team players in our careers, as they are quite appealing and memorable.

Now that we understand each of the three virtues and how they fit together, we can look at how the model can be applied.

Application

There are four primary applications of the ideal team player model within an organization: (1) hiring, (2) assessing current employees, (3) developing employees who are lacking in one or more of the virtues and (4) embedding the model into an organization's culture.

Hiring

Though it would be nice to have a perfectly reliable, diagnostic tool for accurately identifying and selecting people who are humble, hungry and smart, no such tool currently exists. However, by doing thorough interviewing and selective reference checking, a manager can hire people with a high degree of confidence that they'll be ideal team players. The key is sticking to a few concepts, all of which may seem obvious but are too often overlooked.

Don't be generic. Too many interviews leave interviewers with extremely general assessments of candidates. "She seems like a nice person. I like her." That would be fine if you were looking for someone to mow your lawn once a week. If you're looking for a team player who is humble, hungry and smart, being specific about targeted behaviors and attributes is critical.

Debrief each interview as a team. Interviewers should debrief quickly after each interview, specifically around observations related to humility, hunger and people smarts. For instance, if the first two interviewers agree that the candidate is hungry and smart, the third can focus on humility, taking more time and probing more directly for the unknown piece.

Make interviews nontraditional. Interviews should incorporate interaction with diverse groups of people in everyday situations, and they should be longer than 45 minutes. Get out of the office with a candidate and see him deal with people in an unstructured environment. Running an errand at the grocery store or the mall is not a bad idea. Spending time in a car and seeing how he behaves when he's not answering a question helps to understand him better. Whatever you're doing with that candidate, look specifically for signs that he is humble, hungry and smart.

Ask what others would say. Instead of asking candidates to self-assess a given behavior or characteristic related to humility, hunger or people smarts, ask them what others would say about them. There is just something about having to answer on behalf of another person that makes a candidate more honest.

Ask candidates to do some real work. The point is not to get free work but rather to see how people perform in real-world situations so you can discern whether they are humble, hungry and smart.

Don't ignore hunches. If you have a doubt about a person's humility, hunger or smarts, don't ignore it. Keep probing. More often than not, there is something causing that doubt.

Assessing Current Employees

How exactly should a leader go about evaluating people for humility, hunger and smarts? There is no easy, quantitative diagnostic, but there are reliable, qualitative approaches that can work very well.

There are a number of questions managers can ask themselves about a given employee to determine whether he or she is humble, hungry or smart.

Humble. Does he genuinely compliment or praise teammates without hesitation? Does she easily admit when she makes a mistake? Is he willing to take on lower-level work for the good of the team? Does she gladly share credit for team accomplishments? Does he readily acknowledge his weaknesses? Does she offer and receive apologies graciously?

Hungry. Does he do more than what is required in his own job? Does she have passion for the "mission" of the team? Does he feel a sense of personal responsibility for the

overall success of the team? Is she willing to contribute to and think about work outside of office hours? Is he willing and eager to take on tedious and challenging tasks whenever necessary? Does she look for opportunities to contribute outside of her area of responsibility?

Smart. Does he seem to know what teammates are feeling during meetings and interactions? Does she show empathy to others on the team? Does he demonstrate an interest in the lives of teammates? Is she an attentive listener? Is he aware of how his words and actions impact others on the team? Is she good at adjusting her behavior and style to fit the nature of a conversation or relationship?

Developing Employees

Once a leader (or employee) has established a clear sense of his employees' (or his own) relative strengths and weaknesses related to the three virtues, the process of improvement can begin. The most important part of the development process, and the part that is so often missing, is the leader's commitment to constantly "reminding" an employee if she is not yet doing what is needed. Without this, improvement will not occur.

Humility. The source of a lack of humility is always related in some way to insecurity, and for most people, insecurity is rooted in childhood and family issues that go way back beyond their first day on the job or the team. Without getting too deep into psychological analysis or therapy, a manager or coach can experience significant relief simply by identifying the general cause of insecurity.

People who lack humility need behavioral training in an exposure therapy kind of way. Don't be put off by the clinical sound of this. Employees can make progress simply by acting like they are humble. By intentionally forcing themselves to compliment others, admit their mistakes and weaknesses and take an interest in colleagues, employees can begin to experience the liberation of humility. This happens because they suddenly realize that focusing on others does not detract from their own happiness but rather adds to it. After all, humility is the most attractive and central of all virtues. But the best way of all is to have teammates coach the employee, providing encouragement and immediate feedback when the desired virtues are demonstrated or lacking.

Hunger. All too often, employees struggle to become hungry because they don't understand the connection between what they do and the impact it has on others. When a slightly non-hungry employee hears his colleagues describe their motivation and connection to the mission, he may get "infected" by his teammates' passion. Set clear behavioral expectations for employees, and then hold them accountable. When a non-hungry employee starts to exhibit signs of hunger, praise her publicly and have teammates do the same.

Smarts. Employees who lack people smarts have no desire to create interpersonal problems with their teammates. They just don't understand the nuances of interpersonal situations, and they don't seem to realize how their words and actions impact others. A person who has trouble being smart with people can be likened to a pet. Like a puppy being trained, he needs to be quickly and lovingly rapped on the nose with a newspaper whenever he does something non-smart. So, in the middle of a meeting, stop and say, "Hey, Bob, this is the part of the meeting where you should thank her for what she did." If this sounds rudimentary or even juvenile, that's okay. It won't be once you establish the real nature of the help your employee needs. And if he is sincerely interested in getting better, he'll thank you for it.

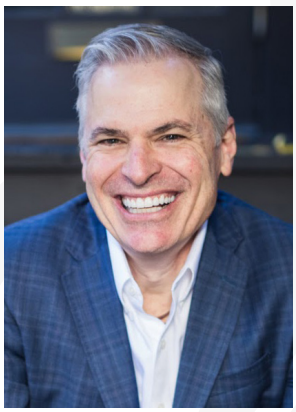
Embedding the Model into an Organization's Culture

Teamwork is not a virtue but rather a choice. For those organizations that are sincere about humility, hunger and smarts, here are a few simple ideas for embedding those virtues into your culture.

- Be explicit and bold. Leaders who believe teamwork is important and expect their people to be humble, hungry and smart should come right out and say so. They should tell everyone. Employees. Vendors. Partners. Customers. It's not marketing but rather expectation-setting.
- Catch and revere. Leaders should be constantly on the lookout for any displays of the virtues. And when they see those displays, they should hold them up as examples for everyone to see. Great team leaders will acknowledge an act of humility, hunger or people smarts not because they want to be seen as sophisticated or clever managers but because they want everyone to know exactly what kinds of behavior they expect and appreciate.
- Detect and address. Whenever you see a behavior that violates one of the values, take the time to let the violator know that his behavior is out of line. And don't just do it in egregious situations. Often, the smaller offenses are the ones that are harder for employees to see and the ones they learn from the most. Of course,

doing this well requires tact and good judgment. The key is that leaders and, eventually, teammates don't squander opportunities for constructive learning.

Great cultures tend to be appropriately intolerant of certain behaviors, and great teams should be quick and tactful in addressing any lack of humility, hunger and people smarts.



Patrick Lencioni is founder and president of The Table Group, a firm dedicated to helping leaders improve their organizations' health since 1997. Lencioni is the author of 10 business books, with nearly 5 million copies sold worldwide. His work has appeared in the *Wall Street Journal, Harvard Business Review, Fortune, Bloomberg Businessweek* and *USA Today*, among other publications.

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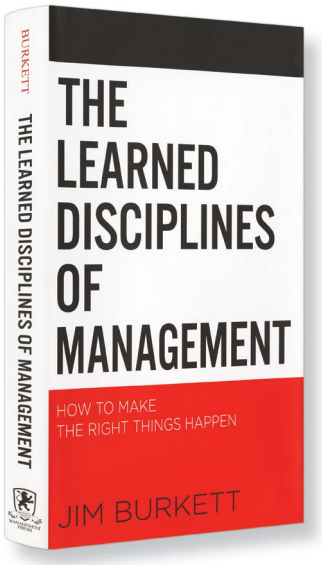
The Learned Disciplines of Management

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The Learned Disciplines of Management

How to Make the Right Things Happen



by Jim Burkett

THE SUMMARY IN BRIEF

Jim Burkett knows something about making the right things happen. He has turned around 28 underperforming and troubled companies, from Fortune 500 companies to smaller public and private companies, throughout the United States, Canada and Europe. In *The Learned Disciplines of Management*, Burkett shares his accumulated insights and distills his management experience to give you a practical guide filled with scores of specific, real-life examples that show managers at all levels how to manage more effectively.

Burkett presents a coherent framework of individual disciplines that form a powerful, self-reinforcing management system for making the right things happen. They include planning, organizing, measuring performance, executing, following up, real-time reporting and problem solving. Each discipline is impactful, and all are indispensable. Their practice is the best way to understand what effective management does.

Ignore, misuse or neglect the learned disciplines of management, and you will not manage effectively. Fortunately, every one of the disciplines can be learned, and their practice will make you a more effective manager. *The Learned Disciplines of Management* is a definitive guide on management practice and is essential reading for anyone working to make the right things happen.

IN THIS SUMMARY, YOU WILL LEARN:

- The tools that will allow you to make the right things happen.
- Why the learned disciplines of management are not practiced effectively.
- How to enhance your management effectiveness.
- Why planning is a twofold discipline based on the right aims and the correct means.

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THE COMPLETE SUMMARY: **THE LEARNED DISCIPLINES OF MANAGEMENT**

by Jim Burkett

The author: Jim Burkett is a turnaround specialist and president of Corporate Turnaround Consulting, Inc. During the past 35 years, he has turned around 28 underperforming and troubled companies, using his hands-on experience to transform management effectiveness through practicing the learned disciplines of management.

The Learned Disciplines of Management by Jim Burkett. Copyright © 2014 by Jim Burkett. Summarized by permission of the publisher Management Press, Inc. 220 pages, $27.95, ISBN 978-0-9895170-0-3. To purchase this book go to www.amazon.com or www.bn.com. Summary copyright ©2014 by Soundview Executive Book Summaries® www.summary.com, 1-800-SUMMARY. For additional information on the author, go to www.summary.com.

Introduction

A manager's ability to make the right things happen is not an innate skill — no one is born a manager. Although management does require certain aptitudes, it also requires learning certain disciplines. The management disciplines function as tools that extend a manager's skill, allowing the manager to accomplish more than would have been possible without these tools.

Your tool kit may hold management techniques passed on by your predecessor or management methods given to you by your boss. But are they the right tools? Are they tools that make you effective — tools that allow you to make the right things happen? In other words, does your tool kit hold the seven learned disciplines of management? Your tool kit must include the following tools:

- **Planning:** Determines the right aims and the necessary means to achieve them.
- **Organizing:** Orders how activities are performed so as to maximize results and optimize resources.
- **Measuring performance:** Measures how well activities are performed, recognizing what gets measured, gets managed and gets done.
- **Executing:** Executes essential activities, ensuring that they are satisfactorily performed and completed.
- **Following up:** Ascertains and reinforces excellent performance outcomes through actionable feedback, activity alignment and employee accountability.
- **Real-time reporting:** Circulates real-time performance information throughout the organization to facilitate making the right things happen.
- **Problem solving:** Uses actionable feedback to identify, understand and solve problems.

These principles have been practiced, tested, refined and validated. Their skillful practice is the secret to your management effectiveness and success.

Planning

The first learned discipline of management is planning. Effective planning must answer two vital questions: What are the organization's aims, and what are the means for achieving them? A plan is a tool much like a construction blueprint. A blueprint depicts the project's aims and specifies the best means to obtain them. These elements make a plan executable; guiding, informing and directing management to a successful outcome.

Financially troubled companies often arrive at the wrong planned aims. This happens as management struggles to survive. When their plan fails, they try another. As they enact these changes in plans, compromises are made, and each plan becomes weaker, demanding less than the one before it. This process further deteriorates management effectiveness and the organization's performance, further imperiling the company's future.

The Right Aims

Effective planning requires management to establish the organization's right aims. This is management's only recourse, for until an organization is mobilized toward the right aims, its efforts are misdirected and its resources squandered.

Not only must the plan's aims be the right ones, but they also must be specific and measurable. Specificity requires that management rigorously arrive at the aim's precise details. Lack of specifics is one reason an organi-

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Rebecca Clement, Publisher; **Sarah Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **Elizabeth Van Woert**, Contributing Editor

zation does not make progress in achieving its aims. Vague aims render a plan immeasurable, thus making it impracticable to manage. Measurability promotes manageability and is a critical consideration in arriving at a plan's aims (and means).

An effective plan lays the foundation for management success as it rightly establishes the organization's aims and correctly determines the means for achieving them, rendering both specific and measurable.

Organizing

The second learned discipline is organizing. Through its practice, the crucial connection between an organization's aims and the resources necessary to achieve them is reinforced.

Organizing does this in two ways. First, it makes certain that the required resources are available so that essential activities can be performed successfully. Second, activities are organized to ensure they use resources efficiently and effectively. When these two organizing aspects are carried out, the result is resources and results being maximized, which contributes to management making the right things happen.

Organizing is a time-consuming, deliberate and exacting process. Its jumping-off point is to recognize all the activities that must be performed to achieve the organization's aims. Once identified, these activities must be thoroughly understood. It is only after the activities have been identified and understood that management can evaluate whether the activities maximize resources and results. If it is determined that they do not, management acts to optimally organize them.

Carrying out these dictates can seem overwhelming at first. Fortunately, this process is best approached little by little, making it manageable.

Recognize the Activities

An organization's goals are achieved through its established means. These means, made up of various activities, must be performed successfully. Therefore, it is incumbent that management not only recognize what these activities are but break the activities down to identify the various steps, processes, procedures and resources that are required to successfully complete the activities.

Before the activities can be thoroughly understood and evaluated, they first must be recognized.

For example, if the organization's aim is to grow sales by 10 percent, then performing more sales calls would be a recognized activity. If the organization's aim is to eliminate trade receivables over 60 days, then making phone calls on delinquent accounts would be a recognized activity. Each activity has various components that must be identified. Performing more sales calls entails selecting prospective customers, setting and carrying out sales call appointments, making sales proposals, processing customer orders, and determining if a salesperson has additional time available to perform these steps.

Often, recognizing the organization's activities is a straightforward process, but some situations make the process challenging. It's difficult to recognize an activity that is not being done but should be. Because an activity is not being done, it cannot be observed, thus making it difficult to recognize. Fortunately, the activity not being done produces consequences that can be observed, making recognizing the activity possible.

Evaluating Organization

Once all activities have been recognized and their various processes identified and thoroughly understood, you evaluate whether they are optimally organized. Evaluating how well an activity is organized guarantees that resources are ordered and coordinated so that the activity can be successfully performed, and ensures that employed resources are used effectively and efficiently.

In evaluating how well an activity is organized, it is helpful to simply ask *why* an activity is organized and performed the way it is. For instance, *why* isn't the activity done smarter, faster, better and cheaper? Asking "why" not only aids management in evaluating how an activity is organized and performed but also how it *should* be organized and performed.

An activity that is optimally organized maximizes results and resources. Conversely, a poorly organized activity diminishes results and resources. Thus, a poorly organized activity uses more resources while producing fewer results, whereas a well-organized activity uses fewer resources while producing more results. We see this in how cars are evaluated. A car that goes 40 miles on a gallon of gasoline is said to get good gas mileage (maximizes resources), whereas a car that goes seven miles on a gallon of gasoline is said to get poor gas mileage (minimizes resources).

Maximizing Resources

Maximizing resources (people, equipment, materials, supplies, etc.) is what effective management does. Thus, individual activities (and the interaction between integrated activities) are analyzed and evaluated to determine how effectively and efficiently they use resources.

The discipline of organizing focuses on both the effective and efficient use of resources. For it is possible to use resources efficiently but to fail to effectively accomplish the activity's intended results. It is also possible for an activity to effectively accomplish its intended results but to do so inefficiently, wasting resources in the process.

Management measures, analyzes and evaluates how well each activity is organized using these two measures: effectiveness and efficiency. If an activity does not maximize results or resources, it gets reorganized. Keep in mind that during the process of organizing, it is crucial to favor the most valuable resources.

Effective organizing results in maximizing the resources an activity employs and the results it produces. When activities are thus optimally organized, they help achieve an organization's aims.

Measuring Performance

Measuring performance is essential to management making the right things happen. Its practice allows management to evaluate how activities *should* be organized and performed and to gauge how activities *are* organized and performed.

Measuring performance gives managers clear, immediate and objective feedback, indicating how effectively and efficiently an activity was performed. With this performance information, management recognizes when an activity is performed poorly so that the appropriate action can be taken to address the situation.

Here are three ways to measure performance:

1. **Time-based performance measures** establish the time (usually in minutes) it ideally takes to complete a given activity. For example, a time-based performance measure indicates the number of minutes it takes an employee to process a customer's order or the number of minutes it takes an employee to assemble a product.
2. **Outcome-based performance measures** establish the number of outcomes an activity ideally produces. This is often stated within a time context. For example, an outcome-based performance measure indicates the number of units (outcomes) a machine produces in an hour or the number of sales calls (outcomes) a salesperson performs in a day.
3. **Relational-based performance measures** show how two or more performance measures ideally relate, depicted as a ratio, quotient or some other relative, comparative amount. For example, the number of defective units produced in relation to the total number of units produced gives us a quality performance ratio. The number of minutes it actually took to complete an activity compared to the number of minutes it should have taken gives us an efficiency performance ratio.

Why Measuring Performance is Not Practiced

Given performance measurement's inestimable benefits, you would think its practice was universal. But sadly that is not the case.

Perhaps the chief reason measuring performance is not practiced is because its distinct qualities go unrecognized and unappreciated. As a result, other methods such as accounting information, simple activity tallies, and industrial time and motion studies are commonly substituted. These are inadequate substitutes at best. Unlike these methods, measuring performance is designed to assess an activity's unique performance characteristics. This results in measured performance feedback that is clear, immediate and objective.

Another reason why measuring performance is not practiced is its perceived difficulty. The perceived difficulty of measuring performance is often not in deriving performance measures themselves. Rather, the perceived difficulty lies in overcoming the negative connotations that surround practicing measuring performance. Some common negative perceptions include

- Measuring performance treats people as cogs in a machine. It is a dehumanizing, callous practice.
- Management uses measuring performance as a heavy-handed method to extract more work from already overworked employees.
- Management measures performance because they mistrust their employees' motivation and intentions.
- It is not possible to accurately measure how well activities are performed.
- Measuring performance is a rigid and unrealistic management approach.
- Measuring performance against an ideal creates an unrealistic expectation.

Measuring performance is relentless; it constantly, quantifiably and qualitatively measures how activities are performed. It exposes individual performance, stripping away pretense, incompetence and complacency. It is no surprise that measuring performance can be threatening, as poorly performing employees and managers have no place to run or hide.

How to Measure Performance

The first step is to establish an ideal performance measure for every activity. Deriving an ideal performance measure is a simple process. It entails measuring an activity that is performed ideally (that is, using the best practices

while not encountering any problems). This activity is measured (using time, outcome and relational measures) to derive an ideal performance measure. Ideal performance measures are the essential building blocks that management uses to gauge how effectively and efficiently an activity is performed.

As a general rule, the more timed observations the better. Not only does gathering more timed observations make the sample more accurate, but it also provides valuable insight into how the activity is and should be performed.

Sometimes taking accurate performance measurements is not possible. This is especially challenging when employees know their performance is being measured and are uncomfortable with or opposed to the practice. In these cases, it's necessary to ask for the department manager's help. This may require having the manager him or herself or a more willing and capable employee perform the activity so that accurate performance measures can be obtained.

Deriving performance measures is a process. The process obviously entails trying to get them right the first time. But another part of the process is to actually use the measures and, in doing so, validate them (or not). For credibility's sake, it is important to try and make them as accurate as possible. But when this does not happen, realize they are easy to correct later on in the process.

Once performance measures are in place, it is a good idea to make someone responsible for administering them. Existing measurements need to be maintained, validated and, if necessary, corrected. Also, activities change, requiring new measures to be derived. Administering performance measures is an ongoing effort.

Executing

Executing is management personified. Executing involves managers taking concrete action to make an organization's abstract aims a reality. Execution's concrete actions include making sure all the essential activities are satisfactorily performed and completed, engaging employees to ideally perform their assigned activities, and empowering employees to overcome the problems they encounter. The tangible results of effective executing are management making the right things happen.

Executing is not only an imperative management discipline; it is also a pivotal one. Planning, organizing and measuring performance lay the foundation for its practice. Executing in turn facilitates the practice of follow up, real-time reporting and problem solving.

Executing is simple in concept and demanding in practice. Conceptually, it entails carrying out all the activities that achieve the organization's aims. Its practice demands that the performance of these activities is not haphazard, but is methodically assigned to those responsible for performing them.

Consequently, executing is a meticulous nuts-and-bolts discipline. It achieves the organizations' aims by linking the desired outcomes to the activities that produce them. This makes executing certain, expectant and compelling. Executing is certain because it identifies and assigns specific activities to be completed. Executing is expectant because it expects all the activities to be performed perfectly. Executing is compelling because it holds accountable those who are responsible for performing the activities, insisting on excellent performance.

For some organizations, executing is not done because other inadequate means are used in its place. For example, management commonly uses communication as a means to execute its aims. In these organizations, managers believe that if they emphasize the organization's vision, mission and values, these oft-repeated qualities will work their way into how activities are performed. Still other organizations depend on an incomplete set of management disciplines, hoping these will enable managers to carry out the organization's aims.

There is no substitute for effective executing, which entails developing a checklist to identify and help carry out essential activities, properly assigning activities to the employees responsible for performing them, engaging employees to perform the assigned activities ideally, and empowering employees to deal with the problems that hinder their performance.

Developing a Checklist

Performing essential activities cannot be left to chance. Therefore, it is incumbent on management to guarantee that all essential activities will be satisfactorily performed and completed. To ensure that this is done, management develops a checklist.

Checklists are basic tools used to identify and help carry out activities. They run the gamut from simple checklists used for cooking (recipes) to complex checklists used to operate nuclear power plants (nuclear reactor checklists).

The checklist's purpose is to make certain that all essential activities will be carried out to insure that their execution is not random. Consequently, a checklist is used to choreograph performance. It links identified activities into being assigned and performed. For those performing the activities, a checklist informs, directs, reminds and records their efforts. For those managing the activities, a checklist records how

the assigned activities have been performed, facilitating following up, real-time reporting and problem solving.

The developed checklist is used to facilitate the second aspect of executing: formally assigning specific activities to particular employees to perform. This is a crucial step, for when managers are unable or unwilling to make formal, specific work assignments to individual employees, the activity's performance outcome is uncertain and unpredictable. This is not effective executing but wishful thinking.

Instead, effective executing requires management to formally assign activities — that is, asking a particular employee to perform specific activities using a checklist that serves as an official record that the activities have been assigned and received.

Engaging and Empowering Employees

The third aspect of effective executing is management engaging employees to perform their activities ideally. Engagement recognizes the critical importance of communicating to employees how they are to perform their assigned activities. Through measuring performance, management has quantitatively and qualitatively established how each activity can be ideally performed. Now it is the manager's role to engage each employee to "try to get there."

Obtaining ideal performance is not always easy or possible. Nevertheless, it is a manager's role to engage employees to make the effort, that is, to strive to perform their assigned activities ideally — perfectly.

Engaging employees has a galvanizing effect on performance. However, to sustain this effort requires that managers empower their employees because they will inevitably encounter problems when attempting to ideally perform their assigned activities. When problems are encountered, it will be necessary for the employee to take the initiative to address the problems so that hoped-for performance outcomes can be achieved.

Empowerment recognizes employees' intimate knowledge of the activities they perform. This gives them a unique opportunity to aptly respond to problems, one not afforded to management. Empowering employees to take appropriate action assumes many forms. It may mean solving the problem, moderating the problem, or involving others better suited to solve the problem.

Empowerment invites employees to take the initiative. It asks them to participate in addressing the problems that compromise their performance. This invitation implies treating employees as valued colleagues. It signifies management and employees working together to improve performance. As a result, empowered employees tackle problems, whereas apathetic employees accept them.

Following Up

Many managers stop at executing and consider their job finished. They assume the assigned activities will be satisfactorily performed and completed. This is not management but make-believe. Activities are not always satisfactorily carried out, nor are they properly completed. Consequently, management must effectively follow up on the assigned activities to ensure that the expected performance outcomes have been achieved.

As managers follow up, it produces four indispensable benefits. It creates actionable feedback; it aligns activities to produce expected results; it instills employee cooperation and fosters accountability; and it reinforces making the right things happen.

Create Actionable Feedback

Management follows up on assigned activities to ascertain how well the activities have been performed and to take action when performance is unsatisfactory. To rightly assess performance requires the manager to generate and collect actionable feedback (actionable feedback can also come from secondary sources such as reports and records). Actionable feedback is performance information that is accurate, reliable and timely; it is information that allows management to quantitatively and qualitatively assess performance and take the appropriate action to make the right things happen.

Not only does management thrive on actionable feedback, but employees do too. Employees crave real feedback — not the superficial, patronizing kind that passes for most interactions between manager and employee, but feedback that is reliable, accurate and timely.

This feedback is gathered in the immediacy of the moment when the work is being performed — not, as so often happens, when an employee's performance is evaluated every six to 12 months using the despised employee performance review.

Feedback is meaningful and fair when it is gathered throughout the workday, where it is immediately understood and instantly applied to the activities being performed. This timeliness enables the manager to approve good performance and correct bad performance. Correcting bad performance happens right away when problems are identified. Consequently, performance is enhanced when problems are not allowed to persist, worsen and spread but are decisively addressed in the immediacy of the moment.

Following up may reveal that the reason the expected results were not obtained is because the assigned activity was never completed. Or that it was not performed proficiently. Or that the assigned activity even when skillfully

performed did not achieve the expected outcome, thus wasting resources. In these situations, following up gives management the chance to appropriately align activities to produce the expected performance outcomes.

Instill Cooperation and Foster Accountability

Following up instills and fosters employee and management cooperation and accountability. Employee cooperation is encouraged when manager and employee interact with each other when management frequently reviews and discusses how an employee performed. Management is a people-oriented profession requiring managers to work with and through people to make the right things happen. Following up establishes a platform where management can consistently interact with their employees, constructively supporting and encouraging the activities they carry out.

Practicalities of Following Up

In practice, follow up should flow like this:

- Generate and collect actionable feedback. Continue using the employee's activity checklist to calculate the employee's actual performance.
- When ideal performance has been achieved, the employee's performance is commended.
- When ideal performance has not been achieved, it prompts a conversation between employee and manager. This discussion generates more actionable feedback.
- Follow up should be done in two- to three-hour periods (when activities take longer to complete, this can be extended to four- or five-hour periods).
- Follow up sessions are intentionally brief, lasting no more than a few minutes.
- When communicating performance results, it is important to encourage employee cooperation.
- Reassure employees that the purpose of the session is not to manipulate, criticize and callously control an employee's performance but to constructively identify and address the problems that affect an employee's performance.

Real-Time Reporting

There is nothing like the sheer power of real-time reported feedback to scrub away layers of ignorance, inaction, incompetence, confusion, concealment and contradiction. Effective managers harness this power. Successful managers avoid relying on appearances. Instead, they use real-time reported performance information to discern reality, enabling them to take action on the things that are.

Authentic real-time reporting emerges through management follow-up. During follow-up, management generates and gathers actionable feedback that depicts how activities were performed. This reported feedback is real and timely. Its timeliness arises from being gathered in the moment when the activity is being performed and then promptly shared with employees and management. It is not reconstructed information put together after the fact. It is not historic information collected long after the activities have happened. It is not projected information, forecasting what might happen. Instead, real-time performance information is a few minutes to a few hours old.

There is an important distinction here: Real-time reporting is not accounting information. Accounting information was never intended to be used to manage performance. Accounting was originally practiced for financial planning and later for tax compliance. Accounting measures profits and losses, various costs, inventory turns, return on investment and so on. Although these are important financial determinants, they are inadequate for managing performance.

In addition, accounting information is historic information. It is a look back in time, usually the previous month's financial results. This monthly look back is fine for financial planning but ruinous for managing performance.

Six Features of Real-Time Reporting

Real-time reporting distributes performance information: This happens when management takes the collected performance information and effectively conveys it to those who can use it to make the right things happen.

Real-time reporting structures follow-up meetings: In these meetings, performance information is shared with the appropriate party through a daily performance summary and a weekly performance summary.

Real-time reporting perpetuates ideal performance: Real-time reporting makes ideal performance outcomes the organization's constant and inescapable focus. This focus impacts how activities are carried out as individuals and managers are given real-time performance information assessing whether they have achieved ideal performance. Over time, this focus eventually makes ideal performance routine.

Real-time reporting links the practice of the learned disciplines of management: These linkages safeguard the constant and consistent practice of the learned disciplines and result in management making the right things happen.

Real-time reporting identifies best practices: The ability to achieve ideal performance often indicates the

absence of problems, but it can also indicate the use of best practices. Best practices produce the best performance outcomes. Once these are identified, the best practices can be replicated and broadly implemented to ideally carry out the assigned activities.

Real-time reporting facilitates problem solving: Reported real-time performance information is evaluated to confirm whether a problem has been solved. Real-time reporting also provides feedback to determine if a solution may have caused other problems.

Problem Solving

Solving problems is not easy. The inherent underlying challenges in effective problem solving are first recognizing when problems occur and then identifying what they are.

This difficulty in recognizing and identifying problems is likened to a primordial swamp. Beneath a swamp's murky waters lie hidden obstacles and dangers. It is a haven for parasites and predators who exploit being unseen and unhindered.

To solve problems, management must first recognize and identify them. To do this, management must drain the swamp. The systematic practice of the learned disciplines of management drains the swamp. It gives management the capability to solve problems, enabling management to make the right things happen. After all, solving problems is what effective management does, enhancing their effectiveness and ensuring their success. Effective problem solving incorporates five essential practices:

- Recognize, identify and understand the problem.
- Determine if the problem is worth solving.
- Determine which problem solution to implement.
- Take action to solve the problem.
- Monitor if the problem has been solved.

Continually asking why a problem occurred results in a manager obtaining a deeper understanding of the problem. Once this is obtained, management is ready to determine if the problem is worth solving.

Not all problems are worth solving. This may sound strange, but ironically, there are solutions to problems that cost more than the problem itself. There are solutions that are more troublesome than the problem itself. Management must weigh if the problem's cost and consequences are compelling enough for management to try and find a solution.

If the problem is worth solving, then management must work to arrive at a solution worth implementing. Often, more than one solution is found. Each solution's costs and benefits are scrutinized to decide which solution most compellingly solves the problem, thus triggering management action to implement it.

Take Action to Solve the Problem

Taking action has six salient phases: it specifically identifies what actions are to be taken; it measures the actions; the actions are translated into executable steps; the steps are assigned to be implemented; those assigned have a specific deadline to complete them; and the deadlines are followed up on to confirm they are completed when due.

Confirming that the problem has been solved also requires monitoring to ensure that the right action was taken. Sometimes there are unintended consequences. Sometimes the solution unexpectedly costs more than anticipated. Sometimes the "solution" does not work. Through constant monitoring, these possible outcomes are recognized and acted on.

Problem solving is the learned disciplines of management's apex. Its practice complements them by eliminating the wrong things from happening. It completes them by making the right things happen. As it does so, it fulfills management's aims and ensures their success.

When practiced both individually and collectively, the seven learned disciplines of management form a coherent management system that effectively transforms a company's management team that is struggling to make the right things happen.

RECOMMENDED READING LIST

If you liked *The Learned Disciplines of Management*, you'll also like:

1. ***Managing*** **by Henry Mintzberg.** Mintzberg writes about what managers do, how they do it, and how they can do it better.

2. ***The Invisible Spotlight*** **by Doug Katz and Craig Wasserman.** The authors share stories about management successes and misadventures that offer a practical perspective on building sound management relationships.

3. ***What Matters Now*** **by Gary Hamel.** Hamel rethinks the fundamental assumptions we have about management, the meaning of work and organizational life.

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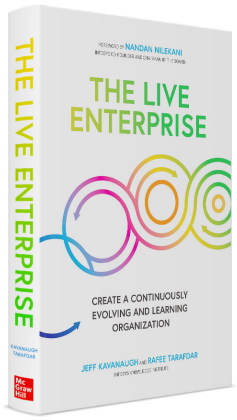
The Live Enterprise

Jeff Kavanaugh and Mohammed Rafee Tarafdar

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The Live Enterprise

Create a Continuously Evolving and Learning Organization



by **Jeff Kavanaugh and Mohammed Rafee Tarafdar**

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THE SUMMARY IN BRIEF

For decades, leaders have been encouraged to run their organizations like lean, agile startups. They often place their bets on trends like digital transformation or design thinking. This is well-intended, but in isolation these trends are not enough.

There's another, better way to drive durable, effective change in your organization, and it's been proven by global IT and business consulting leader Infosys. ***The Live Enterprise's*** operating model provides a clear path to transform large complex businesses into agile, digital ecosystems that evolve with changing market needs and scale to any size.

In ***The Live Enterprise***, you'll learn how to apply the benefits of the startup operating model—and go much further. This essential guide can help you create groundbreaking structures, response capacities, value chains, and more. It can help transform your organization into a constantly learning, ever-evolving industry leader.

IN THIS SUMMARY, YOU WILL LEARN:

- To create an organizational structure that drives collaboration, innovation, strategic alignment, and new culture across distributed, interconnected teams.
- To respond quickly yet thoughtfully to opportunities to create valuable new employee and customer experiences.
- To automate routine decisions with maximum human intuition and minimum human intervention.

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The Live Enterprise Model

The promise and peril of the digital future has been forecast for years, from turn-of-the-century dotcom boom and bust, through the rise of mobile applications and social media, and more recently through Industry 4.0.

What's changed is that exponential technologies like the cloud, mobile, AI, open source, and Internet of Things have matured and converged. We are seeing the results of this converged life-cycle maturity at the same time that stakeholder capitalism has come of age: The next generation of customers and employees is more than simply aware of sustainability and equality—they demand action from enterprises.

Globalism has spurred the rise of the corporate city-state, where large enterprises have additional societal responsibilities in addition to, or perhaps even because of, their role as generators of financial returns. And of course, the COVID-19 pandemic was the match that lit the tinderbox and dramatically accelerated change.

Multinational information technology company Infosys developed the Live Enterprise model after they found that the traditional operating model framework does not meet the requirements of a modern, large, complex organization.

To seek nonlinear change, they dismantled old operating models rather than supplementing them. They started with six strategic objectives: agility of a startup; responsive to customer needs; networked and connected ecosystem; velocity of ideas and innovations; competitive advantage through platforms; and extreme automation in everything they do.

These objectives work in concert to accomplish four outcomes:

- **Quantum organization.** Agile organizational structure that drives collaboration, innovation, strategic alignment and new culture across distributed interconnected teams.
- **Perceptive experiences**. Respond quickly, yet thoughtfully and scientifically, to opportunities to create valuable new employee and customer experiences.
- **Responsive value chains**. Repurpose, reimagine, and reengineer the value chain to see what is not there, can be improved, or can be eliminated.
- **Intuitive decisions**. Automate systems and activate intelligence so that routine decisions and responses can be acted upon with maximum human intuition and minimum human intervention, so that humans can focus on higher-order analysis and decisions not suited for machines.

These outcomes are made possible through four ingredients:

- **Hybrid talent;**
- **Design to evolve;**
- **Digital runway;**
- **Micro is the new mega.**

Taken together, the eight elements—the four outcomes and four ingredients—can be seen as the leverage points in the enterprise operating model. These eight themes offer guidance on how to change perspective and view the enterprise as a living organism, enabled by technology.

Given the pressures leaders face to survive, they need new models to address the challenges. Let's now explore each of the eight Live Enterprise model themes.

Quantum Organization

Uncertainty about the future is a particularly unnerving aspect of the new normal. To mitigate, the entire enterprise needs to move quickly together and evolve.

Large enterprise responses to the pandemic demonstrated that companies can be lifelike, responsive, evolving entities at enterprise scale—and any company, however large and complex, can transform to be adaptive and resilient. In fact, they may have no alternative in order to survive.

A quantum organization is not linear like traditional models but drives nonlinearity by enabling multiple organizational initiatives at any given point in time. These initiatives run in parallel and at scale to drive results that show up in operations, not just project readouts.

Shared digital infrastructure enables ideas to become teams and experiments to become offerings, following an organic, market-driven drumbeat.

Amazon is arguably the best-known example of a quantum organization. In the words of noted tech analyst Benedict Evans, "Amazon is a machine to make a machine—it is a machine to make more Amazon."

In other words, the business model itself creates more effective businesses.

In the Live Enterprise model, perceptive experiences are delivered by blending the capabilities of heart, brain, and machine together in an integrated way.

The key characteristics of the quantum organization are as follows:

User at the heart of all initiatives. Fundamental questions are asked at the beginning of each project. "Why are we doing this, and how will this help the user (who could be a customer, employee, or partner)?"

Hyper-productive collaborative teams. This connects the silos that exist in any organization, guided by value stream and user journey. This requires formation of agile cross-functional teams that take an end-to-end view of the value stream, business metrics, KPIs, and user experience.

Rapid experimentation and innovation. Instead of long delivery times and quest for perfection, teams rapidly experiment with new ideas and roll them out to users quickly. They introduce new features every few weeks with rapid releases and then mature and scale over a period of time.

Shared digital infrastructure. Shared digital infrastructure connects humans, data, and things across the ecosystem and makes this available to the team to build contextual and intelligent products for its users. It also jump-starts the entire product to be delivered in weeks, rather than months or years.

Micro-change management. In a quantum organization with high innovation velocity and frequent feature release, adoption must also occur rapidly. This change is fundamentally different than the traditional new product or program rollout, where a single large campaign is expected to drive change.

Instead, a frequent series of small interventions is needed to drive adoption, and this is called micro-change management.

This agile approach to change is both simple and profound, accommodating pace of change and accepting the inherent uncertainty of future requirements.

Perceptive Experience

Compared to just a decade ago, today's corporate experience landscape is radically different, with COVID-19 pressing the button on even faster, more fundamental changes. The field of experience design has been reshaped by the tremendous success of design thinking, enabling the creation of products and services that better serve both customer expectations and employee needs.

However, to continue to meet these rising requirements, a new approach is needed. In the Live Enterprise model, perceptive experiences are delivered by blending the capabilities of heart, brain, and machine together in an integrated way. Every user is a unique cosmos, with emotion, ambitions, and potential. At the core, there is an inherent human nature, surrounded by the wider environment and the context in which they operate.

To significantly enhance user experience, we need to understand their emotional state and contextualize the experience to make it personalized and useful for their needs. The enterprise digital brain constantly senses the signals emitted by users as part of their experiential actions and events to anticipate their needs and recommend actions that optimize their productivity.

Design thinking needs to be complemented by a new model to maintain current momentum and to meet growing stakeholder expectations and company responsibilities. The required changes can be understood in terms of three macro-level challenges, each of which will affect all organizations in the decade ahead: change is the only constant, evolving expectations, and a growing appetite for evidence.

The New Paradigm

Computational design addresses these macro-level design challenges. This represents a pivotal change in the way products and services are designed, and the approach is based on three principles: design adaptable, design inclusive, and design measurable. When adopted together, these principles provide designers and businesses an approach to address the challenges.

Design adaptable. The current view that change is a risk to be mitigated gives way to a new paradigm that sees change as an opportunity to embrace. Design solutions need to be adaptable so organizations react to change in a

fast, frictionless, and cost-effective way.

Design inclusive. The current belief that sees a single-best design solution yields to a new paradigm that sees design manifest itself in a thousand variants, customized to the user on the basis of a deep understanding of who they are.

Design measurable. The current view that sees measurement as an activity undertaken after release gives way to a new approach that sees measurement as core to design, built into its DNA from inception.

Experience is the new frontier of value creation, a frontier that continually expands. In this landscape, organizations create value by adopting principles of computational design—adaptive, inclusive, measurable—and deliver experiences that meet growing customer and employee expectations and lead to better business outcomes.

Organizations that embrace this new reality will receive an abundance of valuable data points for customers, employees, and users overall.

Responsive Value Chains

By 1926, Yellowstone's last wolf pack had been hunted to elimination, relieving pressure on the elk population, the wolf's main prey. This caused the elk to stay sedentary and overgraze on willow trees, which beavers needed to survive the winter.

On January 12, 1995, eight lupus (gray) wolves were reintroduced to Yellowstone, with an additional 23 reintroduced by the end of the following year, and they galvanized the park's ecosystem. The sole beaver colony in 1995 grew to nine by 2020, thanks to predatory wolves keeping elk on the move, halting the overgrazing and granting beavers an abundant source of food.

It didn't end there. More beavers meant more dams and ponds, meaning a recharged water table in streams, and shaded water for fish. Elk populations avoided the cycle of boom and bust, with more willow creating homes for songbirds. Eagles, ravens, coyotes, and bears benefited, too, free to scavenge the elk carcasses in winter helpfully left by wolves.

In Yellowstone, the gray wolf acts as a "keystone" species, critical to health of the wider ecosystem. Much like the Yellowstone lupus, responsive value chains are the keystone species that provide stability directly and through their beneficial secondary and tertiary impacts. The value chain across the enterprise ecosystem depends upon change and stability, reimagining and resilience.

Sentience is a state of awareness with perception. To deliver the outcomes of the Live Enterprise model, the architectural layers should have a state of awareness that provides them the ability to sense, process, and respond to changes in state. In the traditional systems, only the user state is maintained and managed and only for a specific interaction channel; however, to be sentient, state awareness at multiple levels is required.

The Five Sentient Principles

Live Enterprise process analysis and reimagining is accomplished through five sentient principles.

- **Proximity to source**. Users should be provided with all the information and insights required for them to make a decision, at the interaction point where a decision needs to be made.
- **Zero latency**. Zero latency identifies how a company arrives at straight through processing across the value chain with the minimal number of steps and approvals required to complete the interaction. Put simply, zero latency is response following input, without delay.
- **Instant simulation**. Instant simulation provides the ability to not only conduct traditional what-if analysis but also explore alternatives and simulate to make the correct decision. It requires running simulations, practicing the process and predicting potential futures. Users evaluate alternatives at the point of decision making.
- **Micro-feedback**. Micro-feedback is user feedback gathered in the work flow. At the end of each user interaction, ask a simple question to understand their overall experience for this interaction.
- **Guided practice**. Guided practice provides a well-defined user pathway to complete a specific task or activity. The best practices get codified into the interaction flow itself. This is essential to develop new routines and drive behavior change.

Intuitive Decisions

It takes 302 neurons to keep a worm's nervous system ticking, while the capuchin monkey has around 3.7 billion neurons. For us humans, the magic number is 100 billion neurons—about the same number of stars in the Milky Way.

Those 100 billion neurons spark more than 100 trillion connections, called a "neuron forest" by the experts, where information runs at up to 250 miles an hour inside our skulls.

Thanks to those 100 billion neurons, the human mind is wired to see patterns, an essential aspect of intelligence. The mind processes information in conjunction with insights from past experiences to create intuition, and intuition guides much of our decisions.

Maximum Intuition, Minimum Intervention

Leading organizations are developing a similar intuition to drive decisions swiftly and accurately, and to act with resilience in the face of disruption. Sentience enabled by AI and automation are fundamental to this capability so that decisions and responses to data-led insights are acted upon with maximum human intuition and minimum human intervention.

This manifests in an ecosystem of tools that captures and maps complex and vast process environments. Businesses rely on historical and live data, both qualitative and quantitative, to learn from and then guide the formation of patterns that automatically detect, classify, and resolve problems.

These patterns also help companies see opportunities to improve the things they already do. Organizations use process and mining tools to digitize existing manual and semiautomated processes, and also capture variants and flow. Robotic process automation and similar tools have created digital workers, worker bots, and micro-bots that automate, optimize, and take on much of the deterministic decision load.

AI and related tools of machine learning (ML), deep learning (DL), and natural language understanding (NLU) allow businesses to automate routine and deterministic decisions, while at the same time provide instant simulation capabilities for users to experiment and test. Then users can make more complex decisions about what and how to adapt, like in response to disruption that emanates after a crisis situation.

Knowledge Graphs and Digital Brains

The knowledge graph links all data-spanning employees, customers, partners, networks, and devices, plus the interactions in between. An AI-driven core connects these islands of information in real time, allowing enterprises to make data-driven decisions, plus sense, process, and adapt to changing business stimuli.

The digital brain uses machine learning and deep learning as a nexus for continuous, automated learning from data across business units and product lines. The digital brain processes this input to determine if any action is required and, if so, aids users through nudging and guided feedback. It then monitors the responses to learn and evolve from them, providing the enterprise with higher cognition.

The knowledge graph and digital brain continuously curate organizational knowledge to create perceptive experiences and make intuitive decisions. They capture and analyze enterprise data using automated reasoning to orchestrate intelligent responses to emerging events.

> Hybrid, modular, or quick-assembly talent is the future of the workforce.

Hybrid Talent

Hybrid, modular, or quick-assembly talent is the future of the workforce. Beyond an individual "full-stack" worker with both STEM skills and empathetic creativity, hybrid talent is also defined as a seamless mix of humans, machines, and the gig economy to bring the right talent at the right time for the task at hand.

The hybrid talent model is built on three pillars:

- Promote micro-change routines, which over time build a culture of lifelong learning, and emphasize micro-feedback, helping people improve through small changes on a continuous basis.
- Adopt an open, collaborative, and multi-experience learning mindset across multigenerational learners, as they seek guided practice and experiences with tech trends such as edge computing, hyper-automation, and practical blockchain.
- Elevate corporate trainers to learning champions, viewing their roles differently to simulate learner behaviors and learning patterns, enabling them to provide learning with minimal latency and instant simulation.

Establishing a Talent Model

Lifelong learning is the North Star for organizational talent development. These forces are disrupting and changing the talent needs of every industry, with the frequent introduction of emerging technologies, new delivery models, changing talent demographics, and geopolitical challenges.

As a result, the core principles in establishing a talent model are as follows:

Motivate employees to learn. Ensure learners are able to access resources anytime, anywhere, and on any device—taking complete control of how they manage their individual learning journeys.

Leverage the manager-employee relationship. For learning efforts to be effective, an active role for managers should be created to help support and guide their teams in their learning journeys.

Anywhere, just-in-time learning. Trends indicate that employees prefer to learn on the go, at their convenience, and just in time.

Learning experience. Most employees are used to digital experiences on platforms like YouTube, Netflix, Amazon Prime shopping, and learning platforms like Udacity. Digital learning solutions must be designed to provide similar experiences and feel.

Future ready, while excellent today. Learning programs and courses must be forward-looking to excite digital native learners with fresh content and exciting formats, yet also designed to meet the needs of those who are less tech-savvy and need to learn mature, well-established capabilities.

Design to Evolve

While enterprises continue to leverage technology to improve productivity, the most successful businesses also transform to improve customer experience and employee engagement. Many companies deal with the duality of accelerating digital initiatives while maintaining operations stability in their new normal. The enterprises that survive will be those that navigate this duality and become resilient.

Business resilience means the ability to respond to market changes and uncertainty, without stepping off the treadmill of continually rising expectations.

For Infosys, this duality required defining and developing an evolutionary architectural approach using Live Enterprise principles with the goal to make the existing IT landscape robust and resilient, abstract complexity, and establish a foundation to build new capabilities.

The reference architecture for a Live Enterprise augments an existing IT landscape and creates new services around it, and in the process transforms it into a Live Enterprise model. The model includes five elements:

Enterprise IT systems. These are the systems that run older, mission-critical applications and tend to be part of systems of record. A big bang modernization approach is not recommended, given the risk and complexity involved. Instead, consider an evolutionary approach to modernize core systems to simplify and reduce technical debt, improve efficiency through automation, optimize run cost, and make them resilient.

Interact layer—driving connections and collaboration. In the Live Enterprise, all users cooperate rapidly to visual and system cues across a range of channels. A Live Enterprise is connected, and this connectedness drives interactions and collaboration between humans, things, and data.

Process and serve layer—orchestrating and powering interactions. The process and serve layer acts as the glue that connects and powers the user experience by enabling and orchestrating the application programming interfaces (APIs) provided by the intelligence layer, core systems of record, and the digital runway.

As organizations start reimagining the experience, it also requires the underlying processes to be reimagined, reconfigured, and orchestrated to enable anytime, anywhere perceptive experiences.

To provide this flexibility, it is important to unbundle the entire business process, features, and functionality into a set of services that can be developed by independent teams to provide discrete functionality and can be stitched together in different combinations over time to enable the continuous evolution of experience and features.

Intelligence layer—driving sentience. Data is the next degree of connectedness. For a Live Enterprise, connected real-time data is required to be able to sense, process, and respond to evolving events, situations, and user needs. Once an organization connects humans, data, and things, it can then observe the data streaming from each of these inputs.

The digital runway requires a significant cultureshift in corporate mindset.

Once organizations start observing, then they can also sense, process, and respond—gaining sentience. If sufficient signals are in place, they can be acted upon.

Digital runway—shared digital infrastructure for the company. In the Live Enterprise model, getting the architecture right is critical, and it starts by developing a shared digital infrastructure for the company, determining which platforms, features, and functions can be developed in the future. The shared digital infrastructure for the company is called a "digital runway" that helps increase the velocity of developing new ideas and innovations and taking them to the market in a shorter span of time.

All five layers of Enterprise IT systems, intelligence, process and serve, interact, and digital runway layers consume the services provided by the digital runway.

Digital Runway

In large global organizations, very good ideas and innovation tend to happen on a regular basis but in isolated pockets. It is straightforward to rapidly experiment, innovate, and develop point solutions.

However, it becomes a significant challenge when one has to unbundle them into shared digital infrastructure services and then scale, productize, and roll it out across the global organizational footprint. Few companies are able to do this successfully so that global users can use these unbundled services to rebundle and solve problems specific to their customers, lines of business, and geographies.

Amazon has developed digital platforms for their company using their famous two pizza team size rule, and innovates at a rapid pace to develop newer platforms, features, and functionality. The digital platform provides the tools that can be used by hundreds of independent and globally distributed teams to rapidly experiment and roll out successful ideas to their entire customer base.

The digital runway provides the tools to scale ideas and innovations, and also provides the ability for teams to independently use these tools to solve their customer problems in their context and part of the business.

Through digital runways, curating and organizing knowledge, platforms and services, processes and playbooks, data and AI services, and other resources come together in a cohesive manner and in a scalable model that drives the velocity of new ideas and innovations.

This also enables ideas that have worked well in one area of business or platform to be quickly scaled to the rest of the organization, as they are based on the same digital infrastructure.

The digital runway has five categories: knowledge, platform services, process, data and AI, and resources.

An architecture-first and platform mindset should be applied to ensure the platforms are designed for evolvability rather than features and functions. An architecture fitness function should be defined to continuously measure platform quality, plus include playbooks to define and codify guided practices.

The digital runway requires a significant culture shift in corporate mindset. To deliver a change in culture and drive the business, there should be a persistent focus on the consumption, coverage, adoption, business impact, and usage of shared infrastructure.

Micro Is the New Mega

Micro-change management is how the Live Enterprise model operates. The vision and aspirations are big, but the organization thinks "micro." Agile teams work on micro-problems, and they pivot to address user needs and develop a minimum viable product (MVP).

These micro-problems are addressed by small, hyper-productive teams working on micro-releases to rapidly experiment and take concepts to market in weeks.

Micro is the new mega, with agile predisposed to small teams working on rapid learning and decision cycles. Agile evolu-

tion is broken down into incremental micro-projects pulled together with a micro-front end and micro-service architecture, to create an environment of frequent micro-gains.

In effect, micro-change management ultimately helps organizations evolve enterprise agile.

Frameworking Change, Impact, and Scale

For the Live Enterprise model to be successful within an organization, the employees and teams working to define and execute the vision and strategy should believe in it and implement it effectively. One of the objectives is also to bring about cultural change, so that during transformation to a Live Enterprise, this changes employee routines and eventually their behavior.

Consider this simple framework to drive micro-change across the organization:

Micro-changes: Break down strategic initiatives into multiple micro-change programs, with each having a well-defined objective and outcome. Ask why a change is required, whether incremental or exponential, what value it will deliver, and what change in behavior is needed. These micro-change programs will lead to a sigma of micro change programs to accomplish the mega vision.

Routine + 1. Each micro-change management program should drive a small change in a routine. Periodically augment with similar adjacent changes (Routine + 1). Eventually create a new routine and achieve behavior shift with minimal resistance.

Behavioral approach to change management. Behavioral approach is a combination of cues, hints, and suggestions. Positively nudge the impacted stakeholders, and supplement with rewards and incentives which create excitement and improve outcomes.

Continuously measure, learn, and evolve. As micro-change programs are rolled out, continuously measure to ensure they accomplish desired outcomes. If not, analyze data, rethink, and improve through iteration.

Each new micro-change initiative within the organization follows this four-step process.

While technology and market forces are disruptive, leaders have a choice in how they approach the future. The Live Enterprise model offers a science-based yet uplifting mindset to create an enduring, prosperous company.

It also provides a blueprint for individuals, governments, and society to evolve purposefully while addressing the structural problems and opportunities that will define the future of business and, ultimately, life itself.

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The Manager's Handbook

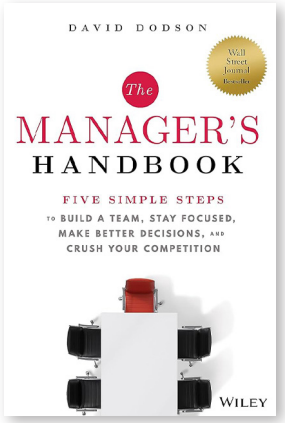
David Dodson

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The Manager's Handbook

Five Simple Steps to Build a Team, Stay Focused, Make Better Decisions, and Crush Your Competition

by **David Dodson**



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THE SUMMARY IN BRIEF

Despite having an impressive business education, including an MBA from Stanford's elite business school and experience working at McKinsey & Company, author David Dodson learned the hard way that no one taught him the basic skills necessary to lead an organization. When he started his first company he learned on the job, slowly and expensively. He made horrendous hiring mistakes, wasted cash, misused his team's time and lost great employees and valuable customers. Those missteps are the inspiration for ***The Manager's Handbook: Five Simple Steps to Build a Team, Stay Focused, Make Better Decisions, and Crush Your Competition***.

Dodson knew those early experiences were not unique. There had to be a better way to prepare people for leadership. After three years of study and observation he discovered the answer to a nagging question: Why are some people better than others at getting things done? Personality attributes vary, but a command of skills is universal. Exceptional managers share five common skill characteristics that can be learned and applied by anyone–including you. ***The Manager's Handbook*** will show you how to use them.

IN THIS SUMMARY, YOU WILL LEARN:

- How to commit to building a team.
- The impact of being a fanatical custodian of time.
- The value in seeking and taking advice.
- How to set and adhere to priorities.

Part I: Commitment to Building a Team

Hire for Outcomes

Inventing the next big thing won't make a lick of difference if you don't have the right team in place to pull it off. But most managers are really bad at hiring. Instead of hiring for outcomes–or put more bluntly, hiring "to get things done"–most of us hire the person who we click with and willingly accept a 50/50 shot at having gotten it right.

Better hiring begins with committing to a standardized approach across your organization. The conventional objection to standardization is that it takes away the hiring manager's flexibility. But a process for hiring for outcomes doesn't impact anyone's role in exercising their judgment in making a final decision; it increases the quality of the data collected in order to improve the eventual decision. Hiring for outcomes works. You do this by creating a hiring scorecard.

Begin with a list of desired outcomes and then answer the question, "How will I know?" This becomes your hiring action plan, allowing you to target the data you need to collect. To finish, identify the right attributes, or qualities, characteristics, and traits of a person, that are the reason someone is likely to achieve the outcome.

Conduct team interviews to allow for a faster process that also gathers data from a group, not just the most senior person. Then apply a systemic interview process that:

- Relies on team interviews, not one-on-ones
- Deepens and narrows responses by asking: What? How? Can you tell me more?
- Gives time for team to caucus during the interview to identify areas that need clarification
- Reviews the candidate's fit, focusing on data, not likability

Once you find the right candidate to hire, give them a 100-day window to get comfortable asking questions, make friends and connections, learn workplace norms, or get trained in their areas of expertise. This strong onboarding process drastically reduces turnover.

Instant Performance Feedback

Feedback is most effectual–positive and negative–when it is delivered as close to the time of the underlying event as possible. Don't save your thoughts for a semi-annual event. If it's feedback worth giving, it's worth delivering right away. The best managers are always on the lookout for coachable moments.

Kim Scott, the author of ***Radical Candor: How to Get What You Want by Saying What You Mean*** developed a framework to measure a person's willingness to challenge directly and care personally. Scott observed that most people either resist providing ongoing, high-quality coaching out of a misperception that kindness requires being indirect, or they let bad news go unaddressed. This leaves the person in need of feedback unscathed and feeling better about themselves, but it fails the team.

A common form this takes is the feedback sandwich, when we first deliver a gratuitous compliment only to earn permission to say what we really want to say. We then offer the important feedback, then complete the sandwich by tossing in some reassuring words that only serve to reduce the impact of our feedback. This doesn't affect change.

Scott incorporates two principles to delivering quality feedback: showing care but being direct. You can accomplish this with Radical Candor and when done right, it's highly effective and should be given for both positive and negative feedback.

When modeling it, call it by its name. It may sound something like this. "I'd like to offer you some feedback in the form of Radical Candor. You're consistently arriving late for meetings, and the reason this is an issue is because…"

When you begin to implement this, start by soliciting it for yourself, helping those who give it the chance to rephrase as you model how to deliver feedback in this way. For the first three months of implementing it team-wide, aim for twice as many instances of positive feedback over negative feedback, but never confuse it with serving a feedback sandwich.

Coaching Underperformance

Many underperformers can be coached to success but few managers and companies know how to do so. If a team member is underperforming in a way that is unsustainable and, if not addressed, calls to question whether they belong with the organization, you should apply the following four-step process.

First, note on your organization chart which team members you would rank as A, B, or C with an A rating to indicate the person who has a 90% chance of achieving top 10% results. The B rating reflects those with the potential to

Not only is it okay to say "no," to be a high-performing leader, you must learn to do so.

become A. C represents those who are frequently failing to meet expectations or struggling in areas that are material to their success.

Second, imagine those who were marked B or C coming into your office and resigning for a great opportunity. You've now eliminated the uncomfortable step of having to fire them. With this, consider whether in your gut you would feel relieved, neutral, or devastated?

Third, beginning with the word, "In three years…," sketch out what you expect your organization chart to look like. Include names and titles. As you imagine your star team, can you picture this person with you then, or are they just filling a current need?

Fourth and last, ask yourself: "If I were filling a vacancy, would this person be hired for that position for 125% of their current salary?"

These four questions take about half an hour, twice a year. When done methodically, you'll identify the people you need to focus on retaining and developing, and those who have more fundamental concerns that may not be coachable.

Part II: Fanatical Custodian of Time

Activity is Not Progress

To manage a team and maintain your own priorities you have to be an especially careful custodian of your most precious and finite resource: your time. People that get things done protect their time. Managers can create more quantity of time, about two hours each day, by applying specific techniques.

Let's start with meetings. 30 and 60 minutes are the default times for nearly every meeting in the world. Managers spend a whopping 72% of their work hours in meetings. If you reduce those meetings to 20 and 40 minutes, you can add significant time back to your day. And there is a bonus. When a meeting is scheduled for 20 minutes instead of 30, people assume there is a reason. They show up on time and get right down to business.

Task management is crucial to protecting your time. The average amount of time a manager spends on a task is just over three minutes and they engage in about a dozen working spheres in a single day, switching every ten minutes from one task to the next. This practice is described as *task switching* and we know it is an inefficient way to complete work.

Chipping away at a single task over multiple times throughout the day requires more minutes than doing it all at once. But the cost is even higher than wasting the quantity of time you have. When you focus on a single task, your concentration and energy moves at an accelerated pace.

Saying "no" is another way to protect your time. High-performing leaders don't feel the requirement to read every article someone sends them, reply to every message they receive, or take meetings with someone just because a colleague asks if they will. Not only is it okay to say "no," to be a high-performing leader you must learn to do so.

Create quality by intentionally planning for times of *deep work* and shallow work. *Shallow work* can be done at almost any time and in almost any environment. Deep work is where creativity and innovation takes place and it requires uninterrupted periods of concentration.

Once you become a fanatical custodian of your own time, instill these same habits and practice among your entire team. Imagine the power you create when your whole team has extra time in their day as they carve back time in meetings, or when the whole team–not just you–creates uninterrupted periods of quality time for high-value work.

And because you are making these adjustments as a team, no one is put off when their email is not answered within seconds, when the meeting is scheduled for only 20 minutes, or if you politely decline when they ask, "Got a minute?"

Delegating

Many emerging leaders, as they face a growing to-do list, resort to working harder and longer hours as a way to scale. But managing is different than doing. There is only one solution if you want to build a lasting organization–you must learn the craft of delegation.

When you decide to delegate, use SCS, which stands for *specific*, *co-create*, and *support*. SCS is a mindset that captures three parallel elements of skillful delegation.

- Specific: Don't trade hours in the future to save minutes in the present. Give specific direction on the work product to save the back and forth that will result if you don't.
- Co-Create: If the result is not something ideal, offer suggestions for improvement without micromanaging. Ask questions that you may know the answers to in an effort to have them come up with solutions. This develops the skills they need to be successful next time around.
- Support: Have regular checkpoints to find out whether they are struggling, discover if your plan was unclear, or identify if they need additional guidance or resources.

Initially, delegation will not come naturally. In learning to delegate well, you will understand the need to let go of the old habits of simply doing everything yourself, you'll resist the pull to doing what once made you successful, and transition to a scalable form of leadership.

Part III: Willingness to Seek and Take Advice

Five Questions

There is significant know-how and wisdom within your sphere, but what you hear from them has likely been sifted through a filter, generating positions that conform to your existing views. To break away from these natural biases, you'll need to employ a structure to fact finding, asking a set of five questions to your team, then your customers and clients, suppliers and vendors, and finally, your competition.

Begin by making it clear to the person you're talking with your goal and intention. Tell them that you need to make a decision on the direction of the organization and need their input to make a wise one. Then, with pen and paper in hand ask them these five questions to each respective group.

Your Team

- What is going well?
- What are we working on that is a waste of time?
- What do our customers care the most about?
- What are we better at than all our competitors?
- If you were me, what would you be working on?

Customers and Clients

- Why do you buy from us?
- Do you buy exclusively from us or from others…and why?
- What are examples of things our competitors do better than us?
- What would we need to do to earn more of your business?
- What feature, service, or product do you wish we offered?

Suppliers and Vendors

- Where do you see the market expanding and contracting?
- What do you think our customers value most?
- What innovations or technological changes do you see happening?
- Among our competitors, who is the best and why?
- What are examples of things that we do better than our competition?

Former Employees of the Competition

- When you were there, what do you think they did well?
- What were their big challenges?
- Which competitors do they fear the most, and why?
- Why do people like to work there?
- When they lose people, what are the reasons?

Management is more than just walking around and casually interacting for show. Be intentional and purposeful as you seek information, using the structure provided by the five questions.

Executive Coaching

Coaches teach you to fish. Their mission is to help you build leadership skills, not create codependency. A coach participates in your development by creating frameworks for solving business problems, not by handing you the answer.

A coach creates a safe space in which you can wander and wonder as you explore new opportunities, expand your

Management is more than just walking around and casually interacting for show.

possibilities, and examine how you feel about your personal and professional circumstances.

To find the right coach, begin by creating a list of potential coaches. Search engines will lead you to a large list of candidates, but the preferred method is to tap into your network by asking other managers, as well as lawyers, accountants, and active investors, for their recommendations.

Next, check the coach's formal training. Coaching is a skill, not an accumulation of life experiences. There are credentialed programs, certifications, and accreditation for coaches as well as continuing education programs at major universities.

Meet with two or three coaches before deciding to get a sense of the range of options, styles and experiences available to you. In these conversations, you'll want to ask them how often they would expect to meet with you and for how long, how they handle emergency sessions, and whether they are available for unexpected situations.

Keep in mind that a coach is an investment, not an expense. Before taking a cheaper option, evaluate the price difference against the benefit of making a series of improved leadership decisions over time.

The days when people viewed coaching as a way to save a flailing executive are over. Think of a coach the way a star athlete does–as an essential component to reaching your full potential.

Part IV: Setting and Adhering to Priorities

Key Performance Indicators (KPIs)

Many of us begin our professional lives measured mostly by how well we collect and present historical data. But historical financial statements seldom drive operational decisions. It is far more effective to rely on KPIs that are material, actionable, and measurable.

To unleash the potential of a KPI, it needs to be understood and used by your frontline workers. Too often KPIs are saved for the boardroom and senior leadership team. But those are not the people making daily decisions that impact your operations. Your frontline team is your primary audience of a KPI. To take advantage of this, you need to apply a fidelity to *duplication*, *simplicity*, *frequency*, and *format*.

Duplication: When it comes to communicating KPIs to your team, less is more. Begin by eliminating overlapping KPIs. Understand that KPIs are not about precisely measuring all aspects of your operation, but tools to guide forward-facing management decisions.

Simplicity: Today, our ability to collect and process data is so potent that we can create complex KPIs that your frontline organization could never understand. Sacrifice some precision and use a KPI everyone can understand.

Frequency: The frequency with which you communicate a KPI should be based on the speed at which your organization can act on the information, not how often you can collect the data.

Format: Elaborate formatting comes at a cost. Impressive charts and elaborate PowerPoint presentations add nothing to the underlying content of a KPI. Keep the format simple.

The genius of a KPI is the ability to get the entire organization to rally around a single goal. Managers should harness this power by getting straightforward facts they can share with their team to make decisions that impact future results.

The Operating Plan

Prioritizing is not saying "no" to *unattractive* ideas. Prioritization is a willingness to also say "no" to *attractive* ideas. The pace at which you come up with good ideas will always outrun your organization's ability to implement them.

Because of this tension between ambition and realism, prioritization requires a process– discarding so many great ideas seldom happens on its own, and a process of institutional prioritization begins with the annual *operating plan*.

Begin by creating a baseline budget, which represents what the team believes will occur without implementing any new

initiatives. Put another way, it's how the company will perform if everyone just keeps doing what they're currently doing.

The next step is for your leadership team to brainstorm ideas for the following year. Be sure to stretch the team's creative energy, broadening the process beyond the most outspoken, or senior, members by making sure to solicit everyone's views.

Develop a set of potential initiatives for the following year, eliminating those with limited promise. Focus on developing what remains by fleshing out enough tactical detail to get a sense of the effort involved in the approximate cost.

Now, cross almost everything off the list. A company that takes on too many initiatives and needs to subtract will almost always first push the organization too hard in an effort to succeed, wearing down the team, lowering morale, and diffusing focus before finally acknowledging defeat. In contrast if you find yourself ahead of schedule and have the opportunity to add, you can do so with virtually no cost to the organization while likely lifting morale along the way.

Alignment Through Compensations

A company's performance is the result of a skilled and motivated team working in harmony. People are complex. They are influenced most by how they are regarded, whether they find the work interesting, their attitude toward their company and their boss, and being on a winning team. While some households don't have the luxury of taking a lower wage, the data show that most people will trade some compensation for the job they prefer.

There are three principal types of compensation: b*ase compensation*, *benefits*, and *variable compensation*. Properly designed, variable compensation is a powerful tool in your efforts to get your team to set and adhere to priorities.

Before considering any variable compensation, you need to first provide enough base compensation and benefits to satisfy your team's requirements for security. Creating economic stress and anxiety in the hope that you'll motivate people to work harder almost never increases performance.

Variable compensation provides clear direction on where you want folks to focus their efforts. It should be tied directly to your KPIs and operating plan and be used as a means to focus and reward the team's ability to hit those targets.

As you make the team aware of your operating plan and KPIs, reinforce your priorities by aligning your variable compensation plan to those targets. The best variable compensation plans have between one and four measurements, all consistent with the operating plan and each material to the final payout.

Use variable compensation to communicate your priorities, center your team's attention, actively measure results, and provide regular feedback and coaching opportunities. Use economic gains from bonus plans not to drive behavior, but as a way to align your team around common objectives and to reward success.

Part V: An Obsession with Quality

Quality Drives Profits

Quality impacts profit more than any single operational area of a company. Quality positively impacts sales, pricing, and expenses. Once someone experiences your product or service, all the sales and marketing prowess won't get them to buy from you again if you disappoint them.

But too often managers try to drive sales by cranking up their sales force, unaware that increasing and maintaining quality is an easier, faster, and cheaper way. A great sales engine can't sell a mediocre product. Fantastic salespeople may help get you in the door or make an initial sale, but no amount of marketing or selling can cast off the anchor of an unexceptional product or service.

The exciting aspect of quality is that it sets up an interesting "virtuous cycle" with your sales and marketing organization. Great salespeople gravitate to the company selling the best quality products or services. Which means companies selling quality goods end up with the best sales and marketing people creating a further acceleration in sales growth.

A Vow to Wow

Meeting the basic quality requirements of a customer is not enough to build loyalty. Winning requires carefully identifying a customer segment that has unique definitions of quality and then meeting those needs with a *vow to wow*.

The mistake many leaders make is believing that quality is a "mindset" or that it can be achieved through a slogan like "Quality is King!" Your customers don't care what you say in your commercials; the only thing that matters to them is whether you have met their definition of quality. The only way to achieve that high quality over an extended period of time–consistently throughout your company–is to have quality built into your processes.

Another common mistake is to chase every customer, and in doing so you impress no one. Wowing your target customer necessarily means that there will be those who love what you have to offer, and those who prefer to go elsewhere. If you chase every customer, you'll become operationally overwhelmed, and in the end, be mediocre at everything. Build an enduring company by finding a corner of the market that defines quality differently, and then satisfy your customers with a *vow to wow*.

Great leaders have the potential to do great things–and this world needs some of that right now. In doing so you'll have a positive impact on people's lives, maybe even more than that. Get your shot at being great by mastering these five skills.



David Dodson is on Stanford University's Graduate School of Business faculty, where he guides students in tactical execution. He teaches one of the most sought-after courses at Stanford, and in 2023 The Economist listed his course as one of the three "hottest" courses at Stanford. He recently received the MSx Teaching Excellence Award and is a six-time speaker in the graduation Last Lecture series. He also holds an economics and business degree from Stanford University.

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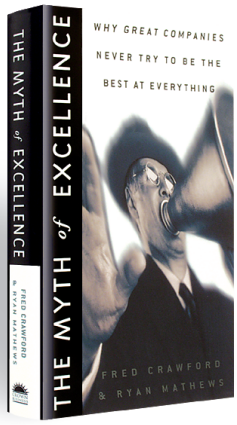
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The Myth of Excellence

Fred Crawford and Ryan Mathews

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



by Fred Crawford and Ryan Mathews

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Why Companies Never Try to Be The Best at Everything

THE MYTH OF EXCELLENCE

THE SUMMARY IN BRIEF

If your company tries to succeed at everything, it will wind up succeeding at nothing — so state Fred Crawford and Ryan Mathews in *The Myth of Excellence*. Backed by a bevy of consumer research, the two make the case for organizations to channel their energies toward a specific set of goals in order to reach their target audience with greater efficiency and success.

In the course of its transactions, a company can engage its customers in any one of five attributes: Price, Service, Access, Product or Experience. The authors discuss each one in detail, in conjunction with their Conceptual Model of Consumer Relevancy — a three-level hierarchy that dictates the length, breadth and depth of a customer-company business relationship in the following terms:

Acceptance. At bare minimum, a business wants its customers to accept their products or services as par for their market and make routine transactions with them. While this is an acceptable level of doing business, there is little effort on either side to maintain a sense of loyalty.

Preference. When a company deepens the level of respect, access and quality in a customer relationship, customers tend to grow to prefer that company over others. This is accomplished because the company has differentiated itself from competitors that achieve mere acceptance in the market.

Seeking. When a consumer not only prefers a company, but seeks out its products and services above all others, the company has achieved the ideal state of relationship with its customer.

Companies cannot, however, successfully achieve the third (seeking) status for each of the five transactional attributes — no organization possesses sufficient resources to succeed. You must determine the attributes your customers prefer best, and gear your efforts toward achieving the appropriate Relevancy level for each attribute — for example, the *seeking* level for attributes that are most important and acceptance for less important attributes.

The Myth of Excellence shows you how.

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Align Commerce with Values

Many companies and pundits alike work under the assumption that consumers are chiefly concerned with purchasing the very best goods at the lowest possible price, and receiving plenty of value-added services, to boot. In truth, consumers are looking for values, not just value. They want recognition as human beings, not just a 30 percent discount.

Indeed, there are three key societal changes — all occurring at once — that drive consumers to crave something different, a change in the relative weighting we assign to the context of a transaction. Those factors are:

● **Societal devolution.** Traditional institutions have become less able to adequately reflect fundamental human values. As individuals, we unconsciously seek out reinforcement and ratification of our personal values, rewarding commercial institutions that are smart enough to build those values into their offerings.

● **Increased inability to keep pace with daily life.** We work too much; we're stressed out; depression is becoming more prevalent than heart disease. It is clear that expectations are rising, yet we are falling further behind.

● **Proliferation of increasingly intrusive information and communication technologies.** We are hit from all sides with information and commercial imagery, on television, the Internet and other means, which has left us better informed, but less aware.

Kmart's High Fashion Faux Pas

Sometimes, companies try desperately to excel in an area that consumers don't want. Several years ago, Kmart made a famously misguided attempt to make its line of clothing more upscale. As part of that campaign, the retailer began offering higher-priced Gitano designer jeans, a move that flopped because consumers didn't believe designer clothes could be sold at Kmart prices. Gitano, too, felt the full force of the miscalculation — damaging its standing with upscale customers who didn't believe any brand sold at Kmart could carry high-fashion cachet.

It was a case in which customers believed that *low cost* plus *high fashion* equaled *low quality*. Whether the jeans were a good value never entered into the equation.

Aligning the Commercial Context

As a result of the convergence of these factors, consumers want the commercial context to be aligned with human values. This alignment is *Consumer Relevancy,* which is based on three foundations:

● **Human values are the contemporary currency of commerce.** Businesses that address human needs that are typically ignored elsewhere are well positioned to take shares from competitors.

● **Human values determine commercial value.** While inferior quality in products will not be tolerated by consumers, product quality alone is not enough. Companies that address human values will have greater opportunities for differentiation, branding and building loyalty.

● **Values are more important than value to consumers.** Today, differentiation is found in the manner in which a product or service is rendered, through the lens of human values.

Focusing on Attributes

With these things in mind (and with research gleaned from a survey of 5,000 consumers), the authors came to the conclusion that every business transaction — from the simplest sale of goods to the most complex service offering — can be broken down into five attributes

1. Price
2. Service
3. Access
4. Experience
5. Product

While many companies attempt to excel at all five, none (not even retail giant Wal-Mart) are capable of being great at everything, yet this myth of excellence

(continued on page 3)

The authors: Fred Crawford is an executive vice president with Cap Gemini Ernst & Young. Ryan Mathews is a futurist with FirstMatter, a Westport, Conn.-based futuring consultancy.

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Align Commerce with Values

(continued from page 2)

pervades the culture. Even if a given company could excel in all five areas, it would have trouble communicating a clear value proposition to consumers.

Companies must instead select an attribute that defines their primary field of competition (the one in which they want to dominate), homing in on the one that their target consumers value the most.

Finding out what attributes and values you ought to embody is relatively easy — you must talk to your customers in their language and be open to what they tell you. Once you've got the message, it must form the cornerstone of everything you do that touches the customer — no exceptions, no short-term deviations, no panic if sales dip in a quarter. Those values must permeate your culture, as well as your product offerings — a fact that is easier said than done in these competitive times. ■

A Conceptual Model For Consumer Relevancy

From the seller's perspective, the relationships between consumers and businesses haven't changed all that much from the days of the 19th century country store. Whereas the country store owner got to know his customers through countless interactions (enabling him to anticipate and meet their needs), today's businesses have technology on their side, to track purchases and deliver goods specifically tailored to the needs of consumers.

The Five Transaction Attributes

If things haven't changed that much, why do customers seem so upset? Part of the answer is that while the essential transactional infrastructure (the five basic attributes of commerce) appears the same over time, the specific meaning of those attributes has been radically transformed. This has affected those attributes in the following ways:

- **Price.** Consumers — regardless of income level, geographic location and/or education — are less concerned with getting the lowest price than they are with getting a fair and honest price. They want a price that is consistent and that doesn't appear to have been artificially increased or decreased at the expense of other things they want to buy. Business brags about cheap, but people value honest.
- **Service.** Time after time, companies fall over themselves to provide "value-added" services for consumers in one area, while failing to provide even basic service in others. All those special services mean little if a company cannot successfully serve customers' basic, everyday requests.
- **Access.** Today, consumers care more about navigation (physical and psychological) than mere geographic location. Getting to a business is far less important than getting what they want once they've arrived.
- **Product.** Just because businesses believe their products are the best doesn't necessarily mean you're dominating your customers' consciousness. A vast majority of consumers indicate that a consistently good product is more desirable than a single best offering. In other words, "good enough" is good enough for most consumers.
- **Experience.** Intimacy matters. Consumers want respect, to be treated like a human being (not a human purchase order), and to be offered unique products or services, a demand that stands in stark contrast to the stereotypical used car salesman trying to trick people into buying more car than they need.

The Four Relationship Levels

There is another dimension to the consumer/seller relationship — a hierarchy of interaction that dictates four potential levels at which the two parties meet and transact business. Where a company falls in this hierarchy depends on how well it listens to consumers, truly understands what they are looking for, and satisfies their needs. The levels in this Conceptual Model are as follows:

- **Consumer Underworld.** There exists a deep distrust on the part of consumers as a result of real or perceived disrespect or lack of accommodation at the hands of the company in question. No company wants to be at this "negative" level.
- **Level I: Consumer accepts the company.** This is the threshold at which a company represents par for a particular market or business — honest pricing, credible products, accommodating service, easy access and respect for customers. In a Level I relationship, consumers are willing to make routine transactions with the company, but there is little sense of loyalty either way.
- **Level II: Consumer prefers the company.** At this level, consumers actually prefer one store or brand over another. This typically takes place when the company makes access to its facilities, product, Web site, etc., convenient; shows respect at a personal level; clearly presents consistent prices; offers reliable, good quality products; and is able to educate consumers on the use of a product or service. To hit Level II, you must find ways to differentiate yourself from competitors, building a degree of trust sufficient to cause consumers to prefer doing business with them.
- **Level III: Consumer seeks the company.** This is the ideal state of interaction, in which the consumer not

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A Conceptual Model for Consumer Relevancy

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only prefers one company over others, but actively seeks out the company of choice. These companies find ways to dominate their markets, to separate themselves from the pack, to move consumers into lifestyle relationships, in which the company becomes the source that customers appoint to make all the right decisions.

Customer Relevancy

How do these levels interact with and add clarity to the five customer-centric categories to create a consumer-relevant company? Truly consumer-relevant companies do not attempt to dominate in every one of the five categories; they overcome the constant temptation to strive for universal excellence (or Level III standing), instead deciding upon which attribute they want to compete.

In addition to choosing a primary attribute, highly consumer-relevant companies select a second (Level II) attribute that serves as a strong complement and further differentiates them from competitors. Finally, those companies must not fall below par (Level I) in any of the other categories; many companies overlook this critically important point.

Thus, for example, a company might strive for Level III on product, Level II on service and Level I on price, access and experience. ■

Price Can Be a Major Attribute — But Not the Only One

Dominating on price doesn't necessarily mean having the absolute lowest cost — it means consistently offering customers fair and honest pricing. Indeed, while most consumer businesses appear happy to compete ferociously on the basis of cost of goods or services — under the contention that their customers really want the lowest prices available — in most circumstances they're just flat wrong.

Absolute lowest price may continue to be important to some segment of the population, but it will be just one factor in the purchase-decision process for the vast majority of consumers. In many cases, price will actually be a less significant factor than it has been, because most consumers find themselves more rushed and time-starved than ever before.

While many current (and deceased) Internet businesses treat lowest price as their key factor, the typical consumer business in the non-virtual world must recognize the multidimensional aspects of price, that, in fact, it takes more than simply offering low prices to attract consumers.

On the surface, Dollar General Corp. (the Nashville-based retailer catering to low- and fixed-income consumers) is clearly a consumer business that aims to dominate on price. Get below that shell, however, and you see that price is only its primary (Level III) attribute; it also focuses on access (as its Level II attribute) to differentiate its stores from other general goods outlets, such as Wal-Mart. And it operates at par in terms of service and experience.

Dollar General's Level III Attribute: Price

Dollar General is able to excel at price in part because its strategy is rooted in several crucial factors, including the following:

- **Cash and carry.** The chain does not accept credit cards, eliminating the two- to six-percent fees charged by credit card companies, as well as expensive credit card verification systems.
- **No advertising.** You will never see a Dollar General sales circular in your local paper, unless a new store is opening in your area. The company also avoids all radio and TV advertisements, as well.
- **Mixing of brands.** Dollar General offers a mix of brands that enables the company to provide consistently good quality at as low a price as possible. Approximately 10 to 15 percent of its items are well-known national brands; an equal portion consists of the chain's own DG Signature label products. The remainder of the products offered consist of various labels exclusive to Dollar General that meet the company's high standards of quality.
- **Simple, no glitz stores.** The company's store units are decidedly unglamorous, but that suits management and customers alike just fine.
- **Quality labor force.** The company taps its own customer base and leverages its stores locales to find the best employees it can, at reasonable wages.

Dollar General's Level II Attribute: Access

Dollar General can differentiate itself from competitors on the factor of access by maintaining the following attributes:

- **Small footprint.** At about 7,000 square feet, the typical Dollar General store is smaller than its competition's outlets.
- **Eye-level focus.** In every Dollar General store, nothing — fixtures, signs, merchandise, etc. — is above eye level. Customers standing in the store entrance have an unobstructed view of the entire store without having to wander around.
- **Streamlined checkout.** Dollar General keeps checkout lines moving by employing price scanners and removing impulse buy items (gum, candy, etc.) from its front-end area.

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Price Can Be a Major Attribute — But Not the Only One

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● **Limited choices.** The company keeps a tight reign on its inventory, limiting itself to just 4500 stock keeping units, or SKUs (Wal-Mart, by contrast, offers more than eight times that many), keeping stock from crowding the stores and inconveniencing customers who don't want to wade through too many choices.

● **Convenient location.** Although access is typically defined as internal navigation, a nice store means little if customers can't get to it. Dollar General tries to locate its units in the heart of small towns or on major public transit lines in larger cities. ■

Service with a Smile?

Service is all about people — the element of human-to-human interaction is what most clearly defines the service attribute in a business. Unlike product or price, service is a living, breathing dynamic, experienced by individuals in a very personal way. Since employees are the touch points between a company and its customers, the mechanisms companies use to motivate their employees are a critical part of how their customers experience service.

Historically, companies have considered service to be something they offered to consumers; however, as attitudes toward service have shifted, that viewpoint has changed. Now, consumers regard service as something a business embodies. They differentiate among various kinds of service a company can offer — before, during and after transactions. They recognize the close relationship between service and experience; it's not so much what you offer, but how you offer it that makes the difference in a service situation.

Businesses that want to compete on service as their primary attribute, or even those that wish to simply bring their service component up to industry standards, must listen carefully to the voice of the consumer.

Levels of Service

The hierarchy of interaction would work as follows:

● **Level I.** The first level for service is *accommodation* — meeting the fundamental expectations of the consumer. To be accommodated, customers must feel as if they are respected and treated fairly by the company's personnel, and that employees take seriously any dissatisfaction they might have with a purchase. Companies must focus on hiring and training salespeople and customer service representatives who are committed to serving customers first and foremost.

Superquinn Keeps Customers Coming Back

Superquinn isn't just an Irish supermarket chain; in the words of one employee, it's a cult. Every employee, most of the customers, and the company's management are all dedicated to the chain's primary competitive attribute — service. Here's how they do it:

✓ **They do the simple things right.** Superquinn never forgets to do the little things to make customers happy. All its stores have a greeter posted at the store entrance, not only to make a good first impression, but also to help customers get situated in the store so they can go about their business. Store managers, also, are a constant presence on the floor; they can often be seen doing their paperwork at empty registers, on shelves, etc. — all in the name of remaining accessible to customers.

✓ **They go the extra mile.** While many retailers hide their complaint department, Superquinn places its service counter right at the entrance of the store, powerfully communicating the value the chain puts in addressing its customers' comments and complaints. The company will also stock special items for specific customers, even if only a competitor carries that item.

✓ **They exceed customer expectations.** While there are many points of difference between Superquinn and its competitors, some programs are clearly light years ahead of anything most other retailers will do for their customers. One such program is the company's child-care service — each store is equipped with a supervised playhouse area where customers can leave their children to play, free of charge. Another program is the SuperClub customer loyalty program, which enables customers to accumulate points good toward the purchase of merchandise at Superquinn's partner companies.

● **Level II.** At the second level, consumers want *education* — information about products and services. They want their questions answered by employees who are well trained, knowledgeable and friendly.

● **Level III.** Businesses aiming to excel at the service attribute must offer the consumer individualized *customization* of the product or service. This customization can be a tricky proposition, however; if you make a mistake, it can have a terribly negative effect on your standing with customers. A good example of customization gone wrong might be a direct mail campaign, seemingly customized with your name and address, but with one or both misspelled. ■

Access: Physical and Psychological

For decades, companies have defined access by the age-old real estate adage of "location, location, location." However, a new definition of access is starting to win over today's consumers, a definition that has less to do with physical location and everything to do with *psychological* access — specifically, the perception of being able to easily and successfully navigate the physical area of a business and find what you're looking for. Dollar General, while dominating on price, has also successfully captured this notion of access, with the uniform, easily navigated layout of each and every one of its stores.

The lesson to be learned for a consumer business is the fact that there is a pot of gold awaiting the retailer or service provider that can create a sense of connectivity and community — that is, psychological access — as a means of differentiation. They must recognize that their customers likely rush through their lives, accompanied by more acquaintances than friends; these customers need a sense of connection and of community affiliation, and, very often, find neither.

This non-physical access — or, for lack of a better term, "higher" access — is key to successfully dominating or differentiating your business on the attribute of access. The Conceptual Model for access, then, would look something like the following:

- **Level I.** At this basic threshold of competing on access, consumers are saying, "Make it *easy* for me to find what I need, and to get in and out of your store or location in a hurry."
- **Level II.** At this level of consumer preference, consumers are telling businesses to make the experience *convenient* for them.
- **Level III.** At the level in which consumers actively seek a company, they define access not only in terms of ease and convenience, but also in terms of whether that business provides *solutions* to their lifestyle problems, or offers that psychological sense of *connectivity* and community.

If your organization wants to excel at access, ask yourself some key questions:

- Are you offering your customers a real solution to their needs (for example, arranging extra shipments or "shopping" the competition for last-minute purchases)?
- How convenient is it to do business with you? Do you, for example, use available technology wisely, in order to enhance your customers' ability to engage your business?
- How easy is it for your customers to get the goods or services they're looking for?
- If you have a Web site, do you respond to customer communications in real time, or only once a day?
- Are you willing to go to the customer if need be, or do you insist they come to you? ■

Running Circles Around Access

Circles, a Boston-based personal services company that offers a virtual concierge service, helps its customers find just about anything they want (from restaurants to cars to virtually any kind of shopping), offering access, literally, to a world of products and services. Through offering such a wide array of solutions to customer needs, Circles shows businesses how they, too, can excel at the attribute of access:

- ✓ **Take care of your customers' customers.** You can't access Circles if you're an individual customer, but you can if you're a customer of one of Circles' client companies, including Razorfish, Cap Gemini Ernst & Young, Hyperion and nearly 75 other corporations. These companies know that, in competitive job markets, offering perks to employees, such as contracting with a personal services company, is an effective way to build employee loyalty. The exclusivity of Circles' access also makes its services more valuable.
- ✓ **Help others achieve balance.** By helping customers take care of little things (hiring a dog walker, getting tickets to an event, etc.), Circles enables those customers to find time for other pursuits outside those associated with work or day-to-day chores.
- ✓ **Hire and train properly.** Providing access excellence is impossible without the right people. Circles has 250 professionals in its employ, including 150 highly trained personal assistants.

Product Bandwidth: Why 'Good' Is Good Enough

As with most of the attributes, product has a multitude of dimensions; chief among them are quality, breadth and depth. Companies that choose to compete on the basis of product must determine the most appropriate mix of these three elements.

At a basic level, a company must set the quality bar for its products, selecting a product "quality range" that strikes an appropriate balance of "good, better or best,"

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Product Bandwidth: Why 'Good' Is Good Enough

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depending on the needs of the consumer audience it is targeting. These companies will find themselves answering several important questions immediately:

- **Will we offer the most innovative products made to exacting specifications (which are, consequently, very expensive)?**
- **Will we go for items that are of lower quality but are more affordable to a larger pool of consumers?**
- **Will we strike a balance, somewhere between high and lower quality?**

Research points to a certain emotional-commitment range associated with product quality — a range that runs from disposability on one end to attachment on the other. Of course, this attachment depends largely on the individual; consumers who have an emotional attachment to a particular product tend to spend time researching and shopping for that product, before actually making a purchase.

Breadth and Depth

Breadth and depth are also key aspects of the product attribute. Companies choosing to compete on product must decide whether they intend to have the deepest selection of products in their category of choice (such as Toys R Us or Staples) or the broadest assortment of items for their market (like Target or The Home Depot). Ultimately, however, the growth of online business will make product depth an increasingly difficult strategy on which to dominate in the brick-and-mortar world; this will likely lead to product depth increasing as a virtual business strategy, as it becomes the key differentiating factor for many businesses.

The Three Levels of Product

When applying the Conceptual Model to "product," it is necessary to recognize the first demand consumers will make of a business' product — *credibility*. In order to get to Level I, companies must offer a product that meets basic expectations and a minimum threshold of utility. A cheap wrench, for example, must still be able to loosen a rusted nut.

To get to Level II, businesses must guarantee the *reliability* of their products — consistently good merchandise and a low out-of-stock condition. Consumers will prefer your business if your products do what they purport to do, whether you're FedEx delivering overnight, or Maytag keeping its repairmen bored by making washers that don't break down. The perception of reliability is a principal result of successful branding and the expectation that such brands will always perform consistently.

Businesses that achieve Level III provide not only credibility and reliability, but also *inspiration*. They carry products that are unique, unusual or difficult to find — items that inspire the consumer to aspire to a higher level of lifestyle. Companies like Tiffany or Rolex provide this level of inspiration. That inspiration also extends to businesses that are not on the higher-end of the scale — companies like The Home Depot or Ikea, which attract repeat customers with their range of products or stylish designs. Clearly, these businesses understand their customers' product quality and price thresholds, but they also paint the picture of an inspiring lifestyle, in which their products play a starring role. ■

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Record Time: Becoming the Product

Record Time, a Detroit-based independent music store, has lasted more than 20 years in a progressive, competitive market by excelling at the primary attribute of product — offering customers the music they want, when they want it, regardless of whether they desire a Top Ten hit or the most obscure record by a niche artist. In order to outlast major competitors (such as Best Buy, Borders, Media Play and the like), the store's owner, Mike Himes, keenly observes several key guidelines:

- ✓ **Give the people what they want.** Record Time inspires customers by offering them recordings by cutting-edge artists that they can't find anywhere else.
- ✓ **Hire knowledge.** Himes hires only salespeople who are themselves deeply involved with music, either as artists, DJs, or just devoted fans.
- ✓ **Know your limits.** Hip-hop and alternative music are Record Time's bread and butter; as a result, the store stocks a lot of artists in those genres, and very little in other genres (like country or classical) that are unpopular with the store's target market of 15-to-30-year-olds.
- ✓ **Provide a community experience.** Record Time has a separate "Dance Room," where customers can listen to product and hang out with other aficionados.
- ✓ **Encourage local talent.** Himes regularly features live, in-store performances by local artists. He has also sponsored certain artists by distributing their music himself, with minimal (if any) record company support.

The Experience Factor

Experience may be the most difficult attribute at which to excel, in part because it is possibly the most misunderstood.

Many businesses often make the mistake of equating experience with entertainment — and entertainment alone — rather than seeing the latter as an augmentation to an already solid offer and a contributor to the consumer's experience. The allure of entertainment — of style over substantive experience or a value proposition — wears off after a while. Think of all the themed restaurants that once seemed so prevalent and experience-oriented, but which actually substituted glitz for value. Has anyone eaten at a Fashion Café lately?

Two Kinds of Experience

In much the same way that there are two kinds of access — physical and psychological — there are also two types of experience: the external, or entertainment, experience; and the internal experience, which is tied to the feeling a consumer has about doing business with a company. The distinction between the two has largely to do with how the business in question engages the customer, and the associated experience that transpires as a result of that engagement — how the customer feels; whether he or she is treated with respect; whether he or she feels valued; etc.

The Three Levels of Experience

To compete on experience successfully, businesses must consider the implications for experience, as denoted in the Conceptual Model:

- At Level I, consumers simply want to be treated as human beings. They demand respect, or they will shop your competition for the products and services they need.
- At Level II, the relationship between consumer and business deepens to include care. In addition to the attitudes of employees, care also encompasses environmental factors — signage, music, employee dress, etc. — that constitute the business' image. After all, if a company doesn't care about the image it relays to its customers, how can it purport to care about the customers themselves?
- Level III is the customer-affirming experience, in which the consumer feels a close bond with the company — a degree of intimacy, interaction and trust that leads to a long-term relationship. The consumer believes the company has his or her best interests at heart, respects him or her, and cares more about his or her needs than simply making a sale. ■

The Campbell Bewley Experience

If you speak of coffee or tea in Dublin, chances are you're speaking of (or inside) a Bewley's coffeehouse — such is the standing of the company in Ireland and modern Irish culture. From the stately appearance and decor of each of the company's 30 cafes to the professionalism and friendliness of each outlet's staff, Bewley (and its parent company, Campbell Bewley Group) offers an experience that is unique among coffee shops anywhere in the world — an atmosphere and product that has become synonymous with Dublin itself.

How does Bewley do it?

- ✓ **By attending to details.** The physical structure of each Bewley cafe is a paragon of consistency and warmth — high ceilings, mahogany walls, stained glass windows, an open fire and red upholstery are as much a part of the Bewley's experience as coffee and tea.
- ✓ **By doing staffing their way.** Bewley's operates without a wait staff, which management feels encourages customers to relax and hang out, without feeling rushed by someone asking them if they need anything. The people the company does employ must complete a series of training seminars and gain a certain amount of experience on the floor to move up the positional hierarchy (from trainee to shift leader). That hierarchy is visually represented by colored nametags that both alert customers to the capabilities and authority of a given worker, and give those workers something to which they can strive in their time as Bewley employees.
- ✓ **By communicating to customers.** Customers are treated to an array of hints (both subtle and overstated) of what they can expect at a Bewley's cafe — friendly staff, clean tables, etc. Customers are also alerted a week in advance to any changes that might be taking place — a particularly important communiqué for regular customers.
- ✓ **By doing what customers tell them to do.** Bewley's management believes that the only way to keep giving people what they want is to listen to customers and do what they say. The company solicits input — both positive and negative — via comment cards at every location. The feedback from those comment cards is taken seriously and acted upon immediately; employees who receive praise are rewarded immediately, and managers are evaluated on their outlet's feedback monthly.

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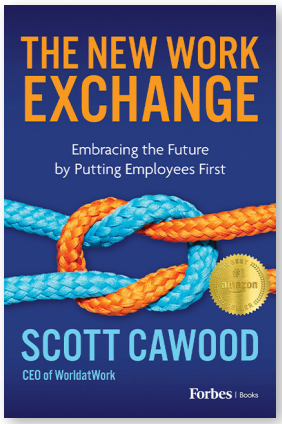
The New Work Exchange

Scott Cawood

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Executive Book Summaries®

The New Work Exchange

Embracing the Future by Putting Employees First



by **Scott Cawood**

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THE SUMMARY IN BRIEF

What people expect from work today goes beyond just having to build a nine-to-five persona to fund their lives. The current corporate world journeys through overwhelming market upheavals as we speak. So, why are organizations still clinging to obsolete workplace practices?

The New Work Exchange: Embracing the Future by Putting Employees First introduces the philosophy of the New Work Exchange to redefine the way we work today. It takes us on a historical journey of work and tells us why corporate practices of the past century don't belong in modern workplaces.

By unpacking insightful real-life examples, author Scott Cawood helps us re-evaluate our alignment with our workers and workplaces. He urges organizations to put people first and unlocks valuable strategies to help organizations keep pace with consumer demands.

IN THIS SUMMARY, YOU WILL LEARN:

- The fundamental tenants of the New Work Exchange.
- Why many aspects of work have become obsolete.
- How to lead people instead of workers.
- How to make work and workplaces better.

Introduction: The State of Work

Work is one of the most important aspects of our lives – not just because it allows us to pay the bills or go on vacation but also because it helps us find identity and meaning.

In its State of the Global Workplace: 2022 Report, Gallup reported that 60 percent of people feel "detached at work" and 10 percent of the world's workforce is "miserable" at work. If emerging data hints at unprecedented levels of detachment and dissatisfaction with work, it begs us to pause and analyze important questions like: "Where did we go wrong?" and "Can we make work better?"

The pages in this book signal our need to redefine work and workplaces as part of the next industrial age. A New Work Exchange is emerging between employers and employees right in front of us. These new paradigms have the power to influence our sense of purpose when it comes to work.

The first chapter of the book helps us redefine work and explore the fundamental tenets of the New Work Exchange. In the second chapter, we examine how we got to our current state. The third chapter discusses why so many aspects of the work we've known have become obsolete. In chapter four, we understand how to lead people instead of workers. Chapter five covers inviting people within organizations to serve as real stakeholders. Finally, in chapter six, we assess how to set a new pace within the workplace.

Chapter 1: Working for Way More Than the Weekend

While work is the way we all earn our livings, it can also be a measure of our influence on the world. For most of the past century, work has mostly been an exchange in which an employer would essentially say, "Give me forty years of your life, and if you work hard, you'll get a paycheck to fund your life." However, the past few years have shown that work isn't just about monetary compensation or the physical workplace. Instead, it's about the value alignment between employer and employee.

Ultimately, organizations are trying to find people who care about their work and people are trying to find organizations that care about them and support what's important to them. Positively redefining your work and workplace demands forging an alignment between your organization and its people. Understand that work can be different and better. Don't be averse to disruption. Instead, acknowledge how change can make things better. Divorce yourself from outdated systems of work and transform work into something more meaningful for the people within your organization.

Acknowledge that people are the core of your business. Create a work culture where people become your business. When we see people as our business, it allows us to shift the conversation and focus on what it takes for people to do their best work. Create a healthy culture that sets people up for success. Culture is about how things get done in an organization. It manifests as policies, processes, mindsets, interactions, and decisions.

Chapter 2: Looking Back and Moving Forward

Starting a journey toward the New Work Exchange requires that we shift our perspective on what work is. But before we move forward, we must take a tour of some historical structures of work. This will help us understand how we got here in the first place so we can move forward deliberately and mindfully.

The Industrial Revolution came with manufacturing environments like factories, which provided an employment outlet that was revolutionary for millions. Railroads brought another hiring boom and brought along the corporate hierarchy that we're all familiar with today.

In the 1940s and '50s, DuPont developed and deployed task forces it sent out to various locations to solve specific problems. Task forces developed a reputation for agile and innovative work solutions. A man named Wilbur "Bill" Gore worked on a DuPont task force from 1945 until 1957, which informed his ideas about how organizations should be structured. He then went on to form his own company, W.L. Gore & Associates, and it has long been known as one of the best organizations to work for.

His company essentially said no to most of the traditional management practices seen at any other company. Gore based his company structure on the most collaborative, equitable model of task force work he'd experienced. He believed the traditional corporate hierarchy constrained people rather than generating momentum and ownership. Instead of having a "job," employees had "commitment areas." The company had four simple principles that guided all behaviors: Freedom, Commitment, Fairness, and Waterline. The last principle was Gore's way of saying that everyone was in the same boat together and should

do their own part to contribute to the company's success. This emphasized a sense of ownership, responsibility, and camaraderie within the company that endures after more than half a century.

Today, the remote work revolution creates new opportunities for those with location-based work requirements or who need specific accommodations at work. With more organizations open to flexible work times and locations, geographic limitations that businesses have formerly instituted are toppling quickly, which allows organizations to find the best talent available.

Work always has and will move in a forward direction and the only questions that matter at this point are: Are you moving with it or not? Are you on board or on the sidelines as the New Work Exchange is developed without you?

Chapter 3: Walking Away from Obsolete Practices

What we've begun to unravel is that the new practices, structures, mindsets, and methodologies we need at work come with some hard truths: work doesn't really suck. Neither does Monday. What does? All the baggage we have about work!

Tough business is bad business. Title-centric cultures signal how important some people are and create a robust sense of unimportance for many others. Operating and reinforcing a title-centric culture means we often end up hiring the role, not the person, causing massive business implications where a team ends up underperforming.

An adaptability paradox exists in most companies. It is the tendency to default to a comfortable practice, even when we know the practice isn't in our best interest. The adaptability paradox emerges when we most need to learn and change, but we stick with what we know, often in a way that stifles learning and innovation. To develop new things, organizations, and their people must fight the instinct to repeat the past. Awareness is the first step to change. To bring work into a new age, we must first admit that the paradox affects us all.

Organizations must give folks greater influence and control over their day-to-day lives. People don't like "gray spaces" of uncertainty. We thrive when there's certainty and clarity. Decentralization is another way of saying "Stop micromanaging everything." When we decentralize, control shifts and rebalances. People have more work options than ever before. With those options, they want more involvement in how, where, when, and why they work. To support ongoing cultural shifts, we must identify and change what's obsolete.

Chapter 4: Putting People First

The New Work Exchange is, in almost every way, about people. By incorporating human beings into our organizations instead of focusing on employees, we're more attuned to the changes taking place at every level of work. It also creates trust, which leads to more transparency in what's working and not working for people – and that's always great for business and people.

Personalizing relationships and avoiding a transactional approach as part of work is what people need, want, and are asking for, even though many common and current tactics are actually, "transactional, commonplace, and impersonal."

Contemplate the employee experience at your organization, then think about your experience at work. How do you impact people's work experiences through actions, policies, workstyles, and habits? What's required for your business to become people-centric? We can keep managing projects, timelines, and processes, but let's make the shift to leading with people first.

The New Work Exchange requires a fair, comprehensive, and thoughtful strategy for Total Rewards and we can reward people only if we're focused on people, not workers. Start by visualizing the ideal experience. Experiment with flipping the norms on traditional methods of decision-making, protocol, or processes. Develop new programs. Rethink your programs for compensation, benefits, and well-being. Get to the root of equity, belonging, diversity, and inclusion within your company by establishing committees and sponsoring a consultant to help with organizational DEI audits and suggest a formal pay equity assessment.

Intentionally design recruiting and onboarding processes aimed at preparing new people for what they need to know as they contemplate joining your team. Develop flexibility to bring the best from your people. Finally, build recognition and appreciation and cultivate a culture of growth.

Chapter 5: Fostering Stakeholders

When people are engaged, inspired, committed, and productive at work, they tend to feel included and valued. There's an understanding that they matter, their work mat-

ters, and their work influences outcomes.

The New Work Exchange tells us that everything within organizations, including results and outcomes, is elevated when we see our team members as people and then understand their roles as our most important stakeholders.

Stakeholders are anyone with an interest in an organization's success – specifically defining "success" as more than stock performance or return on investment. If a person is an active steward of an organization's mission, goals, outlook, brand, process, people, or vision, then that person is a stakeholder. That can include employees, customers, vendors, and government institutions. There are two types of stakeholders: internal and external.

Internal stakeholders are people working inside a business, such as the owners and employees, because they're directly impacted by what's happening, whereas external stakeholders have an interest in the success of the business and are not directly impacted by the work itself. These could include customers, shareholders, suppliers, vendors, government institutions, and the media.

The important question to ask here is, "How can we engage all stakeholders to have the maximum possible impact on our business?"

Remember, when financial capital is made ultimate, shareholders are placed above everyone else. Human capital, on the other hand, consists of the collective skills, expertise, capabilities, health, and practical know-how within and among the people who work within an organization. Tapping into human capital is about investing time and resources into the best areas to propel growth in people.

Chapter 6: Finding Our Pace in a Much Faster World

The world is faster than ever. So work is too. But have we found our pace yet? Probably not and here's why: the New Work Exchange will only accelerate the flow of work, and there's a lot of extraneous change impacting us already. We work through things, we fall backward onto old behaviors, we learn from them, and then after developing some new muscle memory from new patterns, we're propelled forward.

One of the most obvious factors disrupting traditional ideas of work has been the advent of faster communication, enabled through technology and higher information bandwidth. The culture, logistics, and fundamental ideas of leadership have been shifted in ways that have left many organizations and people struggling to catch their breath. The final step in the new era of work is finding the right pace in a world where everything is needed now and everyone is required to work faster. The way we communicate within an organization is directly linked to the speed with which we execute things.

Apply the 100/100 rule to make communication more effective. This rule suggests that you are 100 percent responsible for making sure you understand what someone is saying. And when you talk, you're also 100 percent responsible for making sure you understand what you're saying to someone.

Put people over platforms and processes. Decisions that must travel up and down the corporate ladder at a snail's pace are relics of a bygone era. We have to go directly to the person with the answer to the question so things can move quickly.

If someone were to be first in reaching the New Work Exchange, wouldn't you prefer it to be you? In a world where start-ups pop up at intense rates, being first will always remain coveted. Therefore, it's imperative to leverage our abilities to create, make, and sell at warp speed.

Conclusion: Exchanging Old for New

Everything we've discussed so far leads to a series of "What if?" questions. Such potential and opportunity with all those questions! What happens when we start implementing the answers to our questions and make changes? What if we start leading people instead of employees? What if we create policies and processes that set people up for unparalleled levels of success? What if the people within our businesses and organizations become our primary stakeholders? When we're asking these questions, what we're really asking becomes crystal clear: "What if we can make work better?" I believe we can.



Scott Cawood has spent his entire career working to answer a very specific question: How can we make work—and workplaces—better? A self-described "work nerd," Cawood's passion for the workplace and how it functions (or not) inspired him to earn degrees in organizational communication, labor and industrial relations, education, and a doctorate degree in organization and work-based learning. Unsurprisingly, he's forged these disciplines into a singular passion for organizations dedicated to great work. An in-demand speaker and presenter, *The New Work Exchange* is his second book.

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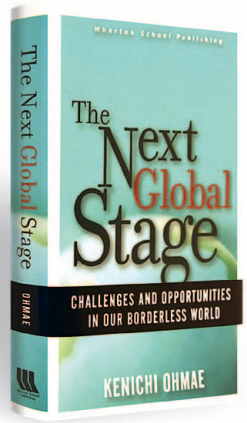
The Next Global Stage

Kenichi Ohmae

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FILE: STRATEGIC MANAGEMENT



By Kenichi Ohmae

Challenges and Opportunities In Our Borderless World

THE NEXT GLOBAL STAGE

THE SUMMARY IN BRIEF

A radically new world is taking shape from the ashes of yesterday's nation-based economic world. To succeed, you must act on the global stage, leveraging radically new drivers of economic power and growth. In this summary, legendary business strategist Kenichi Ohmae synthesizes today's emerging trends into the first coherent view of tomorrow's *global economy — and its implications for politics, business and personal success.*

Ohmae shows why yesterday's economic theories are collapsing, and explores the dynamics of the new region-state: tomorrow's most potent economic institution. He also shows how China is rapidly becoming the exemplar of this new economic paradigm.

This summary offers a practical blueprint for businesses, governments and individuals who seek ways to thrive in this new environment. It concludes with a detailed look at strategy in an era when it is tougher than ever to define competitors, customers and even companies themselves.

What You'll Learn In This Summary

✓ **What is the "cybercontinent"?** It is everywhere and nowhere. It is populated by the 800 million individuals who live almost everywhere in the physical world and are electronically interconnected.

✓ **How has the global economy changed the rules of competition?** Prosperity no longer depends exclusively on material wealth. And size is no longer important — companies no longer need a large domestic market in order to be successful.

✓ **Why are "platforms" so important?** They enable the exceedingly rapid exchange of goods and information, e.g., such phenomena as diverse as ATM cards, global positioning satellites and the English language.

✓ **What are the new roles of government in the global economy?** Central governments must make it easier for businesses and investments to come to their countries. The best way: Don't impede entrepreneurial region-states.

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THE NEXT GLOBAL STAGE

by Kenichi Ohmae

— THE *COMPLETE* SUMMARY

PART I: THE STAGE

What Is the Global Economy?

For many, Ireland summons up visions of green, mist-covered fields and valleys. But outside the tourism industry, pleasant scenery does not produce wealth.

When Ireland became independent as a nation in 1922, it was overwhelmingly rural. From the 1960s onward, attempts were made to attract manufacturing industry from abroad. The Industrial Development Authority, a government agency, constructed industrial infrastructure and facilities, while the government offered generous tax breaks for foreign direct investments. These moves were only partly successful.

Location, Location, Location

In the 1970s and early 1980s, physical geography still played a big role in the international economy, and Ireland's location on the far western periphery of Europe meant that it was just too far away from potential markets.

In the late 1980s, emigration from Ireland increased, but those highly educated emigrants often returned after gaining experience and contacts outside the country. A new self-confidence began to take hold. The fact that the country had missed out on industrialization was increasingly seen as a blessing. It meant that the country's economy could take advantage of new trends beyond its borders in the *global* economy. Ireland could begin from scratch. In the late 1980s, developments in cybertechnology made it clear that jobs and prosperity could come at the end of a telephone line.

In 1992, the vision of Ireland as the "e-hub of Europe" emerged. Ireland is lucky: It is a nation-state that is the same size as a *region-state*. It is therefore capable of tapping into the dynamism of such a region-state. One of the keys to the success of a region-state is being able to brand itself successfully (such as an "e-hub") and to offer something different that sets it apart from the competition.

Innate Characteristics of the Global Economy

The global economy has four innate characteristics:

1. Borderless. National borders are far less constrictive than they once were. In terms of the four key factors of business life — communications, capital, corporations and consumers — the world has attained the position of being effectively without borders.

2. Invisible. The potency and prevalence of the global economy is not totally visible to the naked eye. The actions that it performs often take place not on the streets or in the debating chambers of national parliaments, but on computer terminals. Plus, cash transfers occur with a credit card.

3. Cyber-Connected. The global economy would not be possible without cybertechnology allowing large amounts of data to be transferred incredibly quickly. The Internet is only the most public part of this. Everything and everyone connects.

4. Measured in Multiples. Money is no longer seen only as a unit of value in the short term. Multiples are signs given to management by shareholders to shoot at the business opportunities on the horizon. Multiples are fictitious, in that they often do not reflect corporate value, but they express an expectation. ■

Opening Night

The pivotal year in the evolution of the global economy was 1985: Mikhail Gorbachev became general secretary of the Communist Party, and the finance ministers of the major economic powers created the Plaza Accord, which would allow the dollar to fall in value and thus reduce the overall U.S. debt. Also, Congress passed the Gramm-Rudman Act and made the U.S. budget deficit

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The author: Kenichi Ohmae is one of the world's leading business and corporate strategists. He has written more than 100 books, including *The Borderless World*, *The End of the Nation State* and *The Invisible Continent*.

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Opening Night

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less of a bogeyman (even though it didn't go away, as the Act intended).

Also in 1985, Microsoft launched its new operating system: Windows. A user-friendly operating system was a very significant innovation. It allowed different types of applications to be run on the same machine, and it enabled many nontechnical people to use computers.

Changes in China

Meanwhile, China was seeking to compress 200 years of post-Industrial Revolution development into a couple of decades. At the root of the changes was a series of reforms that created stand-alone companies out of state-owned enterprises. The changes were monumental. Capitalism has come to China — but in the most brutal, inhumane and unsentimental form imaginable. Workers are exploited beyond anything imaginable in the West, and capitalists do anything they want.

The technological background for all of this is the cybercontinent — greater than any country on Earth. For the first time in human history, the world changes its habits in a matter of days rather than years. By the end of 2003, 800 million people were connected to the Internet. They're ready to read, listen to or watch anything available in cyberspace. ■

The End of Economics

Traditionally, economics was concerned with relationships between demand and supply — and supply and employment.

But the world has changed dramatically. An "economy" is not confined by national boundaries, nor is the world an assembly of autonomous nation-states, as economists assume. The significant players are independent units, both nations and regions. Some regions have a population of millions; others, such as the European Union (EU), have hundreds of millions.

The global economy powerfully affects national economies: In a borderless world, excess money supply from the central bank can slip out of the country if there are no attractive opportunities within. Thus, governments are constantly disciplined by their own citizens and by the investors in the rest of the world.

There is no model that describes the way the cyber-economy grows as goods, services and financial instruments are exchanged across borders in ways that are not understood by economists, let alone governments.

The whole system is suffused with funny money: bonds, Treasury bills and other instruments that don't represent cash or assets — but liabilities. The effectiveness of any government's fiscal policy is thus at the mercy of not only domestic businesses and consumers, but also of governments, companies and consumers in the rest of the world. In the last few years, derivatives and multiples (assessed values) have added to the amount and kinds of funny money in circulation.

Derivatives and multiples defy traditional business thinking and seem to rely on nonstatistical elements, which are often nonrational or even irrational, such as euphoria. Yet economic education still revolves around the old paradigms.

A New Economic Paradigm

The characteristics of the New Economic Paradigm are:

- **Prosperity doesn't depend exclusively on material wealth, such as natural resources.** You don't have to be rich to get richer. Countries such as Ireland and Finland can be poor in traditional resources, yet still prosper.
- **The world has an excess of capital.** Many areas are cash-rich and are searching constantly for investment opportunities. But regions must show themselves to be worthy of consideration. Money isn't necessary for prosperity — but investment is.
- **Size no longer matters.** Companies are no longer required to develop a substantial domestic market. Nokia is highly successful but has only a tiny domestic market in Finland. In fact, a large domestic market is no longer a competitive advantage. ■

For additional information on economic theory before the New Economic Paradigm, go to: http://my.summary.com

PART II: STAGE DIRECTIONS

Playmakers

The geographical and economic unit of the global economy is the region. In a world of near-instant communications and a completely interconnected economy, the nation-state is increasingly irrelevant.

Some regions are parts of the old nation-states; others spill over existing borders. A region-state is not a political unit, but an economic one. Some, such as Singapore, are also political units. Or they can be smaller — the greater Tokyo area has a GNP that is in the world's top three.

A region-state is a unit for creating a positive wealth-cycle. The more new immigrants — and the more varied their backgrounds and skills — the more varied the region becomes over time. Manufacturing is followed by services, financial institutions and other businesses.

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Playmakers

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Finding Your Bearings on the Global Stage

A positive cycle thus occurs, and the region becomes a totality with a deeper, wider economic and business base. Industries and service providers — from car dealerships to hospitals — are quickly attracted to a prosperous region, and move there to support some of the industries already spearheading industrial acceleration.

Region-states have been most successfully established in China, where in the 1980s, the government opened up a number of special economic zones to attract foreign direct investment. In GDP per capita, some of these region-states are among the top 15 economic units in the world.

Within the region-states, there can be smaller industrial clusters, as in northern Italy, where the town of Modena has a cluster of producers of fast sports cars, Parma has famous cheese producers, and nearby Carpi has knitwear manufacturers. Table 1 (on the right) provides examples of globally active and prosperous region-states.

Flexibility

The aspiring region or micro-region must be flexible — willing not to be imprisoned by the paradigms of the past and, if necessary, to reinvent itself to meet the requirements of the global economy. Thus, Italy is a tapestry of small townships, each of which has been able to thrive by producing pricey items for which there is an inelastic demand.

Also, if regions are to attain their potential, they must devolve decision-making, especially in economic and trade policy. National leaders are not intellectually equipped or politically motivated to embrace the global economy.

There is bound to be tension when an area becomes successful while remaining part of a nation-state built on the 19th-century model, just as the traditional, physical stock exchange is becoming less relevant in today's borderless world. Thus, emerging regions must often renegotiate their relationship with the center of power.

Even well-advantaged regions are not guaranteed success. Interference by the central government can undermine a region's prospects. A region can undermine its own success by not being flexible — or by trying to do too many things but specializing in nothing.

Good Marketing

Regions also need good marketing. They must learn from other successful regions but never slavishly copy them. They must be aware of local differences and of what makes their region uniquely attractive.

Most important is the will to succeed. Unless this becomes part of the fabric of the region's identity, participation in the global economy will remain mere rhetoric.

Globally Active and Prosperous Megaregions, Region-States and Microregions

Breadth of Industrial Spectrum	Functional Specialist	Multiple but Sporadic	Full Range or Controlling
Broad	Shandong	Pearl River Delta Greater Shanghai	Tokyo Metropolitan Area
Sector Specific	Irish CRM Dutch BPO	Singapore Indian BPO (Bangalore/ Hyderabad)	Silicon Valley Greater Boston Medicon Valley
Niche	Italian Towns	Chinese CRM (Dalian)	Austin

Table 1 — Business System Leading to End Users/Customers

The world must start thinking not only smaller (in terms of regions) — but also bigger in terms of the global totality and amalgams of effective and progressive regions. Large economic groupings such as the EU and the countries of ASEAN can play a vital role on the new global stage.

Some complain that globalization is an attempt to impose a particular form of commercial activity on the whole world at the expense of the varied tapestry of cultural differences. Others say that it is equivalent to Americanization.

Both groups are wrong. Globalization realizes and affirms our interdependence as human beings and societies. It exposes the fallacy of self-sufficiency, whether economic or cultural. It is a process of global optimization and the best mechanism to help less-developed nations to grow without artificial subsidies from the rich — but with the legitimate filter of markets.

Globalization is nothing but the liberalization of the individual, consumers, corporations and regions from the legacy of the nation-state in which they belong. ■

For additional information on the EU, go to: http://my.summary.com

Platforms for Progress

Though we like to think of human development as gradual, made up of small and manageable incremental improvements, the reality is that sudden bursts of energy, often unleashed by or in tandem with technological breakthroughs, have moved us forward. They are groundbreaking when they happen, but then they are added to the aggregate of human progress and become part of our everyday life.

"Platforms" are ways to enable organizations or indi-

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Platforms for Progress

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viduals to communicate with each other to get things done more quickly or more efficiently.

Platforms are: (a) open and communal — the technology that powers them is accessible to a wide range of users, and anyone with the appropriate license can participate; (b) two-way and interactive; and (c) adaptable and easy to use.

Information technology has been the platform for the global economy in two ways: first, its impact on the world's money markets; second, the extent to which, through the Internet, it redefines the very concept of the market and the types of relationships that businesses must be prepared to develop.

Recent Breakthroughs

The recent breakthroughs in data-transfer — in the materials through which data must pass, and in the formats in which large amounts of data can be efficiently stored — have totally transformed our world. They have made many products cheaper and given millions of people access to information that was once beyond their reach.

A language can also be a platform, just as English has become the language of the global economy and the standard in cyberspace for the storage of information and two-way communication. The prominence of English in Ireland and India is a major factor in the success of these two countries as electronic hubs for the rest of the world.

Nevertheless, native English speakers should realize that if they do not learn a second language, they might be disadvantaged in their long-term ability to participate in the global marketplace.

Here are other crucial platforms on the global stage:

- **The U.S. dollar.** It is the natural medium of payment for the substantial part of world trade that centers on the United States, as well as a considerable number of other trading partners.
- **Brands.** A borderless world has opened up vast new possibilities for branding. The same brands are almost everywhere. They gain loyalty with the promise of consistently offering certain features. Most major brands are American.
- **A global business culture and language.** Business executives throughout the world communicate in English. They use the same terminology and have the same motivations and professional interests. They read the same magazines and very likely attended the same business schools — or ones that offer a very similar range of teaching materials, lecturing styles and placement opportunities. The new jargon of business — CRM, EBITA, BPO — is understood internationally.
- **The ATM.** The dispensation of money is now almost completely detached from the physical bank.
- **Credit cards and smart cards.** Programmable cards can now be used for a wide range of purposes — acquiring services, accumulating shopping points and much more.
- **The global positioning satellite.** This technology now has a rapidly expanding array of uses, such as providing information to travelers on foot, tracking stolen cars and analyzing traffic patterns from the sky. ■

Breaking the Chains

We live in a small and intimate global community where all sorts of information, even rumors, can disseminate in a matter of seconds. It is a global village with a population of 800 million people who could be treated as a single race or tribe. They include the enlightened and curious in the developing and underdeveloped countries. These "cyberites" follow three rules of behavior:

- **Cyberites who have used the Internet for five years or more tend to think and act similarly.** The longer their online experience, the more they take advantage of the Internet's various resources, engage in international trade, become more global in outlook, and gain the confidence that they can live well under the liberated regime of a truly global environment.
- **The number of years it takes to become a true cyberite is (age minus 10) divided by 10.** It takes longer to unlearn 20th-century assumptions, depending on how long you were exposed to them.
- **Cyberites are proactive consumers.** That is why TV and print advertising is so ineffective. Eight hundred million people now actively seek what they want through their favorite search engines. Marketers must make sure that their advertising is search engine-triggered, so that it tracks with the growing Internet sophistication of their customers.

The Logistics Revolution

The final part of the revolution is taking place in logistics.

Even though there is still a physical supply chain — and warehouses and inventory are still important — distribution centers are decisive. Once again, technology has triggered the revolution. The relationship between the product provider (who might also be the producer) and the end consumer has been simplified, even collapsed, by e-commerce.

Dell and Gateway exemplify an entirely new business entity — the virtual company — that assembles products not in a single factory, but in a large number of places, and ships them from distribution centers, warehouses and FedEx facilities.

And companies such as FedEx are getting into the strategic logistics business and using their databases to

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Out and About

Cross-border business process outsourcing (BPO) is another platform that helps people and businesses communicate, and it is shaping the global stage in a major way. It's about optimization. Activities once done in a high-cost environment are moved to where the labor costs are lower, with no loss in quality. It has been going on for decades, and it is controversial because of the loss of jobs at home. Almost every area of the world has some type of BPO activity.

There is nothing inevitable about BPO. It suits some sectors better than others. For some, it can be very successful; for those poorly prepared, it can spell disaster.

BPO would be unthinkable without present-day telecommunications technology. The two countries that have been most successful in the outsourcing of electronic services — India and Ireland — have made radical improvements in their telecommunications infrastructures.

BPO is happening in other areas, such as clinical drug trials (patents come from various countries at lower costs) and compiling research materials.

Home Offices

Many BPO providers work from their own homes or in a small office environment. This is the most important difference between the Manufacturing Age and the Cyber Age. The reality of BPO is that it is not about sweatshops and exploited labor. BPO brings prosperity and hope to countless millions of people.

Patriotic sentiment and a desire to protect domestic jobs doesn't do much for a company's bottom line. Outsourcing decisions are never based only on lower labor costs — in Ireland, labor costs don't even enter the discussion. Processes are outsourced to environments that can provide the same level of service and expertise — but at a lower price. BPO makes economic sense, despite what its critics say. Also, technology has ensured that it is irreversible.

BPO is a way for companies to seek more competitive ways to grow on the global stage.

Breaking the Chains

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become a vital link in other companies' supply chains.

A micro tag (only 0.5 mm square) can be buried in books, clothes and anything that is not going to be eaten. Soon, most items will have these tags built into them, representing the products' ID card, with a radio frequency capability that can be detected remotely.

The result will be a revolution in physical distribution and merchandising. We will no longer have to check out each individual item, so shopping will become quicker and less stressful. Inventory control will also benefit: Companies will know exactly how much of each product they are selling, as soon as it is sold. And because the micro tag contains details about the person to whom the item is being sold, it could have a major impact on theft and shoplifting.

Homogenous Chains

On the global stage, much of the logistics process has been containerized and standardized into homogenous chains, as foods of all types are transmitted worldwide through special equipment (to maintain a consistent environment) and seamless, electronically guided logistics platforms. The result has been a fundamental change to lifestyles.

In time, postal services, which, until recently, haven't given much thought to logistics, will realize that they are fundamentally in the logistics business, and, despite the challenge from e-mail, need to avail themselves of the latest developments.

The question is: Are we brave enough to apply the new technology? Strenuous opposition to worldwide, supranational markets comes from many places, including local farmers. Perhaps over time, people will adopt the attitude that a particular product need not come from a particular nation (as, for example, with the Japanese attitude about rice) because there are such enormous economic benefits to be realized from the logistics revolution. ■

PART III: THE SCRIPT

Reinventing Government

Governments don't create wealth, except through taxation. Thus, a key priority for politicians is to look into the economic development of their countries and regions. Is bureaucracy preventing local governments and regions from taking initiatives? Is the central government hindering them? Is there a clear chain of command and consistent messages? Are special interest groups or political lobbies blocking the regions' initiatives?

Too many governments still see themselves as distributors of wealth. They see their role as protecting domestic companies, their own population and certain regions considered vulnerable or disadvantaged. Local industries, protected by taxpayers' money, don't think globally. And governments have not been successful in tempting cyberites, who have the power to send their money anywhere.

Governments of the future, if they want to remain vibrant and relevant, must figure out how to facilitate economic development, introduce more discipline in their public services, and simplify their tax code to increase compliance.

The best government is small government. And the best it

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Reinventing Government

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can do for its people is to invite capital by welcoming corporations, that will bring in jobs and take over weak companies, so that the government won't have to use taxpayers' money to subsidize them. The smaller the government is, and the more open it is to wealth and investment from outside, the greater the payback will be for the region-state.

Today, the most important success factor is not a well-established domestic industry or home markets, but an educated and motivated work force — on the factory floor, in the computer room and in the agencies that provide national services. Also, a region must have good infrastructure, in both technology and logistics.

Challenges and Vision

As governments change their focus, they face several challenges: In a borderless world, they must not overemphasize the national interest. They must also realize that wealth creation is increasingly leveraged. Governments must come up with and deliver an economic vision that attracts many global investors, resulting in high multiples.

A viable vision must adhere to the already-known fundamentals of the global stage. The vision must:

- **Empower individuals.** The wealth of a nation, region or company is more dependent than ever on the number of talented individuals it can produce.
- **Invite capital from the rest of the world, and minimize obstacles to investment.**
- **Maintain an even keel.** Government must ensure that individuals can grow and prosper, and that regions can interact with the rest of the world.
- **Welcome new technology,** as Ireland did in the early 1990s by providing all primary schools with personal computers.
- **Diminish hindrances to the inflow and outflow of capital.**
- **Eliminate obstacles to companies that want to attract the best people to work for them, at any level and from any geographical area.**
- **Specialize.** The government must decide what industry or range of industries it wants to attract. ■

The Futures Market

On the global stage, change is necessary and inevitable at three fundamental levels: technological, personal and organizational.

- **Technological.** Technological progress can speedily reshape, even destroy, entire industries. Technology means that industrial death is increasingly a fact of business life.

It has never been uncommon to see whole sections of industry wiped out by technological progress. We need only think of the impact that the automobile had not only on the carriage industry, but also on saddle makers and the providers of feed and stables for horses. Each new technological wave usually has its victims: those who were unable to change in time.

Time has now been compressed. In the past, there was usually some time lag between the discovery of a new process or processes, and their complete victory over their predecessors. In the world of the interconnected global economy, such time lags are very rare.

Capitalizing on New Opportunities

- **Personal.** No matter where they are, individuals will have to adapt to the new reality in which one seldom has a job for life and cannot look forward to the certainty of an incrementally improving lifestyle and a post-retirement soft landing, in which all or most of his or her needs are provided for.

Instead, people will have to take more responsibility for themselves and take advantage of the vast quantity of new information that is now available — and the opportunities for personal development.

Success in the global economy will also depend on good leadership — of a region-state, a microstate or a company. The best leaders in the new economy, such as Singapore's Lee Kuan-Yew, have the courage to look into the future and to act according to time intervals longer than the present accounting period or the next elections.

- **Organizational.** The answer to uncertainty is more information. Leaders in the global economy must be well informed about the world around them. They must fully understand and have an instinctive sympathy for and familiarity with the global economy.

The changing structure of organizations requires leaders to be flexible and intuitive, without preconceived attitudes about their role.

E-Everything at GE

An old-line company really can morph itself into a global competitor. General Electric has done an amazing job. It has never become complacent. It has been a leader in outsourcing its support base.

GE was fortunate to have Jack Welch, a true visionary, who once told the company to put the letter "e" in front of all internally used verbs, such as "e-design," "e-sell" and "e-distribute." The idea was to get the entire company to think electronically. And it worked.

Players in the new economy must learn to doubt and even discard the business models of the past. That is why business schools should question the case-study method: Companies rise and fall more quickly than ever before, and students need to learn the dynamics of steering a company — as opposed to balancing static power.

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The Futures Market

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The successful company must be something quite new, owing little to the precedents of the past. Whatever business structure you adopt, customers must know that they are in control. As far as possible, their involvement must be sought and their whims catered to. And instead of the usual sources of information, such as market surveys and statistics, leaders need to develop a feel for what is happening with the 800 million cyberites who are the key drivers of the global economy.

Companies must also divorce themselves from a physical focus on the home office or the country. They must totally embrace the borderlessness of the new economy.

And companies should abandon the old divisions of the business world into industrial sectors, because the global economy can bring a company into areas where it does not expect to be.

Four Areas for Innovation

Companies must also commit themselves to innovation as never before in these four areas:

- **Business systems.** Companies must ally themselves with the best and cheapest providers of products and services across the entire spectrum of corporate functions. Companies must also learn to make their organizations scalable, so that there's less stress in growing fast.
- **Products and services.** The need for innovation is obvious, but the challenge is formidable: What we once thought were technological islands, such as mobile phones and PCs, are all converging to form huge "continents." The marketing and technological "territory" in which a company operates is constantly changing.
- **Customer interface.** Innovation in customer interface is a prerequisite for most companies, because the traditional advertising media are not only cost-ineffective but also inadequate for keeping customers interested.
- **Employees, managers and staff.** Power is shifting from those who make rules to those who break or rewrite them. Thus, corporations need to find ways to recruit dropouts, retirees, very young people and even petty criminals (as in the case of hackers who have been turned into computer security experts). Companies must also find untraditional ways to reward innovation.

Also, companies must learn not to take their traditional identity too seriously. The fact that something has never been tried should not be an obstacle to its future adoption.

Finally, the traditional hierarchy — the pyramid structure of almost all organizations — has to be discarded. The traditional top-down method of leadership is wasteful and ineffective because a company's need to innovate continues to conflict with shared assumptions about loyalty and unquestioning obedience. This situation must change. ■

The Next Stage

Some economic units have the potential to adapt successfully to the new realities. Here are the regions that currently have some of the ingredients to attain the level of a prosperous region-state:

Hainan Island, China. The People's Republic of China has shown the world how region-states can prosper. The province of Hainan Island, with 8 million people, is far away from the capital's interference and has an outward-looking government. It has established air routes to Southeast Asia and to Europe. Still, it has not taken off as quickly as other burgeoning Chinese regions.

Petropavlosk-Kamchatsily, Russia. The climate of this remote region is really no more severe than that of Kalamazoo, Mich. It would be a wonderful location for e-professionals of all kinds who don't mind the isolation, given that technology enables many more people to work from anywhere in the world.

Vancouver and British Columbia. British Columbia is geographically the closest Canadian province to Asia, so the Vancouver area is increasingly attractive to Asian tourism and business. It is also a geographical and commercial extension of Northwest Washington State. On its doorstep are the homes of Microsoft, Starbucks and Amazon. Despite high taxes and onerous regulations, there is a new desire on the part of the provincial government to open up to the rest of the world.

Regions With Potential

Other regions with similar potential include Estonia; the Baltic Corner; Ho Chi Minh City, Vietnam; Khabarovsk, Maritime (Primorye) Province and Sakhalin Island, Russia; São Paulo, Brazil; and Kyushu, Japan. From the investor's point of view, the list of attractive regions is getting longer.

You now have some feel for the new global economy, the coming shape of the geopolitical maps of the future, the key levers corporations can pull, and the dynamic business domains we can tap. Now it is your turn to climb up onto the global stage and perform. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *The Next Global Stage*, you'll also like:

1. ***The Borderless World*** **by Kenichi Ohmae.** Ohmae shares his expert wisdom on the changing world economy and his hopes for a borderless world.
2. ***World Out of Balance*** **by Paul A. Laudicina.** Laudicina provides a practical framework for making sense of changes in the external environment and describes how the future global business environment might evolve.
3. ***The Weightless Society*** **by Charles Leadbeater.** Leadbeater argues that a radical innovation in basic political, social and economic institutions is required to spread the benefits of the knowledge economy.
4. ***Working GlobeSmart*** **by Ernest Gundling.** Gundling explains that the challenges of globalization are relatively predictable and easily anticipated.
5. ***A Future Perfect*** **by John Micklethwait and Adrian Wooldridge.** Two correspondents for *The Economist* weigh in with a lengthy, wide-ranging defense of globalization.

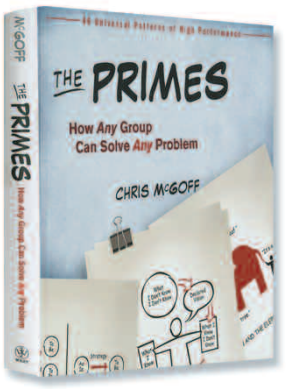
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The PRIMES

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The PRIMES

How Any Group Can Solve Any Problem



by Chris J. McGoff

THE SUMMARY IN BRIEF

The PRIMES correctly names universal patterns of group behavior. They are an inextricable part of the human experience. PRIMES show up every time people join up in groups to solve problems, drive change and transform systems. Master the PRIMES and you can master leading groups. Master leading groups, and you can tackle the toughest problems you face.

We as a people do not have a good track record of forming groups and solving problems when stakeholder complexity is high. Most of these efforts fail outright. The rest usually go significantly over budget and finish late. Of the few projects that get completed, only one out of two meets minimal expectations.

The good news is that outfitted with the PRIMES, you will beat these odds. You will recognize and decode the human behaviors that often appear on the surface as pure craziness when groups take on big problems.

The PRIMES are universal and unavoidable patterns of group behavior that emerge whenever people attempt to transform systems or collaborate to solve complex problems. Every leader has seen their effect, but few can recognize, anticipate and manage them. Unacknowledged, the PRIMES can put any leadership agenda at risk. An essential guide for 21st-century change agents, *The PRIMES* unveils universal secrets for how to step up to major challenges, create a brighter future and produce extraordinary results.

IN THIS SUMMARY, YOU WILL LEARN:

- How to lead groups in uncertain times.
- How to enroll others to their highest level of commitment.
- Why it is critical to maintain shared perspective amid diversity.
- The method to harness the universal patterns of outstanding group performance.
- How to overcome universal patterns of group failure.

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THE COMPLETE SUMMARY: **THE PRIMES**

by Chris J. McGoff

The author: Chris J. McGoff is the founder of The Clearing, Inc., a Washington, D.C.-based management consulting firm dedicated to supporting change agents as they tackle the most daunting and complex problems facing organizations.

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PART ONE: UNIVERSAL PATTERNS OF LEADING IN UNCERTAIN TIMES

How do some people, organizations and coalitions thrive in uncertain times? What enables them to appear so certain and take decisive action amid ambiguity about the future?

Yogi Berra was right when he said, "The future ain't what it used to be." Not much else is certain these days. Steady state now is changing at the speed of the environment. This frightens, overwhelms and immobilizes some people. For others, this global reset is a thrill ride, and they want a front seat. If this sounds like you, the PRIMES will get you outfitted to "make your dent in the universe." ●

Being Clear on What's Really Important

How did you decide how you spent your time yesterday?

LEADING

The LEADING PRIME defines the act of leading as setting direction, allocating resources and inspiring action. Any time you are not doing these three things, you are not leading.

Take a moment to highlight the times over the last five days when you were setting direction, aligning resources and inspiring action. If you own a law firm, when you were practicing law, you were operating your business. If you are cutting hair in the salon you own, you are operating your business. When you spend time doing what the business does, you are not leading. Even when you spend your time making your business more efficient, you are managing, not leading your business.

The question is, "Are the right people (including you) spending the right amount of time leading versus managing and operating?"

CHANGE VERSUS TRANSFORMATION

Are you fixing or creating? Does solving your problem require CHANGE or TRANSFORMATION? CHANGE is the right path when a problem is relatively simple and the current system needs only a tune-up. TRANSFORMATION is the right path when problems are "wicked" and a completely new system is required.

CHANGE requires you to become familiar with the current situation and to work to make things better, faster, cheaper or some other "-er" word. When we choose change, our future is really a reconditioned or improved version of the past.

TRANSFORMATION involves a break with the past that is traumatic but potentially freeing. TRANSFORMATION doesn't describe our future by referencing the past (better, faster or cheaper); it births a future that is entirely new.

Ask your group or organizations, "What determines what they're doing right now?" Is it about making a better, faster, cheaper past or committing to fulfill a declaration and create a future? It's one or the other, but never both. Ignore this distinction at your peril. ●

Being Intentional and Going First

What are you committed to make happen and by when? What does "committed" mean? What does your commitment mean to others?

INTEGRITY

Leave all other connotations of INTEGRITY aside for a moment. In the context of the PRIMES, INTEGRITY

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor In Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Jeannette Scott**, Contributing Editor

means, "I say what I am going to do, and I do what I say … every time." INTEGRITY is not based on values or morals. It is based on honoring and keeping your word. When people choose to operate in INTEGRITY, their words about the future cause the future. People trust them. They reach a level of performance that otherwise would be unattainable.

At the outset of any project, I ask the people involved to live in INTEGRITY for the duration of the project. The rule is that there are no small or big promises; there are only promises. And all promises will be kept.

DECLARATION

Are you willing to live unreasonably? A DECLARATION is a statement of "what" will be achieved by "when." President Kennedy's DECLARATION was an American to the moon and back by the end of the decade. Mahatma Gandhi's was a free India before his death. Babe Ruth's was the next pitch over the wall. These leaders pointed, then hit. Athletes today swing away. When they happen to hit one over the wall, they stand and point. That is not declarative leadership. The order matters. ●

Enrolling Others

While all teams are groups, not all groups are teams. Teams are groups in which the feeling is one-for-all-and-all-for-one. Teams have someone to whom they all report and who can tell them what to do. Teams are a luxury. But many groups you will be leading and of which you're a member are more like coalitions. The problems you'll solve and the change you'll drive will increasingly require that strangers, competitors, cautious allies and suspicious stakeholders participate and commit. Those who master leading these heterogeneous coalitions will never be without a purpose — or paycheck.

POWER

Any group's power is a function of the degree to which its members are willing to operate from a shared perspective, the degree to which they will commit to a shared intent and the level of coordination of their actions. A weakness in any part of the triangle erodes the power.

Power is one of three ways to get something accomplished, along with authority and force. The source of the energy is what distinguishes each of the three.

1. Force. Force gets members of the group to do something because they are intimidated by your sheer strength.

2. Authority. Authority requires that you compel someone to do something because you have been empowered by a larger community to enforce its will.

3. Power. Power is energy that is generated from within the group by the group itself when members freely choose to work collectively toward a common outcome.

The POWER PRIME reveals the components required to generate unprecedented levels of power. Leaders must set their sights on mastering the skill of generating power in groups as opposed to teams. Teams are only one kind of group, and their future is limited. Globalization, interconnectedness and systems thinking are producing an entirely new level of problems and possibilities that no single organization or authority can get its arms around. The highest skill to master is the ability to generate power in groups composed of strangers, competitors, cautious allies and suspicious stakeholders. This is the world in which we live. ●

PART TWO: UNIVERSAL PATTERNS OF POWERFUL ALLIANCES

Gaining Shared Perspective

Shared perspective enriches and sharpens the conversation and is the first step in generating and accessing the group's full power.

BLIND MEN AND THE ELEPHANT

Countless people have heard the tale of the blind man who holds the elephant's trunk and has every reason to identify it as a snake. The same may be said for the blind man who stands next to the elephant's leg and perceives it to be a tree. The two men arrive at different conclusions because they have different information. Once members of a team observe this dynamic and recognize that they each hold only a part of the elephant, they often resolve their differences quickly.

A few years ago, I witnessed firsthand the awesome power of "seeing the elephant." The question at hand was, "Why were the responses to Hurricane Katrina and the Haitian earthquake such dismal failures?"

We began by interviewing many of the stakeholders and asking simple questions. While the answers to the questions were all over the map, we unearthed a single key insight: that the collective group lacked a shared picture of the overall response. In other words, even the word "response" had different meanings depending on which organization you asked.

Our solution was to gather everybody together and "draw a picture of the elephant." Once we had a shared,

explicit representation of the "response," we were able to agree on the root causes of the problem and ways to make things go more smoothly going forward. This wouldn't have been possible if we hadn't taken the time to gain a common picture of the entire system.

You don't have to be an artist to draw the "elephant," and the pictures do not need to be pretty. Simply get to a white board or grab a sheet of paper, and draw a picture that answers the question, "How does this system work?" Do not be surprised if you end up with two to four different pictures. And always remember that the most important part of this process is the conversation you have during it. The picture, the "elephant," represents an explicit and shared model of how the system works. And there is a rule when building models: All models are wrong. Some are useful. A useful model is one that positions people at a common vantage point that allows them to discuss what they see — and how to affect it. ●

Establishing Shared Intent

How do you lead the group to be intentional?

CORE PRIME

The CORE PRIME distinguishes five essential agreements that generate creative tension and establish deep and sustainable shared intent:

1. As Is. Stakeholders must see their current situation — the whole thing — as it really is as opposed to how they want it to be.

2. Environment. They must agree on what's happening around them — which they're unable to affect but that will affect them.

3. Stake. They must agree on what's at stake if they stay where they are and don't change.

4. To Be. They must agree on a vision of the future with which they have fallen in love.

5. Strategy. Finally, they must agree on how to break out of the "As Is" and chart a course toward the "To Be." ●

Taking Coordinated Action

How do you get the group to do everything persistently about a few critical things versus doing a few things about everything?

COHESION

COHESION may be one of the most critical elements to manage as a group charges against its challenges. It is present when everyone gives the same answers to the following three questions:

1. Where are we starting?
2. Where are we going?
3. What do we have to do to get there?

COHESION among group members is an unnatural state that requires constant energy to maintain. Without the group's investment in it, individuals tend to have slightly — or significantly — different views of their current situation, the urgency to change and where they are headed. While this is natural, these differences — when unchecked — fragment the group's focus, dissipate its energy and create an environment ripe for conflict. The COHESION PRIME reminds us that people work on different activities for different reasons and at different intensities. So expect fragmentation, but invest to establish and maintain COHESION.

REDPOINT

The REDPOINT PRIME can be summed up in one word: focus. It reveals the fastest, least risky path from our "As Is" to our "To Be." At its core, REDPOINT embodies a simple concept: Rather than do a few things about everything, the most powerful leaders and teams do everything about the fewest, most important things. They willingly live with complete Integrity to realize their declared "To Be" on time. ●

PART THREE: UNIVERSAL PATTERNS OF OUTSTANDING GROUP PERFORMANCE

Making Decisions

In the context of PRIMES, decisions are "irrevocable allocation of resources." The group may have used brainstorming to generate ideas and get to "the end of what it knows" to get to this point. Members of the group might have taken the next step and formed various recommendations. However, the only way to cash in on the energy invested thus far is for someone to make a decision.

The truth is that a single individual makes a decision in a single moment. Contrary to some popular notions of leadership, groups do not make decisions.

CONSENSUS

The most challenging environments in which to pursue transformation and problem solving are institutes of higher learning and multilateral organizations like the World Bank, the International Finance Corporation and the United Nations. They're stuffed full with brilliant

people. Yet as Peter Keen, a gifted colleague at the World Bank, once remarked, "Intelligence is like having four-wheel drive: you usually end up stuck like everyone else, just in a more remote location."

When I sat with my colleague Michael Doyle one afternoon and lamented my inability to secure a critical decision at the World Bank, he asked gently, "What are you trying to do?" I replied, "I'm just trying to get everyone to agree!" Michael looked at me penetratingly and said, "Why would you ever try to do that?"

My job and your job is to get the group to adopt the working definition of CONSENSUS embodied in this PRIME, then make sure that everyone answers "yes" to the following three questions:

1. Process Satisfaction. Was the process we used explicit, rational and fair?

2. Personal Treatment. Were you personally treated well? Did you have ample opportunity to be heard, to make your opinions known and to consider others' opinions?

3. Outcome Satisfaction. Can you live with the outcome and commit to supporting the decisions of the group? (Notice the words *live with* as opposed to *agree with*. This is a critical distinction.)

Michael's point was that if people are satisfied with the first two elements, they typically agree to the third. ●

Building an Intentional Culture

When culture fails to drive behaviors that are essential to the success of the group or organization, authorities develop, implement and enforce rules, policies and laws. Excessive rules, policies and laws represent a failure of culture.

CULTURE

CULTURE represents the difference between the behaviors that groups tolerate — and encourage — and those that they do not tolerate.

Some groups make their culture explicit by writing it down. Stating the culture explicitly makes it easy for all, especially new members, to know where this line is. Explicit statements of culture also make it easier to reinforce and enforce the culture — especially for those lower in rank. This articulation is important because unlike with rules and policies, adherence to culture must be the responsibility of every member of the group regardless of placement in the hierarchy.

Rules and policies pale in comparison with CULTURE when it comes to determining behavior within any group. When a group steps up to state its culture on a piece of paper, its words create a place from which to stand and operate. These are some of the most senior conversations on the planet.

CONGRUENCE

By stating your intended CULTURE, you run the risk of behaving in a way that is not congruent with what you've stated.

This risk is mitigated through the CONGRUENCE PRIME, which reveals the constant tension between what is "stated" and what is "experienced."

A simple and fast way to determine how much CONGRUENCE your group is experiencing is to ask everyone to draw two circles, one labeled "stated" and another labeled "experienced," and ask them to overlap the circles to the degree they feel the stated culture is in fact the culture they are experiencing. Display all the papers, and discuss what you see. Ask for specific stories about when the "stated" and "experienced overlap" and when they do not.

The energy that pushes these circles together is FEEDBACK. This occurs when someone says to someone else, "Hey, I want to acknowledge you for acting in congruence with our stated culture" (positive reinforcement), or, "Hey, I don't think that what you are doing is congruent with our culture" (negative reinforcement). The capacity and willingness of group members to give feedback to each other is essential to actually experiencing the culture that is stated. ●

Social Contracting and Accountability Within the Group

How do peers give each other commands?

TRUST

Everyone discusses how critical it is for high-performance groups to establish trust. But what exactly is it? How do we generate — and destroy — TRUST? And if we do destroy it, can TRUST be regenerated?

To TRUST is to believe that a person keeps his or her word. That's it. Some people, upon first meeting, assume they can TRUST you. They start out relationships with a full TRUST bucket, while others start out with an empty bucket and need evidence to fill it. Frankly, this is a distinction without difference. It really does not matter how people choose to start out in relation to their TRUST in you because you have the power to generate TRUST. The key is to give your word and keep it

— over and over again. Doing this will fill any trust bucket and/or keep it full.

Being trusted is the result of living in INTEGRITY with everyone you encounter. Every time someone makes a REQUEST of you, something is going to happen to the TRUST bucket.

This is why there are no small requests. Giving your word is giving your word regardless of the magnitude of the REQUEST. INTEGRITY is binary. You either keep your word, or do not keep your word; size does not matter. ●

Saying and Not Saying; Listening and Not Listening

GOSSIP

In this context, GOSSIP is defined as when two (or more) people talk about a third person … in a manner that leaves the third person diminished in his or her eyes with no one doing the talking committed to helping the third person directly.

GOSSIP is pure, negative energy that destroys possibility and is the most harmful behavior any group can choose to tolerate.

However, GOSSIP is tolerated in most organizations. Attempts to eliminate it often prove ineffective because the efforts are focused on eliminating the "saying" of GOSSIP. The problem with this approach is that many people fail in the moment to recognize that they are spreading GOSSIP.

If you want to build a GOSSIP-free culture, you must instead focus on eliminating the "listening" to GOSSIP — because GOSSIP stops when no one listens. It's as simple as this: When anyone begins to complain or talk badly about another person, no matter the reason, ask, "Before you go on, will either of us approach him directly about this?" If the answer is "no," stop listening. Elimination of GOSSIP creates the possibility of sustaining a CULTURE in which group members actively invest in the development of all other members. ●

PART FOUR: UNIVERSAL PATTERNS OF GROUP FAILURE

Overcoming Resistance

While most people resist change, the patterns of this resistance are fairly predictable. By understanding these patterns, you can channel a significant portion of the energy spent resisting the change into energy that instead drives it. And you can learn alternately to recognize and ignore sources of insignificant resistance.

High-performing groups have learned to distinguish which people resisting the change matter and which ones do not. They spend the maximum amount of time working with the first group and virtually ignore the latter group. This skill is teachable.

You must embrace resistance while not allowing it to defeat you.

Laggards

Three percent of your people are "visionaries" who will jump at anything. Early Adopters are willing to take a risk if basic questions are answered satisfactorily. The Early Majority relies on Early Adopters for direction, while the Late Majority moves because it doesn't want to be left behind. LAGGARDS, however, never come along; they destroy possibility by constantly asking questions, ignoring answers and declaring why things won't work.

Leaders must identify the traits of individuals in a group; they have to ignore the LAGGARDS and invest their time and energy in the Early Adopters.

When presented with a new idea or change, Early Adopters ask important questions: "What does this new possibility mean? How is it going to affect our existing market share? What are we going to do with our existing products?" They ask good questions, need good answers and listen; they want to be convinced. When Early Adopters' questions are answered satisfactorily, they say, "Okay, we don't have it all worked out yet, but we have enough information to move. I am in."

LAGGARDS rarely enroll fully in a universe-denting effort. They drag their feet and often need to be carried. They love getting attention; it fuels their resistance. ●

Managing Intractable Dilemmas

How do you end a never-ending argument?

RIGHT VERSUS RIGHT

When conversations deteriorate into disagreements that disintegrate into arguments, the great misperception is that one position must be right, and others must be wrong. While right versus wrong issues certainly create opportunities for disagreement, it can be as debilitating and destructive as gossip to mistake a RIGHT VERSUS RIGHT issue for a right versus wrong dilemma. It is imperative to recognize immediately the collision of two

"rights"; this recognition enables a leader to intervene, honor all the "rights" and reorient the group toward the defined "To Be."

You will recognize RIGHT VERSUS RIGHT dilemmas everywhere. What happens when the needs of the group are in conflict with the needs of a specific individual? These issues confront us throughout the human experience.

RESOLUTION PRINCIPLES

You'll likely encounter one or more dilemmas on the path to your declared outcome. The RESOLUTION PRINCIPLES PRIME can help you find the highest "right" when faced with the toughest choices.

There are only three ways to make the best choice when faced with such a RIGHT VERSUS RIGHT dilemma:

1. End-based. Select the option that generates the most good for the most people.

2. Rule-based. Choose as if you're creating a universal standard.

3. Care-based. Choose as if you were the one most affected by your decision. ●

Avoid Tripping Hazards

Tripping hazards are easier to avoid when you know where they are. When it comes to working in groups, can you see them coming?

PROCESS-CONTENT

You can run the process. You can contribute to content. Pick one.

If you work with a group that has more than seven participants, someone has to facilitate the process. And whoever takes responsibility for facilitating the process must surrender his or her right to offer content. Unfortunately, people constantly violate this PRIME.

I regularly see senior leaders running meetings. They facilitate the process while offering content and assigning value to what is being said. This is completely inappropriate; it does not prompt the best ideas to come forward with the best buy-in from stakeholders.

The reason for this is simple: If you are running the process and have a stake in the outcome, you will manipulate the process to get your outcome. When the stakes are high and many stakeholders are involved, process and content must be separated. Someone must be held responsible for designing a well-thought-out process design and make that design explicit and fair. ●

Refusing to Hide Out

We all live our lives trying to avoid embarrassment. Can you recognize when you and your group are hiding out and playing safe?

VICTIM-LEADER

Groups are moving toward being LEADERS or VICTIMS at any single point in time. They talk either about things they can do or about what's being done to them. Once it can distinguish this PRIME, a group becomes directly responsible for tolerating victimhood. This awareness makes what once was easy — hiding out and blaming others — suddenly unpleasant and intolerable.

To take responsibility at all times — to be the causes — may feel like a huge burden. VICTIM-LEADER, therefore is one of the few PRIMES best introduced in explicit fashion sparingly. This PRIME is valuable even when you keep it to yourself. So even if you don't speak of it, pay close attention to which way the group is headed. Guide group members to talk about things they can control. That's where their power is stored.

COURT-LOCKER ROOM

Planning is a near-death experience. We step out of living (COURT), and we step into talking about living (LOCKER ROOM). At best, planning helps us become organized and take action. In the business environment, it more often serves as giving us something to do so we do not have to actually do anything.

This PRIME began to reveal itself when we were asked to support an 18-month transformation effort in Washington, D.C. Regular meetings were scheduled for leadership to participate. Near the end of our first planning meeting, with only 30 minutes to go, we asked, "Is there anything obvious that we could take on now to get this transformation started?" People were flustered. They said, "We are only on the first day of this planning process. It is too early to take an action." We asked them, "How long have each of you lived and worked in D.C.?" Collectively, the number was over 500 years. And so we replied, "We have 500 years of experience and dozens of recent studies. When you close your eyes and imagine D.C., isn't there anything obvious, no matter how much longer we study it, that we simply must do now? Because it either must be part of our vision for the city or must not be part of the city we imagine."

After just a few moments, the city administrator made a suggestion to close D.C. General, the only public hospital in town. As he explained, "The building is old and loaded with asbestos. We have studied this for years. We

know the costs to bring it up to code are simply not worth it."

We encouraged the leadership team to think of the transformation of D.C. like a basketball game. We will develop an overall game plan. Then we will get onto the court and act. While on the court, depending on what is showing up, we will call some plays and adjust our plan. We leave the court, go to the locker room, do some planning and then get back onto the court. ●

PART FIVE: UNIVERSAL PATTERNS OF THRIVING IN AMBIGUITY

Avoiding Bright and Shiny Objects and Squirrels

How do you manage distractions? We as people are chronically interrupted. This problem is going to get much worse as our appliances, vehicles and even food products vie for our attention.

A CLEARING

A CLEARING is a void where nothing exists. You can create CLEARINGS in your schedule or physical CLEARINGS in your office, home or hotel conference center. And you can create CLEARINGS in your mind as they are spaces where possibilities can exist. In the context of the PRIMES, we remove all facts, thoughts, technology, people, meetings, distractions, interruptions, biases and legacies. In short, you push aside everything. In this space of nothing, you place your DECLARED OUTCOME. You guard the CLEARING. You let into the CLEARING only what is essential to achieving your DECLARED OUTCOME.

So, create CLEARINGS for your group. Push the noise back. Make an opening where nothing exists except what is essential to your outcome. Here are some tips:

• Keep your group as small as absolutely possible, and try to encourage each person to bring something essential and unique to it.

• Minimize the amount of data you consider.

• Get off the grid when you need to do critical thinking. Disconnect from text messages and email as much as you can, and manage your connectivity.

The CLEARING PRIME is not about making major life changes. It simply requests that we focus on the task at hand while we're performing it. ●

Taking Great Care of Yourself

Can you give up coming from "something is wrong"?

Be

The BE PRIME reveals a simple way to give yourself the freedom to BE how you want to BE, independent from everything that is going on around you.

I discovered the BE PRIME while working with a group from the Women Presidents' Organization (WPO). This particular meeting took place at the height of the global financial meltdown in 2010. The challenges were beginning to take their toll.

One of the participants helped us realize a critical element to controlling our "way of being" and not letting our circumstances control it — and this was to "notice" our way of being. She and the others eventually stripped the essence of "controlling your way of being regardless of your circumstances" down to four steps:

1. Be. Acknowledge that at any point in time, you are being some way.

2. Notice. Regularly pause what you are doing, and notice how you are being.

3. Choose. In that moment of noticing, choose any way of being.

4. Be. Instantly become that chosen way of being.

The BE PRIME is not about one way of being over another. It simply reveals how you can be any way you want to be regardless of what is happening around you. That is it. Be any way you choose to be. Just be it because you choose to be it — not because the situation caused you. When outfitted with the BE PRIME, you and you alone are forever the source of how you are being and how you are showing up to others.

Now What?

Now what? That is easy. Outfit yourself with a few of the PRIMES, run out onto the court of life, and make your dent! ●

RECOMMENDED READING LIST

If you liked *The PRIMES*, you'll also like:

1. ***The Synergist* by Les McKeown.** A successful team includes bold dreamers (Visionaries), pragmatic realists (Operators), and systems designers (Processors), but it takes a Synergist to blend the motivations and goals of the three types and get everyone to work together effectively.
2. ***How We Decide* by Jonah Lehrer.** Lehrer offers a fresh yet informed perspective on the subject of how we make up our minds.
3. ***Team Turnarounds* by Joe Frontiera and Daniel Leidl.** Learn the art of turning around a team's performance with examples from sports and business.

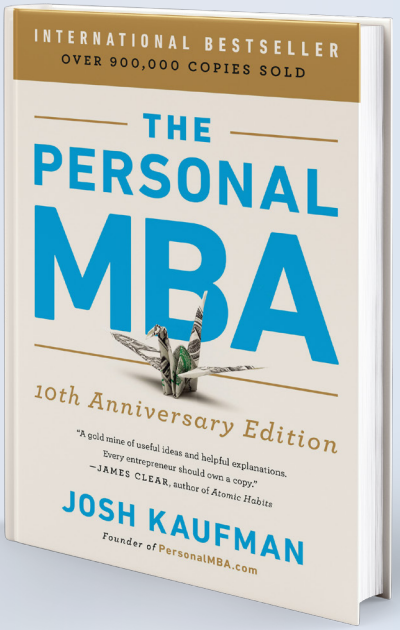
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The Personal MBA

Josh Kaufman

BOOK SNAPS™

Zooming In On Your Next Read



The Personal MBA

By Josh Kaufman

Josh Kaufman is the author of three bestselling books His research focuses on business, entrepreneurship, skill acquisition, productivity, creativity, applied psychology, and practical wisdom. Josh has been featured as the #1 bestselling author in Business & Money, as ranked by Amazon.com. Josh's research has been featured by The New York Times, The BBC, The Wall Street Journal, The Atlantic, Fortune, Forbes, Time, BusinessWeek, Wired, Fast Company, Financial Times, HarvardBusiness.org, The World Economic Forum, Inside Higher Ed, Lifehacker, MarketWatch, The Independent, Bloomberg TV, PBS Next Avenue, CCTV, and CNN's Sanjay Gupta MD.

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Master the Art of Business

Josh Kaufman is the founder of an organization called The Personal MBA, through which he helps teach the principles of business without students needing to go through the formal process of earning an MBA from an accredited university. He was born in 1983 and he graduated from Yale University. His work has been featured on many reputable online publications, such as Inc. Magazine, Forbes, Entrepreneur, Fast Company and others. He is also a nationally certified coach for pre-business students with the National Institute of Certified Coaches. Kaufman has long been down on the idea of MBA programs, which he takes down in no uncertain terms in the book's marketing materials:

"The consensus is clear: MBA programs are a waste of time and money. Even the elite schools offer outdated assembly-line education about profit-and-loss statements and PowerPoint presentations. After two years poring over sanitized case studies, students are shuffled off into middle management to find out how business really works."

Where you stand on this admittedly strong opinion will probably say a lot about whether you consider yourself a fan of Kaufman's message and work. But in general, Kaufman's book ***The Personal MBA*** is a fantastic read for anyone who would like to learn the basics of business. He does an excellent job when it comes to breaking down each topic into smaller pieces, so that readers are able to understand everything without falling asleep in the process. He also offers several examples to support his arguments which makes this work even more compelling and engaging at the same time. Moreover, he provides connections to various resources where readers can find additional information about topics discussed in detail within these pages. All of this combines with Kaufman's witty sense of humor and makes reading his content entertaining and, somehow, even fun.

As Josh says, "True leaders aren't made by business schools—they make themselves, seeking out the knowledge, skills, and experiences they need to succeed." If he's right, he's written a book that serves as an effective place to start with that search for knowledge.

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The Art and Science of Value Creation

Kaufman breaks the book into 9 essential segments, and the first focuses on value creation. The most essential element of this section is his breakdown of what exactly a business is, which can be identified as five simple pieces. According to Kaufman, a business is a repeatable process that:

Creates and delivers something of value…

That other people want or need…

At a price they're willing to pay…

In a way that satisfies that customer's needs and expectations…

So that the business brings in enough profit to make it worthwhile for the owners to continue operation. Notably, that begins with value creation— discovering what people want or need, then making it. Kaufman goes on to explore the process involved with creating value, from ideation to executing on those ideas in a way that leads to actual demand for your products. All along the way, he keeps his tone light but informative enough to feel like a great business course— which seems to be Kaufman's goal, given the book's title.

Marketing for the Future

Next, Kaufman dives into the concept of marketing with his signature no-BS approach that stresses that offering value simply isn't enough. As he puts it in the section's introduction, "If no one knows or cares about what you have to offer, it doesn't matter how much value you create. Without marketing, no business can survive— people who don't know you exist can't purchase what you have to offer, and people who aren't interested in what you have to offer won't become paying customers.

What makes Kaufman's writing on marketing so effective is that he perfectly balances the bird's-eye-view importance of marketing efforts with the technical details that are required to execute it. He leaves no stone unturned, covering everything from attention and receptivity to qualification of leads and point of market entry— and even advanced marketing tactics like controlling a narrative and managing controversy. It's a master-class on marketing that truly ought to be taught in every real-world MBA program nationwide.

Sales, Sales, Sales

The eternal battle for prominence between marketing and sales rages on, but Kaufman isn't particularly interested in crowning a winner in The Personal MBA. From his perspective, both marketing and sales have interrelated roles to play— and can make or break a business.

"The best businesses in the world earn the trust of their prospects and help them understand why the offer is worth paying for," he writes. "No one wants to make a bad decision or be taken advantage of, so sales mostly consists of helping the prospect understand what's important and convincing them you're capable of actually delivering on what you promise."

While this is one of the more technical sections of The Personal MBA, this complexity comes out of necessity. Kaufman is not afraid to shy away from the technical yet vitally important elements of sales for successful businesses, including the pricing uncertainty principle, price transition shock, value-based selling, education-based selling, and other advanced concepts— some of which are missed in the average MBA class.

Value Delivery Made Simple (Well, Simpler)

Creating value is one thing. How do you bring that value to customers effectively? Kaufman covers this concept at length in one of the book's most compelling sections. This is a particularly remarkable feat considering that many of the concepts involved with value delivery— order processing, inventory management, delivery/fulfillment troubleshooting, and customer support— are generally considered among the driest business concepts. They don't grab attention or get anyone particularly excited about entrepreneurship like innovation and disruption do.

One of the primary focuses of this section is scale. After all, Kaufman compellingly explains, logistical issues are simple on a small scale. If I have to deliver a loaf of bread to my neighbor across the street once a week, my value delivery process is relatively straightforward. But if I had to deliver 10,000 loafs of bread to 10,000 different people, spread across the country, every day, suddenly more advanced processes would need to be in place. Kaufman effectively highlights the methods that will help businesses prepare for that level of scale before they need it, not after.

Mastering Finance

As much as the mechanics of value delivery can lead to glazed-over eyes and disinterest, nothing puts people to sleep quite like discussions of finance. But Kaufman has a unique talent for making financial concepts simple to understand, and placing finance firmly in the larger context of meeting your business goals.

"Finance is the art and science of watching the money lowing into and out of a business, then deciding how to allocate it and determining whether or not what you're doing is producing the results you want," he says, before continuing: "Accounting is the process of ensuring the data you use to make financial decisions is as complete and accurate as possible. It's really not any more complicated than that." The way Kaufman speaks so effectively and concisely on finance and accounting, you're likely to believe him.

The Human Mind

In Kaufman's own words, "Understanding how we take in information, how we make decisions, and how we decide what to do or what not to do is critically important if you want to create and sustain a successful business venture." Once you have a clear pic-

> Once you have a clear picture of how the human mind works, it's easy to find better ways to get things done and work more effectively with others."

ture of how the human mind works, it's easy to find better ways to get things done and work more effectively with others.

Concepts covered here include conservation of energy, conflict resolution, pattern matching, intrinsic and extrinsic motivations, and how inhibition can be both an enemy and an ally when trying to motivate yourself and others to escape their comfort zone and deliver great work— or purchase your product despite their reservations. Meanwhile, Kaufman covers business 101 basics such as scarcity, absence blindness, loss aversion, and novelty to explain why people do what they do and buy what they buy— or don't buy what they don't buy.

Working with Yourself

In these sections, Kaufman turns his psychological focus towards two distinct but equally important areas— your relationship with yourself, and your relationship with others.

First, he begins by highlighting that the most effective and successful entrepreneurs and business people are those who know how to 'work with themselves.' "In today's busy business environment," he writes, "it's easy to get stressed about everything that needs to be done. Learning how to work effectively and efficiently can be the difference between a fulfilling career and a draining one."

A quick glance at the chapter titles in this section might have you thinking you're ready a philosophy book— Akrasia, Monoidealism, States of Being, Self-Elicitation, to name a few— but each one is effectively tied back to the principles of business and justifies its presence in this book. Kaufman believably draws a line directly from enhanced understanding of human nature to increased business success, in any industry or market.

Working with Others

At this point, Kaufman acknowledges the inherent truth of running a business— it's not just you. No matter how small or humble your company's origins, any goal you may have of future growth will require you to work with others.

"Working with other people is an ever-present part of business and life: you can't escape it, even if you want to. Customers, employees, contractors, and partners are all individuals with their own unique motivations and desires. If you want to do well in this world, it pays to understand how to get things done with and through other people."

It's here that Kaufman's book outshines its traditional education counterparts. He recognizes that a business is more than just strategies and finances, profit margins and marketing schemes. It's the interaction of people, sometimes on a small scale and sometimes on a massive scale. This understanding makes the book, and this section in particular, both engaging and highly actionable. It's packed with insights, from communication overhead and employee safety to the dangers of apathy, improper planning, and imbalance of power.

Understanding, Analyzing, and Improving Systems

At its core, a business is a system. Its people, its policies, its products, its customers, and everything in-between all create a complex moving organism of sorts. But that system also operates within other systems— the market, the industry, the society, the planet. Meanwhile, smaller systems operate inside of the business— the teams, departments, and employee relationships that must be navigated daily.

Understanding, analyzing, and successfully improving those systems is the central focus of the book's final third. And while it's decidedly more complex in its subject matter than much of the book, its value isn't lost as a result. Kaufman manages to reveal key insights based on economic and even philosophical concepts— Gall's Law, for example— to help readers become more effective business leaders through their understanding of complex (and simple) systems. Here is where Kaufman ties it all together, helping businesses build resilience, stress test their processes, establish standard operating procedures that are built to be changed, and ensuring a healthy experimental mindset no matter how big or established your business may become.

Conclusion

Josh Kaufman has created a great resource for anyone who is looking to learn more about business and get the real-world experience he provides without having to spend years working in the real-world themselves. ***The Personal MBA*** provides all the information you need to know in order to start your own business or improve an existing one, without going deep into debt or spending years of your life pursuing an MBA at one of the outdated programs still being offered throughout the country. This book does not offer any quick fixes and instead teaches people how to think like successful entrepreneurs, and for that alone Kaufman should be respected as a profoundly talented mind on the art of teaching business for the real world.

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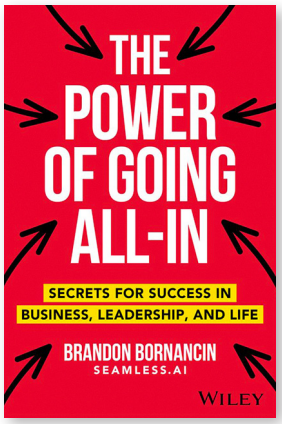
The Power of Going All-In

Brandon Bornancin

Executive Book Summaries®

The Power of Going All-In

Secrets for Success in Business, Leadership, and Life



by **Brandon Bornancin**

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THE SUMMARY IN BRIEF

Whatever is holding you back from the team you've always wanted, the company you've always wanted, and the results you've always wanted, this book will solve those problems and make your dreams a reality through a treasure trove of practical and essential advice.

Written as an easy-to-use actionable guide for entrepreneurs, managers, executives, board members, founders, sales professionals, and other leaders looking to improve their leadership skills, new lessons are introduced that will challenge your thinking and help you make a positive impact on others throughout the course of a year.

The Power of Going All-In: Secrets for Success in Business, Leadership, and Life by Brandon Bornancin consists of leadership secrets and strategies and is ultimately designed to motivate you to keep going when the path seems difficult. The managers and leaders who go all-in never give up. They know there is always a way. There is always a solution. You just have to find it.

IN THIS SUMMARY, YOU WILL LEARN:

- The principles for going all-in that provide the groundwork to build a strong team built for maximum success.
- The strategies for building high-performing teams that cover the best tactics for harnessing tenacity in the face of failure.
- The keys to unlocking your team's potential and building trust.
- The secrets to developing the next generation of leaders.

What Does it Mean to Go All In?

"Going all-in" or "all-in leadership" is all at once a mindset and a way of life. It's an unwavering commitment to excellence and a relentless pursuit of growth.

The power of going all-in pushes against leadership norms like micromanaging and turning your team into mindless robots. Instead, going all-in empowers companies to become the unstoppable leaders of tomorrow.

Anyone going all-in refuses to settle for anything average or ordinary and instead strives to help their team achieve the extraordinary.

Going all-in is about channeling your time, energy, and resources into a purpose bigger than yourself and helping your employees take their careers to the next level.

Going all-in encompasses the following core characteristics:

- Massive goals: All-in leaders never settle for average, and they aren't afraid to set massive, ambitious goals for themselves, their team, and their business. They're always ready to put in the effort to make their dreams a reality and take their company to new heights.
- Positivity: No matter the obstacle, people who are all-in take a glass-half-full approach to everything in life and stay positive at all costs. This positivity makes the biggest challenges seem minor, and it turns every setback into an opportunity for growth. The relentless positivity of all-in leaders is the momentum that pushes their team forward.
- Coachability: Regardless of how much experience an all-in leader has, they never get a big ego or think they're too good to learn anymore. Instead, leveraging the power of going all-in is all about staying humble, coachable, hungry to learn, and eager to improve.
- Strong work ethic: All-in leaders aren't afraid to get their hands dirty and put in good old-fashioned hard work. Hustle beats talent when talent doesn't hustle, and an all-in leader is always the first to show up at the office and the last to leave because they understand that hard work is the magic behind the greatest successes.
- Whatever it takes: When there's a goal, all-in leaders are willing to do whatever it takes to make it happen. Whether they have to put in extra hours, invest more money, or get down in the trenches with their employees, all-in leaders give everything they've got to make the impossible possible.
- No excuses: All-in leaders have zero tolerance for excuses for themselves or their teammates because excuses are distractions that get in the way of improvement.
- Extreme ownership: When the team wins, all-in leaders give all the credit. And when things don't go as planned, they take full ownership of the mistakes and 100% of the blame.
- Unshakable commitment: All-in leaders possess an unbreakable commitment to their vision. They are fully invested in their pursuits and willing to go above and beyond to make their goals happen.
- Fearless resilience: Going all-in means embracing failure as a stepping stone to success. All-in leaders bounce back from set- backs, learn from their mistakes, and use adversity as fuel to propel themselves forward.
- Limitless passion: All-in leaders understand that passion is a powerful catalyst for extraordinary achievements. Their enthusiasm is infectious, and they're great at fostering a collective sense of purpose.
- Courageous vision: Top leaders have a bold vision for the future of their team. They have the skills to not only articulate this vision clearly but motivate others to join them on their journey.
- Continuous growth mindset: All-in leaders are lifelong learners. They actively seek opportunities for personal and professional development. Never content, they embrace constructive feedback, seek out mentors, and always strive to expand their knowledge and skill sets.

When all-in leadership takes root, the impact is profound! Organizations experience exponential growth, innovation, and a culture of excellence. All-in leaders create an environment where individuals are encouraged to think bigger, reach new heights, and challenge the status quo.

The All-In Roadmap

The year-long program outlined in this book is a roadmap for becoming a transformational leader. Each month focuses on a key aspect of leadership, providing actionable strategies to build a strong team, foster a high-performance culture, and empower individuals to achieve their full potential. The program emphasizes effective communication, transparency, continuous learning, building trust, and servant leadership, while equipping you with the tools to navigate challenges, embrace change, and make data-driven decisions. Ultimately, by following these principles and

Ultimately, your success is a team effort, so ditch the blame game and focus on collective achievement.

investing in your team's development, you can become a leader who inspires, motivates, and drives results.

Month 1: Mission, Vision, and Accountability

The first month should be spent focused on building yourself as a leader and fostering a strong team identity. Invest in your own development and implement strategies to propel your team's success. Clearly define your vision and translate it into actionable plans. Remember, your role is to empower and serve your employees. Effective leaders inspire loyalty and growth, turning good employees into excellent ones.

Create a supportive and collaborative environment where open communication is key. Celebrate even small wins and cultivate a sense of gratitude within the team. Embrace change and adaptability, constantly striving to improve.

Remember, leadership is a privilege, and your dedication will ignite a fire of passion and growth within your team. Empower your team members to become future leaders by setting achievable goals and fostering their development. Ultimately, your success is a team effort, so ditch the blame game and focus on collective achievement.

Month 2: Building the Foundation for Great Hiring and Onboarding

The second month is dedicated to building a strong foundation through strategic hiring and onboarding. Focus on recruiting top talent with a "future-proof" mindset. Utilize behavior-based interviews and prioritize candidates with initiative, intelligence, integrity, and a growth mindset. Invest in those with unique skills and the potential to elevate the team.

Develop a clear onboarding process that allows new hires to quickly showcase their talents and integrate into the company culture. Provide opportunities for mentorship, regular check-ins, and access to training and technology. By creating a supportive and growth-oriented environment, you'll empower new team members to succeed and contribute significantly.

Remember, building a high-performing team is an ongoing process, so embrace continuous learning and celebrate both individual and collective achievements.

Month 3: Developing a High Performance Culture

The third month dives into cultivating a high-performance culture. Foster open communication by actively listening to your team's needs and fostering a positive, challenging, and collaborative environment. Unleash their creativity and empower them to excel by providing extensive resources and eliminating roadblocks. Celebrate both individual and collective achievements, while fostering a sense of shared purpose.

Remember, progress trumps perfection. Embrace continuous learning by providing training, mentorship, and opportunities to learn from each other. Become a servant leader, obsessed with maximizing your team's potential. Empower them with ownership and autonomy, while offering constant support and celebrating their success. Prioritize continuous improvement by gathering feedback, eliminating inefficiencies, and fostering a culture of innovation.

Month 4: KPIs, Goal Setting, and Decision-Making

The fourth month emphasizes data-driven decision making and goal achievement. Fuel your strategic thinking by reflecting on your purpose and continuously learning. Empower your team to become independent thinkers and problem solvers, fostering a culture of integrity and risk-taking. Establish clear KPIs and collaboratively set ambitious, measurable goals at various timeframes.

Embrace regular communication through weekly updates and encourage team input when making decisions. Prioritize and focus on completing one task at a time to achieve excellence.

Cultivate a fun and results-oriented environment where data guides decisions and continuous improvement is cel-

ebrated. Empower your team to be vocal problem-solvers, trusting their ability to make impactful contributions. Remember, speed and collaboration are key to success. Learn from high performers and constantly seek new knowledge to propel your team to new heights.

Month 5: Prioritizing Tasks, Diagnosing Issues, And Taking Action

Month five focuses on streamlining your team's operations. Embrace a decisive "hell yes" or "hell no" approach to prioritize tasks aligned with company goals. Plan effectively, cleaning up your sales pipeline regularly, and prioritize direction over speed. Empower your team by fostering a meritocracy and equipping them with the necessary skills.

Break down complex goals into manageable steps and prioritize high-probability deals. Prepare game plans, provide ongoing coaching, and hold efficient team meetings. Ask insightful questions, promote rapid learning, and encourage a "learn fast, fail fast" mentality. Invest in training and empower your team members to take ownership.

Focus on high-impact activities, securing the resources needed to achieve ambitious goals. Give your team a head start by anticipating their needs and aggressively cut project timelines. Prioritize working on the right tasks and help your team find a balance between supporting others and achieving their own goals. Cultivate a sense of urgency within your team, value fresh perspectives from new hires, and instill the importance of hard work. This month is about maximizing efficiency, clarity, and results.

Month 6: Thriving In Adversity With Resilience, Discipline, And A Growth Mindset

The sixth month emphasizes navigating challenges and building resilience. Cultivate a persistently positive attitude and instill a "whatever it takes" work ethic within your team. Emphasize the power of consistent effort and daily improvement, highlighting that growth thrives on overcoming obstacles. Challenge the notion that grit equates solely to winning, and instead, focus on the "show, do, be" model: leading by example.

Empower your team to believe in themselves and overcome self-doubt. Normalize the learning curve and celebrate teamwork. Teach your team to compete with their past selves, fostering a growth mindset. Embrace calculated risks and encourage proactive problem-solving as the team evolves. Promote a culture of continuous learning by encouraging curiosity and open communication. Help your team see challenges as manageable obstacles and empower them to take calculated risks.

Foster a coachable environment where constructive feedback is seen as an opportunity for growth. Embrace vulnerability and encourage honest in-person feedback. Instill a "never say die" attitude and promote collaborative problem-solving through dividing large tasks.

Reframe mistakes as learning experiences, focusing on solutions over dwelling on problems. Prioritize action and accountability, asking "what needs to be done today?" Acknowledge that success requires discomfort and teach your team to enjoy the journey while striving for their goals. Ultimately, promote a focus on hard work over luck and celebrate the joy of the process along with achieving desired outcomes.

Month 7: The Art Of Communication, Transparency, And Active Listening

Month seven dives deep into effective communication and building trust. Practice active listening and prioritize clear, purposeful communication built on trust. Strive to understand your team's perspectives and become obsessed with their success. Maintain transparency by sharing key decisions, wins, and losses that impact the company mission. Celebrate your team's achievements and avoid a "one-up" mentality.

Foster open communication by asking insightful questions and encouraging honest feedback. Recognize and address burnout, and empower your team to seek solutions, not dwell on problems. Hold high expectations and provide constructive criticism through Performance Improvement Plans to help underperformers. Address negativity swiftly and don't hesitate to have difficult conversations.

Remember, fostering a positive and supportive environment is key to success. Be open to feedback and acknowledge that challenges can be opportunities for growth. Embrace change and empower your team to overcome resistance as you navigate the path to success.

Month 8: Empowerment, Trust, And Autonomy

Month eight emphasizes empowering your team for peak

Recognize and reward hard work, understanding that dedication goes beyond a traditional workweek.

performance. Acknowledge everyone's learning curve and encourage continuous development. Create a sense of purpose that transcends individual tasks by outlining a bigger vision.

Equip your team with the tools and framework of SWATR: Set, Work, Track, Achieve, Repeat, to crush their goals. Foster a culture of open communication where asking for help and feedback is encouraged. Recognize and celebrate achievements, promoting a positive and motivating environment. Leverage data to learn from experiences and foster an environment where failure is seen as a stepping stone to growth.

Empower your team to overcome obstacles and champion autonomy, allowing for independent creativity and innovation. Recognize and reward hard work, understanding that dedication goes beyond a traditional workweek. Embrace a servant leadership style, prioritizing your team's success over your own.

Embrace continuous learning, creating a circular teaching environment where knowledge flows reciprocally. Maintain a positive attitude and focus on potential for improvement, fostering an optimistic and growth-oriented environment. Stay open to new ideas and embrace discomfort as a sign of learning and progress. Recognize that stagnation is regression, and celebrate your team's ongoing evolution.

Month 9: Leading Through Change, Uncertainty, And Tough Times

Month nine tackles navigating change and adversity. Reframe challenges as opportunities for learning and growth. Embrace discomfort as a catalyst for improvement and empower your team to do the same. Differentiate between high-performing team members and those requiring additional coaching. Address mediocrity head-on, reminding them that results reflect effort. Foster a positive mindset and encourage your team to stay focused amidst challenges. Actively listen to unspoken concerns and identify areas for improvement. Step outside your comfort zone and encourage calculated risks.

Maintain a zero-tolerance policy for negativity and micromanagement. Promote respectful disagreement within a collaborative environment. Recognize that tough times build resilience. When considering significant changes, conduct a thorough analysis considering timing, alignment with company goals, team and company betterment, resource availability, implementation plan, expert consultation, testing feasibility, and potential for negative impact.

Make critical decisions when at your peak and value your team's ideas as potential game-changers. Lead from the frontlines alongside your team. Embrace a "never stop learning" attitude and actively seek feedback.

Lead with empathy during challenges and take full ownership, even during difficult times. Redefine failure as a missed opportunity to try, not an endpoint. Empower your team to overcome roadblocks and instill a sense of confidence in their capabilities. Maintain an unwavering sense of optimism to navigate challenges and propel your team forward.

Month 10: The Human Element, Emotional Intelligence, And Soft Skills

The tenth month focuses on mastering the human element of leadership. Distinguish yourself from an authoritative "boss" by prioritizing your team's happiness and performance. Embrace authenticity and self-awareness as cornerstones of effective communication. Utilize open-ended questions to foster dialogue and move beyond the status quo. Learn your team's communication styles for optimal understanding.

Focus on collaborative problem solving and demonstrate compassion through action. Embrace a learning mindset and acknowledge that intuition, coupled with data, fuels informed decisions. Empower your team by unlocking their talents and fostering mental health resilience. Recognize your team's options and actively promote a healthy work-life balance.

Remember, your leadership style is a deciding factor in employee retention. Treat your team with respect, fostering a sense of family, and leverage shared experiences to build strong relationships. Advocate for your team and champion

their success, especially during challenges. Develop empathy by considering different perspectives and communicate with honesty without resorting to harshness.

Embrace your unique leadership style and be fully engaged during interactions. Emotional intelligence is paramount - aim for high EQ interactions that build trust and make your team feel valued. Always recognize and celebrate their achievements, big and small, to foster a culture of motivation and appreciation.

Month 11: Leading Diverse Teams And Fostering Continuous Learning

Foster a team that thrives on differences. Mentor everyone to reach their full potential, regardless of personal preferences. Recognize that true leadership is about empowering others, not micromanaging. Maintain a stellar reputation and share your vision as a leader. Go the extra mile for your team and prioritize their needs.

Personalize your approach to one-on-one interactions. Cultivate team spirit and invest in their success. Conquer self-doubt and inspire your team to push beyond limitations. Embrace an "abundance mindset," believing in your team's potential and the power of collaboration. Build a supportive network of leaders for mutual growth.

Never stop learning. Challenge the status quo and seek continuous improvement. Manage your time effectively and avoid entitlement. Promote a culture of accountability and ownership. Create a safe space for innovation and calculated risks. Focus on actions, not just words. Earn your team's respect and lead by example. Encourage self-development and invest in your own growth to become the leader you admire.

Month 12: Developing Future Leaders, Coaching, And Succession Planning

Month twelve focuses on cultivating future leaders and building a strong succession plan. View every team member as a potential diamond in the rough, and empower them to invest in their own development. Lead with a clear purpose that transcends personal gain, and coach your managers to follow suit.

Break free from micromanagement and identify future leaders by seeking strong leadership abilities, a consistent track record of performance, and a deep understanding of your company culture. Become obsessed with becoming a world-class coach, facilitating sessions that empower your team. Nurture your top talent to prevent them from seeking opportunities elsewhere. Utilize data to prioritize coaching needs and dedicate time to this crucial investment.

Equip your team with the skills to act as CEOs of their own work spheres. Uncover their intrinsic motivators and inspire a passion for their work. Provide immediate feedback and leverage monthly reviews as opportunities for reflection and strategic planning. Conduct annual reviews that fuel growth, focusing on high-potential individuals. Develop clear promotional paths for each position and teach your team how to take initiative to propel themselves forward.

Encourage team members to "act the part" before formally receiving a promotion. Be proactive with promotions, recognizing people's readiness for advancement. Offer genuine compliments and personally congratulate team members on promotions. Embrace a culture of continuous learning by asking "what did you learn today?" Find a progress partner to hold you accountable for your own growth.

Remember, leadership is a journey, not a destination. Empower your team to take ownership of their success, and instill a belief in achieving their goals through positive affirmations.

The goal of The Power of Going All-In is to provide everything needed to become the best leader possible, both professionally and personally. A number of strategies are shared in this book, from servant leadership to radical transparency, and these secrets not only help maximize potential but help ensure that a team's performance skyrockets!

So, what's next for you on your all-in leadership journey? The greatest leaders always put in the hard work, rain or shine, because all-in leadership requires nothing less than 100% effort day in and day out.



Brandon Bornancin is a five-time bestselling author, serial entrepreneur, public speaker, and the CEO of Seamless.AI, the number one sales software that delivers the world's best leads. He's on a mission to help one billion professionals connect to opportunity and achieve massive success. Connect with him at www.BrandonBornancin.com.

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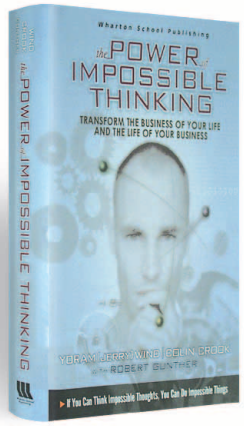
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The Power of Impossible Thinking

Yoram (Jerry) Wind and Colin Crook

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Soundview Executive Book Summaries®



Transform the Business of Your Life And the Life of Your Business

THE POWER OF IMPOSSIBLE THINKING

By Yoram (Jerry) Wind and Colin Crook with Robert Gunther

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THE SUMMARY IN BRIEF

To change your world, you first have to change your own thinking. The ability to see the world differently can create significant opportunities, as companies such as Southwest Airlines, FedEx, Charles Schwab and others have demonstrated. But even successful models can ultimately become a prison if they limit your ability to make sense of a changing world, in the way that major airlines failed to fully recognize the threat of upstarts such as Ryanair or that music companies failed to see the opportunities and threats of music file sharing. From driving organizational growth to improving personal health and fitness to fighting international terrorism, your mental models shape your responses in every area of your life. The Power of Impossible Thinking *provides a systematic process to help you understand the importance of mental models, assess whether your models are relevant, what kinds of models are needed, and how to act upon these models more effectively. This approach is applicable to diverse issues in personal life such as dieting or dating, business decisions such as outsourcing or growth, and societal issues such as battling terrorism or treating diseases.*

What You'll Learn In This Summary

✓ **How to change the way you think.** Changing your mental models can open new opportunities and offer a lever for transforming your organization or your life.

✓ **How to keep your mental models relevant.** You need to know when to shift models, create a portfolio of models (both old and new) rather than leading one-way revolutions, and discover new models.

✓ **How to transform your world.** To transform the world, you need to overcome the inhibitors to change.

✓ **How to act quickly and effectively.** Mental models need to be acted upon. They can be accessed quickly through the effective use of informed intuition.

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Mental Models Shape Your World

It's almost midnight.

You are walking down a dark city street toward your car parked several blocks away, when you hear footsteps behind you. You don't turn around, but you quicken your pace. You remember a news story from a few weeks ago about a robbery at knife point in the neighborhood. Your pace quickens. But the footsteps behind you are also moving very quickly.

The person is catching up to you.

At the end of the block, under the street lamp, the steps are immediately behind you. You turn suddenly. You recognize the familiar face of one of your colleagues, heading to the same parking lot. With a sigh of relief, you say hello, and you and he continue on your way together.

Recognition

What just happened?

The reality of the situation didn't change at all, but the instant you recognized the face of your colleague, the world in your mind was transformed. The image of the pursuing attacker was transformed into that of a friend. How could so little have changed in the situation, yet so much have changed in the way you viewed it?

First of all, you had created a complete picture of what was happening based on a tiny bit of information — the sound of footsteps behind you at night. From this mere suggestion, you drew upon memories of news stories of crimes, together with your personal fears and experiences, to conjure up an image of a potential attacker. You changed your actions based on this assessment of the situation, walking faster to escape an assailant. This could be a great survival instinct, but in this case, you were fleeing an assailant who did not exist.

A Little More Information

Then, just as quickly, in the flash of the street lamp, you gained a little more information — and the entire picture shifted. In a split second, you recognized the face of a colleague — again based on the vaguest hints. You didn't take time to stare or think deeply about it. There might have been other possibilities in the situation. Could the person have been an assailant wearing a mask to look like your colleague? Could your colleague be an assailant? These possibilities were so remote that you didn't consider them, and by the time you thought through them, you might be dead. You saw the face, and the footsteps quickly switched categories from "foe" to "friend." Only a small part of this drama happened on the sidewalk. Most of it was created within your own mind.

Transformation Initiatives

Working on transformation initiatives with leaders of major global corporations, we have recognized a simple lesson with profound implications: To change your world, you first have to change your own thinking.

Neuroscience research shows that your mind discards the majority of the sensory stimuli you receive. Studies by neuroscience pioneer Walter Freeman, for example, have shown that the neural activity from sensory stimuli disappears in the brain's cortex. It disappears. We use these stimuli to evoke an internal model that we then accept as reality. There are obvious advantages to not having to process every bit of sensory data that floods over us, but there are also obvious disadvantages to ignoring a good part of the world. We are, in effect, seeing magic tricks every day but accepting them as reality. What you see is what you think.

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Mental Models Shape Your World

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But surely, you might believe, the human mind is not so malleable.

Are you saying we all have lost touch with reality?

We know what we see, right?

Bugs Bunny in Disneyland

Well, why don't we ask the folks who saw Bugs Bunny in Disneyland?

The "wascally wabbit" from Warner Brothers would be turned into stew if he actually showed up to cavort with Mickey Mouse and Donald Duck in the theme park of rival entertainment company Disney. Yet when test subjects were shown mocked-up images of Bugs Bunny shaking hands with tourists in Disneyland, some 40 percent subsequently recalled a personal experience of meeting Bugs Bunny in Disneyland.

They "remembered" a meeting that was, in fact, impossible. It turns out that many of us are not much more astute at avoiding the rabbit's tricks than his befuddled archrival Elmer Fudd. How often in your daily life do you find yourself shaking hands with Bugs Bunny in Disneyland?

An 800-Pound Gorilla

OK, you might answer, so we might be fooled by some sleight of hand in a theme park, but we certainly won't miss the signals that are truly important in our environment.

How about overlooking a gorilla?

Researchers asked subjects to count the number of times ballplayers with white shirts pitched a ball back and forth in a video. Most subjects did a good job at the task. They counted the 14 passes between the players with white shirts, but they failed the real test. They were so thoroughly engaged in watching white shirts that they failed to notice a black gorilla that wandered across the scene. The gorilla even paused in the middle to beat his chest. It was right there in the middle of the action. But they had their noses so buried in their work that they didn't even see the gorilla. Has this ever happened to you?

What gorillas are moving through your field of vision while you are so hard at work that you fail to see them? Will some of these 800-pound gorillas ultimately disrupt your game?

See the Impossible

What you see is what you think.

Just as we can believe we see the "impossible" — such as Bugs Bunny in Disneyland — or fail to see a gorilla striding across our field of vision, our mental models shape the opportunities and threats that we can see in our lives. ■

A Process for Impossible Thinking

Mental models shape every aspect of our lives. Are you stuck in your career? Is your organization stalled in its growth? A mental model may be holding you back. A new model might open opportunities for progress. Are you lagging behind your competitors in innovation? It may be that your models are constraining your creativity. Are you overwhelmed by information?

Perhaps the models you are using are not up to the challenge of making sense in our information-rich world. In your personal life, are you trying unsuccessfully to lose weight, increase exercise or improve your health? The mental models you use to understand these activities will have a dramatic impact on the outcomes you achieve and the quality of your life. Are your personal relationships strained? Your mental models, and those of others, could be at the root. And if you want to change society or the broader world, you need to begin by looking at the mental models that shape your world and challenging them.

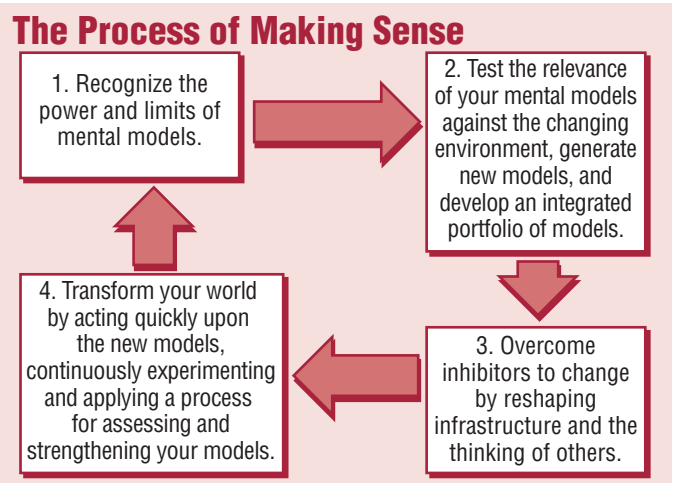
The Process of Making Sense

Our mental models play an important role in limiting or expanding our opportunities. There is a four-step process for assessing and changing these models, and then using this shift in mind-set to transform the world (see the chart below). These steps are:

1. Recognize the power and limits of mental models. To take advantage of mental models, you have to know how they shape your possibilities. How do they limit your ability to see opportunities and threats?

2. Test the relevance of your mental models against the changing environment, generate new models, and develop an integrated portfolio of models. As the world changes, do your models still fit? If so, how do you find new models and put together a portfolio of

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A Process for Impossible Thinking

(continued from page 3)

models to meet future challenges?

3. Overcome inhibitors to change by reshaping infrastructure and the thinking of others. Your entire world is organized around your current models, and people around you may be much slower to change. To introduce a new order, you need to change the structures of the old world and the thinking of others.

4. Transform your world by acting quickly upon the new models, continuously experimenting and applying a process for continuing to assess and strengthen your models. You need to continuously examine your models to keep them fresh and relevant, and apply your insights quickly and effectively, using informed intuition.

Knowing how this process works will help you challenge the way you view the world and the way you act. This idea may seem quite simple and self-evident, and it is. But if you truly consider the implications, it is a powerful idea. This transformation of thinking is where all the transformations of our personal lives, our organizations and our society begin. That's the power of impossible thinking. ■

For Additional Information on making sense from nonsense, go to: http://my.summary.com

Step 1: Recognize the Power And Limits of Mental Models

To transform yourself, your organization and society, you need to understand and change your mental models. How do you do this?

Understand how models shape your world. Recognize that the world you see is only partially determined by the information flowing in through your senses. Understand the importance of models and recognize the ways they shape your understanding of the world. Half the battle is to explicitly understand your own mental models and to recognize how they shape your thinking.

Until 1954, running the four-minute mile was something considered beyond comprehension and so beyond human achievement. Then, Roger Bannister broke this barrier that year on an Oxford track. Within three years, 16 other runners had also shattered this record. Was there some breakthrough in human evolution? No. The equipment was the same. What changed were the mind-sets of the runners about what was possible. What are the four-minute miles in your own life that are limiting your own thinking? In business, for example, there have been many shifts in thinking in recent years. Inventory was seen as an asset, but with just-in-time manufacturing, it has become a liability. People were seen as an expense, but now are seen as an asset in an age of knowledge workers. What are the models in your own life that are now out of sync with the times?

Levers for Transforming

Recognize how models limit or expand your scope of actions. Like the model of a "flat earth" held by early mariners, your mental models limit your vision and your course of action. Changing your mental models can open new opportunities and offer a lever for transforming your organization or your life.

Southwest Airlines built a thriving model by creating a no-frills, point-to-point service to challenge the prevailing hub-and-spoke model. Palm's Pilot overcame the technological limitations that doomed most previous generations of personal digital assistants (PDAs) by recognizing that users could be taught a simplified language easier than teaching a machine to read diverse handwriting styles.

On the other hand, the music industry found itself trapped in outdated models, protecting its old model of safeguarding intellectual property and selling songs on CDs. Apple's iTunes changed the mind-set, offering downloads of individual 99-cent tunes that could be burned or copied onto listening devices. New models are not always accepted, as was shown with Segway's scooter, a revolutionary way to travel, that had slower-than-expected adoption and ran into opposition from local authorities. ■

Step 2: Keep Your Mental Models Relevant

Are your models still relevant? Are you, like old generals, still fighting the "last war"? In a changing world, you need to make sure you have the right mental models for the current environment. How do you do this?

Know when to shift horses. You need to navigate through twin perils, either failing to recognize an important new model or else leaping to a new model too soon and too enthusiastically. You need to be able to gauge when to make the leap and then perform experiments to gradually ease your way into a new model.

U.K.-based GEC transformed itself from a stodgy but very profitable company with businesses in power, defense and electronics, into a high-tech firm renamed Marconi, which was designed to grab onto the rapidly rising star of telecommunications. But the telecom revolution in Europe fizzled and the company lost virtually all its value. To know when to shift horses, we need to

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Step 2: Keep Your Mental Models Relevant

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pay attention to "just noticeable differences," avoid cognitive lock, and create an early warning system. We also need to be alert to being swept up in passing fads. Finally, by using experimentation, we can avoid making a "leap in the dark."

Two-Way Paradigm Shifts

Recognize that paradigm shifts are a two-way street. When new models emerge, old ones are not always toppled like statues of the old order. This is why you still have fountain pens, writing paper and a telephone next to your computer. The shifts that appear to be one-way streets to a new world order can turn out to be two-way streets. By developing a portfolio of models, you can select those that work best for a given situation. For example, in Afghanistan, the high-tech and mechanized U.S. military turned to soldiers on horseback to guide its missiles.

By creating portfolios of models, you can draw upon the best model for a specific situation. For example, you might use a fountain pen for a personal note but e-mail when speed and efficiency are more important than personal connection. We need to avoid seeing the arrival of a new model as an irrevocable revolution that blinds us to the value of the old model. By creating a toolbox of models, we can better address the specific challenges we face.

A New Way of Seeing

Find new models by seeing a new way of seeing. When open-source pioneer Richard Stallman spoke to IBM researchers in the 1990s, he seemed like he dropped in from another planet. But by listening to this outrageous idea, IBM was able to find a way to create a powerful new business model around open-source software (using free open-source programs as the basic platform on which to construct more advanced software and services). While the idea of giving away open-source software seemed crazy when it was first proposed to IBM researchers, it became the core of IBM's strategy in supporting Linux.

To adopt new mental models, you need to be able to see them in the first place. This is more difficult than it appears, because your current models limit your ability to see new ways of seeing. These new ways of seeing can come from listening to radicals such as Stallman and really considering the value of their ideas. New models can also come from journeys of discovery such as Darwin's voyage on The Beagle that led to his theory of evolution. These new ways of seeing can be encouraged by looking across disciplines, questioning routines, and recognizing barriers. We also can practice for the unexpected, as pilots do when they train in flight simulators at "flying upside down." Destroying the old model and creating a new one from scratch (idealized design), taking a devil's advocate position, and envi-

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Zooming In and Zooming Out

The process of *zooming in* involves focusing on the details of the situation. Several approaches facilitate this process of focusing on detail without being completely overwhelmed by it. These include:

- **Engage in Rigorous Analysis.** Mark Twain tells the story of a cat who sits on a hot stove and wisely learns not to sit on a hot stove again. But the cat also avoids the cold stove as well. Be careful not to overreact to small pieces of information that might alarm you. Engage in rigorous analysis to explore the risks and rewards of different approaches. Pay particular attention to the outliers and inconsistencies.
- **Categorizing and Prioritizing.** Having a framework for new information makes it easier to focus on details without becoming overwhelmed. Categorize according to similarity, common fate (whether the items move together), continuation, and surroundedness (whether items can be seen as a closed form and whether they stand out together against a background).
- **Avoid Being Paralyzed by Too Broad a Context.** Watch out for too broad a focus that overwhelms you and leads to inaction.

The process of *zooming out* lets you look at the bigger picture. To approach this process, you must:

- **Recognize the Limits of Your Field of Vision.** Look for disconfirming evidence. Step back and consciously enlarge your field of vision.
- **Avoid Cognitive Fixation.** A pair of young lovers staring into one another's eyes across a romantic dinner, for example, will be in grave danger in their self-absorption if they fail to notice that the building is on fire. Pull back and take a larger view, or something might suddenly enter your field of vision that you wish you had recognized earlier.
- **Appreciate the Context.** What is the context of the current decision you are making? What assumptions have you made about the context, and how do these need to be changed?
- **Step Out of the Stream.** It is impossible to swim forever without taking a rest. Step out of the information stream periodically and create space for reflection.
- **Use Multiple Approaches.** Develop multiple sources of information and use different analytical methods to validate your information.
- **Collaborate With Others.** Through collaboration technology, individuals can now contemplate making sense of specific things and sharing this with others.

Step 2: Keep Your Mental Models Relevant

(continued from page 5)

sioning multiple futures through scenarios are also ways to see a new way of seeing.

Zoom In and Out

Zoom in and out to make sense from complexity. In an information-rich environment, it is easy to be overwhelmed by complexity. By cultivating a habit of zooming in and out, focusing on details, and then pulling back to see the big picture, you can make better sense of what is going on. You can focus on both the content and the context.

A model from computer programming has demonstrated the power of keeping an eye on both the detailed content and the broader context. In Extreme Programming (XP), teams of programmers work on a project that would typically have been assigned to one person. One programmer is zoomed in working on the details, while the other, a navigator, is zoomed out, making sure the program addresses the user's true needs. Although this seems inefficient, it produces better software more quickly.

An Experimental Approach

Engage in experiments. By taking an experimental approach to life, you can efficiently and continuously learn and develop new models to make sense of the world. Treating your models as hypotheses rather than reality can help you test their strengths and weaknesses and find the best models for your situation. These experiments can be planned experiments, natural experiments that occur in the course of life, and adaptive experiments where each experiment creates the hypothesis for the next one.

Among the ways we can engage in experimentation are the design of adaptive experiments, the conduct of post-mortems, simulations, and the study of natural experiments. For example, the U.S. Army created an online video game that sent players out on virtual missions, which was originally designed as a recruiting tool. But after players had made 100 million sorties, the Army realized that the system could offer insights on military strategies by testing creative approaches and offering direct feedback on which ones were successful. It became a kind of large-scale natural experiment that would not have been possible out in the field where real lives were at stake. ■

Starbucks: Finding Venti Growth In a Demitasse Market

When Howard Schultz joined Starbucks in 1981, the market for coffee was in decline. It was a commodity industry with fierce price competition. The local economy in Seattle was suffering from job cuts at Boeing, the city's largest employer. It seemed like the worst possible place and time to start an upscale coffee business. But Schultz saw something different: the opportunity to create a chain of European-style cafes in the United States. It was such a radical idea that his own partners in the business didn't embrace the idea, so he left to start his own business, then acquired Starbucks and its name.

Schultz created a phenomenally successful company, with more than 7,500 stores around the world and more than $4.4 billion in profit. In the process, he created an infrastructure to support this business, including rethinking store designs, offering extensive training and benefits to employees, and creating a global supply of coffee and even a new language (teaching customers to say "tall," "grande" and "venti"). Along the way, the company challenged many of its key assumptions about the business. They changed their original policy of not selling drinks with milk, created the very successful frappuccino, and set aside a firm policy of not franchising to open the way to global growth. They also added related merchandise and wireless Internet service.

As Schultz writes in his autobiography, *Pour Your Heart Into It*, success in life is "seeing what other people don't see, and pursuing that vision no matter who tells you not to."

Step 3: Overcome Inhibitors to Change

Your own mind is not the only one that matters. In the process of managing and developing a relevant mental-models portfolio, you will inevitably encounter obstacles to actually changing them. How do you overcome them to implement a new model?

Dismantle the old order. Like the smoker who has developed breaks and routines around the habit, or the missile silos of the Cold War, changing a mental model also requires dismantling the habits and infrastructure of investments that support it. These aspects of the old order need to be recognized and dismantled to make way for the new.

You can apply a variety of strategies to accomplish this, including using dashboards to change metrics and make the information transparent, aligning incentives and, when possible, beating "swords into plowshares" by transforming the infrastructure of the old order into a new one.

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Step 3: Overcome Inhibitors to Change

(continued from page 6)

Small Victories

Hard analysis and measurement, and small victories, can often drive this process of change. For example, in the crusade by Mayor Rudolph Giuliani and Police Commissioner William Bratton against New York City crime, they changed measurement and reporting, creating a dashboard to track key metrics in real time and holding people accountable for results. Metrics were reviewed in a weekly forum to share information and experiences. They also created a zero-tolerance policy for petty crimes that had been overlooked, and focused on prevention, which changed public attitudes toward crime and built momentum for other changes. The crime rate in the city fell six times faster than the national average from 1993 to 1994.

Common Ground

Find common ground to bridge adaptive disconnects. The people around you don't change their mental models at the same rate as you. We can see adaptive disconnects between the developed and developing world, or between finance and marketing in organizations. You need to recognize these gaps and use strategies such as interpreters to bridge these adaptive disconnects.

Among the ways to avoid disconnects in your own thinking are keeping an open mind by compartmentalizing, drawing on a portfolio of models, paying attention to what other people are saying about you, and avoiding rigid positions or fundamentalism. Among the ways to bridge the gaps with others who have different mental models are creating a dialogue, focusing on utility to move away from dogma, changing the culture, and precipitating a crisis to galvanize the group to action. Companies can also look for "boundary spanners" who understand both models and can create a link between the groups. ■

Step 4: Transform Your World

How can you quickly and effectively exploit your new mental models to transform your world?

Develop and refine your intuition. Intuition based on deep expertise and applied judiciously can be a powerful way of recognizing and accessing a new mental model. You often cannot analyze your way into a new mental model. New insights and transformation in thinking come from what Einstein described as "a feeling in your fingers." Intuition is a powerful and efficient way to access and apply your mental models, or discover new ones. You do need to ensure that your intuition is refined to reflect the current reality and recognize that it may make it harder to communicate your insights to others.

Oprah: Rethinking The Talk Show

When Oprah Winfrey went up against reigning talk show host Phil Donahue in the mid 1980s, she completely changed the formula. Instead of Donahue's detached style of a reporter, Oprah met the audience as friends, sharing her own personal life experiences. Through the power of her personality, she made the medium more intimate, launching a nearly two-decade reign as the Queen of Talk. She transformed thinking in her industry and the lives of some 23 million viewers in more than 100 countries.

She went on to challenge thinking in book publishing and literary fiction, filmmaking and philanthropy. As she said during one of her live road shows, "If you're open to the possibilities, your life gets grander, bigger, bolder!" How can you use your own life experiences to shake up the models in your industry or transform your life?

Test Intuition

While intuition can quickly access and apply models, we need to continue to test our intuition to make sure it is relevant. Intuition should be based on experience and expertise. We also need to be aware that decisions made based on "gut" may be much more difficult to communicate to others, which can slow the process of change.

Transform your actions. To be effective in recognizing and transforming your mental models, you need practice in applying new models to business, personal and societal decisions. Every decision you encounter — your own and those of others — offers an opportunity to identify models and explore ways to apply new ones. Through practice in considering and applying mental models, you can develop facility in recognizing and transforming your models, thinking and actions.

Impossible thinkers in diverse areas, such as Howard Schultz (see box on previous page), Oprah Winfrey (see box above) and Andy Grove (see box on next page), have transformed thinking in their industries and created powerful new opportunities. What untapped opportunities are right in front of you that you cannot see because of the limits of your own mental models? How could you transform these models? ■

Putting Models to Work

As an example of how to apply these insights in your own life, consider the mental models that shape your approach to health and wellness. There are Eastern models, such as acupuncture or herbal medicine, and

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Putting Models to Work

(continued from page 7)

Western ones, such as pharmaceuticals and surgery. There is a focus on treatment versus a focus on prevention and wellness. And there is a constant flow of information about different strategies for diet and health. The mental models we choose could have a direct impact on our health. How can we improve our capacity for "healthy thinking"?

We need to actively seek out and explore new models and create a portfolio of approaches to health, combining diet, exercise and vitamins, along with medical and surgical treatments if necessary. Within Western medicine itself, we need to draw upon insights from different specialties, as the Mayo Clinic does in assembling interdisciplinary teams of physicians to assess patients. We need to sift through the complexity of the constantly changing fads and studies about various foods (such as reports that French fries were carcinogenic).

By zooming in and out we can appreciate the true implications of various studies and put them in their proper context. We also need to understand our own models that shape our thinking, from our upbringing, education and experience, and conduct our own experiments to see what works in our own lives. Finally, we need to recognize the structures and habits that reinforce our old models and work to change eating and exercise patterns. Many diets address this challenge by creating social systems and mentors to support new behaviors.

Making Sense in Business

The models you adopt shape how you approach decisions not only about personal life, but also about business as well. For example, what can we learn about mental models from the dot-com bubble and its aftermath? Here are a few lessons:

- **Understand your models.** Carefully and rigorously examine the strengths and weaknesses of either the old or new models.
- **Know when to switch horses.** Don't get swept away by fads. With all the media hype about the Internet and all the investment dollars flowing in, it was hard to think rationally. Look at the potential risks and rewards of sticking with your current mental models or changing them to embrace new technologies and opportunities.
- **Recognize that paradigm shifts are a two-way street.** Look at the value of the old mental models in the new e-business world.
- **See a new way of seeing.** Look at the emerging opportunities in the online world and explore how you can tap into these developments and use them to rethink your business models and underlying mental models.
- **Sift sense from streams of complexity.** Explore the new areas of technology development and application on the horizon, and how you can discover them and recognize their potential to change mental and business models.
- **Engage in experiments.** Learn from post-mortems of natural experiments of your company and other firms in using the Internet. What new experiments can you design?
- **Bridge adaptive disconnects.** How can you bring technology leaders and business leaders together to understand the business implications of new technologies?
- **Consider the infrastructure.** Examine the investments, structures and processes of your current business to find out what makes it hard for you to embrace new technologies and new mental models.
- **Trust your intuition — but gain the experience to change it.** What does your intuition tell you about how you should use the Internet and other technologies? Decide whether you can trust your current intuition and how you can refine your intuition through new experiences.

What are the models that shape your thinking and actions in other areas of your personal life, professional life, or in addressing broader societal issues? How can you challenge these models? The world is more flexible than you might think. If you are able to change your thinking, you might find opportunities to think — and do — the impossible. ■

Intel: Discovering a New World Of Computing

Intel's Andy Grove reinvented the company several times throughout its history. He recognized what he called "strategic inflection points," where a new strategy and mental model was needed. During the 1980s, Intel made the courageous decision to abandon its core business of semiconductor dynamic memory to international rivals. The company shifted its focus to personal computer chips. Although Grove was trained as an engineer, the company used the marketing innovation of "Intel Inside" branding to recognize the value of chips hidden inside the PC. These strategies helped Intel dominate the world's microcomputer industry with a market share exceeding 90 percent.

Grove has likened strategic inflections to "a mental map of the New World," where the territory may be unknown but the need for a shift in thinking and action is recognized. He argues that these inflection points can be found in businesses outside of high technology and even in one's career, where one sees the need to change horses. Are you recognizing the strategic inflection points that require a shift in your own thinking?

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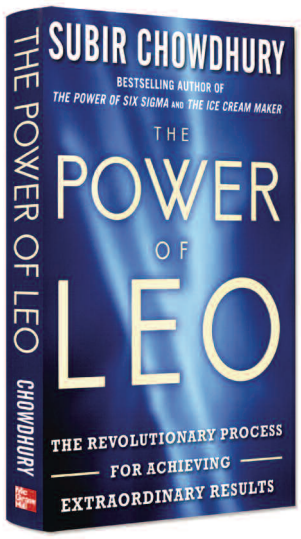
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The Power of LEO

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The Power of LEO

The Revolutionary Process for Achieving Extraordinary Results



by Subir Chowdhury

THE SUMMARY IN BRIEF

Hailed as "the Quality Prophet" by *BusinessWeek*, Subir Chowdhury is the long-established global authority on the critical importance of quality and how to achieve it with Design for Six Sigma (DFSS). Now, he takes it to the next level by showing you how to build quality into the DNA of your entire organization.

In his best-selling book *The Ice Cream Maker*, Chowdhury introduced his next-generation management system — LEO. In *The Power of LEO*, he describes how continuous focus on quality improvement can revolutionize any process — from manufacturing operations to managerial decision making. The secret is to stop delegating the responsibility of quality to specific teams or departments and permanently lodge it within the core of an organization's culture.

Chowdhury's profoundly simple, yet extraordinarily effective, management system is based on three basic principles: Listen, Enrich and Optimize.

Quality methodologies like Six Sigma and Lean can be highly effective but are used narrowly and by limited personnel within an organization. LEO is the encompassing strategy that can be easily embraced by everyone within an organization, resulting in measurable improvements in your operations, products and bottom line.

IN THIS SUMMARY, YOU WILL LEARN:

- How to seek input from all stakeholders within your organization, from suppliers to employees to customers.
- How to create new ideas for improvement and solutions for problems using simple techniques.
- How to select the best improvement idea or solution, subject it to testing in the real world and correct all shortcomings.
- How to make quality a way of life.

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THE COMPLETE SUMMARY: **THE POWER OF LEO**

by Subir Chowdhury

The author: Subir Chowdhury is the author of 13 books, including the international best-sellers *The Power of Six Sigma* and *The Ice Cream Maker*. As chairman and CEO of ASI Consulting Group (www.asiusa.com), he advises CEOs and senior leaders of Fortune 100 companies and in private and public sectors all over the world, helping them make "quality" a part of their business culture. In 2009, the U.S. Department of Homeland Security presented him with the Outstanding American by Choice Award.

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Introducing LEO

In 2003, the chief executive of a large East Coast hospital invited me to meet with him and his leadership team. "We have a problem," he began. The organization had gone through weeks of training in Six Sigma with the goal of trimming waste and boosting efficiency. But six months later, the results were meager. He wanted to know if I could help.

In the course of our talk, I asked each of the six executives what I thought was a simple question: "You learned a lot of tool sets during your training, so tell me what percentage of them you've been able to apply in your work." The answers shook me. "Fifty percent," said the chief medical officer. "Thirty percent," said the chief financial officer. All six of them had the same basic response: a huge chunk of the Six Sigma tools they had spent so much time learning was simply inappropriate to their needs.

It's ironic in a way. At a time in history when we have an abundance of impressive management tools to help us seriously ratchet up performance, most of us have made only marginal gains. Lean manufacturing, reengineering, Total Quality Management, Six Sigma: on and on the list goes. A handful of inspired leaders — Jack Welch of General Electric comes to mind — have made the most of these tools. But many companies have invested huge amounts of time, energy and cash in them without significantly improving the quality of their operations.

After the meeting with the hospital leaders, I called my own team together. Now I was the one saying, "We have a problem." Like the rest of the management community, we had been automatically introducing the whole gamut of Six Sigma and other management tools into companies without having an in-depth understanding of the companies' goals, their cultures or their core strengths and weaknesses. "We have to change," I said. "We have to start tailoring the tools to fit each company's circumstances." No more cookie-cutter presentations for us.

Listen, Enrich and Optimize

That was when we began to develop the management approach that we now call LEO, for Listen, Enrich and Optimize, and we have spent all the years since then putting it to the test in one organization after another. It has passed with flying colors because LEO is not simply another management tool; rather, it is an overall methodology that makes it possible to apply management tools to maximum advantage. In other words, LEO represents a new mindset, a transformational way to think about the decisions that managers on every level make and the actions that they take. It is a system devised to help companies dramatically improve their performance, to make quality part of their corporate DNA. When I go to visit a company today, I explain the LEO strategy. I assure the leaders that whatever suggestions we make and whatever management tools we employ will be geared precisely to their company's special needs and particular makeup. If they follow the LEO methodology, they will achieve a major, measurable increase in the quality of their operations, their products and their bottom line.

Here are the basic elements of the LEO strategy:

- **LISTEN: Observe and Understand.** To obtain a deep comprehension of the issue at hand, put

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Amanda Langen**, Graphic Designer; **Chris Lauer**, Contributing Editor

aside past assumptions and interact directly with all relevant parties — specifically including customers, suppliers and employees. Add to your findings whatever relevant data can be uncovered.

- **ENRICH: Explore and Discover.** Based upon the information you have gathered, reach out to all relevant parties for ideas and possible solutions. The wider you cast your net, the more likely it is that you will move beyond the usual suspects to discover new and better answers.
- **OPTIMIZE: Improve and Perfect.** Examine the solutions you have found and select the best. Subject it to every kind of challenge it might conceivably encounter, and correct any and all possible shortcomings.

By rigorously and consistently using one or all of the LEO guidelines, we have seen companies achieve higher levels of performance, thereby measurably enhancing their products, services and finances. That's because LEO can find answers to the questions that plague managers everywhere: Why are my sales dropping off? How do I reduce high turnover? How can I match my competitor's price? Why is my new product pipeline empty? In the final analysis, though, the answers to these questions boil down to one word: quality.

The unending pursuit of quality, of perfection, is the single most important action any individual or organization can take to resolve problems and achieve goals.

The Four Cornerstones

For organizations that make a major commitment to LEO, their success will be determined in large measure by the level of their commitment to four basic principles. We call them cornerstones because the more closely you abide by them, the more your total LEO experience will align with your expectations.

The attitudes expressed in the four cornerstones are not arbitrary; they are carefully considered and essential elements of the LEO approach. Once they are embedded in any organization's culture, its quality will soar.

1. Quality Is My Responsibility. The pursuit of quality must be a personal responsibility, reflected in every aspect of your work.

2. All the People, All the Time. There is no way a company can attain quality without the dedication of the whole universe of its stakeholders — every supplier and distributor as well as every manager and front-line worker. The quality mission belongs to all the people, all the time.

3. An I-Can-Do-It Mindset. In a LEO deployment, management needs to build up employees' confidence in themselves and their readiness to take part in the quality transformation.

4. No One Size Fits All. A LEO deployment recognizes the absolute necessity of tailoring solutions to the specific needs of the particular company. ●

LEO at Work

All across the world, it seems, nature is on a rampage. Earthquakes, tsunamis and tornadoes have been creating havoc. When the rubble is cleared away, many residents are determined to return and rebuild. We have worked with a foundation that helps make that happen.

When we first volunteered to help this foundation in May 2009, we explained that we would be using our LEO system and asked to take on the organization's most difficult management problem. The most pressing need, we were told, was to find ways to improve the way the foundation gathered data on all of its activities.

I remember arriving at the foundation's headquarters that August. On a tour of the most hard-hit area, I was shown hundreds of concrete slabs — all that remained of the old homes. I also saw the dozen or so new homes that the foundation had put up — a disappointing number, since it was so far short of its goal of 250. We were determined to help speed up the pace.

Listen

In so many companies, the leaders dedicate themselves to collecting data associated with a problem without asking "why" and "how" questions about the process behind that data. Then they deploy one or another time-consuming, costly management tool in an effort to solve the problem.

In the course of our study of the foundation's "acquired lots" process in the rebuilding, we uncovered the bottleneck. The problem was centered in two subprocesses: "Identify potential lots for purchase within the target area" and "find out whether a purchase is in fact feasible." The processes were fairly complex.

Ownership had to be determined and the owners found — no small matter given the exodus following the disaster. The zoning stats had to be checked, along with any mortgages, taxes due or other liens on the property. Owners had to be interviewed to find out whether they wanted to live on the lot with a new home, wanted to sell the property to the foundation or simply had no interest in the whole project.

Enrich

With full knowledge of the situation on the ground, we had the basis for developing a solution. We made a list of all the tasks in the "acquire lots" process. Then we sat down with the CEO and three of his aides and gradually, over hours, tried to put all of those tasks into a logical, step-by-step sequence. There was debate within the room, occasionally heated, over many items, but when the working session was over, all parties were pleased with the result.

Optimize

Once the various elements of the solution had been identified, they were subjected to a rigorous examination to make sure the process would continue to function under unexpected but not impossible circumstances — a power failure, for example. The goal, after all, was not just to put out a fire but also to prevent it from happening again.

In designing LEO, we selected three general areas of corporate activity where potential quality resides and where the Listen, Enrich and Optimize functions could be most effectively applied. The three areas are *Fire*, *Flow* and *Future*. *Fire* refers to a specific, often sudden problem in any area of the organization. *Flow* speaks to the operations side of the company. And *Future* covers new products and services. ●

Putting Out Fires

In a chocolate and jelly bean plant we were called to tour, chocolate makes up 75 percent of the production, but in terms of profit margins, the two are equal. In fact, the market for the company's jelly beans has so outstripped the plant's capacity that 12 percent of total production, worth $5 million, has had to be outsourced.

The Listen phase started with a survey of the chocolate and jelly bean operations to sort out problems and identify the most costly fire. After looking over the data and talking with management, we focused on the jelly bean operation. Not that fires were lacking on the chocolate side, but they paled in comparison to the opportunities in jelly beans.

From conversations with management and front-line people, we learned about three main problem areas in jelly bean production:

1. **Too much waste scrap**
2. **Insufficient output**
3. **Overweight packages**

When we compared the financial data for the three areas, our optimum target became obvious. Trimming the weight of the packages could save $1 million a year, while solving the other two issues could yield a total of only $400,000.

What we found in the overweight bags was an inordinate number of underweight beans. Because of those lightweights, the machine was tossing an extra bucketful of beans into a substantial number of bags, pushing their weight as high as 5 ounces.

We could now redefine our immediate goal. It became, "Reduce/eliminate the production of underweight jelly beans." We had moved from "overweight packaging" to "underweight product." With that accomplished, we were ready to initiate the Enrich phase of LEO.

Finding a Fire's Flash Point

Our next move was to study the dispensing of cornstarch. That's where we hit pay dirt.

When we studied the dumping process, we saw that the cornstarch fell only about 18 inches before hitting the tray. But the flow of the starch was disrupted by a crossbeam that was part of the mogul's structural support. Across the top of the beam was a thick deposit of starch, something like the buildup of snow on a picket fence. The location of the beam matched the area of the trays where the underweight bean centers were found.

We concluded that the crossbeam reduced the amount of cornstarch laid down in those areas, preventing the formation of normal molds and thus of full-weight bean centers.

Fire Prevention

Moving from the Enrich phase of LEO, we proposed steps that would both put out the fire and prevent its recurrence.

Once the crossbeam was replaced by four new supports in the corners of the mogul, at a cost of $25,000, we tested the new arrangement. This time, the patterns of variation seen during the days of the crossbeam were absent. Once these changes were put in place, the benefits to the company proved to be far greater than the expected $1 million in savings. When the glob problem vanished, there was no longer any need to shut down the plant each year for cleaning, and there were no more empty trays being sent through the system by the operator-inspector. All told, the LEO deployment increased the productive capacity of the plant by a substantial 15 percent, which made it possible for the company to stop outsourcing the $5 million of production and bring it back in-house. ●

Fixing the Flow

Imagine what it would be like if you went to work one morning, sat down at your desk and everything went perfectly — no complaints, no recalls, no slip-ups, not a single problem. You would probably be bored out of your skull, but not to worry: No organization — and no process within that organization — is ever going to run perfectly.

I remember overhearing a woman and her friend talking about their children's grades at school. "I don't expect Jimmy to get 100 in every class," the woman was saying. Her friend nodded approvingly. Then the woman continued, "As long as he gets 95."

She didn't expect perfection, but she did expect that her son would never stop striving for it. And that's not so far from the underlying principle of the LEO approach. It assumes that every process could — and should — run more and more smoothly. Continuous quality improvement is the goal.

There are three basic conditions that help to explain why processes tend to run amok:

- **Unreasonable work.** You're told to complete 700 assemblies this shift when four people — a fifth of your crew — are missing and your normal production goal, fully staffed, is 650 assemblies. Or you're told you have to make the company's services best in class, but the company doesn't even measure service quality. Or you're told that you have to greet every person coming into the store as if he or she were your best friend, this toward the end of a double shift that you're working because a colleague caught the flu.
- **Uneven work.** You have eight meetings on Monday, two on Tuesday, none on Wednesday, six on Thursday and seven on Friday — and that's just this week. There's no way you can schedule your work and get it done in eight hours when your schedule is constantly being messed around with. So you work 12 hours and the next day you begin to fade in the afternoon.
- **Unnecessary work.** You spend hours of every day looking for lost files on your computer system ... or waiting until somebody else finishes using the printer ... or waiting for a meeting to start ... or redoing a chart that you've already redone twice. The sign of unnecessary work: Everyone's always busy, but everyone's falling behind.

LEO helps companies find ways to treat these conditions on a continuing, sustainable basis. The object is not to achieve perfection, but to keep moving toward it.

What Engineers Don't Know

During LEO Future projects, companies develop new products or services, or improve existing ones. The Listen, Enrich and Optimize stages are all pursued, with greater or lesser emphasis on one or another, depending upon the project and the organization. Though the ultimate goal of Fire and Flow projects is to provide value to the customer, they are concerned with the processes that deliver existing products. Future projects require a different, more foward-looking mindset and a direct, structured connection with those external stakeholders called "customers."

Commanding the Future

On a sun-filled September weekend, a dozen product development engineers set out on an unlikely mission. They were to spend the two days interviewing and riding around with local car owners at a shopping center in Oakbrook, Ill., a suburb of Chicago. Over the next month, two more groups of engineers from the same organization undertook a similar assignment in San Diego, Calif. and Birmingham, Ala. Their company was in the early stages of planning for a new midsize, five-passenger sedan, and the engineers had been assigned to find out what potential customers actually thought about and how they experienced their cars.

All weekend long, two-person teams in Oakbrook interviewed and drove with the car owners. They made copious notes about every detail of the encounters — not just what was said, but how the owners interacted with their cars. When an owner frowned as he stopped at a red light, an explanation was sought. "It's a small thing," the owner said, "but I just had my brakes serviced, and I still get that squeal when I come to a full stop." The complaint was carefully noted.

Gaining a Firsthand Understanding

This assignment was not something that the engineers had done before. In fact, that was the point of the exercise. It addressed a serious, seldom-asked question: How can engineers design a new product that truly speaks to the needs and wants of customers without a firsthand understanding of those needs and wants? The question had not been considered through all the earlier generations of the company's vehicles.

The shopping-center encounters signaled the start of the Listen phase of the LEO Future deployment. After gathering the information, the company proceeded, over the next 18 months, to apply the LEO philosophy and

tools to the development of a new passenger car that has since won major critical acclaim. ●

Listening Hard

Listening in LEO is not a rigid, step-by-step technique for finding out what customers want or need. In fact, there is no strict methodology that can possibly be successfully applied to the infinite variations of a customer's experience and desires. Each organization is unique in terms of its products and processes, and the way it interacts with and is perceived by its customers.

Listen is, like every aspect of LEO, eclectic — tailored to the particular company and its particular customers. And those customers may not be the folks who are buying the company's products. They may be internal customers — the people working in the call center who are making an unusual number of errors, or suppliers — the people who no longer answer your calls because they lose money trying to cope with your unreliable requests for bids.

Fire, Flow or Future

In a LEO deployment, you may be listening in order to find a new service for existing customers ... or to improve a current product ... or to reduce the amount of scrap and rework in your plant ... or to deal with any of a dozen concerns that come under the heading of Fire, Flow or Future.

Companies typically rely on marketers and customer service people to find out what customers want and don't want. The marketers conduct surveys and focus groups. They connect with customers and potential customers on company websites, on Facebook and via Twitter. The customer service department records customers' comments and complaints as expressed in e-mails and phone calls. There is no question, the information gathered in this way is vitally important and should be part of any company's product planning.

Meanwhile, line managers are constantly monitoring their areas, whether they're in Production or Accounting, and they provide company leaders with essential information about these operations.

But when serious problems arise in the sales or operations areas, or when a new or improved product is required, these sources of information are not enough. Management needs a better comprehension of the situation, one that is both broader and more intimate — broader because the particular situation must be understood in the context of the organization as a whole, and more intimate because the best solutions emerge only from in-depth knowledge of the circumstances and the people involved.

LEO is dedicated to the proposition that the most efficient, profitable strategy calls for the conversion of customer needs and wishes into specific corporate goals. The Listen stage delivers the raw material for that conversion. ●

Enriching the Product

In the Listen phase, the emphasis is on pinpointing the customer's real needs and the real nature of the problem. In the Enrich phase, the search is on for the best solution. The Enrich phase makes products and processes better — it enriches them by introducing greater quality and it also tends to enrich the owners of the organizations that utilize this phase of the LEO process.

Endgame

For company leaders, the Enrich phase requires a new mindset. After you have passed through the Listen stage, your horizons are open wide to possibilities that you had not seen before. But finding the right one for now, the idea that will achieve your immediate goal, requires that you alter your mental approach.

To get the most out of the Enrich process, you need to embrace change and the idea that what you have now and what you have done up to this point simply isn't good enough. That's not so easy for anyone, and especially for executives whose every move is studied, analyzed and critiqued by everyone else in the organization.

But there is a powerful message delivered to everyone when you sign on for change. It goes something like this: "Our company has to move beyond the status quo and adopt continuous improvement as our central strategy. And that goes for everyone in the company — including me!"

That's the attitude that a LEO deployment in general, and the Enrich phase in particular, calls for. It's the quality mindset. ●

LEO's Commitment to Continuous Improvement

The Enrich phase reflects LEO's commitment to continuous improvement, to the unending effort to achieve greater quality. Yes, the search for a solution to a problem must come to an end after a reasonable length of time and some decision must be reached. But management should not be too easily or too quickly satisfied with the search results. LEO subscribes to the belief that there is always a better, yet-to-be-discovered alternative.

Don't Compromise; Optimize!

His son was off at school, and Philip Stanhope, better known as Lord Chesterfield, an 18th-century British statesman, sent him a series of letters whose wit and wisdom have stood the test of time. This is one of my favorites of his advice: "Aim at perfection in everything, though in most things it is unattainable. However, they who aim at it, and persevere, will come much nearer to it than those whose laziness and despondency make them give it up as unattainable."

As Lord Chesterfield suggests, there are two basic ways of thinking about perfection. Either it is the absolute best that anyone or anything is or could possibly be, or it is that which most closely approaches that state at any given moment. Generations of philosophers have argued that any perfect world would have to leave room for improvement.

LEO is dedicated to that second idea, to the goal of continuous improvement as a corporate strategy. And nothing so clearly demonstrates that dedication as LEO's third leg, the Optimize phase. After all, it takes place, chronologically, after a team has come up with a method to put out the fire, or a solution to a flow problem or a new product design. Essentially, Optimize says to a company or organization, "Congratulations! You've come a long way. Now, let's go all the way and make things even better."

Continuous Improvement

That is not always a popular position. The temptation to stop after the Enrich phase, to take the solution and run with it, can be hard to resist. It seems so natural to breathe a sigh of relief once you have a way to remove the immediate difficulty and simply apply the remedy — and forget the whole thing. Why delay for a second? Why spend more time and money trying to come up with a better answer? Why worry about the future when you feel you have barely enough time, energy and resources to take care of the present?

The various answers to those questions all boil down to one word: *quality*. If you want to turn out high-quality products or services — the kind that will truly delight your existing customers and attract new ones — you need to keep raising the bar on quality. You need to keep straining toward perfection.

An All-Out LEO Deployment

The CEO wanted to change his company's whole culture to make it more customer-centric and he knew that Six Sigma could help in that regard. But there were a couple of problems. "To start with," he said, "I'm not Jack Welch. Aside from that, my people's knowledge level just isn't high enough for them to handle Six Sigma. It's too complicated."

Eventually, he turned to me with a question: "Do you know of any way to work a real, lasting culture change that's not so hard to get your arms around, that's not so technical?" I did.

Several months later, the CEO and I signed a contract for a full-dress LEO deployment at his company. We promised that the deployment would transform the corporate culture, given the full support of the project by him and his top aides. We also promised that, based upon our studies of the performance of the manufacturing plants, the organization would realize a savings of at least $85 million within 18 months.

As it happened, the company involved operated 12 plants with 20,000 employees, but one of the most important things to know about the LEO approach is this: It can be tailored to the needs and circumstances of virtually any company of any size, whether it be product- or service-oriented, profit or nonprofit. It can work as a full monty deployment for the entire organization, or on an in-and-out basis to cope with a single problem — or anywhere in between. And it is designed to aid company leaders in meeting their goals while raising shareholder value by reducing costs, lifting revenues and increasing profitability.

In that first conversation with the CEO, I asked him whether he was willing to learn the LEO system and personally lead the deployment. I also listed the four key aspects of a full-scale LEO deployment that he and his top executives would be responsible for:

1. **Commitment.** Become active, knowledgeable participants in the planning stage, strong advocates for the LEO approach and partners in the LEO deployment itself.
2. **Consistency.** Closely monitor the progress of the deployment to make sure that its goals and procedures are honored, and that personnel and financial resources are available as needed.
3. **Competency.** See to it that the training programs, including the individual LEO projects, are producing leaders who can maintain the LEO system post-deployment. Establish an environment of trust and patience during the deployment.
4. **Communication.** Use every means available, from the intranet to town hall meetings to personal workplace visits, to express your commit-

ment to LEO and to spread word of the deployment's progress. Foster two-way communication to elicit feedback, good and bad, concerning the deployment. ●

The Quality Mindset

For a LEO project to succeed, it must have the support of the company's leaders, managers and front-line people who are directly involved in the effort. But something more is required if LEO is to transform the company, allowing it to achieve unprecedented growth, profitability and overall quality. It requires that the individual people within the company, leaders and frontline employees alike, acquire a high-quality mindset.

That same equation applies to any world-class organization. Just consider what has happened to Toyota in recent years. For decades, the company was the very definition of world class — individual quality wed to process quality. In 2008, it passed General Motors to become the world's leading carmaker. But within a year, its reputation and its sales were in tatters.

Battered by reports of crashes of its cars as a result of unintended acceleration, Toyota recalled 3.8 million Lexus and Toyota vehicles late in 2009 — its largest recall ever. But that was just the beginning. The total was to rise to more than 11 million before 2010 was over, all because of high-speed incidents, including a fatal crash related to acceleration.

The company's process quality had clearly fallen, and it soon became obvious that there were problems with its people quality as well. After the first recall, the *New York Times* noted: "Toyota faced questions over whether it fixed potentially dangerous defects in new models without recalling those already on the road." The U.S. Transportation Department levied three maximum fines on the company for a total of $48.8 million.

"We now have proof that Toyota failed to live up to its legal obligations," said Transportation Secretary Ray LaHood. "Worse yet, they knowingly hid a dangerous defect for months from U.S. officials and did not take action to protect millions of drivers and their families."

The company's president, Akio Toyoda, apologized profusely. Seeking an explanation for Toyota's malaise, he spoke of a growth rate that "may have been too quick," suggesting that because of this, "priorities became confused." In other words, among those leading the company, profit was given a higher priority than performance. Profit trumped quality.

The kind of dishonesty described by LaHood — any dishonesty, for that matter — drives out individual quality. The LEO system is based upon honest data. If the information gathered in the Listen phase of a LEO project is false or misleading, for example, the project will fail.

For much the same reason, high-quality leaders understand how important honesty is to their success and to the success of their organization.

A State of Mind

"There is one thing I have learned that will help me if I apply it in my life," wrote one student. "That one thing is called LEO." Another excerpt: "Listen is the key when it comes down to anything."

When LEO was devised, it was intended to be of value to managers in trouble, not troubled youngsters. But the basic ideas behind LEO are simple and applicable in everyday life. They provide a template for intelligent, organized, data-based decision making in any circumstances.

I remember those letters when I considered how I might, as an individual, make things better in America, as well as globally. They helped in my decision to establish *Global Quality Awareness*, as it's known, which calls upon people to "Practice Individual Quality. Inspire Global Change." And the words of LEO that you have read so often in these pages now serve a broader purpose: Listen hard to others and to yourself; Enrich the lives around you by giving a little more every day; Optimize everything you do by setting your mind to excellence.

I believe that the LEO focus on individual quality that has worked so well for so many companies can also work for individuals and have positive effects on nations as well. The pursuit of excellence, and the commitment to quality, will set us on the path toward a brighter future. Dr. Seuss had it right:

> *Unless someone like you cares a whole awful lot,*
> *Nothing is going to get better. It's not.* ●

RECOMMENDED READING LIST

If you liked *The Power of LEO*, you'll also like:

1. ***Bury My Heart at Conference Room B* by Stan Slap.** Slap helps executives ignite the power of any manager's emotional commitment to the company.
2. ***Change the Culture, Change the Game* by Roger Connors and Tom Smith.** Learn how to build a culture of accountability in your organization through the Results Pyramid: Experiences, Beliefs, Actions and Results.
3. ***Managing* by Henry Mintzberg.** Classic Mintzberg: iconoclastic, irreverent, carefully researched, myth-breaking, *Managing* reveals what managers do, how they do it, and how they can do it better.

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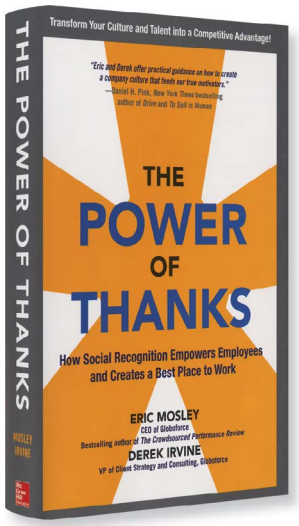
The Power of Thanks

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The Power of Thanks

How Social Recognition Empowers Employees and Creates a Best Place to Work



by Eric Mosley and Derek Irvine

THE SUMMARY IN BRIEF

Building a fully engaged, energized workforce is the key to business success. *The Power of Thanks* reveals how leading companies empower employees through social recognition, in which the practice of mutual appreciation and trust directs and rewards higher performance.

Eric Mosley and Derek Irvine, executives at the world-renowned employee-recognition firm Globoforce, explain why social recognition is so powerful and how you can apply it in your company. They show how a carefully planned and consistently executed Culture of Recognition business strategy inspires greater employee engagement and loyalty; stronger, more unified teams and departments; a creative, innovative company culture; improved customer satisfaction; and increased profitability and organizational health. Mosley and Irvine provide practical advice and proven examples for devising a powerful, growth-generating strategy that modernizes employee recognition for today's social, global, multi-generational and 24x7-wired workforce.

When employees participate in a culture that makes everyone a stakeholder in the organization's success, positive energy spreads like wildfire, and business results follow. Something so simple and powerful might work like magic, but it's really just common sense. It's smart management. It's long-term thinking. It's The Power of Thanks.

IN THIS SUMMARY, YOU WILL LEARN:

- Why culture is central to business success today.
- The difference between social recognition and other forms of appreciation.
- How social recognition creates happier employees and drives ROI and business results.

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THE COMPLETE SUMMARY: **THE POWER OF THANKS**

by Eric Mosley and Derek Irvine

The authors: Eric Mosley is the cofounder and CEO of Globoforce. As a recognized industry leader, he has personally advised some of the largest and most admired companies in the world. As Vice President, Client Strategy and Consulting at Globoforce, Derek Irvine leads the company's strategy and consulting division. He helps clients leverage proven recognition strategies and best practices to elevate employee engagement, increase retention and improve bottom-line results. *The Power of Thanks: How Social Recognition Empowers Employees and Creates a Best Place to Work* by Eric Mosley and Derek Irvine. Copyright ©2014 by Globoforce Limited. Summarized by arrangement with the publisher, McGraw-Hill. 240 pages, $25.00, ISBN 978-0-07-183840-5. Summary Copyright © 2015 by Soundview Executive Book Summaries®. www.summary.com, 1-800-SUMMARY. For more information about the authors visit powerofthanksbook.com.

PART I: UNDERSTANDING ORGANIZATIONAL CULTURE

The Rise of Company Culture

The traditional model of employee loyalty rewarded by lifetime employment is long gone. The traditional method of top-down, command-driven productivity is also long gone. In their place, leading companies have discovered that company culture drives today's competitive advantage because it inspires the behaviors that create more value through work.

A distinctive company culture starts with a clear vision, but vision alone doesn't establish and sustain a culture. That happens when the values inherent in a vision inspire emotions that then drive new behaviors. The right behaviors drive change (the right behaviors *are* change — of the right kind). And when the new behaviors are encouraged, they affirm the vision that started the cycle.

It's the willingness to apply those values to everyday situations that drives a business vision forward. Values powered by emotions lead to behaviors that make change. And change affirms the vision and the values. It's a virtuous cycle.

What Is Culture?

Herb Kelleher, the legendary cofounder and chairman of Southwest Airlines, believed "Culture is what you do when people aren't looking." It's how employees behave when they step away from the power relationships in an organization and operate purely on instinct based on their own values. When those values are also shared with the organization, culture is nourished. Culture is nothing less than the aggregate of tens of thousands of interactions and decisions every day. Leaders of great companies reinforce their values by rewarding and celebrating the behaviors that express those values.

Creating a culture means choosing a limited number of values that define the company as surely as its products or logo do and then encouraging expression of those values in everyday behavior.

The CEO and HR set the task and the tone, but how can culture permeate the beliefs and behaviors of every person in an organization? There is only one way that is sustainable: The company can adopt the practice of *a culture of recognition*, in which every single employee is responsible for saying "Thanks!"— recognizing, celebrating, appreciating and promoting the desired cultural values.

You might call it an operating system for company culture — an enabling technology for proactive culture management. A culture of recognition is a set of beliefs, habits and values that affirm and drive all other values, actions and results of a company.

A culture of recognition engages, energizes and empowers employees; it can mean the difference between failure and success for companies in today's hypercompetitive marketplace.

The People-First Workplace

George Anders, a contributing editor at *Forbes*, notes that many of the fastest-growing jobs in the modern economy require a powerful sense of empathy. Empathy is the ability to put oneself in another's situation. Truly powerful empathy is the ability to understand and anticipate at a deep emotional level someone else's thoughts, feelings, perceptions, pleasures and displeasures.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **A. Imus**, Contributing Editor

Great HR managers have an automatic empathy, what psychologist Daniel Goleman called emotional intelligence. But it's not limited to HR managers. Great leaders in product design have an intuitive feel for how people will react to a dress pattern or the feel of a smartphone in the hand.

Silent empathy won't move a workforce. It must be expressed. The best way to express this is appreciation. At the most basic human level, recognizing effort and saying "thank you" has astonishing power to motivate others.

Payroll processing company ADP asked employees and HR directors in Great Britain, "Aside from pay, what motivates and engages you at work?" Fifty-nine percent replied, "Praise and recognition." That was by far the most important motivation after pay — more than employee benefits, clear paths for advancement, or even the flexibility to work where and when the employee wanted.

Why should praise and recognition — receiving thanks — be so motivating? In the context of the modern organization, giving and receiving thanks is a sophisticated form of communication in five ways:

- Thanks identify the right behaviors.
- Thanks are feedback. It tells employees they're on the right track.
- Thanks break through social and emotional barriers.
- Thanks create trust and social bonds.
- Thanks feel good.

The Positivity-Dominated Workplace

Positivity is the conviction that "it's up to me to make things turn out all right." Positivity looks at a business win and says, "We did this" and looks at a business loss and says, "We can turn this reversal into a chance to get better."

In the Positivity-Dominated Workplace, employees and managers are encouraging each other, learning from successes and failures, noticing and celebrating, and above all, recognizing the behaviors that embody company values and advance company goals.

Recognition matters because it reinforces the right actions, encouraging them to happen again and again, providing guidance and adding social value. Behaviors matter because in a workplace, behavior trumps intention. Engagement flows from people doing work they like well in a culture that appreciates and recognizes a job well done.

Two additional factors characterize the people-first workplace, from the mightiest global brands to the most successful small businesses. They are *authenticity* and *transparency*. Authenticity means people are living the same company culture that the CEO describes and that the HR department claims in job descriptions. Transparency is a relatively new quality of the workplace, accelerated by the Internet in general and social media in particular.

Because the reality of a workplace is now public information and a company's culture of whatever stripe must be authentic, the necessary task is to motivate people to celebrate and promote that authentic culture. This means focusing on things that create happiness and high morale so that a Positivity-Dominated Workplace can grow and thrive. That begins with understanding the power of giving and receiving appreciation.

Appreciation, Gratitude and Employee Engagement

While happiness at work makes people smarter, more engaged and more productive, people also have a similar but distinct need to achieve a sense of meaning in what they do. Happiness is about the self; feelings of meaning at work arise from the social context. The feeling that what you do has meaning beyond your own gratification is cultural. It is confirmed by satisfying a cultural set of values. In a society, it's noticed and confirmed by others. Meaning is associated with giving more than taking, with contributing to something bigger than oneself.

Assuming that it's good for employees to find meaning in their work, how can employers encourage that? What reinforces an employee's sense of belonging to something greater than him- or herself?

The answer is found in the social behavior of expressing appreciation and gratitude. The two go hand in hand: Appreciation means recognizing work well done. Gratitude is a bit more personal than appreciation — it means expressing thanks for a benefit one has received.

Appreciation and gratitude are powerful forces among employees because they satisfy the higher psychological needs of individuals and the higher social needs of groups. They confer meaning on actions because they show an action is either recognized as valuable (appreciated) or personally beneficial (gratitude) or both. This is a big deal in managing because it makes the workplace a source of meaning.

As appreciation builds a healthy culture, gratitude promotes a healthy workforce (and not just in terms of physical health). It's tempting to underestimate this simple truth about human beings: giving thanks benefits both giver and receiver.

Employee Engagement

Engagement is the HR hot topic of the decade. First, a definition: Engagement at work is the willingness to give discretionary effort to a job. It means voluntarily doing more than the minimum. It is an attitude confirmed by behavior. An engaged employee is aligned to strategy and committed to delivering on his or her goals as well as the strategic goals of the company. Engaged employees are important contributors to the company's culture and continually reinforce values that support the company mission as well as the bottom line.

The HR consultancy Towers Watson suggests that the way to sustain engagement is to see that a workforce is enabled (has an environment that supports productivity and performance with the right equipment, knowledge, help and other resources) and energized (has a sense of individual, physical, interpersonal and emotional well-being at work).

Empowerment and encouragement are additional factors that nurture and sustain engagement over the long run. Empowerment transfers the power to achieve results from the manager to the employee. Empowerment is the foundation of accountability — that is, delivering on commitments.

Encouragement costs practically nothing — a word, a bit of recognition, a gesture of appreciation or gratitude — yet it literally "gives courage" to an employee to act again, to go beyond the minimum, to break out of the sterile job requirements, to take risks, and to make the extra effort that defines engagement in the first place.

PART II: UNDERSTANDING SOCIAL RECOGNITION

Setting a Purpose and Vision

In the business classic *Good to Great: Why Some Companies Make the Leap … and Others Don't*, Jim Collins describes the "level 5 leader" as a frequently colorless public figure, yet one focused on many of the social mechanisms of an organization. His analysis shows the drawbacks of a heroic leader, including the obvious fact that an organization dependent on one person for its success gets in trouble when that person leaves, retires or dies. Great leaders, says Collins, live more often out of the public view but build behavior-based values like "facing the bad news" and a "culture of discipline" into their organizations' DNA.

Great leaders set a purpose and vision for a company by the goals they establish, the values they promote and the destination they describe. Then they empower the organization to build culture itself, guided by their vision. They hire people who will promote and demonstrate the right cultural values. They build and promote a social architecture that supports the culture they want.

Social Architecture

Social architecture is to culture what a foundation, beams and joists are to a building. Social architecture is found in a thousand small behaviors: communication, traditions, authority, privileges and "ways of doing things." Social architecture is useful because no manager can be everywhere, on every phone call, standing beside every employee whenever they're doing anything.

Three components of social architecture deserve special mention here: shared values, employee engagement and united execution create a high-performance culture. Social recognition is the link connecting all three.

Shared Values: Management teams spend countless hours concisely defining their company's values into a cultural vision that inspires employees to achieve strategic goals. Ideally, values should also differentiate a company from its competitors.

Unity matters. For a company's values to have an impact on employee behavior and performance, they must be understood in the same way by all employees regardless of position, division, geographic location or tenure with the company. The company's unique value set needs to be promoted, rewarded and propagated. Shared values are taught, retaught and honored when recognition draws attention to specific behaviors tied to a company value.

Engagement and Social Architecture: An engaged employee is a cornerstone of social architecture. If a spirit of innovation is a core cultural value, for example, then any time an employee suggests a new way of doing things, or a creative idea for a product or service, he or she is demonstrating that value. That's engagement — going beyond the letter of the job and promoting one value that makes up company culture. When others recognize, celebrate and appreciate individual acts of innovation, that value is reinforced socially.

United Execution: Ultimately, social architecture's value is to drive behaviors that support the company's mission and business goals. This requires united execution, which means that individuals function as a team, supporting each other's individual activities and goals as well as performing their own. Even if individuals share most company values and cultural beliefs, without united execution they risk error, mistrust and miscommunication.

With united execution, competition for rewards remains rule-bound and fair. People support and encourage each other because they understand that the larger goals they share benefit everyone.

Shared values, engaged employees and united execution can be a daily reality with a strong, supportive and inclusive social architecture. The tools that work best for building social architecture are the different forms of recognition.

The Evolution and Reinvention of Recognition

Today, recognition is a full-featured management practice. Like employer branding and financial management, it is a set of actions, rules and processes working together to achieve strategic goals. And like other management practices, recognition ranges from simple, tactical steps through enterprise-wide initiatives to long-term strategic practices. The progress of an organization from simple to sophisticated practice is the recognition journey.

Tactical Recognition: Tactical recognition focuses on the connection between a manager and an individual employee. The manager notices extra effort or good performance and recognizes it with an award and a personal message. "Catch them doing something good" is the slogan for this kind of recognition.

Enterprise Recognition: The second stage of the recognition journey is enterprise recognition, which means spreading the practice of tactical recognition across a company's different divisions and functions. Enterprise recognition, like enterprise financial management or procurement practices, establishes standard objectives, practices, ways and means to accomplish recognition's goals. Enterprise recognition makes recognition standard and scalable across big organizations, just as a purchasing department can standardize and scale the buying of office supplies.

Enterprise recognition falls short of recognition's true potential because it is layered onto a culture in the same manner as a benefit program. It stays in the human resources silo — a positive step forward, to be sure, but not answerable like other disciplines to management practices of measurement against goals. That represents a huge missed opportunity.

Strategic Recognition: Strategic recognition is the practice of integrating recognition with other management tools and practices, taking recognition beyond the HR domain and leveraging its power to shape behavior at all levels of the organization. Strategic recognition is the point at which the "soft" behaviors of recognition — which worked well at motivating employees — finally merge with the "hard" management practices of measurement, goal-setting, analysis and strategic execution. At this level, as with so many practices today, new value is realized by unlocking heretofore hidden data.

Technology initiatives and new product lines are supported with a sophisticated reporting protocol and tracking technology because they make a difference to the bottom line. Strategic recognition treats cultural performance with the same level of seriousness and support because it, too, makes a difference to the bottom line. Because tracking and monitoring tools are in place, practitioners use strategic recognition to manage the culture in detail.

Social Recognition: Social recognition is a new phenomenon made possible by the rise of Internet social technologies. It reaches beyond the manager or even the immediate hierarchical team to involve an individual's entire work circle — the people he or she interacts with on a regular basis, past colleagues who have moved to new positions in the organization, and anyone whom the individual wants to keep in touch with through the positive power of thanks.

Mobile recognition feeds the power of social recognition by ensuring the vast majority of employees, regardless of location or job type, can fully participate in the recognition program through their mobile devices (typically smartphones). The "access anywhere, anytime" availability of mobile today also helps ensure recognition moments are timely and occur very soon after the event deserving of recognition.

Insight: Insight is a term for the ultimate goal of the recognition journey, in which the practice of social recognition is integrated to all the talent-management practices beyond culture management. The key to insight is the capability of today's data-analysis technologies to record, interpret and make connections among the many activities labeled "talent management."

Social, Mobile and 24/7

If you feel buffeted by the pace of change in workforce management, fasten your seat belt. We're at the leading edge of four tectonic trends that are changing employee thinking, behavior and expectations at an ever-accelerating rate. The workforce is becoming more global, multigenerational, social and mobile. In a fifth trend, employers are borrowing from consumer technologies to design new systems of employee management.

Be mindful of these five trends as you consider a recognition solution, because they will change recognition and much more of your management tool kit in the near future.

Business Is Global. Is your organization multinational or global? The difference will predict how complicated a recognition solution will be. A multinational organization has locations or facilities in multiple countries, but each location functions in its own way, essentially as its own entity. A social recognition practice has to take cultural and economic differences into account to be equitable and effective.

Business Is Multigenerational. The Great Recession forced many baby boomers (born 1946–1964) to delay retirement around the time that 40 million members of the millennial generation (born 1980–2000) stepped into the workforce, squeezing Generation X (born 1965–1980) as that middle cohort advanced to their prime earning years. Today, as many as three generations work side by side as peers. Recognition acts as a unifier in a multigenerational workplace because it crosses lines of authority, seniority and social distance. A recognition moment confers respect and appreciation, which brings people together who might otherwise have a more remote workplace experience.

Business Is Social. We are social beings, and our workplaces are small societies. "Social business" means much more than social media. Work is interdependent, with all kinds of expertise needed at different stages of a project. As the workplace becomes more socially active in this sense, recognition reinforces the attitudes that facilitate cooperative work. As social sharing becomes more and more a part of how work gets done, recognition can encourage all to contribute.

Business Is Mobile. Another trend radically accelerated by technology is the recent shift toward mobile devices, chiefly smartphones and tablets. Social recognition among colleagues can — and should — be designed for use on mobile devices to increase participation. Employees should be able to share appreciation immediately, not waiting to get back to a desk, especially when that desk might be 1,000 miles away.

Business Is Borrowing Consumer Technologies. Today, consumer-centric design dominates. The reason is related to the global, multigenerational, social and mobile changes that are taking place: As the borderlines of time, space and behavior between "work" and "life" break down, businesses are more open to adapting consumer technologies and habits to the workplace. At the leading edge of consumer-centric design, video recognition is a recent innovation, taking advantage of the broad move in how we absorb information from the written word to video messages.

When video recognition is built into your program, it's even easier for someone to create a quick but meaningful video containing the powerful specific messages of appreciation but delivered in an intimately personal way. Video naturally conveys tone of voice and body language along with our words of praise.

PART III: PUTTING SOCIAL RECOGNITION INTO PRACTICE

Building a Social Recognition Framework

Recognition can and should be planned and executed in a company like any other management practice with the potential to drive bottom-line results, and therein lies the opportunity for competitive advantage. Other practices like compensation, financial discipline and quality control are so well established that your competition manages these in essentially the same way as you. When you elevate recognition to the level of other strategic practices, you create a fresh competitive advantage, one that is uniquely tailored to your company's culture, goals and strategy. Social recognition is one of the few practices that still create competitive advantage.

Here is a blueprint for building a strategically effective social recognition practice that seizes that competitive advantage. This blueprint includes plans in five areas: sponsorship, design, reach, adoption and rewards.

Sponsorship: The success of a strategic recognition program depends on sponsorship by organization leaders. When recognition's relationship to other strategic assets is understood and supported, its power is truly unleashed, and this can only happen with executive attention and approval. Social recognition earns support because it engages executives where they live — in the realms of competitive advantage, high performance and profits.

Social recognition needs commitment from all top executives. Executive participation elevates the program to strategic status. It increases general participation, focuses managers and battles the unfortunate tendency to say yes without real commitment.

Design: Recognition must be designed as carefully as any other strategic initiative, with a clear ambition, metrics and input from stakeholders. Why are you doing this? Without real, detailed goals, the practice of engaging and

motivating employees can become "recognition for recognition's sake," which typically results in another old-school program lacking accountability and relevance.

Establish a recognition ambition based on your organization's core values and strategic objectives. What are the hallmarks of your culture? What do you want to accomplish? How does it relate to your most important business drivers? What must be supported — profits, customer service, operational excellence, innovation and/or maximum product quality?

Reach: Social recognition creates a big winner's circle. In old-school recognition programs, a few people received large awards. Our partners have learned they can achieve substantial improvements by adding a lower range of awards with economic value to the program's portfolio.

Social recognition awards the top 10 percent. It also recognizes the 70 percent of people behind the top performers who carry the organization every day. These are the classic unsung heroes. They are the "Mighty Middle"— the people who dutifully attend to their tasks, are consistently polite on the phone and reliably complete work on time. A broad improvement in company performance requires bringing these people into the winner's circle. It's simple logic: Raising the engagement of a majority of employees will result in outsized performance improvements. To imagine otherwise is to waste that middle 70 percent's potential.

Adoption: Any new initiative requires a critical mass of adoption by employees to achieve its goals, and that's doubly true of a social initiative like recognition. Quick adoption by a large number of employees means better ROI for the program over time and faster results in terms of engagement, energy and performance.

You also need to brand your recognition program. Sometimes the name is nothing more than a label: "Acme Corporation Recognition Program." We advocate a single, unique brand identity for a company's social recognition program. Creating a unified brand promotes unity across divisions and borders. With one name known by everyone, the company has a one-company voice and a one-company mission around which employees can rally. Branding your social recognition program in this kind of disciplined yet creative way is a chance to reinforce key values that make the company unique.

Rewards: The era of the gold watch is long gone, so consider a few principles when determining the nature and size of rewards in a social recognition program.

Offer a great choice of rewards. Employees are individuals — this is a fundamental principle of social recognition. Each employee makes unique contributions, has unique tastes and desires uniqueness. The best managers, and indeed the best global organizations, learn that rewards are most effective when they honor the individual. Merchandise-only programs were designed before the advent of the multicultural, global organization, and they make little allowance for differences among cultures. A crystal trophy might sit well on a desk in Paris, but does it have the same meaning in Toronto or Miami?

Social recognition magnifies the moment of recognition with the power of choice. In a partnership of goodwill, the giver determines the value of the award, and the recipient determines the final object or experience awarded. In this way, the recipient becomes a participant in his or her own recognition, not a passive-if-gratified spectator.

Driving ROI and Business Results

There are additional business reasons to make recognition a strategic imperative.

Reducing Turnover. Turnover is a budget-killer for HR because the cost of replacing employees who quit ranges from 50 percent to 150 percent of a year's salary. For example, a company of 10,000 employees with annual salaries ranging between $30,000 and $150,000 and an 11 percent turnover rate spends more than $41 million in turnover costs! Compare that to the cost of a recognition program set at 1 percent of payroll ($4 million). Even if a recognition program reduced turnover by just 20 percent, it would more than pay for itself — and that doesn't include all the other benefits of recognition.

Becoming a Best Place to Work. What is the financial benefit of being a great place to work? China Gorman, CEO of the Great Place to Work Institute, offers some statistics contrasting the performance of the 100 Best Companies against the U.S. average: Turnover among the 100 best companies ranges from 50 percent to 65 percent lower than the U.S. median. The headcount growth — an HR proxy for expanding business — of Best Companies is five times the rate of the U.S. average (15.4 percent versus 3.2 percent). Finally, a boost in reputation recruiting comes with being on the list.

Owning a Coveted Employer Brand. Fifteen years ago just a few visionaries in human resources used the term "employer brand." Now it's commonly understood as a critical part of recruiting. The distinctive employer brand attracts the right candidates to apply for jobs and decreases the cost of attracting candidates through advertising and other marketing efforts.

Increasing Productivity. Implicit in the increased engagement and energy brought about through recognition, productivity is one of the chief benefits. Gallup finds 21 percent higher productivity in highly engaged workforces.

Revenue and Valuation. Global management-consulting firm the Hay Group's research shows that companies with top engagement scores show 2.5 times the revenue growth of companies with low scores. For public companies, revenue growth means a higher valuation in the market.

How Social Recognition Impacts HR

We are in the early stages of a pervasive technological movement grouped under the umbrella term "big data." Huge sets of data are examined by powerful analytic tools at unimaginable speeds to generate insights about the past and present and even to predict the future.

You already see the effects of this nascent movement: Weather forecasts are more accurate. Marketers detect trends before they are obvious and create products to serve those trends. Retailers stock shelves with just enough products to meet demand. Web pages contain eerily personal advertising.

Big data is working its way into talent management as advanced HR systems mine data of all kinds to make informed predictions about, for example, which employees are most productive and why, which valuable employees are "flight risks" (in time to do something about the situation), and who might be a great succession candidate for a key position.

HR has had a smaller but important taste of modern data analysis in recent decades with the advent of human capital management (HCM) software for payroll and benefits management, compensation analysis, cost containment and other practices. It has been able to help measure outcomes of programs like employee wellness initiatives. Adoption has been slow, however, compared to other practices.

Social recognition's data and practices advance HR with talent insight across the HCM life cycle, from the moment a candidate encounters a company, through the hiring process and during a career. In the past, these insights might come from a particularly sensitive manager or HR professional, but in a large organization there are just too many people and too much activity for a single observer to reliably detect hidden patterns. That's the power of big data analysis — it observes far more than a person can, and with the sheer power to run large data sets, it observes patterns that might otherwise go unnoticed.

A sophisticated social recognition program can show these patterns. When you analyze many thousands of recognition moments and comments, you can produce key insights about how jobs get done, how teams should be configured, how communication and learning and collaboration happen across the hall and around the globe, and where to find your company's "hidden influencers"— that is, people who might not wield formal power but who are so trusted and widely known that their opinion carries great weight with peers.

Benefits of Talent Insight

Social recognition and the data it yields contribute to broader talent management in the practices of onboarding, finding hidden value, documenting and promoting best practices, spotting the quiet but important employees, spotting "cultural energizers," learning and development, retention, change management, succession planning, years-of-service awards, work circles, identifying management trouble spots, improving performance reviews and separating quality from quantity.

Will predictive analytics ultimately make 100 percent accurate calls on who should work at what, where and with whom in an organization? People will always surprise you with their capacity to grow and change.

Social recognition and the Power of Thanks will surely make your company a very successful place to work. The people who show up every day to live your mission and values, who put so much of their lives into working together under your company name, deserve no less.

RECOMMENDED READING LIST

If you liked *The Power of Thanks*, you'll also like:

1. ***Thanks for the Feedback*** **by Douglas Stone and Sheila Heen.** Stone and Heen explain why getting feedback is so crucial yet so challenging, and they offer a powerful framework for interpreting it.

2. ***Coaching for Breakthrough Success*** **by Jack Canfield and Peter Chee.** Canfield, coauthor of the *Chicken Soup for the Soul* series, and Dr. Chee offer a practical guide of 30 principles that every coach needs to succeed.

3. ***Full Engagement*** **by Brian Tracy.** This eye-opening guide explains how to unlock the potential of each person and motivate and inspire employees to peak performance.

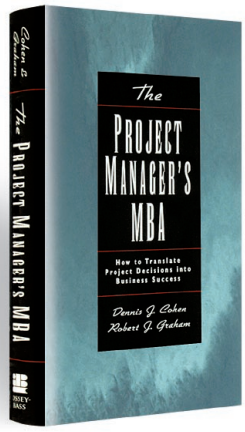
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The Project Manager's MBA

Dennis J. Cohen and Robert J. Graham

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FILE: Hands-On Management



By Dennis J. Cohen and Robert J. Graham

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THE PROJECT MANAGER'S MBA

THE SUMMARY IN BRIEF

Finishing a project on time and on budget is no longer a project manager's sole criteria for success, according to authors Dennis J. Cohen and Robert J. Graham. You are also held accountable for your contributions to the company's financial goals. As a project manager, however, you may not have the business knowledge necessary to make project-based decisions that lead to bottom-line success.

This summary presents the skills and knowledge you need to link project success to organizational success. Specifically, you will learn how to:

✓ **Take an entrepreneurial approach to managing projects.** You will learn to view each project in light of its contribution to the overall profitability of the company and begin to run projects as if they were business start-ups.

✓ **Understand the basics of accounting and finance.** You need to understand the basics of balance sheets and profit and loss statements and know how to adapt them to measure the impact of your project on the company's profitability.

✓ **Understand business strategy.** Your projects must be compatible with your company's overall business strategy, whether that strategy is to deliver world class service, provide leading-edge technology, or deliver operational excellence.

✓ **Manage projects for maximum results.** You will see what methods you should use to speed up the project.

✓ **Understand the customer.** Every project must be designed with what the customer and end-user want and need to solve a problem.

✓ **Calculate project costs and measure project success.** You will soon see exactly what costs must be considered when setting up a project. You will learn to measure and apply the direct and indirect costs your company invests in your project. You will also learn how to determine the life cycle of the end product of the project, and measure the value created by the project against the cost of producing it.

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An Entrepreneurial Approach To Managing Projects

"Make it fast. Make it good. Make it cheap." So goes the project management folklore about what senior managers always ask for. Traditionally, project managers would reply with, "Pick two." And almost always, "Make it cheap" is one of the two project goals chosen.

It might not be the right answer. When project management and senior management understand the wider implications, they both realize that "make it cheap" might not contribute to successful business results as often as they think. More important than reducing the costs of a project is increasing its value.

In other words, as a project manager you must develop a framework for thinking about projects based on business concepts such as increasing economic value, or Economic Value Added (EVA).

A successful project, for example, might mean creating a high level of customer satisfaction, which produces more sales, which, in turn, creates enough cash flow to cover project and operating expenses, make a profit, and pay back the cost of the capital used to produce the product. At this point, the project begins to produce the economic value known as shareholder value.

Creating shareholder value requires project managers to act like entrepreneurs — treating projects like businesses — and think like CEOs — viewing each project as part of a wider organization.

Act Like an Entrepreneur and Think Like a CEO

What does it mean to act like an entrepreneur and think like a CEO?

First and foremost, it means understanding how organizations create value for their stakeholders — shareholders, customers and the business team. For shareholders, the business creates value when it provides a rate of return that meets their expectations for the level of risk they have taken. Cash flow is the fuel for this satisfaction. It is up to the business team to manage projects that deliver this necessary cash flow.

The problem is that many projects won't directly impact a company's bottom line. Project managers also need to consider the project's overall impact on the company's strategy to see where the project creates value. For example, new product projects often impact profitability and create high levels of profit, while a project that focuses on breaking into a new geographic market might be lucky to break even. But both projects contribute to the execution of the company's overall strategy.

A project's contribution to overall business success can be diagrammed and looks something like the chart on the next page.

At the top of the diagram is the ultimate goal: the project's contribution to business results. The boxes below

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Project Categories

Most organizations that engage in project planning categorize these projects into three groups:

New product, service, or facility development projects. These projects provide something entirely new in the organization. These projects generate new or greater income for the organization.

Internal projects. These projects involve infrastructure development and improvement and include reorganizations, reengineering, and other change initiatives as well as software and hardware initiatives. These projects generally don't produce new income. Rather, they produce cost savings and create operating efficiencies.

Client engagement projects. These projects benefit external customers or clients. Today, those clients expect more than they ever expected before and look for measures of increased economic value as proof of success.

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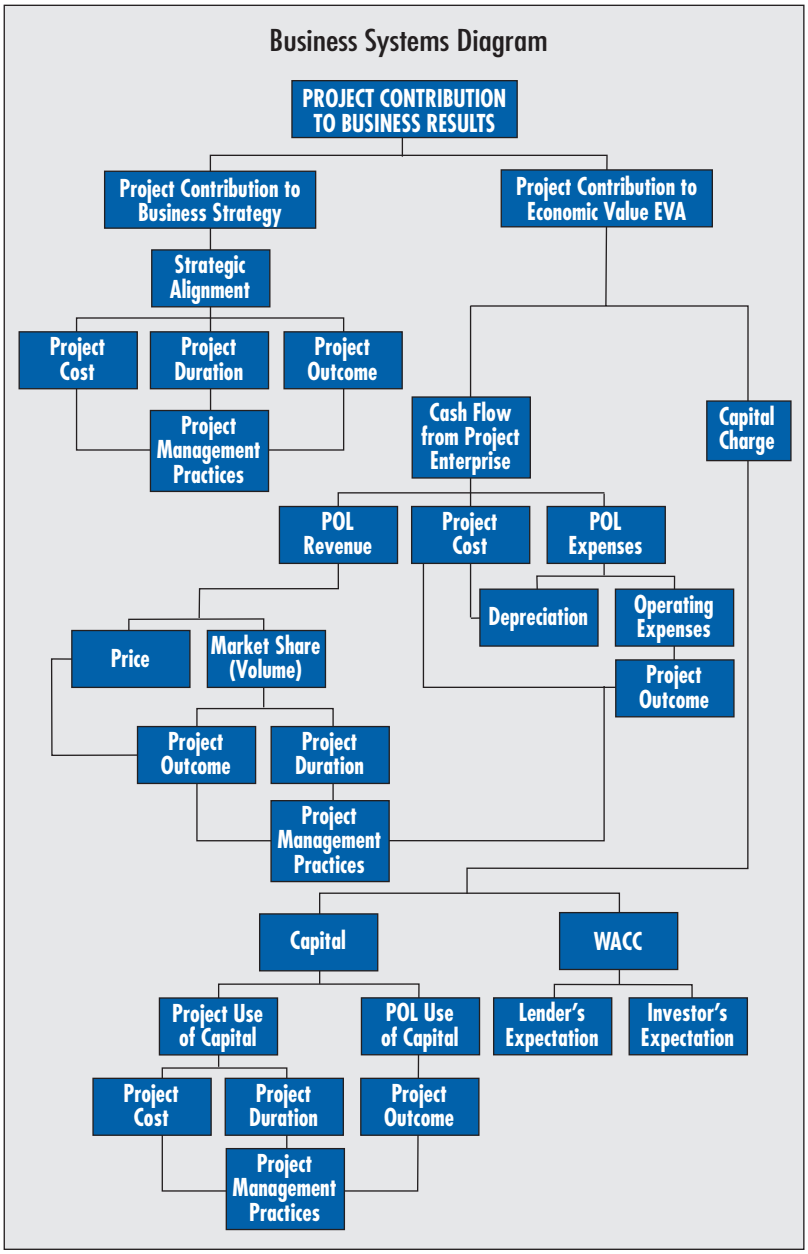
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An Entrepreneurial Approach to Managing Projects

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the goal represent the business factors that go into producing economic value; the lines connecting the boxes represent interactions among those factors. The left side of the chart represents the strategic alignment of the project with the company's overall strategy. The right side side shows the project's contribution to economic value.

As you explore the flow chart, you will see that there is a new project management paradigm developing. Projects are conceived and executed with an understanding of the dynamics of competition, timed for maximum cash flow, and represent an investment in competitive advantage. ■



Accounting and Finance: You Must Know the Basics

In the past, when project managers were given a project and a budget, they could afford to be ignorant of accounting and finance basics. Not today. To link project success to organizational success, project management must understand at least the basics of finance and accounting. This article reviews some of the basics.

Cash Cycle

Each company has a cash cycle. The cycle involves acquiring cash, using that cash to grow and to operate, and returning any cash necessary to the creditors and owners. For example, a company's cycle begins with a financing phase where the company must attract funds from financial institutions and investors to have the capital needed to start the business. It then invests the funds in labor and equipment required to develop the business (the investing phase.) In the operating phase, the company uses the funds to operate and adds funds generated by the business to the pot. Finally, in the returning phase, creditors and investors are paid. This is their return on investment.

Projects are just like start-up businesses, following the same cash cycle.

Financial Reports

Financial reports are required of all companies of any significant size. A company's financial reports consists of at least three basic statements: a balance sheet, an income statement and a cash flow statement. Each serves a vital function.

A company's *balance sheet* shows its assets and its liabilities. Assets, shown on the left side of the balance sheet, come in two kinds: current assets, which will be converted into cash in the next year or so, and long-term assets. The right hand side of the balance sheet tracks short-term and long-term liabilities as well as a liability called shareholder's equity. Shareholder's equity consists of stock and retained earnings, which are profits that could have been distributed to shareholders as dividends but were kept by the company.

The sheet is called a balance sheet because the left hand side always equals the right hand side, and can be represented by the basic accounting formula: Assets = Liabilities + Shareholder's Equity.

A company's *income statement* attempts to match revenues with the expenses associated

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Accounting and Finance: You Must Know the Basics

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with those revenues. A company's revenue minus its expenses equals its net income. If the net income is positive, the company has made a profit. If it is negative, the company has suffered a loss. That's why the income statement is also referred to as a profit and loss statement. Income statements are important for project managers because they match the cost of the project with the revenue or cost savings produced by the project.

A *cash flow statement* completes the basic financial statements. It tells someone examining the company from the outside where cash needed to run the business has come from and where it has gone. Internally, management can use the cash flow statement to see how much cash is free for use in the business. This free cash flow is the net cash generated by the operations of the business minus the cash used for investment activities. If free cash flow is positive, the company does not need to obtain additional investments; if it is negative, the company must find additional investments in either stock or bank financing to continue operations. ■

Corporate Strategy: It's Your Business, Too

All organizations have a strategy, explicit or implied, that upper management uses to guide decision-making.

In the past, top management acted as if strategic planning was a ritual rain dance. Every year a strategic planning process took place, with each upper manager scouting out threats and opportunities. These were then analyzed and became part of the strategic plan to be locked in a drawer until next year.

Today, change is happening too fast to rely on old methods of strategic planning. Now strategic plans must change as rapidly as your company's environment changes — which means everyone at the company must be aware of the strategic plan and take part in it. Project managers must understand their company's strategy and how their projects fit into it.

In its most basic form, strategy is the way a company orients itself toward the market in which it operates, and toward other companies in that market. Strategy answers the question of how the company will position itself in the market over the long run to secure a sustainable competitive advantage.

Most project managers are too involved in the day-to-day management of their projects to pay much attention to that strategy. This is a mistake. Project managers need to align their projects with the strategic choices made by the company.

For example, if the company chooses to emphasize product leadership, projects to develop new products will focus on innovation and speed, not customer service. If project managers don't buy into or understand company strategy, they might run the project with a focus inappropriate to the company's strategy and thus miss making a significant contribution to the execution of that strategy and the creation of economic value. ■

Why Project Managers Need to Understand Strategy

- ✓ Management is evaluating project managers on how well they implement company strategy.
- ✓ Understanding company strategy will let you make decisions during the project that match strategy. If the strategy is to be first to market, that's how you will manage your project, for example.
- ✓ Understanding your company's strategy will help you develop a team with common goals.
- ✓ Aligning your project with company strategy will help protect it from being canceled, since you can demonstrate the project's importance and relevance. And if the project does not match company strategy, you can understand why it is cancelled.
- ✓ Understanding strategy lets your project stay focused and on track.

Approaches to Company Strategy

Below are three basic approaches a company can take to developing a sustained competitive advantage. Choose one as your company's strategic focus, but make sure that your practices in the other two at least meet the industry average.

Customer Intimacy: Companies who choose this strategic focus aim to develop long-term relationships with their customers. Customers expect the best service and get it. Examples of companies taking this tack are Nordstrom's and Home Depot.

Operational Excellence: Other companies build their strategies around high efficiency and high volume. For example, a McDonald's anywhere in the world is likely to be virtually identical to other locations. Customers expect it, and McDonald's delivers.

Product Leadership: Companies that practice product leadership must be creative because they are targeting the segment of the population that consists of early adopters. These want the latest and best products and are willing to pay for them.

Increase Speed, Quality and Value of Projects

Project cycle time, or how long it takes a project to go from idea to completion, is crucial. Proper project management practices will shorten that time.

The sooner the project is completed, the sooner it can begin to produce its value and begin to pay back the investment used to produce it. Thus, reduced cycle time adds to cash flow, reduces the project's capital requirements, and increases economic value. Don't reduce cycle time by increasing manpower and working people overtime until they drop (a common method). A better approach is to increase the budget for good management practices.

How to Reduce Cycle Time

The following six practices will decrease the duration of a project, increase quality and decrease total costs:

1. Have one well-trained project manager. He or she should be enthusiastic and trained to manage projects. Don't appoint someone just because of technical expertise or availability. The designated project manager is the only person the team reports to; team members must know that he or she has the authority to make decisions and direct the project.

2. Develop a rapid prototyping process. Prototypes need to be developed quickly, even if they are not perfect. Presenting imperfect prototypes helps highlight problems and facilitates solutions to those problems. Customers have an opportunity to look at prototypes and offer suggestions for improvement. Today, prototypes are not specifications driven. Instead, prototypes drive specs.

3. Establish a core team for the duration of the project. Projects need an interdisciplinary core team of people from important departments who stick with the project from beginning to end. Core members typically come from engineering and information technology, marketing, production, customer and technical support, quality assurance, and the finance department. The team should also include customers or end users. A core team thus has access to a range of technical expertise, and can minimize handoff problems since every key department is involved.

4. Ensure that the team members work full time on one project. For the sake of speed, the core team — and other team members who join in — should work exclusively on one project before moving on to other projects.

5. Co-locate core team and other team members, especially on new product development projects. The more communication there is between team members, the better. Communication is easier if everyone is working in the same location. Some organizations like Chrysler and General Motors have even constructed special development centers for that purpose.

6. Develop upper management support. Project failure is often caused by lack of upper-management support. Once committed, upper management should continue to support the project through completion.

To the degree that these practices are optimized, cycle time will be reduced. ■

Cost Overruns Aren't Always Bad

Sometimes it makes sense to pour extra money into a project in order to finish it on time. According to a 1989 McKinsey and Company study, if a project is late for an amount of time equal to 10 percent of the projected life of the product, there will be a loss of about 30 percent of potential profit. But if the project budget is over by 50 percent, yet the product launched on time, there will be a loss of only about 3 percent of the potential profit. The advantage of being first to market offsets the additional cost. In other words, most companies will be better off pouring additional money into the project to get it out the door on time than they will be sticking to the old budget and finishing later.

The Folly of Multitasking

Multitasking, which requires people to work on more than one project at a time, is a sure way to decrease focus, decrease output and increase cycle time. Despite this, many organizations have embraced multitasking. The problem: It doesn't work. People are not so easily divisible. It takes time to shift from one project to another and back again. That time quickly adds up in a typical workweek, and can actually increase the amount of time it takes to complete projects because the time required to switch between projects is non-productive. If two-way multitasking is a minor folly, asking people to work on three or more tasks borders on absurdity.

Understand the Customer and the Competition

No matter what type of project you are directing, the project outcome will end up in the marketplace. This holds true, obviously, for new product development projects. It also holds true for internal projects, as they ultimately benefit the end user. Perhaps, for example, the project leads to more efficient operations or better

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Understand the Customer and the Competition

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trained sales and service staff.

As a project manager, you must understand the customer and deliver a result he or she wants and will buy — thus generating revenue for the company. The key is to understand the competitive forces at work in the market.

Build It and They Still Might Not Come

The first step to generating revenue is to design products, services and processes that help customers solve problems and meet or exceed customer expectations. Unfortunately, the traditional project manager's thinking has been that selling the product was not his problem, but the marketing department's. The implicit message was that, "if we build it, they will buy it."

That approach has proven wrong. Consider the ill-fated Iridium project, which aimed to use satellite technology to provide global telephone service. It turned out there was no market for the service once it was developed.

One way to avoid this mistake is to try to get a member of the marketing department on the project team. Most important, however, is for you as a project director to have a clear understanding of market needs. You should be able to identify what the customer or end-user really wants, understand the competition, make trade-offs between features and price or cost, and determine the timing of the product introduction.

Understanding the Market

Project managers need to look at the market for their end product or service. That analysis must include:

Size. How big is the market? For new product projects, the size of the market is the total annual sales of this type of product to all market segments. For in-house projects, it is the total number of end-users who will be affected by the project results. For client engagement projects, it is the number of client customers who will be affected by the project outcome.

Segmentation. What part of the market is the target? All markets are composed of segments, which are defined by customer attributes. For example, the clothing market is divided into male or female, young and old, high fashion and casual, and so on. Select a segment and stick with it. Companies that try to serve every segment tend to serve none well. Choose your customers, narrow your focus, and dominate your market segment.

Competition: Who is in pursuit of the same segment? The relevant competition consists of organizations that are aiming at the same segment with a similar strategy and with solutions to the same problems. You must know the competition, rate how your solution to customers' problems compare, and figure out how to convey the superiority of your product to customers.

Pinpointing the Competition

In order to compete, you have to know who your competitors are. That may sound obvious, but in practice it is harder than you think. Follow these steps to size up the competition:

1. Draw up a list of competitors in the market you have defined for yourself. For example, Coke could list only Pepsi as a competitor if it defined its market as the cola drinking public. If it defined the market as soft drink buyers, the list of competitors grows. If that market is expanded further to include all beverages, the list of competitors grows even longer.

2. Next, the project team agrees on who should be on the competitor list and then assigns team members to monitor specific competitors. Keep up with your assigned competitor's technological advances.

3. Finally, try to envision how new competitors might look and how likely they are to appear on the horizon. What are the barriers to entry? Are those barriers changing? You must also think like a new competitor. Whatever you could do to compete is probably what a potential competitor is doing out there right now.

Understanding the Customer

Project managers and team members must take time to understand the customer so that they can provide what the customer wants.

A customer is the person who actually pays for the product or service you are developing. That customer might not be the end-user — the person who actually benefits from the product or service. For example, mothers might buy condensed soup to be eaten by a child. The mother is the customer, but the child ultimately benefits from the production of the soup. You must please the end-user, not just the customer. If the child refuses to eat the soup, the mother will not buy it again. More likely, she will buy the brand of soup the child will eat.

Both customers and end-users want you to solve problems for them with your product or service. The best way to solve customer problems is to create a prototype and put it into customer and end-user hands. Never rely on market data alone.

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Understand the Customer and the Competition

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The problem, of course, is that customers don't always know what they want. In order to reach them, you may have to have technical members of the team sit down with them. Here are some practical ways to get customer and end-user involvement:

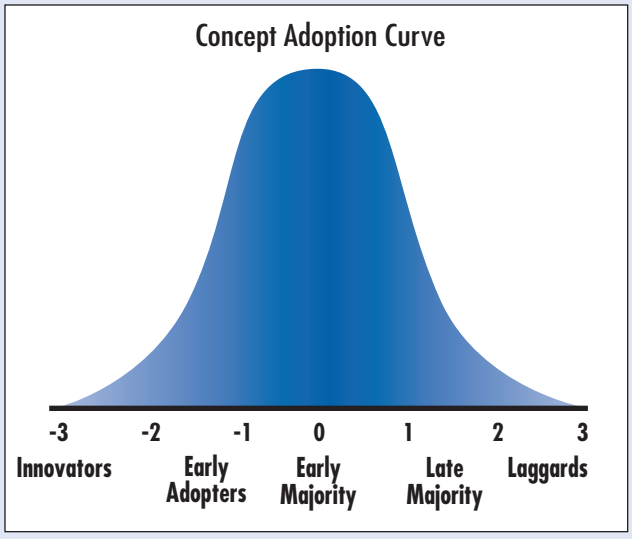
1. **Put customers and end-users on the core team.**
2. **Directly observe end-users' problems.** Get out in the field and see the problems from their point of view.
3. **Develop focus groups to explain problems.**
4. **Develop prototypes to give end-users experience.**

A good understanding of the market will help the core team set the price. For new product development projects, that price is a reflection of the features, the competition, and the time of market entry. Features that customers want and need add to the price, while unwanted or unneeded features don't translate into a higher price. ■

Concept Lifecycle

Each product or service a company produces to solve a problem has a concept lifecycle. For example, take putting words on paper. Words can be committed to paper with a pen, a printing press, a typewriter, a dot matrix printer, an inkjet printer and a laser printer. Each of these concepts for committing words to paper has a lifecycle. If your company tried producing and selling a typewriter today, you would be too late in the product lifecycle to benefit. If you are selling a pen, you are probably still early enough in the lifecycle to make a profit.

Different customers will buy your product depending on where the product or service is in the cycle. Some customers are innovators, buying up the product very early. Others are early adopters, part of the early majority, the late majority, or laggards. The innovators are the first to buy a new product, while the laggards wait until everyone else has one. The concept adoption life cycle looks like this:



Calculate the Project Costs

Cash flow, break-even analysis, and return to shareholders are important concepts for project managers. Profit equals revenue minus costs. Thus, the revenue from a project must exceed its development and production costs. Today, much more so than in the past, project managers are responsible for calculating the cost of their projects rather than being the victims of an assigned budget that may not be in the company's long-term interest.

There are four types of costs that project managers need to be familiar with: variable direct costs, variable indirect costs, fixed direct costs and fixed indirect costs.

Variable direct costs are costs for the parts used to make a product. They are direct costs because they go directly into the production of the product. They are variable because they increase or decrease depending on the volume of the product you produce.

Variable indirect costs also increase or decrease depending on production levels, but they cannot be attributed directly to a product. For example, the plastic used to create a doll would be a variable direct cost, but the electricity used in the factory that makes the doll is a variable indirect cost because it cannot practically be assigned to a specific doll.

Fixed direct costs are incurred to run projects or production. For example, the computer hardware needed to work on a project is a fixed direct cost. The cost is fixed because it does not matter whether the company is using the computer or not.

A *fixed indirect cost* also does not change with production levels, but remains the same. It also cannot be directly tied to a product. An example of a fixed indirect cost is

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Types of Costs

	Variable	Fixed
Direct costs	1. Variable direct costs (example: cost of goods sold)	3. Fixed direct costs (example: building rent)
Indirect costs	2. Variable indirect costs (example: depreciation)	4. Fixed indirect costs (example: SG&A)

Calculate the Project Costs

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the computer center a large company might make available for its project managers. A fee is charged each month to the project managers according to the size of their project, but the amount of use does not change the charge.

Cost of Goods Sold

One set of costs that project managers should be familiar with are the "cost of goods sold." To calculate the cost of goods, you must add the cost of materials needed to make the product, the direct manufacturing labor costs, and the manufacturing overhead cost. These costs could be assigned directly to a project, but it would be too costly to break them down enough to place with the right project. ■

Why Finance Matters for Project Managers

Projects develop assets that produce a return to the company and its shareholders. Unless a business demonstrates its ability to return cash, it will not get the cash it needs to invest in and operate the business. No cash to invest means no new projects and no business.

If projects are investments, managers need to understand how they are financed. Unfortunately, too many project managers ignore the cost of capital — that is, the cost of acquiring the cash that makes the project possible.

The money to finance a project can be acquired in two ways: through lenders or shareholders — those who buy the company's stocks. Neither lets companies use their money for free. The cost of capital consists of the amount of money that companies have to pay their lenders or shareholders to compensate them for their investment and satisfy their expected return on that investment.

When companies turn to lenders for capital, they know exactly what the lender expects in return for the loan. The interest charges can readily be added to project cost. Shareholder expectations are not so easily converted into project cost because their specific expectations are not stated. Nonetheless, managers should attempt to estimate it when calculating project costs.

Before a project launches, there should be a careful investment analysis made. A project must return at least the amount of capital invested in the project plus the cost of that capital. If it does not, it will not add value for shareholders. ■

Projects Make the Business

Financially, a company is a portfolio of assets produced through projects. The present operations of any company were developed by past projects and improved and supported by current projects. Future projects will lead to the strategic implementation of future operations. If project outcomes do not meet investor expectations, then neither will the company.

The Project Venture Development Process

Good projects don't just happen; they are well planned and executed. If you want your project to add economic value to the company and further its strategic vision, you must plan accordingly. Here are the steps you need to take for each project:

Develop a Business Case. Begin by developing a business case for each project. The business case process forces you to focus on the desired outcome. State where the numbers in your projections come from, including anticipated sales volumes, and the production and operating costs. Make sure the assumptions that drive the numbers are realistic. Clarify why this project is a sound investment for the company.

Think Strategically. Consider projects in their wider context. How does the project fit into the company's long-term strategy? Does it support an existing sustainable competitive advantage, or does it create a new one? Describe the big picture and link the project to other projects for an overall view of how it all fits together.

Create a Business Plan. Before starting the project, develop a business plan. Do market research and scope out the competition. Be sure to assemble the core team and include them in this stage. Identify major milestones at which you will stop and check your assumptions and progress.

Execute and Control the Project through the Business Plan. Don't put away the business plan once the project has begun. Use it all along to guide the project and check your assumptions.

Transition Smoothly to the Project Outcome Lifecycle. The end of the project is the beginning of its implementation. Core team members should be along as guides. The team should also produce a final report with numbers, projections and assumptions about the success of the product or service the project created. These can then be checked against what really happens as a learning experience.

Operate and Evaluate. The project isn't over until the end of the project outcome lifecycle. Once the lifecycle is over, evaluate how well expectations were met. This serves as a way of celebrating success and learning from failure. ■

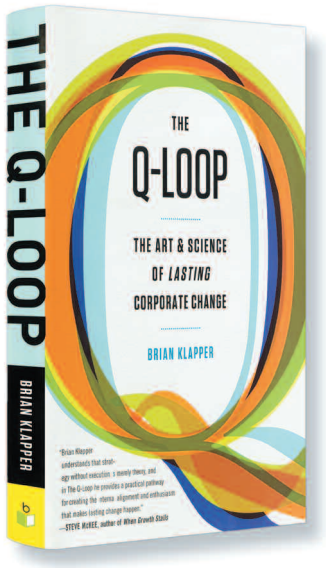
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The Q Loop

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The Q-Loop

The Art & Science of *Lasting* Corporate Change



by Brian Klapper

THE SUMMARY IN BRIEF

The business environment has never been more fast-paced and competitive. Survival, let alone success, depends on an organization's ability to recognize possibilities, innovate, implement change and sustain that transformation. Yet a paradox exists. How does an established organization with a history of drawn-out planning and development cycles become nimble, innovative and responsive?

Brian Klapper reveals the "art and science" of lasting transformation based on a proven, repeatable model called "the Q-Loop"; it is a process that forms a complete circle — from ideation to complete implementation. Klapper explains: "It's called the Q-Loop because, as the name suggests, it's more robust than a simple circle. Far from going in circles, like so many strategies intended to implement change, *The Q-Loop* is anchored in both theory and practice, in art and science — it works every time."

The Q-Loop extracts the deep knowledge that resides with frontline employees, breaks down the inherent resistance to change, and converts them into passionate advocates who are fully invested in leading the organization to achieve transformational results. Fleshed out with actionable steps, suggestions and fresh insights, *The Q-Loop* provides practical guidance for all types of organizations.

IN THIS SUMMARY, YOU WILL LEARN:

- The path to maximizing your organization's collective IQ through ideas.
- A new method to ignite a grassroots mindset shift by focusing on and achieving your mandate.
- Ways to embed the Q-Loop into your organization.
- How to create an easy and transparent way to share ideas.

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THE COMPLETE SUMMARY: **THE Q-LOOP**

by Brian Klapper

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For additional information on the author, go to www.summary.com.

Introduction

The Q-Loop is a process that forms a complete circle — from ideation to complete implementation. The Q-Loop relies on the real heroes in the trenches of your company, the ones who know how to get things done and get people on board.

When you look at the illustration of the Q on the cover of *The Q-Loop*, you see that it shows lines before they enter into a loop. This represents ideas and initiatives as they are considered throughout the entirety of your organization. The Q illustration then shows the loop itself, as these ideas and initiatives are delivered to upper management to assess and prioritize in relation to your overall business objectives. Then these ideas and initiatives are delivered back down to frontline employees for refinement. Finally, these initiatives are delivered out from the loop to the rest of your organization and embraced by the front line because the idea was initially created by them.

Why the Q-Loop Works

It starts with a compelling story, one that originates with management but is written by employees. It recognizes that employees are motivated by their impact on their customers, company, colleagues and themselves, and it uses this motivation to help them lead the change. The Q-Loop allows employees to drive the agenda.

A successful Q-Loop decision process is critically dependent on both the span of influence and the bottom-up input mechanisms that support the loop. The Q-Loop can be deployed at multiple levels within your organization to improve current operations, to create new products and services, and to capitalize on market opportunities. This multi-tiered approach enables an organization to quickly mobilize Q-Loops to address specific projects and to pilot change. ●

PART ONE: ENTERING THE Q-LOOP

Adapt or Atrophy

Adaptation is essential to healthy growth and economic vigor, and this axiom is more true in this second decade of this second millennium than it has ever been in history. An ability to embrace industry changes, technological advancements, and evolving customer demands opens up your organization to opportunities that your competitors fail to see. It's a chance to shed your skin and explore new and profitable innovations. It's how an organization thrives now and long into the future.

Yet a paradox exists. While an overwhelming percentage of organizational leaders recognize the need to adapt, transformation rarely takes root in any lasting way. What can be done to convert this shocking rate of failure into overwhelming success for any organization?

The challenge is to

- Recognize the need for change, and overcome fear of it.
- Be scrupulously honest about your organization's current shortcomings.
- Get everyone in the company to buy in to your vision for the future.
- Offer the necessary tools to help deliver your vision.
- Successfully coax a behemoth from where it is today to where it needs to be tomorrow.

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So Why Is Change So Hard?

If adaptation is a sign of a healthy organization poised to outpace its competitors, why aren't all change programs hungrily embraced and implemented with lasting success? We all fall into routines. Sometimes they're healthy ones, like going to the gym after work. Other times, they're less than ideal. Organizations are no different. Years of patterns lead to ingrained and deeply entrenched sets of beliefs and behaviors that extend into practices that are systemic and cultural. Change is risky because by definition, it involves doing something unproven, something that hasn't yet been shown to work.

Employees resist change for lots of reasons. They might simply disagree with the change or the rationale it's based on. Or they might believe the change will be a fad. Or there might be deeper psychological factors, such as a fear of learning new skills or losing authority.

However, for most change initiatives, lack of alignment among the leadership team is the primary cause of failure. Or there is not complete commitment to the vision and path. The initiative becomes bogged down by lack of consensus and stalls.

To execute strategy successfully, it's essential that you take your organization's current cultural temperature. That way, you'll understand its collective attitude toward change — both its openness to change and its points of resistance. By doing so, you'll determine the specific hurdles that will stand in your way as well as the people you can lean on to keep you moving forward.

There are numerous methods for assessing an organization's readiness for change. In my experience, focus groups, small-group meetings with key influencers and organization-wide employee surveys are most effective at deriving thorough and reliable results. ●

Ideas — The Lifeblood of an Organization

Drawn on a napkin, hashed out over the fourteenth hole, or devised while eating junk food late at night in a college dorm room, great ideas are the rich deposit on which organizations are founded. And organizations flourish because of new ideas. Quite simply, if a company doesn't recognize the need for a constant infusion of creative thinking and fresh strategic concepts, then that company most certainly won't be willing to take the necessary steps toward lasting change. Good, bad, brilliant, even god-awful, ideas propel a business to new heights. They distinguish an organization from the competition, delight customers and reward stockholders. Without them, organizations languish.

On the road from ideation to realization, however, a lot can go wrong. Great ideas are too often kicked to the curb, sometimes intentionally out of fear, sometimes despite heroic attempts to actualize them, sometimes because there's a collective belief that the status quo is good enough. Research has shown that employees in a negative environment, who are focused primarily on looking out for themselves and constantly defending their own space, are less innovative.

Nurturing an Atmosphere of Creativity

Fostering a culture of creativity and innovative thinking can be easier than you might think. Consider the following five ways to shake the tree of ideas a lot harder than you currently do:

Killing the status quo. In the same way that people hold deep-seated beliefs, organizations have sets of accepted core convictions about how to get things done. The first step to killing the status quo is to accept that these core beliefs exist and then challenging each and every one.

Altering your point of view. To break stubborn obstructions that stand in the way of new modes of thinking, you sometimes need to experience something firsthand outside of the office or boardroom.

Comparing your organization to others. This strategy is not about emulating other organizations; it's about stimulating surprising ideas that you might not come up with otherwise.

Imposing artificial limitation. It might be counterintuitive, but imposing limitations on your thinking can be an invaluable way to spark creativity. By constraining you, it paradoxically frees you to run wild within a smaller area.

Looking for unorthodox opportunities. To spur the ideation process, do not constrain your thinking only to improving products or services. Instead, rethink every touch point between you and your customers to improve how they currently interact with your organization. Perhaps you are forcing them to interact with you in a way that's less ideal, and you could improve it.

It is imperative that you begin to reward innovative thinking in meaningful, memorable ways. Through recognition and rewards, a healthy culture of competition may emerge. Managers should construct incentives that stimulate collaboration by encouraging innovators to share their inventions and insights within the organization.

There are two approaches to choose from to motivate and reward employees for their ideas, and both have their merits.

Intrinsic motivation. An intrinsic reward is one that comes from within. An employee's sense of intrinsic motivation can sometimes be enhanced with praise and added attention from management.

Extrinsic motivation. An extrinsic reward comes from an external source. The source of inducement can be powerful but can also be more short-lived than an intrinsic motivator. When an extrinsic motivation such as a monetary reward is removed, so is the enticement. ●

Launch Your Employees on an Idea Quest

Your assistant, junior associate, bank teller, barista, pizza maker, custodian or forklift operator might have answers to your organization's most pressing issues or fixes for time-wasting problems. But most organizations don't benefit from these valuable IQ points because management doesn't invite meaningful, focused input and collaboration from frontline employees.

The challenge is to focus your employees' combined brainpower by asking smart questions and facilitating the flow of information along fruitful paths to solve problems and discover opportunities.

Frontline experts see a great many problems and opportunities that their managers don't. The tremendous opportunity for organizations is to pull this knowledge from employees' day-to-day experiences, make decisions and act upon them through those same employees.

You need to cultivate a culture in which staff at all levels can easily share solutions for improving the business. When it comes to ideas, the biggest roadblock senior management often faces is the widespread, deeply entrenched belief that ideas from the rank and file don't matter. In many companies, this wellspring of valuable insight simply isn't encouraged, considered or rewarded. You might be shocked by how frontline employee participation lubricates the gears to get major change initiatives moving along smoothly.

I have worked in dozens of organizations that continue to use the age-old suggestion box as a means of generating ideas, and it rarely produces quality ideas. Why? Far too many suggestions, too many irrelevant ideas, too many redundant ideas, and a lack of transparency and recognition. I have developed a better strategy that can be used to solicit the most fruitful, strategic and relevant ideas from the collective intelligence of your organization. I call it Idea Quest.

The advantages of Idea Quest are numerous:

- It introduces a formal, disciplined process into what is often a helter-skelter, shotgun approach.
- It sharply improves organizational focus by recognizing an opportunity to be acted on.
- It quickly separates the best ideas from the worst so you can allocate resources effectively.
- It lets you evaluate the effectiveness of the ideation process.

Let's consider the five steps to effective idea quest in detail:

1. Focus employees on a specific mandate. While open-ended innovation has its value, the most successful systems for ideation define focused business challenges. Invite the appropriate employees and employee groups to generate ideas to address a specific business opportunity within a defined time frame.

2. Engage employees in meaningful ways. Use multiple mechanisms to motivate employees to become involved in your Idea Quest. Set a good example by having management participate. Make sure contributors share in the success of the result. Ensure that all ideas are welcome, and make it fun.

3. Create an easy and transparent way to share ideas. Participants should work independently or together in meaningful groups to develop ideas. The environment should be transparent so everyone can see all ideas and build on ideas submitted by others. Get people who do not normally work together to come together for this effort. Encourage out-of-the-box thinking that challenges the status quo.

4. Require that ideas be turned into a project plan. Without a workable written project plan, ideas can be abstract and extremely hard to evaluate. By requiring that ideas be presented as a simplified project plan, weaker projects must be strengthened or can be identified and scrapped so that stronger ideas can move forward. A basic project plan should consider at least an overview of the idea, the competitive advantage offered, the degree of difficulty, and estimated time, cost, revenue and team size.

5. Evaluate each idea, and respond promptly. When ideas disappear into a black hole, contributors become discouraged. Allocating adequate resources for evaluation is important. ●

PART TWO: GOING AROUND THE Q-LOOP

Focus on the Mandate and Form a Team of Heroes

Regrettably, the least common approach to problem-solving is fact-based solutions that rely on deep insight and analysis to solve the problem coupled with a deep understanding of why the problem occurred. Once the how and why are verified, root cause analysis can occur. And with root causes come meaningful insights that can be captured and applied across the organization in a once-and-done fashion.

Fixing this problem doesn't require substantial capital investment to begin. Getting started simply requires that you identify the right idea to turn into a mandate and build the right team to achieve it. If the process for getting started is followed as outlined below, the team should enjoy tremendous success:

1. Ensure senior management support. Without the full support of senior management, the remaining steps are pointless. A single project champion must also be identified. An important role throughout the project, this is particularly essential at the outset.

2. Choose the project. Before making a final decision, be sure to have a thorough discussion about resource availability and management support to ensure that the project can be effectively staffed. An understaffed or unsupported project can be doomed before it gets a fighting chance. Then dive in. Change efforts will not work if the organization is always thinking about change and rarely implementing.

3. Select the project champion. The project champion must be an executive who provides the vision for the team, reviews and supports its efforts, and acts as a team sponsor to the rest of the organization. Primary responsibilities are to maintain accountability for the effort, define the project mandate, leaders and members, and establish weekly commitment and project duration, to mention a few. It's no small task. So choose wisely.

4. Scope the work. The project scope describes in detail the project's deliverables, the boundaries and the work required to create those deliverables. The scope definition should be clear and understandable to all project stakeholders.

5. Write the mandate. For any team to be successful, it must have a clearly defined sense of purpose. This purpose comes from a well-crafted mandate. The mandate should state your team's goals and why achievement of these goals is critical to the organization. It should be brief, memorable and meaningful to all members of the team. Think elevator pitch, not long-winded speech.

6. Select the coach. An ideal coach is someone who is experienced in working with teams and can guide the team through the project. The coach generally works behind the scenes with the project champion and team leader. The coach should ensure a sense of urgency and plans upcoming meetings, reviews agendas as necessary, and helps to structure the analysis.

7. Select the team leader. The team leader is often — but not always — a manager or supervisor in the area where most of the change is likely to occur. The team leader is charged with creating and maintaining an effective working environment and helping the team resolve its problems. This person schedules and generally runs most team meetings and manages or delegates administrative details. Among the many desirable attributes of the team leader are people skills, technical skills, communication skills and project management skills.

8. Select the team members. Your company is full of heroes. The ones who know how to get things done, who have been consistently more effective than their peers. These heroes are your influencers, and must be the primary agents of change. If you can identify, train and galvanize these key influencers you will release tremendous organizational energy. Look for heroes out in the field and as far away from headquarters as possible. Heroes generally spend most of their time with customers.

9. Secure dedicated team space and team requirements. Prior to the team kickoff, the sponsor should secure a dedicated meeting room to accommodate the entire team plus several guests. This will become known as the team's war room, where they will be papering the walls with process maps, graphs, charts, interview notes and more. ●

The Corporate Lab: The Art of the Possible

A fundamentally transformative, proprietary experience I named The Corporate Lab™ is a unique force that drives the ability to produce lasting change around the Q-Loop. It's one that I have personally witnessed redefine the mindset and cultural attitudes within dozens of organizations. It is the next step toward achieving a lasting change initiative after focusing on the compelling mandate and forming a team of heroes.

My goal was to establish a highly flexible, scalable, reality-based platform that would build clients' capabilities in a number of different areas. I knew I needed to immerse participants in an environment that would precisely mirror their day-to-day workplace in terms of culture and behavior.

The basic philosophy of the Lab is that it weaves together traditional problem-solving, in the form of the scientific method, and a strong constructivist element. Constructivism holds that students learn best when making sense of something on their own with the teacher as a guide. The Lab lets participants discover, dream, desire and reach their destiny. It works by allowing participants to learn and implement the Q-Loop in just two days.

To achieve success, you must build a transformation program that allows change to be rapidly pulled across departments and throughout layers. Unless well-respected thought leaders at all levels embrace the change, the initiative will wither and eventually die. To create widespread passion, the workforce must be exposed to what could be, which will let them rethink their mental models, break free from their entrenched paradigms, and embrace the opportunity to learn.

Overview of The Corporate Lab

• **Getting started.** Approximately twenty client participants assume job responsibilities of a new operating division of NAVCorp, a $270 million designer, manufacturer and marketer of computer navigation-related products. Typically, participants take on very different roles from their current positions so that they gain new perspectives. The experience is not a game-like simulation. This company exhibits the complexity and depth of the participants' organization.

• **Setting the scene.** The Lab takes place in approximately 1,600 feet of contiguous space with 20 participants from different parts of the client company. Each participant has a workspace — frontline workers have cubicles, and senior management has a conference room. Participants receive a welcome kit, and a company overview video is watched. Participants receive their tablets, individually loaded with job requirements. These tablets let participants send and receive e-mails and notifications and perform the analysis required by the job.

• **FY1.** During the morning of day one, participants encounter a series of significant business challenges that can potentially cause customer defection. Participants experience familiar stress, anxiety, time pressure and inconsistent data, which leads to fatigue, frustration and failure. The experience shows how their conventional approaches to problem-solving are not sustainable. We then introduce The Klapper Institute's scientific method. We begin to discuss how these new skills can be applied.

• **FY2.** Fiscal Year 2 begins on the morning of the second day. FY2 helps participants experience how optimizing department-level performance without building connections across the organization fails to deliver the desired result. Participants start to feel the impact of internal focus versus customer focus and realize how bureaucracy inhibits a quick response to changing market conditions. They discover how hierarchical decision-making contributes to slowed actions.

• **FY3.** During the second and final afternoon of the Lab, participants operate FY3 of NAVCorp and apply all of the knowledge, new skills and — most important — radically new perspective to make dramatic performance gains across all financial, operational and cultural measures. Employees now also recognize that change is inevitable and embrace it as an ongoing part of their professional life.

The Corporate Lab drives the ability to produce lasting change around the Q-Loop. The Lab absorbs the cultural norms of an organization, which lets participants view familiar information through a very different lens. This new way of viewing their organization and themselves recalibrates their perspective and makes them open to change.

A Scientific Method for Achieving Your Mandate

It's time to learn the Results Triangle, which comprises three powerful steps designed for you to systematically and consistently deliver on the promises made to your customers. The three Ls of the Results Triangle are

Listen. Listen to both the customer and the business by interviewing customers and key stakeholders, analyzing past research and documents, assessing competitor positioning and mapping key processes.

Learn. Learning is the act of understanding the current operating environment, analyzing its performance, hypothesizing potential root causes, and conducting experiments to validate the hypotheses.

Launch. Launching initially begins with a series of rapid prototypes or pilots, followed by a carefully coordinated rollout and detailed monitoring.

Listen Phase Step 1: Listening to the Voice of the Customer

The customer must be considered at the start of all major change initiatives. Learning to listen to the cus-

tomer will help you identify the specific customer needs around which a product or business process will be designed or help you understand how customer needs relate to strategy development, growth, achieving operational excellence, or preparing for an IT implementation. Learning to listen to the voice of the customer will let you establish clear standards of performance based on actual customer input. It will also help you obtain a complete description of the factors that create customer satisfaction, including output requirements and service requirements.

I have been associated with organizations that have spent millions of dollars and many months surveying their customers. I take a radically different approach. I call my survey strategy the Rule of 10^3. This means 10 questions conducted with 10 customers, prepared and launched in 10 hours. For the focused work you are performing, if you can ask the precisely targeted 10 questions to the right 10 customers, you will learn 90 percent of what you need to know.

Listen Phase Step 2: Listening to the Voice of the Business

Listening to the voice of the business means generating a deep and thorough understanding of how the business is performing today. You should determine who should attend strategic planning sessions (six to eight people usually works best, and these should all be key decision makers).

Be careful, because everyone will want to attend, but contributing to strategic planning is different from merely attending the meetings.

Learn Phase Step 1: Hypothesizing the Root Cause of the Problem

Asking "why" in the right way leads to new insights and innovations that can yield elegant and powerful solutions. Repeatedly asking why, as a child might, is a source of continuous self-renewal. But asking why properly is an art.

I do not doubt that you and many of your colleagues are excellent problem solvers who generate solutions daily. But if you tend to solve the same issues repeatedly, you are not getting to the true root cause.

Brainstorming is an effective way to generate ideas to solve problems, make decisions and explore improvements. In true brainstorming, it is essential that you do not interrupt the thought process. It is a creative, free-thinking activity. As ideas come to mind, they are captured without bias on a flip chart or by some other recording device.

Learn Phase Step 2: Experimenting to Validate the Hypothesis

Now it's time to validate the hypothesis you developed for the root cause. Experiments are only effective if they deliver significant learning to the company. Although companies can save money by lumping experiments into one large test, experimenting frequently minimizes problem-solving delays and the cost of redesign. Given that new technologies drastically reduce the cost of testing, the need for frequent experimentation becomes more vital. But companies must be prepared to handle the increased load of information that comes with greater experimentation.

Launch Phase Step 1: Building a Pilot

It might seem counterintuitive, but to achieve your mandate, it's imperative that you build a pilot that's rough, rapid and right. In other words, it's not meant to be a finished product.

Depending on your mandate, there are several types of pilots that can be mixed and matched as needed.

Offline. This is not performed on actual customers or services but simulated by using old customer information to minimize any potential disruption in business.

Limited duration. Depending on the pilot, these can be run for a week, month or quarter, but they have well-defined stop and start dates.

Segmented customers or products. This provides scope to make the pilot more manageable by operating in one customer segment. Remember, you are after confirmation that the pilot is effective, not yet financial results.

Limited locations. Designed to make the pilot more manageable, this type selects one office, region or sales territory.

Once you run a successful pilot, your next step is implementation in the form of a broader rollout.

Launch Phase Step 2: Implementing Across the Organization

Cited as the number-one reason for CEOs failing, final implementation is possibly the hardest part of the entire Q-Loop. Certainly, it's the most important job for senior management, and it's the hardest discipline to achieve throughout an organization.

It's critical to know why 75 to 85 percent of implementation efforts fail. The most widely cited reasons are lack of top management commitment and lack of proper commitment of time and resources.

For successful implementation, there must be two components: dynamic leadership and an effective plan.

Launch Phase Step 3: Measuring, Monitoring and Providing Ongoing Feedback

Now that the groundbreaking ideas are approved and the team of heroes can finally exhale, you need to embark on the real beginning of hard work. The beginning, you ask? Yes, the beginning. This is where you translate all the ideas into action.

The trouble is that when it comes to successful implementation, execution tactics are just as critical as strategy. Detailed planning involves breaking work down into smaller parts.

I've found that achieving strategic planning and management goals requires an actionable plan that considers the people required to bring the plan to fruition. Sounds simple enough. Yet in practice, both plan and people have challenges and uncertainties that must be carefully managed. An inherent lack of accountability in the planning process leads to problems and sometimes complete failures in execution.

Everyone is accountable for his individual tasks, which are required to achieve the overarching organizational goals; some people, including the CEO, may be accountable for reinforcing the tasks. ●

PART THREE: EXITING THE Q-LOOP

Ignite a Wildfire of Pull

Now the questions are, "How can you be sure not only that this change initiative takes root but that future initiatives run smoothly as well? And how can you make certain that the energy you triggered over the past month gets embedded into your organization's DNA?"

Here is where the executive management team needs to take ownership of the process and be the true leaders they were charged with being. Too often, organizations set the strategic direction for the change, and then the leaders remain remote, leaving the actual change to less motivated people. It's a cause for defeat.

It's time to eradicate all detrimental attitudes and actions and replace them with the following four key strategies to ignite a wildfire throughout your organization for all future change initiatives:

• **Create and sustain real energy.** As soon as possible, create a new team and a new mandate. Use members of the previous team as advocates to promote the experience. Set clearly defined and well-communicated goals for the next 36 months. A principal reason that so many change programs collapse is that management fails to quickly move from talking to action. Focus on both quantitative performance and corporate health. And as you build your teams, identify key influencers at all levels, and bring them on board for specific initiatives.

• **Communicate goals and successes compellingly.** By demonstrating success, you encourage other areas of your organization to quickly embrace the approach. While the iron is hot, do everything you can to help the organization roll out the pilot and then quickly commence another high-profile project — or several simultaneously. Share as much information with colleagues as is appropriate during a project. Communicate the positive stuff in a tweet, a blog or by e-mail. Make sure senior managers live the change they want to see in the organization.

• **Raise employees' expectation.** Individuals in organizations, to embrace change, must also engage in a process that reshapes how they think about themselves, not just about their jobs. Change needs to become part of your organization's culture. The surrounding structures must be in tune with these new behaviors. Employees must be given the skills and support to do what's required of them. And they must see people they respect modeling it every day.

• **Ensure that transformation is an ongoing effort.** Transformation is a perpetual process, and it involves all members of your organization. Change is a constant. A one-off program doesn't address the need for the long-term change.

Greatness comes to the bold. Be bold. So many of my clients have been and continue to be, and it has served them well. When someone writes a book many decades from now about organizations that have weathered the years by remaining nimble, will you be on the list? Will you have left your competitors in the dust? Will you have achieved the ability to produce lasting change?

Now it's up to you. ●

RECOMMENDED READING LIST

If you liked *The Q-Loop*, you'll also like:

1. ***The 4 Disciplines of Execution* by Chris McChesney, Sean Covey and Jim Huling.** Battle the whirlwind of urgent activity required to keep things running by learning the four disciplines that make execution repeatable.
2. ***Changeology* by John C. Norcross, Ph.D.** Change is hard, but not if you know the five-step formula that Norcross provides. Backed by cutting-edge research, this process can make change permanent.
3. ***Adaptability* by Max McKeown.** McKeown draws on millions of years of evolution to create a practical, strategic set of rules that will make adaptation a part of your company's DNA.

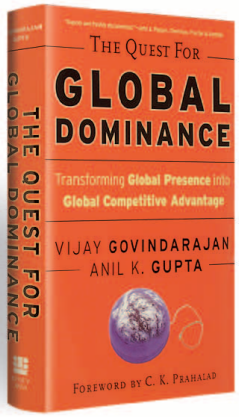
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The Quest for Global Dominance

Vijay Govindarajan and Anil K. Gupta

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Transforming Global Presence into Global Competitive Advantage

THE QUEST FOR GLOBAL DOMINANCE

By Vijay Govindarajan and Anil K. Gupta

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THE SUMMARY IN BRIEF

We live in an increasingly global world. Hollywood producers have to care about whether a movie will be a box office success in the United States and overseas. The CEO of Black & Decker has to care about the actions of its foreign competitors, Makita and Bosch.

Globalization is no longer an option; it is a strategic imperative for all but the smallest corporations. To stay competitive in the worldwide marketplace, business executives must lead their companies in developing and sustaining efforts to globalize their organizations. This is as true for firms in industries such as cement, construction and health care as it is for firms in industries such as semiconductors, television and automobiles. This summary offers the actions and mindset you'll need to emerge as a winner in your battle for global dominance.

What You'll Learn In This Summary

- **There are market opportunities worldwide.** To grab them, you must identify key markets and establish a strong presence in them.
- **Global presence isn't enough.** Turning a global presence into a global competitive advantage requires identifying and developing the opportunities for value creation that your global presence offers.
- **A global mindset is crucial for success.** Cultural and geographic diversity are a challenge as well as an opportunity. Develop a global mindset, and you will be able to adopt successful practices and good ideas at home and across borders.
- **The rules of the global game are being reinvented.** To reinvent your own rules, you must rethink the answers to the classic business model questions: Who are our target customers? What value do we want to deliver to these customers? How will we create this value?

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THE QUEST FOR GLOBAL DOMINANCE

by Vijay Govindarajan and Anil K. Gupta

— THE *COMPLETE* SUMMARY

What is Globalization?

Globalization refers to growing economic interdependence among countries as reflected in increasing cross-border flows of goods and services, capital and know-how. The world really is becoming more global. But not all countries, industries and companies are becoming globally integrated at the same rate.

At the country level, globalization refers to the extent of the interlinkages between a country and the rest of the world. Historical and political reasons have caused some countries, such as Cuba, to remain relatively isolated while other countries, such as China and India, have made great strides toward global integration.

At the industry level, globalization refers to the degree to which, within the industry, a company's competitive position in one country is interdependent with its competitive position in another country. The greater the degree of interdependence, the greater will be the extent to which the industry is dominated by the same set of global players who face each other in almost every market. For example, the global wireless industry is dominated by Nokia, Motorola and Ericsson and the soft drink industry by Coca-Cola, Pepsi-Cola and Cadbury-Schweppes.

What is a Global Company?

A global company can be viewed along four dimensions: globalization of market presence, globalization of supply chain, globalization of capital base and globalization of corporate mindset. Globalization of market presence is the extent to which a company is targeting customers in all major markets for its industry. Globalization of supply chain is the extent to which a company is accessing the most beneficial locations worldwide for meeting its supply chain needs. Globalization of capital base is the extent to which the company is tapping into optimal sources of capital worldwide. Finally, globalization of corporate mindset occurs when a corporation understands global diversity and embraces it.

Four Essential Tasks for Global Dominance

Companies that want to become globally dominant players within their industries must:

- Lead their industry in identifying market opportunities worldwide and pursue these opportunities by building a presence in those key markets.
- Work relentlessly to convert global presence into global competitive advantage and identify and exploit value creation opportunities.
- Cultivate a global mind set, view cultural and geographic diversity as opportunities to exploit, and be prepared to adopt successful practices and good ideas wherever they originate.
- Constantly strive to reinvent the rules of the global game.

For a closer look at what's driving globalization, go to: http://my.summary.com

Build a Global Presence

There are six issues companies making the journey from local to global company must confront: choice of product; choice of strategic market; mode of entry; transplanting corporate DNA; winning the local battle; and speed of global expansion.

Choice of Product

If your company produces multiple products, your first decision will be whether to introduce all or some to the global market. Introducing all products at the same time carries a large risk. You must identify those products, business units, or lines of business that are good candidates. Evaluate each project along two lines:

(continued on page 3)

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Build a Global Presence

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potential return (expected payoff) and potential risk (required degree of local adaptation.) The greater the need for adaptation to the new market, the less likely it can be exported. Pick a product or service that has high potential return and requires the least amount of reconfiguration.

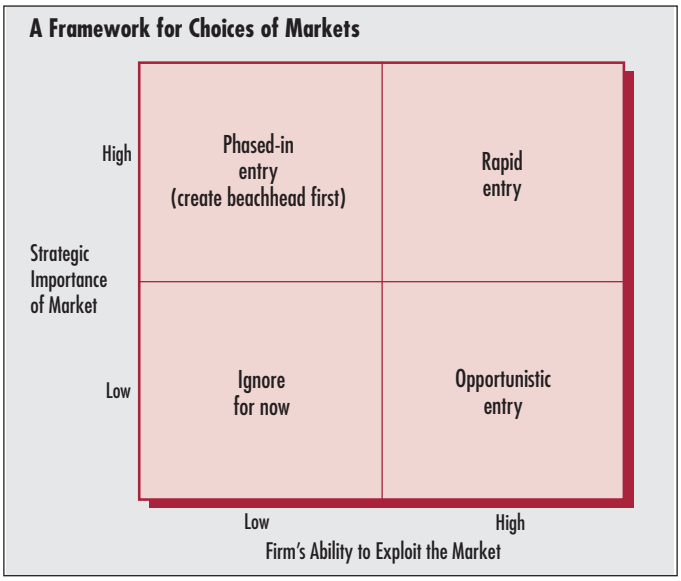
Choice of Strategic Market

You could pursue opportunities in an ad hoc, random fashion, but a systematic and logical framework is preferable. Major considerations are the strategic importance of that market and your company's ability to exploit that market. If you find that one market has high strategic value and that you have the ability to exploit it, rapid entry is called for. If the market is of high strategic value but you have limited ability to enter it, consider establishing a beachhead first.

Mode of Entry

Once you have selected a country to enter and decided which products will be part of the launch, you must determine the appropriate mode of entry. Will you export products into the market, or will you set up local production? Will you use a combination of exports and local production? Will you export components for local assembly? Will you retain ownership and license or franchise your product or service, or will you acquire or grow a locally owned operation? You may also have to consider other partial ownership options such as joint ventures or affiliates. These factors dictate your choice:

- **The larger the market, the more likely that you will achieve efficiencies of scale by operating locally.** This minimizes tariff and transportation costs.
- **Sometimes shipping and tariff costs are too great.** Local production is then the answer.
- **Products that have to be greatly customized should be locally produced.**
- **The more dissimilar and unfamiliar the target market is to your current market, the more likely you will have to rely on a local partner or an acquisition.**
- **Watch out for a partner's ability to learn from you how to run the business while you don't learn from it how to operate in the market.** If your partner learns faster, he has an incentive to break ties and go it alone. He can, in effect, become your biggest competitor.
- **If you lack sufficient capital to go it alone, you have no choice but to find a partner.**
- **If government regulations require local equity participation, you also may have no choice but to go the partnership route.**



- **You must also decide whether you will set up production as a green field or make an acquisition.** Starting from scratch the green field way has the advantage of allowing you to take with you your corporate culture and management style. It also carries the risk that your entry will be delayed while you gear up.

Transplanting Corporate DNA

As you enter the new market, you will have to transplant the core elements of your business model, its core practices and beliefs — in short, its DNA. This is no easy task.

Consider what happened when Walt Disney opened its Euro Disney theme park near Paris in the early 1990s. The Disney dress code includes a ban on facial hair and colored stockings, and requires the use of appropriate undergarments. The French did not take kindly to being told how to dress, and hiring employees proved very difficult.

Transplanting core beliefs to a company you have acquired requires that a group of true believers in the company be transplanted so that the new beliefs can take root. This group must retrain and expose all workers and managers to the company's beliefs. Imbedding will take time.

When the Ritz-Carlton chain opened in Shanghai, the company had to embed its beliefs in its new subsidiary. The company believed the hotel needed significant upgrading if it were to reflect the company's core beliefs about what a hotel is and how it should be run. To that end, it brought in 40 expatriates from other units in Asia and around the world. What it did the first week worked magic to embed the company's standards of quality and service in the minds and hearts of employees. The renovation process for the hotel began with the employees' entrance and work areas. This served to sig-

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Build a Global Presence

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nal two radical changes; that standards were to be radically higher and that employees were valued. By renovating worker space first, the company reinforced the company belief that "We are Ladies and Gentlemen serving Ladies and Gentlemen."

Winning the Local Battle

Winning the local battle requires the global enterprise to anticipate, shape and respond to the needs and actions of three sets of players in the host country; its customers, its competitors, and the host country government.

Host country customers. Winning host country customers is easiest if the foreign market is similar to the one in the home market. But that is seldom the case. Consider what happened when Nike thought it could transplant its marketing approach to Europe. In the United States, Nike had become a huge success by projecting the image of an irreverent rebel who glorified the lowly sneaker, worshipped athletes, and rebelled against the establishment. Nike took that approach in Europe, running commercials featuring a French bad boy saying that he had won a Nike contract by insulting his coach. That did not play well in tradition-bound Europe.

Host country competitors. Expect retaliation from local competition. Remember, local competitors have an advantage — they know the local market. You have four possible defenses: acquire the competition, acquire a weak player and gain local advantage, enter a poorly defended niche, or stage a frontal attack. This last approach was taken by Lexus when it entered the United States market. It took on Mercedes and BMW, knowing they were constrained by high labor costs in Germany.

Host country government. In emerging markets, local government are often a key external stakeholder. Local government cannot be ignored. Companies must anticipate the regulatory climate and even explore helping shape it.

Speed of Global Expansion

When a company is building a global presence, it has to decide how fast it should expand globally. A rapid expansion is more appropriate if it is easy for competitors to replicate your recipe for success. Fast food companies expand quickly to arrive on the local market before local competitors copy their business models. The ability of management to manage global operations is another important consideration. ■

The Imperatives to Globalize

Five imperatives drive any firm to pursue global expansion, but each firm feels the imperatives differently. These are:

✓ **The growth imperative.** For many companies, developed country markets are mature, compelling them to look to emerging markets for fresh opportunities. For example, annual paper consumption per capita is about 600 pounds in North America, but 30 pounds in China and India. Were consumption to increase by just one pound per capita, the increase could keep five state-of-the-art paper mills running at peak capacity.

✓ **The efficiency imperative.** Whenever there are one or more activities in your value chain where the minimum efficient scale exceeds the sales volume feasible within one company, a global player has a cost advantage over a domestic one. By producing at peak efficiency and selling in more than one market, you can cut cost and beat the competition.

✓ **The knowledge imperative.** No two countries are completely alike. Companies must adapt products or services to dissimilar environments, which requires local know-how. In turn, these adaptations may benefit the company at home and abroad. For example, GE India developed a CT scanner that was simpler, easier to transport, and cheaper for the Indian market and can now use that technology in other markets.

✓ **Globalization of customers.** When domestic customers start to globalize, firms must keep pace with them. Executives who travel overseas, for example, come to expect the same level of service away from home as at home.

✓ **Globalization of competitors.** If your competition globalizes, and you don't, you become vulnerable to a two prong attack. First, the competition gets a first-mover advantage in a new market, and second, they can use a multi-market presence to cross-subsidize and wage a more intense attack back home.

Exploit Your Global Presence

In the early 1990s, PepsiCo established an ambitious goal to triple its international soft drink revenues. By the mid 1990s it had built an extensive global presence. The expansion did not, however, translate into growth and profitability. By 1997, the company withdrew from some major markets, including South Africa, and had to take a nearly $1 billion loss from international beverage operations. PepsiCo's international market share and revenues were actually shrinking, while Coca-Cola was growing. Securing a global presence isn't synonymous with possessing global competitive advantage.

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Exploit Your Global Presence

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Transforming global presence into solid competitive advantage requires systematic analysis, purposeful thinking and careful orchestration. Without a disciplined approach, global presence can easily degenerate into a liability that winds up distracting management and wasting resources. Worse yet, the end result can be a loss of competitive advantage in the domestic market.

To convert your company's global presence into global competitive advantage, you must pursue six value creation opportunities. You must:

● **Adapt to local market differences.** Differences in language, culture, income levels, customer preferences and distribution systems need to be considered. McDonald's adapts its menu to regional differences with lamb-patties in India and teriyaki burgers in Tokyo. *Business Week* produces different editions for the North American, Asian, and European markets. Be careful that your efforts to adapt to local tastes don't backfire, though. When TGI Friday's opened in Korea, the restaurant offered traditional local dishes like kimchi on the menu. Customers responded negatively, and surveys revealed that they had expected a visit to TGI Friday's to be "a visit to America."

McDonald's adapts its menu to regional differences with lamb-patties in India and teriyaki burgers in Tokyo.

● **Exploit economies of global scale.** As you build a global presence, you must convert the larger scale you will be working with (i.e. larger revenues and asset bases) into economies of scale. You may be able to do this through spreading fixed costs, reducing capital and operating costs, and pooling purchasing power.

● **Exploit economies of global scope.** Global scope refers to the multiplicity of regions in which a company markets. When a company finds it needs to provide similar goods or services across many regions, it can reap rich rewards. For example, McDonald's needs to provide identical catchup and mustard packets to its operation in every market. By using a single global supplier, it can reduce costs significantly over using multiple local sources, and can guarantee consistency.

● **Tap the optimal locations for activities and resources.** When expanding into global markets, your company may need to make location decisions based on factors like the availability of local talent. For example, when Microsoft sought to establish a corporate research unit in England, it located near Oxford and Cambridge universities. Significant cost reductions can occur if a company sets up shop where labor is inexpensive. Texas Instruments took this approach when it set up a software development unit in India.

Building World-Class Competencies

Once you have chosen the locations at which a particular activity will be performed, the next step is to build competencies at those locations. Many countries with lower wage rates also suffer from lower levels of productivity. Smart companies aren't prisoners of such statistics. Instead, they cultivate competencies in their work forces. This can be done successfully in locations where:

- ✓ **despite relative poverty, there is a large pool of highly educated workers such as in India, China and the Philippines;**
- ✓ **high unemployment levels mean a talented and motivated pool of workers;**
- ✓ **the company is starting from scratch, and can train workers.**

● **Maximize knowledge transfer across locations.** Every global company has what amounts to a portfolio of knowledge centers. After all, global companies develop unique knowledge as they exploit the resource and market opportunities of the local environment. This specialized knowledge pool can be leveraged to yield strategic benefits to the entire global enterprise. For example, Proctor & Gamble developed Liquid Tide using knowledge from operations in Cincinnati (ingredients to help suspend dirt in washwater), Japan (cleaning agents), and Brussels operations (ingredients that fight mineral salts in hard water).

● **Play the global chess game.** In the global competition between Kodak and Fuji, and Coke and Pepsi, each side can adopt one of two approaches: view it as a war and slug it out on a country by country basis, or view it as a chess game, attacking through coordinated action of all available resources. If you choose chess, one goal is to weaken the competitor in its current strongholds. For example, Fuji took on Kodak in its home market by aggressively cutting the price of multi-packs of film by as much as 50 percent and gained substantial market share. Another chess move involves preempting a competitor from building a strong presence in future strategic markets. ■

For another example of leveraging knowledge, go to: http://my.summary.com

Cultivate a Global Mindset

A person's mindset represents a theory of what the world is like and is the result of that person's efforts to make sense of the complex, changing and ambiguous information we are exposed to. To complicate matters, one's mindset tends to filter new information so that only that which is consistent with our existing beliefs reaches us.

For example, Kenneth Olsen was founder and CEO of Digital Equipment Corporation. In the mid-1970s DEC was the world's second-largest computer market and the market leader in the minicomputer segment. In 1977, Olsen observed that, "There is no reason for any individuals to have a computer in their home." That mindset resulted in his company's late entry into the personal computer market. It never recovered its footing, and by the mid 1990s it ceased to be an independent company. It was acquired by rival Compaq.

Just as individuals have mindsets, so do organizations. An organization's mindset is an aggregated mindset of individuals adjusted for the distribution of power and mutual influence among the group. Unless the CEO is extremely powerful, a company's mindset is far more than a carbon copy of the CEO's.

Organizational mindset can be changed. This happens when there is a change in the relative power of individuals who are in decision-making positions, a change in the way members of the organization interact, and a change in the mindset of those arriving from that of those leaving the organization.

What does it mean to say that an organization has a global mindset? Chiefly, it means that the organization is open to and aware of diversity across cultures and markets and can work with that diversity while, when necessary, challenging assumptions based on that diversity. For example, a manager with a global mindset can understand the role of unions in Italy or Spain while challenging the assumption that, "You can't do that in Italy or Spain because of the unions."

The ability to deeply understand diversity and yet challenge preconceived notions is illustrated by a U.S.-based household accessories company, Home Decor (not its real name.) Founded barely four years ago, the company is one of the fastest-growing manufacturers of household accessories, with a five-star customer base that includes some of the biggest and most prestigious retail chains in the United States. According to the CEO, who is an immigrant from China, the company's strategy is to combine Chinese costs with Japanese quality, European design and American marketing. The company understands that there are Chinese competitors, but they don't concentrate on quality, and that there are American companies with excellent product quality, but high cost. Home Decor has a mindset that lets it embrace diverse standards, and synthesize a business that capitalizes on the strengths while minimizing the weaknesses.

Building A Global Knowledge Machine

Whenever a company extends its presence across borders, it is confronted with diversity. Companies that view that diversity as an opportunity to create value for customers and shareholders have a powerful resource on their hands. The process of adapting products to each location forces each subsidiary to engage in at least some local innovation. Every such innovation represents the creation of new knowledge.

In a world in which the half-life of new knowledge is becoming ever shorter, an effective knowledge machine must excel at two central tasks: creating and acquiring new knowledge; and sharing and mobilizing this knowledge throughout the global network. How do you get people to continually come up with new and novel ideas? Try these:

✓ **Set stretch goals.** The easier the target, the less the need for new approaches. You need to set goals that are hard to achieve and require new thinking.

✓ **Provide high-powered incentives.** Stretch goals increase personal risk of failure. Unless the potential reward matches the higher level of risk, it would be irrational for smart people to stay with the company.

✓ **Cultivate empowerment and slack.** Stretch goals and high-powered incentives stimulate a demand for new ideas. In contrast, empowerment and slack are supply-side tools that play a critical role in increasing creative output. At 3M, for example, scientists are expected to spend 15 percent of their working time on projects of their own choosing.

✓ **Cultivate a market for ideas within the company.** Create a culture where an idea rejected by an immediate supervisor can still be shopped around.

✓ **Ban knowledge hoarding and turn knowledge givers into heroes.** You want good ideas to spread.

✓ **Rely on group-based incentives.** These reinforce the idea that knowledge should be shared.

✓ **Invest in codification of tacit knowledge. Write it down.**

✓ **Match transmission mechanisms to type of knowledge.** Some things are best transferred in writing or electronically, while other kinds of knowledge should be directly passed from person to person.

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Challenged in Knowledge Creation and Mobilization

Identifying and using intellectual property is often hampered by complacency, employees with low decision-making discretion, and the lack of support for innovative ideas by management. Knowledge acquisition is often hampered by failure to be an early mover and the inability to integrate external knowledge. Knowledge retention is hampered by employee turnover and leak of proprietary information to the competition. Other factors preventing use of intellectual property include the "How does it help me?" "Not invented here" and "Knowledge is power" syndromes.

Cultivate a Global Mindset

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IKEA's Learning Curve

When IKEA first tried to enter the United States market, it showed that it didn't yet have the right global mindset. Swedes constitute almost the entire top management team of the company, and fluency in Swedish was considered essential at the senior level. And when the company attempted to enter the United States, it replicated the traditional Swedish concepts that had made it a success in Scandinavia, without regard to differences in the target market. For example, it didn't offer home delivery, it opened Swedish style cafeterias in the stores, and it sold beds that needed Swedish sheets rather than sheets made to fit United States standard sheets. In short, IKEA saw the world through Swedish filters.

The company reexamined its U.S. operations, and began to understand that the needs and buying behaviors of American customers were different. It took time before the company was able to adapt the advantages its products offered to the needs of American consumers.

Advantages of a Global Mindset

A global mindset will allow the company to outpace its rivals in assessing market opportunities, and to convert its presence across multiple markets into global competitive advantage. It will be able to combine speed with accurate response. It will have an early mover advantage in identifying emerging opportunities, will experience faster roll-out of new product concepts and technologies, and rapidly and efficiently share its best practices across subsidiaries.

Cultivating a Global Mindset

The quest for a global mindset is a ceaseless journey. But four qualities will help. These are:

- **Curiosity about the world and a commitment to understanding how it works.**
- **An explicit and self-conscious articulation of the current mindset.**
- **Exposure to diversity and novelty.**
- **A disciplined attempt to integrate what you learn about cultures and markets.** ■

For another example of a company with a global mindset, go to: http://my.summary.com

Change the Rules Of the Global Game

Prior to 1995, most books were bought in bookstores or from printed catalogs. Then Amazon.com began offering books for sale on its web site. By mid-2000, over 20 million customers worldwide were buying books, CDs and other goods worth more than $2.5 billion annually from Amazon.com via the Internet. The retailer provides 24-hour-a-day convenience, global reach and a wider and deeper product mix than any conventional bookseller, while boasting lower prices and better customer service. Amazon.com illustrates that competitive advantage isn't just a function of how well a company plays by existing rules, but also of how well if can radically change those rules.

A Framework for Creativity

Transforming the game is fundamentally a creative undertaking that cannot result purely from a deliberate and purposeful process. Neither is it strictly a function of luck, accident or opportunism. In fact, it is possible to use an explicit and systematic framework to guide the creative process.

First, identify your current business model. A company's business model is typically created by answering three questions: Who are our target customers? What value do we want to deliver to these customers? How will we create that customer value? To radically change that business model, redesign the end-to-end value chain architecture to be more efficient, reinvent what value the customer receives, or redefine the customer base. Changing any of the three will radically change the other two. What you will be doing is essentially converting one internally consistent business model into another internally consistent business model.

Dell's New Business Model

Dell Computers went through a radical redesign when its founder, Michael Dell, looked at the old way of producing, selling and delivering personal computers. The traditional way was to build-to-stock. Computer makers

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Change the Rules of the Global Game

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would build the kind of computers they thought customers wanted, send them to warehouses, and distribute them to resellers and retailers, who then sold them to customers.

Dell's redesign worked like this: outsource all component manufacturing, and assemble the units in-house as customers placed orders directly with the company. Dell takes order over the phone or via the Internet. It works. Customers order directly because they don't need the hand-holding they did early in the computer revolution. Dell buys only those components it needs to assemble computers that have been ordered and doesn't have to pay a reseller. And there are no outdated, unwanted computers sitting in warehouses losing value.

Reinventing Customer Value

If you choose to reinvent customer value, consider making the move from selling discrete products to selling an integrated system of products and services. Be aware that customers may be reluctant to make you their sole source for products and services for fear that you will exploit your position. Therefore, be sure that your total product or service system includes only products that are best in class, that the system you design is really superior to getting the goods or services from multiple sources, and offer the bundle at lower cost than it would cost to get the items or services from separate providers.

Reinventing Your Customer Base

If you choose to redefine your customer base, be sure that there are real benefits to doing so. To work, the customer segment you discover must be so large as to result in dramatic enlargement of the entire industry's customer base. Examples include Apple Computers, which redefined the computer market to include every man, woman and child in the world, and Canon, which redefined the copier market to include individuals and small businesses.

Here's what happens when you redefine the customer: The new segment changes the value potential of the entire industry. Then the solutions companies design for the new segment begin to substitute for the historical solutions of the original segment. The real breakthrough occurs when the company dominating the new segment then leverages that dominance to use in a direct attack on the incumbent players in the original segment. ■

Reinventing Customer Value

Want to reinvent customer value? Here are some ideas to get you started:

✓ Move from selling software and hardware to supplying total business solutions.

✓ Go from selling insurance, banking, mortgages, or mutual funds to providing financial security and freedom by integrating financial products and services.

✓ Go from selling packaging material to supplying total packaging systems.

Globalization in the Digital Age

The emergence of the digital era has done more to bridge distance than any other development in the last few decades. Innovations include computers and the Internet, point and click interfaces, broadband connections, mobile communication, speech recognition, and wireless data transfer. Digital technologies are making the world highly connected. As a result, within the next five years, every company will likely be an Internet company or it won't be a company at all.

Globalization Imperatives for Newly Formed Netcentric Firms

For newly formed Netcentric companies, the pressures to globalize at Internet speed are enormous. The basic concepts behind business models pioneered by Yahoo!, e-Bay and Amazon.com, and the value propositions they offer, are globally applicable. The problem, of course, is that if these companies don't go global right away, someone else will take their concepts. The opportunity cost of delay is potentially very high. But for new companies, expanding rapidly has dangers.

Netcentric companies will have to resolve the dilemma. In most cases, it boils down to how early in its life should the company go abroad and how rapidly should that deployment happen. It can take one of four approaches: go global from the beginning, preemptively go global as quickly as possible, acquire potential competition overseas, or adopt a slow globalization strategy. The choice depends largely on the cross-border scalability of the enterprise's business model.

One Netcentric company that found its business model wasn't scalable was Internet retailer Boo.com. A well-funded venture, it intended to sell fashionable sportswear worldwide. It launched in November 1999 in 18 countries. Four months later it added 13 additional countries (and currencies, languages and fulfillment infrastructure.) It proved to be too much too fast. Two months later and well before its first anniversary, it was liquidated. Others have fared better, usually by going global at a less rapid pace. ■

For an article on the dynamics of global business teams, go to: http://my.summary.com

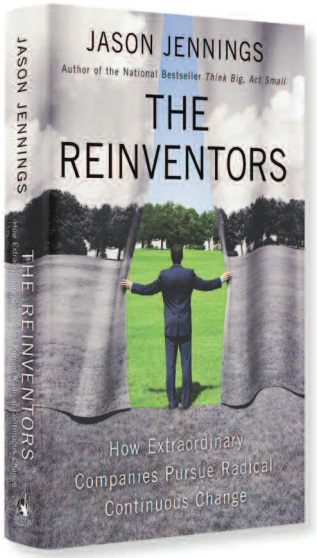
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The Reinventors

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The Reinventors

How Extraordinary Companies Pursue Radical Continuous Change



by Jason Jennings

THE SUMMARY IN BRIEF

For most businesses, success is fleeting. There are only two real choices: stick with the status quo until things inevitably decline, or continuously change to stay vital. But how?

Best-selling leadership and management guru Jason Jennings and his researchers screened 22,000 companies around the world that had been cited as great examples of reinvention. They selected the best, verified their success, interviewed their leaders, and learned how they pursue never-ending radical change. The fresh insights they discovered became Jennings's "reinvention rules" for any business. The featured companies include, among others: Starbucks — which turned itself around by making tons of small bets on new ideas (fresher store designs, better food products and free Wi-Fi were a few of the results); and Arrow Electronics — which found success by solving problems that drove its customers crazy and has become a $20 billion electronics giant by shifting its focus from selling commodities to custom tailoring solutions.

If you're ready to toss same old, same old out the door, *The Reinventors* will become your road map to successfully pursuing continuous change. It will help your company stay relevant for years to come.

IN THIS SUMMARY, YOU WILL LEARN:

- What constant change means and how to implement it into your business.
- What the Reinvention killers are.
- How small bets can lead to big payoffs.
- Who the best people are to have on your reinvention team.
- The benefits of being frugal.

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THE COMPLETE SUMMARY: **THE REINVENTORS**

by Jason Jennings

The author: Jason Jennings is the best-selling author of *It's Not the Big That Eat the Small — It's the Fast That Eat the Slow; Less Is More; Think Big, Act Small;* and *Hit the Ground Running. USA Today* named him one of the three most in-demand speakers in the world.

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Introduction

Your job as you know it and your business as it is currently run will eventually change. The only chance any of us have for prosperity is to constantly reimagine, rethink and reinvent everything we do and how we do it in order to remain relevant. We must all become reinventors, and we'd better do it quickly.

Compare the list of the top 25 companies in the Fortune 500 in the year 2000 and the year 2010. The results are shocking. Sixteen of the top 25 companies fell off their lofty perches in the span of only 10 years. That's almost two-thirds!

Dig a little deeper and you'll find that since the Fortune 500 list was first published in 1955, more than 90 percent of the companies on it have been mopped up by smaller rivals, gone bankrupt, shrunk so small that they have become inconsequential or simply closed their doors. Certainly these thriving organizations had the intellectual and financial resources to ensure their continued success, yet all of these companies failed to constantly evolve, change, grow and reinvent themselves, and eventually they were kicked to the curb.

Today a combination of stagnant Western markets, former third world nations embracing technology and becoming manufacturing powerhouses with middle classes larger than that of the U.S., technology that makes everything increasingly transparent and customers who believe that they can get exactly what they want when they want it at a price they're willing to pay all add up to a game-changing business environment. Anyone who thinks that they'll get a free pass and that they don't have to constantly reinvent their business has their head in the sand. ●

Constant Change and Growth

Buried in the hopes of workers are two mammoth problems with huge consequences for the owners and leaders of businesses of every size and that speak directly to the need for constant radical change and reinvention:

• If a business isn't growing, the people who want to make more money and have more responsibility won't get what they want when they want it, and they'll find a reason to leave and pursue better opportunities elsewhere.

• Unless a business is constantly undergoing radical change, it will never be able to stay ahead of its customers' constantly changing wants and needs, and its growth will first falter and then completely stop.

Two of the primary responsibilities of a business leader are to keep a highly motivated team of people together and to make certain the team stays ahead of a growing base of customers who have constantly changing wants and needs. Everything else can be managed.

There's *never* been a business that has reached a desired level of revenues or profits and then remained static or stayed at the same level for any significant length of time.

Every business must be constantly and quickly changing, growing and moving forward or they'll eventually find themselves in a downward spiral that will ultimately result in their demise. Stalled companies historically lose almost 75 percent of their market value and often see their CEO and senior team kicked to the curb. Their replacements get saddled with long odds against them. Not even one out of two stalled companies find their way back to a healthy (4 percent or more) top line growth.

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Conventional Wisdom Won't Provide Continual Growth

Achieving and sustaining healthy growth is the biggest single challenge that every business will face during each day of its existence, because consistent growth simply isn't common, and profitable growth is even rarer. While studying companies around the globe, Bain and Company Research found that nine out of 10 businesses routinely fail to earn the cost of the capital invested in them. In fact, average annual growth in the 1990s was 1.4 percent and it was even less in the 2000s.

Building a Culture of Change and Growth

One of the most important decisions a leader will make is to determine what kind of culture the organization should have. Culture is defined as the shared attitudes, values, goals and practices of an organization; every group of people has a culture. Whether it's a small restaurant, a medium-sized office, or a multinational corporation with 100,000 employees, each group has a distinct culture — either the culture desired by the leadership and the one they constantly strive to spread throughout the organization or the one that exists by default. When a leader fails to provide the proper culture, one will still exist; it can best be described as one of every man for himself, each acting in his own best interests and to heck with the interests of the company.

If a leader truly wants to build a business committed to growth and change, then that message must become a vital part of the culture, and everyone must know it and practice it.

A Culture of Change and Growth Means a Better Tomorrow for Everyone

When a business is growing quickly, all the stakeholders — workers, leaders, customers, suppliers and investors — are happy and reap financial rewards. When a business isn't growing, those same stakeholders begin to suffer financially, imagine darker tomorrows looming on the horizon and eventually start looking elsewhere for better opportunities.

Workers: Unless a company is changing and growing, eventually wages get frozen, downsizing occurs, layoffs take place, and the company ends up with a disappointed, disillusioned and cynical workforce. Sooner or later the most promising and talented workers leave because they can't see a future that will allow them to achieve their full potential.

When a company is constantly changing and its revenues and profits are growing — assuming the ownership and leadership have learned the lessons that wealth must be shared with the people responsible for creating it — you'll likely find a happy and highly engaged workforce.

Customers: Customers, knowingly or not, seek an experience to accompany the product or service they're purchasing. The business that offers the best experience in that category wins.

When the money coming in the door isn't always increasing, there's no money to plow back into the business, which often signals the start of a downward spiral.

When a company is constantly changing, with revenues and profits being plowed back into the business to further improve the shopping and buying experience, you'll likely find engaged customers waiting for the next opportunity to spend money.

Vendors and Suppliers: When a company is growing, the vendors and suppliers with whom it does business are also able to grow and see a brighter future for themselves.

When a business stops growing, it frequently turns to treating vendors and suppliers poorly, constantly squeezing them on price in order to temporarily maintain its profit margins, delaying payments to momentarily bolster cash flow, and playing one supplier against another.

When a company is growing, it is more likely to acknowledge the importance of its vendors and suppliers and treat them fairly. In return, its suppliers frequently become trusted partners in uncovering new business opportunities.

Investors/Shareholders: If a company is publicly traded, then its shareholders demand either dividends or sufficient growth in the share price to justify their continued investment. If that doesn't happen, they lose interest and move on, looking for other places to invest their money.

When a company is changing and keeping the market on the edge of its seat wondering what's coming next, and when its revenues and profits are growing consistently, you'll generally find a happy group of investors and lenders fully prepared to help take the business to the next level. ●

Letting Go

Innovator Charles Kettering, the longtime head of research at General Motors and a prolific inventor, had warned his industry colleagues about getting caught in the trap of holding on to old ways. "An inventor is simply a fellow who doesn't take his education too seriously," he said. In other words, inventors are engineers who can let go of their expertness and achieve what

Apple's late CEO, Steve Jobs, called the "lightness of being a beginner again."

Before you can begin to embrace and implement continuous radical change and reinvention, you and/or your business have to let go of the reinvention killers that will destine your attempts for failure.

The Reinvention Killers

It's not possible to embrace change and reinvent a business until you're able to let go of the following eight reinvention killers:

Yesterday's Breadwinners. Every product or service has a natural life cycle that begins with an introduction, followed by growth, maturity and, inevitably, a decline as it becomes yesterday's breadwinner. There are no exceptions.

The bulk of revenues and profits of any service or product is generated during the growth and maturity phases. By the time it enters the phase of its natural decline, it should ideally have already been replaced with something more lucrative.

Ego. The ability of an organization to embrace radical change and reinvention is determined by the ego of the person in charge; substantive change is never initiated from the mid level or bottom ranks of an organization.

Keeping one's ego in check requires serious introspection, and answering the most intimate and revealing question anyone will ever ask themselves: "Is it all about you or are you truly doing what you do for the interests and greater good of the organization?"

Same Old, Same Old. "If it ain't broke, don't fix it" is a death knell for any organization hoping to change. The net effect of not challenging or changing anything until it's obviously broken is that a culture is created in which workers and managers become firefighters instead of proactive change agents. Any business that's constantly sending its managers to fix what's broken will become so preoccupied with temporarily fixing stuff in order to keep things the same that there will never be enough time for proactive reinvention.

Businesses that master the art of embracing radical change are quick to fix and change things before they're broken.

Conventional Wisdom. "Conventional wisdom" is a phrase used to describe ideas or explanations that have been generally accepted as truths based on the past. Using conventional wisdom to predict likely future results is an innovation killer, because none of the old metrics and rules hold up anymore.

If you possess an inquiring mind, then you've already got an advantage on this change killer. But if you don't, the only way to make certain it doesn't become a huge obstacle is to surround yourself with people who are prepared to constantly challenge the status quo.

Entitlement. Few things stand in the way of radical change and reinvention as much as a sense of entitlement. Entitlement is the misguided and arrogant belief shared by so many business owners and executives that their business has a right to continue to exist and do well simply by virtue of either being in business or having been successful at some point.

Greed. When the owners or leaders of a business are self-serving and greedy, treating the company as their own personal pocketbook, there's no chance for any significant change or reinvention to occur. When they talk about change or reinvention, it's only in the interest of tweaking things enough to keep things exactly the way they are for as long as possible, in order to fulfill their greed.

Short-timers. CEOs and senior leaders who are thinking about leaving a company have effectively already left. The biggest favor they can do the organization is to get out of the way and allow the business to change and grow. A shared human condition is the desire to leave an organization on an even keel, with everyone sharing fond memories. However, those desires are hardly the things that make risk taking, radical change, and reinvention possible as it puts change on the back burner.

Risk Averse. Some companies are averse to risk because they've actually seen so many of their peers fail. But it's irrational to be paralyzed by the fear of risk taking. Half of all new ideas fail because they don't get enough follow-up as they travel from off-site strategy sessions to everyday execution on the front lines. Leaders who troubleshoot their execution process and teach all managers how to get more follow-through can cut the odds of failure in half. ●

Kiss a Lot of Frogs

Each day, thousands of small and midsize companies make big, one-shot bets — and fail. We don't hear about most of them, just as we don't hear about people who lose the lottery; they aren't front-page news.

Businesses that do the best job of constant radical change and reinvention simply don't get blinded by the fairy tales of the biggest bets generating the biggest paydays. They realize that successful strategy is discovered by doing, and that doing has to be learned from making lots of small bets.

Starbucks Takes Small Steps to Get Big Rewards

When Howard Schultz stepped down as CEO of Starbucks in 2000, the company had enjoyed one of the most incredible runs of any global brand. Even though Schultz remained the company's chairman, the company's rapid expansion caused it to lose much of its brand's luster and soul. Then the recession hit. Customer traffic dropped precipitously, there was widespread employee dissatisfaction and many analysts who followed the company doubted the course could be corrected.

When Schultz retook the CEO reins in 2008, the first thing he did, he told the *Harvard Business Review*, "was admit to ourselves and the people within the company that we owned the mistakes we'd made." Next, in an effort to regain a sense of teamwork and re-establish the values within the organization, he took 10,000 Starbucks workers to New Orleans for a leadership conference. Additionally, Schultz closed 1,000 underperforming stores, eliminated 7,000 positions, revised the business plan downward to numbers they could hit, and embraced radical change and began making a dizzying series of small bets. Here are a few of the small bets placed by the company within the first 18 months of Schultz's return:

- New store design
- Wine and beer
- New products
- Mobile payments
- Big push in digital media
- Free Wi-Fi
- Via Ready Brew instant coffee
- New logo
- Starbucks Rewards card
- Starbucks Perfect Oatmeal
- Tea
- Doubling the number of stores in China
- Real-time monitors.

It's significant that the revenue generated by the large numbers of small bets Schultz made after retaking control of Starbucks is almost equal to the company's total annual profits.

How Many Small Bets Should You Make?

Every enterprise should be continually making as many small bets as can adequately be handled without disrupting the core business or putting it at risk. A small business with a handful of employees might be able to handle two or three concurrent small bets, while a large company with thousands of employees should probably be considering hundreds of potential small bets and implementing scores of them.

Make enough small bets that everyone knows they're being made and that doing so becomes a vital part of the culture of the organization. ●

Make Small Bets Smart Bets

SMART is an acronym to remember every time you make a small bet:

Specific. There is a detailed destination.

Measurable. Create a detailed roadmap with markers from the destination back to the starting point.

Accountable. Decide who is responsible at every checkpoint in the roadmap.

Resourced. Answer the tough questions: Is there enough time, money, and experience budgeted? Lack of one means you'll need more of the others.

Timed. Adhere to deadlines every step of the way so someone can track the follow-through.

Who Stays, Who Leads, Who Goes

In the past decade, there's been a change of epic proportions as most business owners and executives have come to understand that they don't stand a snowball's chance on a hot day of ever embracing change and growth without the right people who are focused and motivated every day at every level.

Buildings and plants don't matter, because anyone can build them; processes and efficiencies don't count, because they can be copied; and anything that any company makes, sells, or produces will eventually be done better, faster and cheaper by someone else.

Decisions about who goes and who stays, who leads and who follows will determine any enterprise's ability to embrace constant change, growth, and reinvention. Making the right decisions about people is a huge challenge. Dan DiMicco, CEO of Nucor Corporation, America's largest steel producer, says, "People aren't your most important resource — the right people are your only resource."

Who Stays (and Who Gets Hired)?

Companies committed to constant radical change and growth recruit and retain workers who exhibit the fol-

lowing six traits:

Basic smarts and eager lifelong learners. Make certain that potential workers possess not necessarily a formal education, but sufficient intelligence to play a role in an organization that's going to call for nonstop learning. And they have the ability to learn new things.

A good work ethic. Having a good work ethic means taking the initiative to get the job done, delivering as agreed without excuses or blame, being willing to make personal sacrifice for the good of the organization, and being loyal to the company and people with whom you work.

They truly like your company and want to climb some mountains. James Archer, founder, and Jorge Velarde, VP and CPO, of Multi-Chem, describe the culture of their company: "Our culture is about climbing a mountain," they say, pointing out that "any mountain climber will tell you it's not about reaching the top: it's about the journey, overcoming doubt, bravely going into the unknown. It's about accepting your constraints without letting them overcome your goals."

Optimistic. Companies that are committed to nonstop change and growth have no place for people who aren't able to imagine and see the possibility of better results tomorrow despite the problems and challenges of the moment. You need to look for people who are optimistic by nature instead of pessimistic.

Think like the owner. Charles Koch, the owner of Koch Industries, the world's largest privately held company, said, "You can't expect people to think and act like owners unless they understand how what they do creates economic value. And when people are taught how they not only create economic value, but that it's constantly measured and evaluated and that they stand to share in the profits, then thinking and acting like the owner becomes very easy."

They belong here. Steve Jobs frequently said, "Apple is an Ellis Island kind of company built on refugees from other companies. These are the extremely bright individual contributors who were troublemakers at other companies."

A workforce made up of people who share these traits will always be prepared for constant change and growth.

Who Leads?

The people chosen for leadership roles in companies committed to constant radical change and growth share all of the previous traits and the following five attributes:

Good leaders treat people well. "You've got to be good at treating people the way Nucor people deserve to be treated, how we want them to be treated and, most importantly how they want to be treated!" DiMicco insists.

Good leaders are good communicators. "Leaders need to be a coach, a mentor, a disciplinarian, a salesman; to lead their team so that they can accept change and take ownership," says DiMicco. Each of those jobs requires a good communicator.

They lead by example. Leading by example doesn't mean the manager is the best or first to do things, but it does mean that leaders who lead by example acknowledge what's really important and promote credibility, humility, accountability and fairness.

Build trust. Doing what you say, leading by example, showing consistency and fairness — these actions all build trust between managers and their teams over the long term. New managers often ask if there's something they can do that builds trust faster so they can get more buy-in and can hit the ground running. Here are four guiding principles for building the foundation of trust quickly:

- We trust those who speak our language.
- We trust those who ask good questions.
- We trust those who share our values.
- We trust those who listen.

Attract and keep talent. Good leadership is a virtuous cycle at Nucor, explains DiMicco. "As leaders and managers, we give our people the training, the tools, the resources and the opportunity … and then get the hell out of the way and let people succeed. Now that attracts talent, the kinds of people who want to be able to do great things, want to benefit from their own performance and the performance of their teams." ●

Forever Frugal

When companies haphazardly throw money at what they perceive their problems, challenges and opportunities to be, the real answers that could solve the real problems or allow them to embrace radical change and take advantage of the real opportunities are seldom found.

The Upside of Not Enough Money

Arrow Electronics is the quintessential example of thousands of interviews with successful entrepreneurs: "If you want to accomplish great things, what you need is a problem and not quite enough money." Arrow was once a very small business and is now a $22 billion

worldwide company that has constantly embraced radical reinvention and succeeded without a lot of cash.

The company began as a retailer with a single location. Realizing that their best opportunities existed in wholesale distribution, the leaders proved themselves adept time and again at letting go and discarding companies and business units that no longer fit the strategic direction of the firm. Arrow's reinvention efforts have been doubled under its current CEO, who promised that, going forward, the company will be involved in "everything that has an electrical part or component."

"Ours is a company that grew despite never having quite enough money," says Arrow CEO and chairman Mike Long. "If you can do the things that customers need done but that are giving them fits, and you scale that, you'll be very successful. We know that if it's complex, we can make money at it."

The Guiding Principle of Jugaad

Jugaad started as the Hindi word for an ultra-cheap vehicle first fashioned by rural Punjabi carpenters. Having nothing but empty pockets and a problem to solve, the local craftsmen took an old diesel irrigation pump, attached it to a wooden frame, and added wheels and the discarded steering system from a broken-down Jeep. They called this jalopy "jugaad," roughly translated as "using few resources and a lot of determination to find an innovative solution to a problem."

Since then, jugaad has come to symbolize the grassroots genius and entrepreneurial spirit of Indians working to overcome obstacle with creativity, urgency, and never enough money.

Indian businesspeople aren't the only ones to practice jugaad (think of the American phrase "Yankee ingenuity" or Sweden's principle of *lista*), but, as a culture, they have embraced this guiding principle with great gusto. Eighty-one percent of Indian businesspeople cite jugaad as the catalyst for their company's success.

Frugal Builds Teamwork

Every executive on the planet has thought it at some point: "If I only had more money, all my problems would disappear."

It's time to realize how wrong we sometimes are. Great companies that embrace radical change and enjoy constant growth find a new oath when solving problems and taking advantage of opportunities. They reject the urge to throw money at their challenges and discipline themselves to do more with less. They practice the Indian path of jugaad and discover that there's truth in the adage that all you need to accomplish great things is a problem and not nearly enough money.

Balancing the Ideas of Change and Reinvention

If the ability to function while holding two opposing ideas in your mind at the same time is the test of high intelligence, then embracing change and reinvention is the ultimate measure of business IQ. Here are eight opposing ideas that successful reinventors say you need to hold in your head:

1. Hold on tight and freely let go.
2. Be hard-nosed and soft-hearted.
3. Focus on a clear destination and search for new horizons.
4. Take big risks and make small bets.
5. Be frugal and still splurge.
6. Think big and act small.
7. Be highly creative and obsessively down-to-earth.
8. Thoughtfully work your plan and improvise without thinking too much.

Ask WTGBRFSTM: What's the Good Business Reason for Spending This Money?

One of the best frugal reinventors, Mel Haught, of Pella Corporation, teaches us to love dumb questions — good dumb questions, such as "Why do we do it that way?" that really clear away the hidden assumptions.

The best dumb question is one learned from two other frugal reinventors, Herb and Marion Sandler. The Sandlers built one of the most productive and innovative financial institutions by asking themselves and their managers over and over, "What's the good business reason for spending this money (WTGBRFSTM)?" The question made the Sandlers' company, World Savings, an icon of productivity. The business ran with half the staff of its nearest competitor, with each employee generating 40 percent more revenue than the industry average of $762,000 per associate, and it delivered double the average profit per employee. By doggedly asking WTGBRFSTM and demanding a good answer before making any expenditure, the Sandlers and their team achieved 20 percent average compound growth each year for 35 consecutive years.

When you examine all you've seen and lived through in business, the magic of asking WTGBRFSTM becomes very clear. How many times have you seen expenditures rationalized because "we did it last year"? ●

Don't Hesitate

Hesitation holds people and companies back from embracing change and reinvention. Until people are able to figure out how to deal with the natural tendency to hesitate and drag their feet because of their fear of the unknown, no meaningful reinvention will occur.

Why Do People Hesitate?

The most common mistake is for one to get stuck on the "plains of hesitation," a metaphorical place where the best laid plans and good intentions expire. Here are the nine most common reasons for hesitation:

We get too comfortable. There's no place in business for anyone who wants to be comfortable or complacent. If your desire to be comfortable is greater than your need to embrace change, it's probably time to call it a day.

We study things to death. Do you and your company have a set of guiding principles? Does everyone know them and use them to make all the decisions that must be made? Having a firmly entrenched set of guiding principles will allow you to skip the excessive studying and get over any hesitation you might have.

Lack of confidence. A lack of confidence exists in people and organizations that hear criticism, feel they're inferior, lack assertiveness, and/or strive for perfection. Confidence comes from winning, and winning only happens when you set your hesitation aside and get in the game.

We think the big deal will fly in the window. People and companies who embrace change and reinvention aren't held hostage by the hesitation that comes with waiting for the next big deal. They know their odds of being the beneficiary of the occasional big deal are greatly increased by doing loads of small deals, learning from each, and constantly incrementally increasing their business.

We think it's already too late. Author Harry Bernstein takes the cake for believing it's never too late to start. He published a short story when he was in his early twenties, but it wasn't until his wife of 67 years passed away that he began penning *The Invisible Wall*, the story of his hardscrabble youth in England before emigrating to the U.S. The book became a best-selling hit for Random House when Bernstein was — get ready for this — 96 years old.

Fear of losing what we have. We all wrestle with the fear of losing what we have. The refrain we constantly heard from the entrepreneurs and leaders during our research was to never bet the ranch, but to make lots of small bets, learn from them, and then scale. Smart moves seldom come from desperation. But once you have the level of financial security that makes you comfortable, stop hesitating and bet away.

Fear that nobody will pitch in. People are willing to pitch in, help out, and be part of something bigger than themselves. The task of the person leading the effort is to present his or her idea for growth or change in a way that makes sense and has a noble purpose attached to it, one in which people can see they'd be recognized for their contributions and maybe even have some fun.

Family pressures to not take the risk. The best advice on dealing with mothers, fathers, sisters and brothers pressuring people not to take any chances is as follows: Move 2,000 miles away, build your own life, visit twice a year, call frequently, love them and forgive them.

Lack of a financial safety net. There is no magic number for determining the financial safety net someone requires. Everyone's need for a safety net is different. When the lack of a financial safety net is causing the hesitation that's preventing change and growth from occurring, it's clearly an issue, and everyone has to determine their own tolerance for risk and what size safety net they need.

A Last Word of Advice

An ancient Chinese proverb says, "A man must sit in chair with his mouth open for awfully long time before a roasted duck flies in."

If you have made it this far, you must agree with the premise that organizations need to grow and that the only way to accomplish continual growth is by embracing constant change in order to stay ahead of your customers.

Don't hesitate. Here's to embracing constant change and reinvention. ●

RECOMMENDED READING LIST

If you liked *The Reinventors*, you'll also like:

1. ***Serial Innovators* by Claudio Feser.** Learn how to build a company that is adaptive, innovative and can survive well into the future.
2. ***The Zappos Experience* by Joseph Michelli.** Zappos has revolutionized business and changed lives. Michelli explains how Zappos does it.
3. ***Good Company* by Larry Costello, Ed Frauenheim, Laurie Bassi, Dan McMurrer.** Despite dispiriting headlines, the good guys are poised to win in the "Worthiness Era."

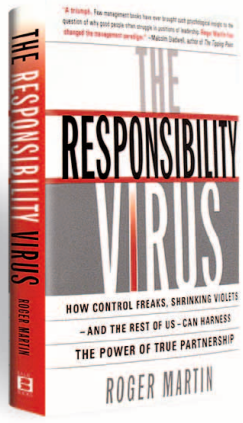
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The Responsibility Virus

Roger Martin

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Roger Martin

How Control Freaks, Shrinking Violets (and the Rest Of Us) Can Harness the Power of True Partnership

THE RESPONSIBILITY VIRUS

THE SUMMARY IN BRIEF

Are you a heroic leader? Or are you a passive follower? You may not know it, but chances are you act like one or the other, and it's doing serious damage to your company, your customers and your colleagues. The reason behind your harmful behavior? The fear that you will be held responsible for any failures — which often makes failure the inevitable outcome. This fear of failure and the behaviors it causes are what Roger Martin calls the Responsibility Virus.

The Virus infects corporations and nonprofit organizations large and small, with devastating costs for the institution and its employees. The heroic leader is one who takes on more responsibility than he or she can handle, while the passive follower doesn't take on enough responsibility. One cannot exist without the other. Heroic leaders are convinced their passive followers can't handle responsibility so they shoulder the burden while passive followers sense that responsibility is being taken away and withdraw further. But there is a cure.

What You'll Learn In This Summary

✓ **How to use the Choice-Structuring Process** to help people work together as a team while minimizing the likelihood anyone will seize or cede control of the decision-making process.

✓ **How to use the Frame Experiment** to see problems from the other side and come up with solutions that address the fear of failure.

✓ **How to use the Responsibility Ladder,** a development tool that works on building skills in delicate situations, allowing parties to assume enough responsibility to stretch their abilities without overwhelming them.

✓ **How to redefine Leadership and Followership** away from the heroic leader and passive follower model to a role that better suits the need to collaborate and become true partners.

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Dynamics of the Responsibility Virus

Michael has caught the Responsibility Virus. As the new publisher of *Wapshot* magazine, he was hired to turn the magazine around. Sagging advertising revenues are the immediate crisis. Long-term, he needs to stabilize the magazine's revenue base by increasing the number of ad pages per issue and by increasing the average ad price. His first move is to hire a dynamic sales executive, Caroline.

Shortly after she comes onboard, she learns that a major advertiser is threatening to drop *Wapshot* from its ad plan. When Michael meets with Caroline, he's alarmed by her demeanor. Her confidence is shaken, and she asks for help with a presentation she's making to the advertiser to save the account. Michael panics and takes over the presentation. He saves the account.

The trouble is, he is called on over and over again to make similar presentations. The sales staff's confidence plunges, and Caroline begins to feel as if Michael is undermining her. From her perspective, Michael no longer looks like the dynamic leader he was earlier. She sees him frantically running from meeting to meeting and pitch to pitch. Michael is so busy, he has no time for the long-range strategic planning he was hired to do. Meanwhile, the magazine's owner is quietly looking for a replacement and Caroline threatens to quit.

The offices of *Wapshot* have been infected with a bad case of the Responsibility Virus, an opportunistic organism triggered by the experience of failure. The advertiser's decision to remove the magazine from its ad plan was a symbolic blow that undermined Michael and Caroline's immunity. How could it have been different? How could they have responded to ward off infection and avoid a full-blown outbreak?

Michael should have checked his panic and provided encouragement rather than a bail-out. He could have coached Caroline. Instead, he took over. And Caroline could have checked her fear and asked to brainstorm rather than for direct assistance. That would have constituted productive collaboration and utilized both their skill-sets in combination to produce an outcome superior to the outcome of either working alone. Instead, Michael assumed responsibility for engineering success and Caroline relinquished it.

Those who are infected with the over-Responsibility Virus often see their efforts as heroic and come to view those they are rescuing as sheep who would be lost without those efforts. The trouble is that taking more responsibility than necessary creates responsibility abdication in those whose responsibilities you are taking. At the same time, as your burden grows you begin to harbor resentment. Ultimately, over-responsibility leads to failure.

Role of the Fear of Failure

Failure often begets failure. In fact, fear of failure actually helps produce the very failure that we fear. Worry too much about spilling a cup of hot coffee, and your hand starts to shake. No one wants to get burned, but why do we fear failure to the extent that we do?

Fear of failure is personal, and it's also universal. Certain governing values lie behind most human interactions. These are:

- **To win and not lose in any interaction;**
- **To maintain control;**
- **To avoid embarrassment; and**
- **To stay rational.**

Over time, we become skilled in designing our interactions to avoid violating these governing values, even if the cost may be outcomes we don't like. Notice that the governing values are really fears — fear of losing, of not being in control, of being humiliated, and of becoming irrationally emotional.

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The author: Roger Martin is Dean of the Rotman School of Management at the University of Toronto and was a consultant with the Monitor Company for 13 years. He has been profiled in *The Financial Times, The Globe and Mail* and *Fast Company.*

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Dynamics of the Responsibility Virus

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The flood of fear that we experience at the prospect of failure drives us toward the primitive response choice of "fight or flight." If we choose "fight" we seize total responsibility for the situation. If we choose "flight" we assume no responsibility. The desire to maintain control causes me to assume full responsibility and to preempt anyone else from seizing control even if doing so means we are trying to do things outside our area or level of expertise. Because we know we may be in over our heads, we tend to avoid collaboration or any situation where we may be exposed.

The problem with seizing control is that the "hero" who does so takes on the challenge alone instead of leveraging the skills and capabilities of others who could help with the task.

Static and Dynamic Conservation of Responsibility

The Responsibility Virus operates according to the law of Conservation of Responsibility. The name is borrowed from the field of thermodynamics, where the First Law states that energy in a closed system is neither created nor destroyed. For example, if a billiard ball is struck by a cue, the energy put into thrusting the cue forward is transferred to the ball, causing it to move forward.

There are two different kinds of Conservation of Responsibility and together they account for most of the damage created by the Responsibility Virus.

- **Static conservation between two individuals at a given point in time; and**
- **Dynamic conservation in a single individual over the course of time.**

What happens is this — as one person becomes over-responsible for a project or business, he takes on more tasks than reasonable or possible. Through his attitude, he makes clear that others should step aside. Rather than fight for control, the other party begins to act under-responsibly in direct proportion to the assumption of responsibility by the other party. Ultimately, the project fails or the company underperforms — but the law of Conservation of Responsibility continues to exert its influence. The over-responsible party becomes disillusioned, bitter and angry. He reacts by becoming under-responsible while the other party then by necessity assumes more responsibility. The cycle repeats itself until and unless the parties recognize the value of collaboration. ■

The Cycle of Over-/Under-Responsibility at the IDA



For Additional Information and an example of the Law of Conservation in operation, go to: http://my.summary.com

Costs of the Responsibility Virus

The first major cost of the Responsibility Virus is that it undermines the capacity for genuine, productive collaboration. Diminished collaboration among employees means that companies don't benefit from economies of scale as they grow and globalize. Large projects can't be integrated without taming the virus. The virus also undermines collaboration with other firms, customers and suppliers.

The Death of Collaboration

Collaboration occurs when two or more individuals share meaningful responsibility for producing a choice. *Sharing* means allocating responsibility in rough proportion to each party's choice-making capacity. *Meaningful* implies that sharing the load is important to the outcome — that separately the collaborators couldn't accomplish the task on a consistent basis without the contribution of the other. Collaboration occurs when "we're in charge" not when "I'm in charge and you're not."

Why is collaboration so hard? Because it violates the value: *maintain control*. Once responsibility is shared, we can no longer keep control of the recognition and

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Costs of the Responsibility Virus

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rewards that accrue from winning; collaboration therefore runs afoul of the first governing value: *win, don't lose*. Deciding how to allocate responsibility consistent with capabilities can lead to awkward conversations, thus violating the third governing value: *avoid embarrassment*. And if it gets emotionally messy it may violate the value: *stay rational*.

Looked at in light of the governing values, collaboration becomes the very embodiment of the threat of failure. The greatest obstacle to collaboration is that as soon as the collaborative path is initiated, control is compromised, failure cannot be kept at arm's length and embarrassment may ensue. These are the emotional risks that keep organizations from grasping the benefits of collaboration and the economies of scale that collaboration makes possible.

The Development of Mistrust and Misunderstanding

A second cost of the Responsibility Virus is the development of mistrust and misunderstanding. When fear drives work relationships, misunderstanding is a by-product. This happens because to protect against embarrassing conversations and loss of control the parties guess about, rather than ask about, the reasons and motivations of the others. Inevitably guessing at others' motivation leads to errors. The errors create further misunderstanding.

Unchecked misunderstanding then deepens even as each side thinks it understands the other. Each group's perceptions of the other party influence its treatment of the other group. Eventually the misunderstanding evolves into mistrust and resentment. Since the parties don't inquire into the reasoning and motivation of one another, they must fill in the blanks by guessing. The guessing often attributes improper or illicit motives, which are never tested. So when actions arise that are not inconsistent with the attributed nasty motives, the motives appear to have been confirmed and mistrust of future motives and motivation takes shape. Then resentment grows.

Misunderstanding, mistrust and resentment eventually bring about organizational rigidity. It becomes hard for any party to propose significant change because such proposals will be greeted with suspicion and mistrust. The ambient level of mistrust makes it hard to openly discuss any proposal and the true concerns — as a result, the potential resolution of these concerns is typically left buried, only to surface in obscure ways. The Responsibility Virus provides a powerful ally for the status quo in organizations.

How IBM Let Skills Atrophy

Skill atrophy as a side-effect of the Responsibility Virus can be seen in IBM's slow, painful descent. Through the 1950s, 1960s and 1970s, IBM's decades of rapid expansion, the leadership explicitly promised its entire work force lifetime employment. The guarantee was seen as critical to success because it was such an attractive inducement in recruiting. But it created an environment in which leadership assumed all responsibility. There was no felt need for all employees to collaborate with leadership to keep the company competitive. No one felt the need to hone business skills to maintain their value or to find another job.

This environment of under-responsibility in the work force and paternalistic over-responsibility in leadership produced a complacent culture that was blown off the road as the computer market fragmented in the 1980s. Layoffs broke the covenant and IBM workers found that their once vaunted skills had atrophied.

Atrophy of Choice-Making Skills

A third cost of the Responsibility Virus is the atrophy of choice-making skills.

Consider this scenario. Ned is the 71-year-old founder, chairman and principal stockholder of the STG empire. Even though it is well past midnight, he puts in a last call to one of the younger men he often runs circles around, the CEO of his long-distance phone business.

"Just checking in, Dick," he begins. "I see the numbers aren't turning around even with the new promotion strategy." This is another late-night interrogation which has become standard operating procedure. Also standard procedure is Dick's response — to see what Ned wants and not give him anything to attack.

"I'm disappointed that the numbers haven't turned around but I'm confident in the new strategy you laid out in the last board meeting," he begins. Immediately Ned reminds Dick that the strategy was just a suggestion and that Dick made the decision. Ned adds "I hope for your sake it turns out well." He finishes the late-night call with another "suggestion," that the company gear up its efforts to enter the consumer market.

The next day Dick gathers his team and tells them, "We're going after the consumer market. Ned sees it as a priority." They go ahead, and next quarter the results are worse than the quarter before, mainly due to the start-up costs of the consumer market initiative. At the next board meeting Ned explodes and demands to know "whose crazy idea was it to pursue the consumer mar-

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Costs of the Responsibility Virus

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ket?" Dick is on the way out as Ned orders an executive search firm to find a new CEO.

What happened to Dick was predictable. The Responsibility Virus claimed another victim. His decision-making skills had been seriously eroded.

In choice-making ability, as in any other skill, performance levels don't remain static. We either get better or we get worse. If we want to develop skills, we set reasonable goals that stretch our capabilities, placing us in a zone where we are neither anxious about failing nor bored with a routine task. Constant challenge is the only way to maintain the consistent upward tug that comes from assuming responsibilities beyond our current capacity. Without this beneficial tug, growth stops and atrophy sets in.

What happened to Dick was that under Ned's overbearing leadership, he never got a chance to hone his own decision-making skills. Instead, he slowly retreated from making the critical decisions he was hired to make to passively carrying out the chairman's bidding. Not only did Dick lower his responsibility levels, but his management team did as well.

Meanwhile, Ned swirled even higher into over-responsibility. He attempted to make all key choices across all his companies. Unfortunately, brilliant though he might be, not even Ned could stay on top of all the details. Ned is now seen as an intrusive owner whose usefulness has faded. ■

Tools for Inoculating Against the Virus

The challenge for all leaders is to find a choice-making process for groups that:

- **Produces robust and compelling choices, and**
- **Does so without violating the governing values, thus triggering the Responsibility Virus.**

This article examines tools that will help organizations battle the Responsibility Virus. These include the Choice Structuring Process, the Frame Experiment and the Responsibility Ladder.

The Choice Structuring Process

Ridding our conference rooms of the Responsibility Virus when a group is expected to engage in real decision-making requires setting ground rules. The leadership must convey the message that the decision will be the group's. Many members may not believe that — yet.

From there, coming to a decision is a seven-step process. It requires that the group:

1. Frame Choice. A choice is an irreversible commitment. The group must look beyond the problem it is expected to solve to discern the choices for solving it. The choice is framed when a minimum of two mutually exclusive options are identified that would neutralize the problem.

2. Brainstorm Possible Options. Framing the issue as a choice identifies a subset of options, but the next task is to broaden the list. Be inclusive. The list can be pruned later. Welcome options enthusiastically.

3. Specify Conditions. Before an option can make the cut as something to which the group can commi, the group must set the conditions that would have to be substantiated in order to believe it is a valid option. This is the time for those with reservations about an option to speak out. Specify what must be true for an option to be a good choice.

4. Identify Barriers to Choice. At this step, the group identifies those conditions embodied in the choices that it believes least likely to be true.

5. Design Valid Tests. Once key barriers have been defined, they must be tested in ways that the entire group finds compelling. The decision-makers must buy into whatever tests are chosen as valid. The goal is to design tests that will enable every member to commit to making a choice and taking action on the choice if the test confirms that the condition is valid.

6. Conduct Analysis. Test the condition least likely to hold up. If it proves to be wrong, then move to the next.

7. Make Choice. This is almost anti-climactic since the group already has a shared understanding of the logic of the available choices. Testing only serves to confirm that a choice is the right and best one.

The Frame Experiment

What if your choice process is already in terrible shape? Misunderstanding and mistrust have undermined collaboration. Then it is time for a remedial tool to fight the Responsibility Virus and mend frayed relationships.

The Responsibility Virus creates in each party the impression that the other players are progressively more extreme and negative. For us to maintain adherence to our governing values, the other party must, in our view, take on a set of negative attributes. The over-responsible party sees the under-responsible party as lazy and pathetic, while being perceived as controlling and domineering.

When faced with fear of failure, people will frame reality to remove the discomfort. For example, someone who finds no cooperation from others may frame her task as being to take control of the project, viewing herself as the best hope for the project's success. She would frame her view of the others' task as staying out

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Tools for Inoculating Against the Virus

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of the way and accepting the wisdom of her insight. We frame reality as a way to make sense of the world. As conditions grow worse, our frames grow more extreme.

The tool for breaking out of this self-sealing loop is the Frame Experiment. It arrests the downward spiral and provides the opportunity for an upward spiral to take shape. The existing frame sees oneself as knowing the right answer and the other individual as not getting it, and the task at hand as getting the other to see things "my way."

The Frame Experiment works to have the participant realize the frame he or she is operating under and adjust it. For example, when someone reframes herself from knowing the answer to having a wealth of data and experience but not seeing and understanding everything, the door is opened for movement. Having reframed her view of herself, she may be ready to reframe the other individual as someone who may see things she doesn't see and who can contribute to her understanding. This then leads to the task becoming accessing collective intelligence to make the best choice rather than getting the other party to see things her way.

The Responsibility Ladder

The Responsibility Ladder is a development tool for improving choice-making capabilities. It is a way of structuring conversations that will yield a better distribution of responsibilities, thus inoculating against the Responsibility Virus.

At the heart of the Responsibility Virus are unproductive conversations — or a lack of conversations — about decision responsibility distribution. The purpose of responsibility conversations is to divide tasks so that the responsibility assigned matches capabilities. This is the only way to maximize individual choice-making ability. These conversations should also build internal commitment and accountability. Finally, they create a sense of collaboration and mutual support.

Discussions of responsibility revolve around different rungs on a ladder — the Responsibility Ladder. At the lowest rung, there is no responsibility. You may have experienced this when a subordinate comes to you with a problem and expects you to solve it. At the next rung, the subordinate would ask you to solve the problem, but indicates a willingness to watch and learn. At the next rung, the subordinate describes the problem but asks for help. Next, the subordinate generates options but asks for a decision. Next, the subordinate provides options and makes a recommendation. Finally, at the top of the Responsibility Ladder, the subordinate considers options, makes a decision, and informs the other party.

Decision-making should not remain at either the top or the bottom level. A subordinate at the bottom needs to develop decision-making skills, while a subordinate at the top isn't being stretched enough in his position or has been infected by the Responsibility Virus. Levels 2 through 5 are where we want to be most of the time.

The goal of group members should be to move up the Responsibility Ladder over time while helping others to do the same. Everyone in your organization should be familiar with the rungs and what level of responsibility each represents. This creates a common language for discussions.

The Redefinition of Leadership and Followership

As head of strategy for WorldNet, a giant global communications firm, 42-year-old Henry is almost a decade younger than others at his level. He has always been identified as a candidate with high potential. His subordinates love him for his upbeat, can-do approach and his human touch.

Lately the CEO, Nick, has been treating Henry as a confidante, perhaps even as heir apparent. Nick put Henry in his present position to stretch his skills without overwhelming him. Henry had hoped for one of two business unit presidencies, but Nick did not want to push aside two other talented executives to place Henry in a position that might have been too much of a stretch.

One of the other executives, Bill, was having performance problems, so Nick asked Henry to help behind the scenes. Henry jumped at the opportunity, thinking that this was his chance to prove he was ready for Bill's job after all. And Bill, realizing right away that this was the CEO's idea, goes along with the plan. He gives Henry the thorny challenges and focuses on easier tasks.

Soon Henry finds himself doing his own and most of Bill's job, but without any public authority to do so. Henry races from assignment to assignment, and finds his reputation taking a beating. Eventually, Nick realizes he has to remove Bill, but also that Henry isn't going to make the successor list for Bill's position after all given his poor performance and his sinking reputation.

Henry has only done what we all expect of a leader. He was asked to solve a problem and he jumped to the rescue. His actions could even be seen by some as heroic. And Henry sought to win by pleasing his boss and mentor, to maintain control by carrying out the mission on his own, and to avoid embarrassment and stay rational by not talking to Bill about the real reason he was helping.

The "leadership" Henry tried to exercise was characterized by splitting responsibility unilaterally (Henry took the toughest tasks), seizing a disproportionate share (Henry saw Bill as incompetent and took over most of his

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Churchill and Kennedy as Modern Leaders

Two of the most cherished leaders of the 20th century, Winston Churchill and John F. Kennedy, are revered for asking their followers to take responsibility even more than they are revered for taking it on themselves. Churchill, promising blood, sweat and tears, exhorted his country to hold firm and not give up during the darkest days of the Battle of Britain. "Let us brace ourselves to our duties and so bear ourselves that if the British Empire and its Commonwealth last for 1,000 years, men will still say: this was their finest hour."

Kennedy's most memorable line was not a call for the government to take more responsibility. Rather, it was the admonition, "Ask not what your country can do for you; ask what you can do for your country."

In both cases, the call for greater responsibility on the part of the followers created a closer bond between the leader and his constituency, as well as a collective heightening of capabilities, resourcefulness and engagement in the task at hand. Churchill and Kennedy are both guaranteed their place in the pantheon of great leaders.

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job), making the seizing undiscussable (Henry's task was secret and keeping it secret protected him and his boss from embarrassing questions), and subjecting his performance to private testing (Henry was playing the hero but had no official role, so he was left to judge for himself whether his performance was adequate). Unfortunately, it is a model too many leaders today use.

The modern definition of "followership" is in many ways the mirror image of our view of leadership. If a leader is seen as a hero, the follower is characterized as a loser. This prejudice carries through consistently in structures ranging from social order among primates, to caste systems, to aristocrats and peasants down to our own modern penchant for risk takers over those who play it safe.

What really happened to Henry, who played the classic leader role, and Bill, who played follower? The Responsibility Virus got them. No one was spared embarrassment after all. Bill was mocked for becoming a shell of his former self. Henry was mocked for trying to cover up that he was doing Bill's job and therefore failing at his own. And Nick was exposed for trying to protect Bill. Both Henry and Bill lost big. In their attempt to protect themselves, they failed to protect anything. They both lost control of the situation.

What all three needed was a productive reframing of leadership and followership. Leadership and followership must be redefined to include:

- Splitting responsibility through dialogue rather than splitting it unilaterally;
- Apportioning responsibility in keeping with capabilities rather than being tempted to take on more than a proportionate share of responsibility or rejecting responsibility;
- Making the apportionment discussable; and
- Subjecting performance to public testing rather than private assessment.

A key feature of modern leadership, then, is the recognition that responsibility must be shared. Responsibility must also be divided in a way that takes into account capacity as well as encouraging professional growth of both leader and follower. Tasks must stretch abilities without overwhelming leader or follower. ■

Fighting the Responsibility Virus

Anyone can be mired in a state of under-responsibility. It happens when you know you're doing less than you could. You know that you're losing the capacity to do things that you used to be able to do, and you certainly aren't moving your skills forward.

Taking on higher responsibility would demand considerable initiative, but your lack of confidence makes that a scary thought. You don't like the feeling one bit, but you feel too conflicted about it to do anything but ride the gentle spiral downward.

Being stuck in this under-responsible state can be a serious matter and is often a contributing factor in depression. In psychology speak, it is "learned helplessness." It feeds on itself with increasingly negative self-assessments. Eventually, this will produce a crash. The over-responsive party will falter under the weight and fail. And the longer it takes for the crash to occur, the greater the cost of the Virus. There is less collaboration, greater distancing between leaders and followers, greater misunderstanding and mistrust and greater atrophy of skills.

Mired in Under-Responsibility

How can people pull out of the downward spiral of under-responsibility before the crash? What's required is a series of baby steps, each doable, each which builds momentum and reinforces the courage to take the next step. The steps require you to:

Visualize the End Result of the Path You're

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Fighting the Responsibility Virus

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Traveling. Realize that the over-responsible partner will take on greater and greater responsibility while you will continue to question your capabilities and accept an ever-less-challenging life. Eventually you will be seen as dead wood and be cut. Visualizing this worst case scenario should help you muster the courage to take action. What could be worse than a passive and pointless descent into self-loathing and obsolescence?

Reframe the Over-Responsible Party. Turn your focus on the over-responsible party. Conduct a Frame Experiment to see them in a more productive light. See yourself as capable but mired in under-responsibility and the other party as stuck in over-responsibility. Pledge to work toward a more productive sharing of responsibilities.

Pick a Burning Issue to Work On. Pick the issue of under-responsibility that bothers you most but which you think is addressable. The goal is to arrest the downward spiral.

Engage in a Responsibility Ladder Conversation. Engage your over-responsible counterpart in a conversation, the goal of which is to mutually agree on your taking a higher level and their taking a lower level of responsibility on your issue of choice. Use the Responsibility Ladder to structure the conversation.

Use the Choice-Structuring Tool to Gain Comfort. You can use the choice-structuring tool to explore what division of labor both parties are comfortable with.

Do It and Reflect. Your job is to just do what you agreed to do. Start to carry out the higher level of responsibilities. You may feel frightened at first, but remember that the stakes are far lower when compared to the worst case scenario you face.

Repeat the Above Six Steps Over and Over. Soon you will be out of the downward spiral and on your way to true partnership and collaboration.

Trapped in Over-Responsibility

For every person who feels mired in under-responsibility there is someone who feels trapped in and burdened by over-responsibility. Sometimes it means taking on harder tasks than you're capable of handling, but more often it means loading yourself up with everyone's work until you collapse under the weight.

Take heart**.** Except in rare cases in which power and responsibility become an obsession, the forces of static conservation of responsibility will break the deadlock. But how can you escape before the crash? Use the same steps that you would use if you were mired in under-responsibility. ■

The Challenge Facing Professionals and Directors

While everyone is prone to infection, the professional represents the most fertile ground for infection. Doctors, lawyers, dentists, engineers, consultants and educators share a common relationship structure that consistently gets them into trouble.

Professionals are by definition expert service providers uniquely qualified in their fields while those who seek them out generally are not. Thus it's easy to develop the attitude of over-responsibility. Professionals tend to be people who like achieving a level of expertise that sets them apart from their fellow man. They also get to play helper and get paid handsomely for their services.

Professionals can overcome the Responsibility Virus by using four tools. These are:

✓ **Redefining Leadership.** Professionals must redefine leadership from meaning taking over all responsibility to working with the client as much as possible. Give the client a productive role to play. Draw the client into a collaborative decision-making process.

✓ **The Choice-Structuring Process.** Recognize the power of choices. For example, patients should have as much information as possible so that they can make informed decisions about treatment.

✓ **The Responsibility Ladder.** Use the principles of the Responsibility Ladder to collaborate with the client.

✓ **The Frame Experiment.** Remember that the client may know something you don't. Reach out to the client and try to understand his or her reasoning.

The Challenge for Boards of Directors

Most CEOs look on their boards as just another constituency to be satisfied. CEOs tend to seize control from directors, who become more passive and dependent on the CEO. But especially in today's climate, directors needs to develop relationships based on collaboration and partnership.

The key tool for directors is to use the Responsibility Ladder to guide their thinking. The board must internalize the reality that no single level of responsibility is right for all choices. Sometimes the board wants recommendations, sometimes it wants the CEO to take action without consultation. The trick is to know what decisions belong on what level.

The board and the CEO need to redefine leadership and followership so that there is no clear leader and no clear follower among them. They must collaboratively set levels of responsibility and accountability that are suited to each of their abilities. ■

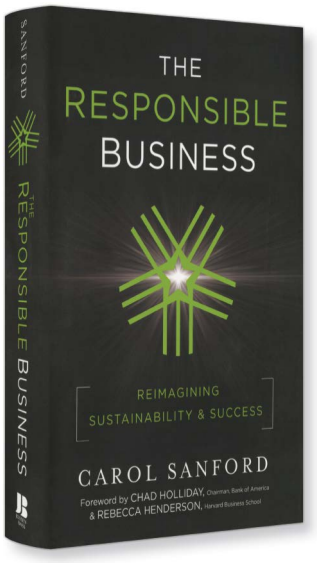
For Additional Information on fighting the Virus in everyday life, go to: http://my.summary.com

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The Responsible Business

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The Responsible Business

Reimagining Sustainability and Success

by Carol Sanford

THE SUMMARY IN BRIEF

The Responsible Business offers a new and strategic approach to doing business that holistically integrates responsibility into all aspects of an organization, allowing for returns at every level, business and social. Author Carol Sanford goes beyond the often well-intentioned but limited attempts at sustainability, to present a framework that allows organizations to bring responsibility into everything they do and reimagine success.

From innovation, product development and production processes to business management, strategic planning and shareholder development, Sanford shows how being a Responsible Business is a practical skill that can be applied day to day at every level of the business.

No longer just the role of a department or the job of CSR professionals, which was never the best path, successful responsibility and business efforts start at the business level, are then taken to the strategy level, and then can be consistently applied throughout the organization. *The Responsible Business* outlines a framework for building a consciousness infrastructure that applies a living-systems view to the business and inspires all of its stakeholders, including shareholders.

IN THIS SUMMARY, YOU WILL LEARN:

- How to understand markets, corporations and businesses as living systems.
- The five key stakeholders in a Responsible Business and their dynamic links.
- How to start shifting practices in business and translate the results into corporate and ecosystem returns.
- Six hazards that can get in the way of an organization's transformation.

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Skillsoft

THE COMPLETE SUMMARY: **THE RESPONSIBLE BUSINESS**

by Carol Sanford

The author: Carol Sanford has been the CEO of InterOctave, Inc., a global business resource to Fortune 500 and new economy businesses large and small, for over 30 years. She lectures at universities, including Stanford Management Science, MIT Sloan School of Management, University of Washington Foster School of Business and University of Michigan Ross School of Business, on sustainability, business innovation and corporate responsibility, where her books are required reading. *The Responsible Business* by Carol Sanford. Copyright© 2011 by Carol Sanford. Summarized by permission of the publisher, Jossey-Bass, a Wiley Imprint. 368 pages, $39.95, ISBN-978-0-47064-868-1. To purchase this book go to www.amazon.com or www.bn.com. Summary Copyright © 2014 by Soundview Executive Book Summaries® www.summary.com, 1-800-SUMMARY. For additional information on the author, visit www.The Responsible Business.com.

Introduction

According to conventional business practice, responsibility has no inherent or fundamental connection to business, so responsibility needs to be added in. When added, it's usually in the form of a department or program assigned by management to an individual or group.

The very concept of "corporate responsibility" puts emphasis in the wrong place. Responsibility isn't a set of metrics to be tracked or behaviors to be modified. It is central to both the purpose and the prosperity of a business and must be pervasive in its practices. The question of how to be a Responsible Business is therefore relevant to all organizations — including nonprofits, governments and schools — that usually don't see themselves as businesses as well as those corporations that don't imagine themselves to be interested in responsibility.

If corporations and the businesses within them are to live and prosper, they must find ways to remain connected to their origins while cultivating and then adapting to changes in the world around them. Their long-term viability has as much to do with how well they create networks of relationships with consumers and other companies and industries that advance the health of all. In the long run, all living things must contribute to a world of expanding life. The alternative is a world where life steadily dwindles away to nothing.

By definition, therefore, a corporate or business entity is responsible to more than just itself. It exists in a larger whole — literally, as well as within the legal and operating framework of business — and it is responsible to the whole of which it is a part. How it governs its own existence influences every aspect of the whole.

The Responsible Business is itself a co-creative partner in ensuring the vitality and health of all the communities to which it belongs. All living beings either contribute value or receive it. The ones that endure are the ones that do both, even as the world changes.

The real challenge to becoming responsible is that most businesses erroneously see themselves as closed systems cut off from their environments — more like machines than organisms. Most businesses are unconscious of the real relationships that enable them to exist, and this blinds them to their responsibilities. Even worse, it blinds them to their opportunities.

PART I: REIMAGINING BUSINESSES OF THE FUTURE

Engaging Shareholder Value

Chad Holliday, who retired on January 1, 2010, from his position as CEO, chairman of the board, and president of DuPont Corporation, was one of the most sophisticated leaders when it came to managing the delicate diplomacy required for large-scale organizational change. Early on, Chad started making noises about the need to pay attention to the environmental effects of DuPont decisions and actions. He introduced changes in manufacturing procedures in each new business he headed, from Intermediate Chemicals to Fibers Group, first in the United States and then in Europe and Asia. He was subtle but determined.

In all that time, he never talked about corporate responsibility or sustainability. He just kept using the principle *Do what is right* to question and redesign work and production systems as well as product development.

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Ashleigh Imus**, Senior Editor; **Amanda Langen**, Graphic Designer; **A. Imus**, Contributing Editor

As a by-product, the effects on Earth and communities were reduced, and new relationships and partnerships were built.

Chad realized that one of his greatest opportunities for change was shifting shareholder understanding. He felt that shareholders were too disconnected from the effect of corporate decisions, so he launched a campaign to educate not only his own shareholders but also the investment world as a whole. Chad helped design the UN Global Compact — a voluntary initiative for multinational corporations focused on learning, dialogue and partnerships — and took a position on its board. As part of that effort he helped develop the "Global Compact Governance Framework and "The Ten Principles," which articulate agreements that guide the global corporations' efforts to hold themselves accountable.

He also believed that transparency was a meaningful and effective way to bring about change and to educate all of a company's stakeholders. Toward this end, he set up a set of advisory boards for a number of DuPont businesses. The process of increased transparency served to educate investors on the effects of their decisions. It also had the effect of educating the DuPont leadership, which made deeper and more systemic understanding pervasive throughout the whole company. This forced management to question the usual business practices and get people reflecting with one another.

Panning for Gold

Five recurring themes or principles enable businesses like DuPont to go beyond corporate responsibility and become Responsible Businesses:

Reality: Evoke caring by connecting everyone in the organization to the real lives of its stakeholders.

Systemic Effects: Define responsibility in terms of consciousness of systemic effects rather than as best practices and programs. Systemic effects should be the only measures of success.

Systemic Wholes: Combat fragmentation by working systemically. Fragmentation is overcome by working with wholes, not parts: whole businesses, whole people, whole watersheds and whole systems.

Self-Direction: Redesign work to evoke self-developed people doing self-directed work that is self-evaluated within the context of business strategy.

Capability Development: Develop internal and external stakeholders through personal development and education in systemic approaches.

Stakeholders as Systemic Collaborators

Businesses are chartered to serve the common good by producing something of value that others seek but are unable to produce for themselves. Stakeholders are those who have an interest or *stake* in this production of value. Business aggregates a complex set of stakes, raises the value, and returns that value back to each stakeholder.

To honor a stake requires understanding and valuing it from the perspective of the stakeholder. It requires engaging in a relationship that is reciprocal: one receives the use of the stake, and in return one adds value to it. But that value needs to be in a form that is relevant to the stakeholder. Too often, in lieu of providing real value to stakeholders, companies offer self-serving interpretations of what they are returning and expect stakeholders to be satisfied with what they can get.

The only way to truly honor a stake is to have a deep understanding of what the stakeholders are investing in and what fair return they are counting on. A Responsible Business also consciously recognizes all the stakes that have been invested in it and works to increase value for all the stakeholders. This is its singular purpose. For a Responsible Business, the living entities — ecosystems, communities and individuals — that it affects are not externalities; they are part of the *body of the whole.*

Five Key Stakeholders and Their Stakes

There are five distinct stakeholder groups, each with a unique nature, that give a stake to a business in exchange for achieving the value they hope to realize. Taken together, the five stakeholders represent the whole context or universe within which a business operates.

Customers: Most companies tend to think of customers as *buyers* of products and services, but when customers are truly understood to be stakeholders, they are seen as *integrators* because they integrate products or services into their personal or work lives. The success of any business depends on how well that integration occurs.

Co-Creators: Co-creators include everyone who is involved in creating the product or service for the customer, including full-time and part-time workers, contractors and suppliers along the entire system of production all the way back to the original sources of raw materials. The focus is on the idea of creation rather than the narrower concept of employment, to underscore the extensive and diverse web of contributors to a company's offerings.

Earth: Earth is the primary supplier and the final recipient of everything produced by human enterprise. Most

companies still consider it a stretch to think of Earth as a stakeholder, but Earth is a way of symbolizing living systems interconnected in a seamless web of life and contributing to the evolution of the planet as a whole.

Communities: Communities are the social context within which businesses operate. To work in a systemic way, a business must take into account the effect it has on all of its communities. Anchoring itself to the stories, interests and concerns of specific communities helps a business become concrete and accountable in its decision-making process.

Investors: Investors get the output of a working system, which is ironic given that conventional business wisdom generally considers investors to be the beginning or preeminent stakeholders. But companies are not helping investors see themselves as part of larger wholes and making them aware of their effects. In the current business paradigm, the supposed needs of investors drive much of the decision-making process. For this reason, developing investors is a highly leveraged way to transform many destructive practices and promote health producing ones.

Geometry of the Responsible Business

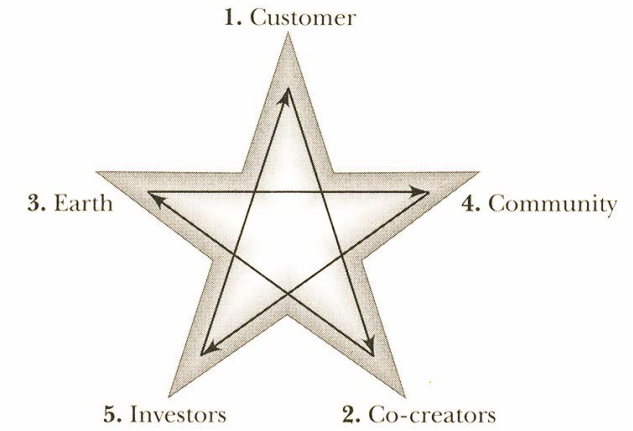
The five key business stakeholders are connected in interwoven dynamic relationships. Stakeholder groups are nodes in a dynamic system that connect and influence one another. The key to becoming a Responsible Business is to learn how to understand and work creatively within this system.

To get a true picture of an alive, complex and evolving business, one must be able to think not only about its activities but also about the interactions with and among its stakeholders. This can quickly become an overwhelming task, which is why a framework depicting relationships within a whole helps to understand and manage the complexities of business stakeholders.

Systemic Stakeholder Framework

The pentad framework involves a five-pointed star, with each point of the star representing the five interconnected business stakeholders. The lines of the pentad represent a structure inherent in the relationships among stakeholders that enables them to be in harmony. Working with the pentad involves moving from point to point along the connecting lines that form the star.

It is important always to begin with the customer — the people who will actually buy a business's products or



The Stakeholder Pentad Framework

services — and then move to co-creator — the range of people and services a business employs in order to provide its products and services to customers. From co-creator we go to the third point, Earth, the living source of energies and raw materials. The next step is to go from Earth to community, the local people and institutions who allow and are affected by the presence and activities of a business. The fifth point is the investor, the people who supply the financial capital needed for a business to evolve.

The business community should understand *all* stakeholders as necessary aspects of a coherent whole. Businesses build systemic understanding when they use the pentad to describe their relationships with their stakeholders. This understanding leads to higher levels of creative thinking and a constant upward spiral in the quality of relationships, which is the essence of Responsible Business.

Be Value-Adding, Not Value-Added

The fragmenting worldview that is now the default mode in business tends to treat each of the pentad's stakeholder groups as a "thing" — a box or category for pigeonholing individuals and institutions. In reality, each of the points on the pentad refers to a living process, a particular way of seeking to improve the world. To use the pentad productively requires shifting from a *thing-based* to a *process-based* way of viewing the world. It requires seeing the world in terms of a *value-adding* perspective, where the world is made up of living systems, all of which are working with the larger systems they are part of to create more value.

The deep flaw in the concept of *value-added* lies in its assumption that value comes from production of an offering rather than its use. If value is derived from the making of

a product, then that implies that value can be added at a single point in time and that the creation of that value can be repeated over and over again. But the creation of value depends on continual improvement in how well and how holistically the product serves the user.

Five Stakeholder Imperatives

To work successfully with a stakeholder's value-adding process, a company starts by understanding stakeholder *imperatives*, the essential effects-in-use, which are the effects that products have in the lives of people who use them. The following are some guiding ideas that help portray stakeholders in terms of their imperatives and define business relationships that are genuinely value-adding to stakeholders and their world.

Value-Adding View of Customers: Customers and consumers seek to be fully alive. They nurture dreams and aspirations, and they engage in personal processes for adding value to what they care about. The product or service offering of a Responsible Business aims to do three things: enrich the lives of customers, their worlds and what they affect; create a better life than competing offers from other producers or companies; and be reliably there and reliably distinctive in the face of hazards and opportunities.

Value-Adding View of Co-Creators: A Responsible Business designs work systems that evoke expression of essence from all its co-creators. A Responsible Business therefore aims to pursue three purposes in this arena: enable co-creators to increase value to the lives of others; call on each individual to develop unique potential in a way that complements the working of a team; reveal and enable the worthiness of all people through fostering their creative expression.

Value-Adding View of Earth: Earth is made up of many living systems interconnected in a seamless web of life. A Responsible Business will aim to do three things: start from the essence of materials and their role in living systems; operate as a conscious member of ecosystems; improve the productive working processes of ecosystems.

Value-Adding View of Communities: Communities are living entities with coherent cores, and when properly engaged, they can be powerful allies in creating healthy businesses and economies. Within its communities, a Responsible Business will aim to do three things: design human systems to contribute to the evolution of uniqueness and health in a given place; inspire visionary leadership capable of manifesting integrative solutions through time; elevate the overarching principles that society chooses to be governed by in all of its pursuits.

Value-Adding View of Investors: What is imperative with regard to investors is to educate and engage real people and institutions in real wealth creation. In its work with investors, a Responsible Business will aim to do three things: generate durable returns and systemically beneficial effects; progress the industry's capacity, character and asset value; understand divergent forces, and leverage resources to create world-changing effects and business evolution.

PART II: THE MAP TO THE TERRITORY

Teaching an Organization to Star

To operate as a Responsible Business and to work with stakeholders in the way the pentad framework reflects, a company must face up to the limitations presented by its current culture, approaches to markets, strategic planning, workforce capability, and the way work is designed and carried out altogether. Although they will be approached differently in every business, the following four phases provide a path to follow to retrofit an existing business.

Phase One: Cultural Evolution. To begin, an organization must undertake a deep reflection on its culture, ideally going all the way back to its founding. This reflection is divided into four lines of inquiry.

1. Status: The questions, "How do we convey status, and how does that limit or advance us? What does it produce?" should be explored in a neutral way, without making anyone or any practice right or wrong. This can become a rich source of insight about which activities and behaviors need to change.

2. Symbol: A company needs to ask, "What is repeatedly held up to evoke an emotional response to a corporate ideal? What effect does that repeated evocation actually produce?" It is critical that all the symbols a company uses be authentic and meaningful.

3. Ritual: Next, a company asks itself, "What do we do over and over (probably unconsciously) to try to maintain form and uniformity? How do we need to transform our rituals so that they help people become independently creative in pursuing the path we are on?"

4. Taboo: "What taboos do we currently have that limit change and creativity? What taboos need to be put in place to unleash change and creativity?" When taboos become unconscious they can be counterproductive, even toxic, especially if they limit rigorous examination and discovery. However, some things need to be taboo, such as advancing an idea without rigorously examining it.

Phase Two: Strategic Direction. During this phase, a company directs the energy it has unleashed in phase one toward setting a systemic and compelling strategic direction. First, one must understand how the company's markets work to produce success, especially with regard to targeted customers. This includes understanding the effects of global and supply dynamics on the business. Second, one must consider what is unique about the business and how this uniqueness can be employed to create a nondisplaceable position in the market. Third, one must determine what managing philosophy the business will use with regard to governance and engaging its people to enable them to work effectively with one another.

Phase Three: Capability Building. Capability development is not training but is always accomplished in the context of real and necessary work by existing teams or by cross-functional teams that have been formed to develop new thinking in critical arenas. It generates capabilities needed for a strategically defined future state. A Responsible Business uses regular and ongoing meetings that combine both business and education to build three types of capability: business acumen, technological competence and critical systemic thinking skills in conjunction with personal development.

Phase Four: Work Redesign. Most businesses start change processes by trying to change the way they design and govern their work, usually by reorganizing or altering procedures. In contrast, work redesign brings an organization's governing processes into alignment with its cultural aspirations, corporate direction and developing capabilities. It can take years to accomplish, and it addresses three key aspects of organizational governance: structures, systems and processes.

PART III: REFRAMING HOW CHANGE WORKS

Responsibility Running Backward

The pentad depicts a chain of logic that begins with the living image of a customer and flows organically through co-creators, Earth, communities and investors. This flow results in improved health and vitality for all stakeholders. Reversing it has the opposite effect.

More often than not, companies turn the logic upside down and start from the wrong point, the investors. This initiates a degenerative process called *spinning the pentad backward*. When this happens, mental and creative energies focus narrowly on how to extract return from the system, and the process becomes extractive rather than creative. Assets and value that rightfully belong to others are appropriated in an effort to subsidize a return for a single stakeholder group. This is unproductive and unsustainable.

Spinning the pentad backward has resulted in periodic collapses in the U.S. economy. Investment banks, savings and loans, corporate giants like Enron and others have extracted inappropriate returns on investments through schemes that have left investors and ordinary people to suffer the consequences.

Not surprisingly, collapses of confidence often lead to community boycotts, lawsuits or demands for regulatory enforcement, costly for businesses in terms of both dollars and brand equity. Unbudgeted expenditures related to these community side effects then tend to push businesses into efficiency mindsets. They cut costs in order to free up the financial resources necessary to manage a situation that is spinning out of control.

The efficiency mindset eventually dooms a business to failure. Once efficiency and value extraction have set in, employees and co-creators become just another cost of doing business. It's not long before there are programs to reduce the size and cost of human resources, contractors, suppliers — all of the entities within the co-creative system. All of this results in a business that no longer serves its customers. Problems start to pile up.

It is never too late to reverse this state of affairs. There are two recurring themes in the methods for getting back on track. The first is to examine whether the business understands the stakeholder on each point of the pentad well enough to connect the stakeholder on the following point to it. For example, does the business understand its customers well enough for the co-creators to feel "fueled" with the spirit and inspired by understanding?

The second theme is an almost foolproof way to address any problems that arise. Go back to the customers and reconnect to them as living people. A company that does this key work reestablishes the basis for forward motion.

Design for Prevention and Cure

Continuous development is a lifelong process and a way of life for people and for organizations. In order to keep this work alive for years and decades, it's important to understand how things can go wrong and what to do about them when they do.

The following six hazards show just some of the ways that entropy can get the upper hand in an organization that's trying to transform itself.

Hazard One: Leadership Voids. The highest level of hazard comes from a change of leadership at the top, especially if it happens too early in the process or if too many committed leaders leave at the same time. Visionary and selfless leadership is necessary for a significant cultural change, especially if the goal is a self-organizing company in which hierarchies would evaporate.

Hazard Two: Homogenized Human Resource Programs. Once a company has decided to change, it has a natural and healthy tendency to want to know what's possible. But people who are good at running a business are not necessarily also good at assessing programs to improve the running of the business. Human resource departments are often delegated to carry out the assessment. Although there are many excellent human resource professionals, it is the field of expertise most contaminated by unvalidated assumptions.

Hazard Three: Pilot Programs. The idea of pilot programs is based on a bad assumption — that what has proved to work well in one place can be made to work everywhere. This assumption is the antithesis of the mindset of the Responsible Business, which dedicates itself to designing live and in the moment. First, what is learned in one effort won't necessarily be applicable or relevant in a new context. Second, people will correctly point out the differences between themselves and the pilot group, and they will refuse to adopt what was learned.

Hazard Four: Packaged Program of the Year. In contrast to the more organic approach that fosters internal locus of control, a packaged learning process almost inevitably results in a conditioned state of external locus of control. In the Responsible Business, consciousness or different modes of behavior is an instrument for self-directed self-development. Packaged and mechanical change processes do not build the capacity for responsibility; they build capacity for compliance.

Hazard Five: Corporate Philistines. The corporate world is filled with visionary leaders who believe that business is a way to do something good for all and a powerful platform to accomplish things that could happen no other way. But not everyone will accept an invitation to engage in personal development and to serve something larger and more meaningful than themselves. A wise leader will be prepared for the occasional saboteur.

Hazard Six: Undeveloped Co-Creators. Responsibility requires conscious understanding and intention about choices at every level. Responsible Businesses cannot develop without growing the sense of personal and collective responsibility in every co-creator.

PART IV: THE BIG PICTURE OF RESPONSIBILITY

A Responsible View of Capital

For better and for worse, the history of the modern era has in large part been defined by the emergence and development of the phenomenon of capital and the powerful energies it has unleashed. The problem comes from defining capital too narrowly in financial terms and accounting only for effects on one's own returns.

In recent decades the concepts of natural and social capital have been advanced by various economists and ecologists attempting to make economic theory more holistic. The stakeholder pentad extends this thinking to include five forms of capital, one for each stakeholder, and suggests some ways to build this enlarged perspective into successful business practices.

All stakeholders are investors — although they invest different forms of capital — and each expects some kind of return on investment. **Customers** invest their capital, which is an aspiration for integrity along with personal and business distinctiveness, in order to acquire what they are unable or unwilling to create for themselves. Customers and businesses also seek ways to express their distinctiveness, which is reflected in unique and appealing business offerings. Customer return on investment is a trustworthy relationship with a business and its offerings.

The **Co-Creators'** stake is to make a meaningful difference for people or purposes they care about. They invest their capital — intelligence and creativity — which is more than their existing knowledge or capability. The ROI that co-creators expect is the increased intelligence and experience that will allow them to invest in the next, more challenging application of creativity.

In pursuit of the capacity to regenerate itself infinitely, **Earth** invests the capital of resources that support living processes. Business activity is a small subset of Earth's larger natural economy of reciprocal exchange and maintenance. For all the green, sustainability rhetoric out there, the real work is to measure Earth's ROI by Earth's yardstick: resiliency, diversity, connectivity, complexity and capacity to evolve an increasingly complex web of higher-order ecosystems.

In pursuit of their stake in the vitality and viability of the places they live, **Communities** invest the capital of

unique identity and vocation manifested through a social and cultural web of relationships. These webs and communities' distinctive relationships with local ecosystems are what make possible the unique work of a particular place, and they give rise to the unique economic potential that attracts people to a community and from which it can manifest unique business offerings. A community's ROI is the increasing opportunity for the well-being of and meaningful contribution by every one of its members.

Investors pursue their stake — the value that flows from supporting other manifestations of creativity and steadfastness — by contributing the capital of accrued equity. Return on financial capital can be measured at three levels, only one of which is generally reflected in the annual report. The first is functional, related to growth and income, and is the generally accepted understanding of ROI.

A Responsible Business also accounts for a second kind of ROI: the return to its other stakeholders. This return on other kinds of capital extends the meaning and nonfinancial consequences of the financial investment. Without this kind of accounting, investors have no way of knowing whether or not their passive income has been generated from value-extracting or value-adding processes. The third nature of return occurs when a business improves how investors and capitalism are perceived in the world at large. This is measured by the confidence of the citizenry in the role business plays in fostering a healthy society and planet.

Thus, financial capital moves to a new platform in terms of how return is measured. The Responsible Business is no longer content to report financial return without considering the investment of other stakeholders.

The Future of Responsibility

The business unit, which has direct responsibility for all of the activities that affect stakeholders, is often the most effective organizational level from which to engage in work on corporate responsibility. At the same time, there is a unique role for corporations in the evolution of a more responsible business culture in the world. They must lead the way to the future of responsibility.

As Chad Holliday found when he finally had responsibility for the whole of DuPont, the scale and complexity of a major corporation made it difficult to directly affect the financial, social and sustainability goals of individual businesses, but it gave him an important platform from which to create dialogues that shaped thinking and behavior choices globally.

The following are a set of responsibility-based directions through which corporate leaders can begin to leverage the work of Responsible Businesses into the creation of Responsible Corporations:

1. Engage broad communities in enlivening public conversations about what it means to go beyond sustainability and corporate responsibility as they are currently conceived.
2. Engage business leaders and governments in dialogue to articulate global imperatives and give businesses a richer source of support to guide and evolve their own development.
3. Report progress toward enterprise-wide responsibility in annual reports rather than in separate corporate social responsibility reports in order to foster public dialogue.
4. Use quarterly meetings to educate investors and the investment community as a whole on the global imperatives of society and Earth; encourage investors to learn how it is possible to develop systemic wealth and how their own future and enduring returns are tied to the development of systemic wealth.
5. Work at the global level to help evolve business practices in their own industries in order to evolve Responsible Industries.

A Responsible Business aspires to grow responsible individuals. Indeed, it can't achieve its full potential if it doesn't. Working with the pentad is more than just good business; it is a means to sustain healthy democracies and a healthy global community.

There is much that companies will do to strengthen society and address the world's problems, just by the way they conduct business, if they rise to the challenge to grow responsible individuals. It is not a separate piece of work to be responsible for society. It is the work we do when we do business responsibly.

RECOMMENDED READING LIST

If you liked *The Responsible Business* you'll also like:

1. ***The Responsible Entrepreneur*** **by Carol Sanford.** Responsible entrepreneurs seek to transform industries and even society itself. Sanford presents a blueprint for the kind of leadership that is required.

2. ***Good Company*** **by Larry Costello, Ed Frauenheim, Laurie Bassi, Dan McMurrer.** The authors created the Good Company Index to look at Fortune 100 companies' records as employers, sellers and stewards of society and the planet. The results are clear: worthiness pays off.

3. ***The Speed of Trust*** **by Stephen M.R. Covey.** Covey gives readers all the key tools for cultivating trust in their relationships, while offering up the wisdom of other great business leaders on the topic.

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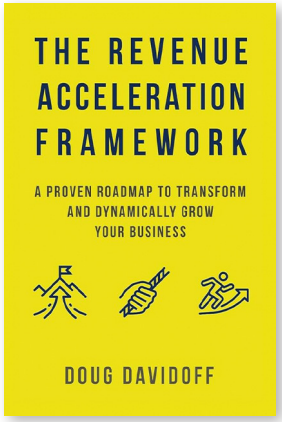
The Revenue Acceleration Framework

Doug Davidoff

Executive Book Summaries®

The Revenue Acceleration Framework

A Proven Roadmap to Transform and Dynamically Grow Your Business



by **Doug Davidoff**

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THE SUMMARY IN BRIEF

The Revenue Acceleration Framework: A Proven Roadmap to Transform and Dynamically Grow Your Business is a structured approach to business growth that emphasizes alignment, system design, and the elimination of friction in sales, marketing, and customer success operations. Author Doug Davidoff argues that traditional approaches to growth are outdated, overly reliant on "more is better" thinking, and fail to adapt to the complexities of modern markets. Instead, the framework offers a more integrated and efficient path to scale revenue and reduce costs.

Davidoff himself has a strong business background. He formed VALU Travel Marketing with his parents and brother in 1994 and experienced all the challenges of raising capital through mortgages, failing to attract customers, and finding a new approach. In the end, the family business thrived and was acquired by a subsidiary of American Express. This book is the result of this initial hands-on experience plus 20 years of experience as a business growth advisor, founder and CEO of Lift Enablement.

IN THIS EXECUTIVE BOOK SUMMARY:

- Embrace a mindset of adaptability to the shift in buyer behavior and market complexity
- Adopt the Go-to-Market strategy through alignment of sales, marketing and customer success strategies
- Create a structure that enables the scalability and repetition of revenue operations (RevOps)
- Adopt a mindset of continuous improvement in the execution of these strategies.

Part I: Preparing to Win

What do businesses want? More sales! When do they want it? Now! This is a known meme, but the truth is that very few businesses manage to achieve it. The main reason? They do not have the mindset, strategy and methodology that ensure growth. This is what Revenue Operations is about.

The first element that needs to change is the mindset.

Chapter 1: The Revenue Acceleration Manifesto

Jack Welch said, "If the rate of change outside your organization exceeds the rate of change inside it, the end is near."

This is one of the key quotes that defines the concept of revenue acceleration. Jack Welch was the CEO of GE during their high growth days of the 1980s and '90s. And his words led to the definition of the Revenue Acceleration Manifesto:

"Change is not a choice; it is the only option outside of obsoletion."

In the current market, there are five major trends that determine who are the key players in the business game. These are:

1. Noisier Markets: Buyers are overwhelmed by an abundance of information, both online and offline. The challenge isn't just having a strong message—it's cutting through the noise with insight and clarity.
2. Sellers Are Less Present: Buyers conduct most of their research before engaging salespeople. Sales teams often miss opportunities by being absent during the critical "problem identification" phase.
3. Consensus Decision-Making: Buying decisions now involve larger teams with diverse priorities, increasing complexity and decision paralysis. Sales strategies must cater to multiple stakeholders.
4. Data Mismanagement: Companies have an abundance of data but lack the right questions or frameworks to make it actionable. Dirty or misaligned data contributes to poor decision-making.
5. Friction within Organizations: Misaligned teams, redundant efforts, and inefficient processes create "friction taxes" that hinder growth.

In this context, who are the losers? Unfortunately, the answer is most of the companies. They still operate on the "good enough" mindset, which is no longer enough.

At this point, it is important to make a differentiation between speed vs. velocity. Speed means barging ahead without a plan, running empty miles without a clear direction. On the other hand, velocity means directional progress, having a structure for growth. And this is essential for anyone who wants to see their company among the winners of the business game.

Chapter 2: Revenue Operations (RevOps)

A logistics company had years of steady growth behind them but reached a stagnation point. Their revenues remained at the same level, while their costs were going up.

At this point, they requested consultancy from Lift Enablement. The analysis showed that the company's structures and systems were left behind in their growth spurt. The consultants recommended "fixing the plumbing" – embracing the Revenue Operations (RevOps) solution.

RevOps is the strategic coordination of sales, marketing, and customer success to optimize revenue generation and reduce organizational friction. It includes seven disciplines:

1. Database management
2. Process compliance and optimization
3. Design, align, manage, and optimize the tech stack
4. Territory and compensation management
5. Data science, analytics, and metrics
6. Predictability
7. Behavioral science and user experience

It is equally important to understand what RevOps is not. It is not sales, marketing, or customer acquisition. It's the system that enables these functions to perform effectively.

Chapter 3: Why Frameworks Are Important

RevOps works if you create frameworks within your organization, Frameworks provide structure and clarity, enabling businesses to align efforts, eliminate inefficiencies, and scale effectively. They offer a common language and approach, fostering consistency in execution across teams.

Without frameworks, teams are working in different directions due to miscommunication and uncoordinated processes. In turn, this leads to redundancy, friction, and inefficiency.

One of the problems many companies encounter is that they get large revenues, but their profit margin stays the same.

Part II: The Four Key Components of the Go-To-Market Approach

Defining and aligning the essential components of a go-to-market (GTM) approach is key, as this can ensure organizations effectively deliver their value proposition and achieve sustainable growth.

Chapter 4: Go-to-Market Strategy

The Go-to-Market Strategy outlines how a company delivers value to its target customers. The first challenge is identifying who is your target client. Secondly, you have to answer five questions that will define:

- Your business model
- Your ideal customer
- Your unique value proposition
- How you position your business in your selected market
- How you acquire and retain customers and revenue.

Chapter 5: The Economic Model

Entrepreneurs need to understand the importance of considering cost efficiency when scaling growth and why it is essential to focus on profitable scalability, rather than expansion without a plan and without direction.

The key metrics used in any economic model include:

- Customer Acquisition Cost (CAC): The expense of acquiring a new customer.
- Lifetime Value (LTV): The total revenue generated by a customer over their lifecycle.
- Churn: The percentage of customers that you lose per year

As a practical application to demonstrate the importance of calculating these metrics, there is an imaginary case study involving Bilbo Baggins (yes, from Lord of the Rings) which demonstrates the importance of knowing how much you are willing to pay to acquire a customer, depending on how long they continue to buy from you.

In conclusion, nobody likes math, but it is impossible to exclude it from everyday business activities if you want to experience business growth. Or, in Joe Lewis' words "Everyone wants to go to heaven, but nobody wants to die."

Chapter 6: The Sales Model

One of the problems many companies encounter is that they get large revenues, but their profit margin stays the same. In most cases, this is due to the fact that the company does not have the right sales model.

Buyers are more informed and self-reliant, often researching extensively before engaging with salespeople. Thus, sales strategies must align with this reality by focusing on education and problem-solving.

Effective sales models prioritize understanding and solving customer pain points over pushing products. You must focus on engaging buyers earlier in their journey to guide problem identification and frame solutions.

The time of superstar salespeople is gone. Instead, companies must build scalable systems that enable consistent performance across the team. Instead of one-off successes, they should develop scalable and repeatable sales processes.

Chapter 7: Messaging, Positioning, and Narrative

One of the biggest parts of building a business is the effort you make to differentiate yourself from competitors. You are spending a lot of time and effort on it – but so are they. The key is creating consistent messaging and storytelling.

Imagine Michael Jordan – one of the greatest basketball players in the world. He does not introduce himself as such. He doesn't need to. In fact, every person or business that introduces itself as being unique or great is anything but.

Great companies define a very clear message, the "point of view" message, and they align everything and everyone behind it: sales, marketing, and customer success staff.

A strong marketing message has five components:

- Simplicity – no jargon, customer-centric, relatable

language

- Emotional – the message tells a story of human interest
- Concrete – the message is easy to understand
- Context – the message is relevant to the target customer
- Polarizing – the message must attract the right people and repel the wrong people.

Part III: Structure

It's essential to understand the foundational systems and infrastructure needed to support a scalable, sustainable, and effective go-to-market strategy. The key elements of this structure are creating alignment, reducing friction, and ensuring teams work within a well-designed framework.

Chapter 8: What Is Structure?

Structure serves as the foundation for scalable growth, enabling businesses to execute strategies effectively while minimizing inefficiencies. This is called the invisible hand that guides everything in your business.

The core idea behind your structure must be this: people take the path of the least resistance. Understanding the structure within which people operate helps your company understand how your clients make decisions.

Chapter 9: System Design

In this context the word system is not used in technology terms. Instead, it has the broader meaning, which encompasses all the elements that are impacting the people in your company.

To give a visual representation, a strong system for protecting a building against fire has both fire prevention and firefighting capacities.

The biggest trap is putting the equal sign between complicated and complex when talking about systems. Good system design must differentiate between the two. The correct path for designing a system has four steps:

1. empathize
2. hypothesize
3. analyze
4. synthesize.

In this process, you have to manage trade-offs: desirability, feasibility and viability. In an ideal world, you have all three. But we do not live in an ideal world, so you have to choose wisely in order to reduce friction, minimize complexity, and maximize value creation.

Chapter 10: The Tech Stack

Imagine a golf player who struggles to improve his game and reaches the decision to buy new clubs. The player experiences a small initial improvement, but the progress soon stagnates.

This serves as a parallel to the idea that that new tech will temporarily improve your business, but you won't see sustainable growth if you don't upgrade the underlying system.

Many businesses make the mistake of treating new tech with the "FOMO" approach – fear of missing out. They just have to have the latest tech tool – right now.

In reality, whenever possible, they should HIRE, not buy tech. This is one of the five principles for implementing an effective tech stack, explained in detail with the case study of how to implement a good CRM.

Chapter 11: The Scoreboard

The scoreboard is just as important in sales as it is in sports. There are various resources showing that what truly motivates salespeople is not money, but the idea of winning.

And this is why metrics are important. Success must be measured. But how you measure it is critical – and this is where metrics get involved. They guide your decisions, align efforts and drive accountability. So, you have to identify and measure the right metrics, not the vanity ones.

Remember, data is a tool and you use it to ask better questions. So, look at your scoreboard and measure the metrics, but don't let them replace your conscious decision-making.

Part IV: Approach

Now that we know the strategy and the tools, it is time to move to the execution and implementation of the Revenue Acceleration Framework. This consists of designing specific processes, methodologies, and playbooks to ensure consistent and efficient alignment between teams and strategies. The ultimate goal of these is to turn plans into scalable, repeatable actions.

Chapter 12: Approach Overview

You know the drill: work on your business, not in your

Processes are the backbone of operational efficiency ensuring that teams work cohesively and deliver consistent results.

business. But how do you do that? You must have a cohesive approach – to find your M.O. that allows your business to learn as it grows from a people-driven organization to a structure- and process-driven organization.

To this end, everyone in your organization must be aligned in a unified effort to reach the objectives of your business.

Speaking from my personal experience, I was advising a company that, despite having a talented sales team, was struggling to achieve its full potential. The root of the problem wasn't the team's skills but their lack of a clear go-to-market strategy and consistent messaging. Instead of training the salespeople more, the company needed to define its approach.

Chapter 13: Process

Processes are the backbone of operational efficiency ensuring that teams work cohesively and deliver consistent results. This idea is illustrated with a famous quote from Joe Madden, the manager of the Chicago Cubs, who said that the daily goal of the team is not to win, but to execute their game plan and process.

There is a profound truth in this quote – without a process in place, companies that focus only on the end result fail to achieve it. Well, in this case, why do so many business processes fail?

There are three main reasons why it happens:

- they're too rigid
- they are too vague
- they are focused only on the closing – the end of the process.

To map out an effective, strong process, the company must start with customer needs. They must design processes that enhance the customer journey, on each of its 5 stages:

- epiphany
- engagement
- intent
- selection process
- happiness.

You must be involved in the customer journey as early as possible to create a bigger snowball effect.

Chapter 14: Methodology

One of the common issues in many companies is the confusion between process and methodology. And this is why you should pay close attention to this chapter. The process is the map of what you do. The methodology is how you do it.

To give a better understanding of this difference, let's use a music analogy. There are just 12 notes in music (these are the processes). Yet, each composer in history, from Mozart to Bach to Bruce Springsteen creates completely different musical pieces. Each of them applies a different methodology to how these 12 notes are arranged on the music sheet.

When you are at the point of developing your methodology, you should already have your Go-to-Market model in place. It does not work the other way around. Your methodology is shaped by this model.

In building your methodology, you must remember a few critical aspects:

- buyer intent remains unchangeable – you cannot sell to someone who does not want your product
- work on your acquisition process, focusing on the three elements: engagement acquisition, customer acquisition, and revenue acquisition
- remember the "lift" principle in creating and maintaining engagement with your customers.

The five principles of building a methodology are:

1. Discover
2. Engage
3. Activate
4. Launch
5. Success.

Chapter 15: Playbooks

Playbooks translate strategies, processes, and methodologies into actionable, role-specific guides for teams. Yet, they often get a bad rep. This happens for several reasons. The most common is that they are not built for use. They sit nicely in a drawer or a folder on the employee's computer and it never gets referenced.

Or, these playbooks are too rigid or too vague – so they are unusable. Some playbooks are built on false assumptions and others are focused on how to close the sale, not how to help the client make the best decision.

Good playbooks must be grounded in reality. This reality is defined by several aspects:

- The average sale value
- The complexity of the sale process
- What you are selling – a product or a service?
- Your position in the market – leader or challenger?
- Who you sell to: early adopters, the majority or late adopters.

Part V: Putting It Into Action

When bringing the Revenue Acceleration Framework to life, you need to focus on execution, mindset, and alignment. Businesses can sustain growth by embedding the principles of the framework into their operations and fostering a culture of continuous improvement.

Chapter 16: Execution and Performance

When it comes to executing your strategy, one of the biggest things you have to learn is to step out of your system and look from the outside. How are you solving your customers' problem? Do you still follow that 80/20 rule? Then it's time to change your playbook and stop playing the game to the lowest denominator.

Instead, define your acceleration cycle in order to ensure consistent and predictable periods of execution and adjustment.

Remember, if everything is a priority, nothing is a priority.

Chapter 17: Revenue Acceleration Mindset

When you're in business, you tend to take yourself too seriously. You fear so much what you could do wrong. Instead, I want you to adopt this mindset "embrace the suck." No, it does not mean that your business sucks.

It means that you should abandon the right or wrong binary world and accept that these two concepts exist in a continuum. Thus, there are very few areas where you are totally right.

However, more than often, not being wrong is sufficient to build a successful business. So, move on and progress, instead of being stuck on the idea of being "right."

Also, learn to embrace friction as a tool that helps you progress. And learn how to think probabilistically, instead of discounting factors that create uncertainty.

Chapter 18: Succeeding with RevOps

Success is fascinating and difficult to determine where it comes from. Why do some individuals or organizations succeed while others with similar potential fail? Over time, it is clear that success hinges on small, consistent actions rather than grand strategies or shortcuts. This realization emerged from observations in various fields, from business to baseball coaching, and made me understand the importance of discipline, habits, and adaptability.

To succeed in business, you have to develop business acumen. This is an intuitive understanding of performance drivers and the ability to link processes or products to measurable outcomes.

And these days, having business acumen, especially in sales and marketing, gives you a tremendous edge in this overly-specialized world. It is also essential in RevOps. What most organizations do nowadays is copying examples of success, instead of cutting their own path.

But, since it is an emerging discipline, not all CEOs are open to integrating Revenue Operations (RevOps). If you want to sell them the idea, you must not focus on the process, but on the outcomes.

It is also important to understand that RevOps is not a magic formula, but a discipline best implemented when a company has achieved a certain level of maturity.

It focuses on reducing inefficiencies and supporting sustainable growth. However, its success depends on prioritizing high-impact outcomes over rigid process optimization.

Also, RevOps should be introduced incrementally, with clear starting points and iterative improvements. It thrives when aligned with a company's strategic goals and focuses on velocity rather than mere speed.

Last, but not least, remember that there is not a "right way" to implement RevOps. It is not a linear discipline, but a living, breathing one. Ultimately, its role is to enable your sales, marketing and customer success teams to achieve more and better results with less effort.

Conclusion

Decision-making plays a crucial role in business transformation. Companies such as Circle Industrial can undergo significant transformation simply by clarifying their go-to-market message.

Remember that change is inevitable. However, great change is purposeful. It's achieved through small, consistent decisions and actions. The fear of making decisions paralyzes the ability of many businesses to achieve their true potential.

Yes, it takes a lot of courage to make decisions, especially when the stakes are high. You will face a lot of critics. But remember that it is not the critics that count, but you, standing in the business arena, while they sit comfortably in the stalls.

So, you are encouraged to embrace decision-making as a key driver of business success. By making decisions, taking action, and learning from the outcomes, you can adapt to change, overcome challenges, and achieve significant growth.



Doug Davidoff, the founder and CEO of Lift Enablement, has directly advised more than a dozen companies that have sold for a combined value of more than $1 billion.Davidoff has decades of experience advising the leadership of more than 1,500 small and mid-market companies committed to serious growth. He has authored and co-authored several books, writes the influential The Demand Creator blog, co-hosts The RevOps Show podcast, and is routinely quoted in major business publications.

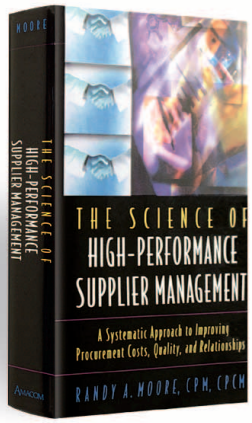
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The Science of High-Performance Supplier Management

Randy A. Moore, CPM, CPCM

SOUNDVIEW Executive Book Summaries®



By Randy A. Moore, CPM, CPCM

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A Systematic Approach to Improving Procurement Costs, Quality and Relationships

THE SCIENCE OF HIGH-PERFORMANCE SUPPLIER MANAGEMENT

THE SUMMARY IN BRIEF

Purchasing controls your company's future. Organizations that know how to harness the full power of the supply web are going to beat companies that view the procurement function traditionally. To be strategically competitive, relations with suppliers must be considered at the senior executive level and managed carefully. In this summary, you will learn to use a high-technology procurement discipline called the Systematic Technology for Procurement (STeP) process to improve the relationship. Using the disciplined techniques in this summary, you will be able to set up a business environment for proactive supplier performance management.

What You'll Learn In This Summary

✓ **Form, train and charge a procurement team that will lead the procurement process.** You will see why having a team is superior to traditional deal-making at the highest executive levels.

✓ **Define your procurement strategy by identifying your objectives and inviting suppliers to be responsible for results rather than be mere suppliers of resources.** When suppliers are responsible for results they are more likely to be flexible and responsive to changing needs.

✓ **Prepare a Request for Proposal (RFP) that aligns your objectives, details your requirements, and outlines your contractual requirements.** A good RFP invites solutions and puts the focus on your objectives being met.

✓ **Evaluate, rate, negotiate, select and award a contract that meets your needs.** You will see exactly how to rate a proposal and how to keep suppliers focused on meeting your needs throughout the negotiation stage.

✓ **Manage the contract and reward superior results.** Once you decide that performance is what you want from a supplier, you must monitor the contract to be sure it is being delivered.

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THE SCIENCE OF HIGH-PERFORMANCE SUPPLIER MANAGEMENT

by Randy A. Moore

— THE *COMPLETE* SUMMARY

Systematic Technology For Procurement

Unfortunately, the relationship between supplier and customer starts off dysfunctionally. This is because the supplier and the customer want two entirely different things. The supplier wants to give goods and services and take money. The customer wants to give money and take goods and services. For the supplier, money is the important ingredient in the relationship while the customer values the goods and services.

You must begin to understand who your good suppliers are and who to get rid off. You must learn to be the one who manages the relationship. Don't let your supplier's customer relationship management program (CRM) dictate the terms of the relationship. Instead, create your own Supplier Performance Management (SPM) program to manage your suppliers and their performance. To ensure you can manage supplier performance, you must pick manageable suppliers.

Supplier Performance Management

The objective of your supplier performance management program is simple: to improve the value of your suppliers' performance. Since roughly half of the average company's revenues goes to suppliers, then approximately half of its strategies for true gain to competitive position must be aimed at those programs and actions that make suppliers more efficient, effective and innovative. The buying organization must substantially increase the value derived from the purchasing transaction.

The value of goods and services has three dimensions: time, quality and price or money. Thus, there are three components to performance: *t* for time, *m* for money and *q* that relates to quality and quantity. When you change one of the three and hold one constant, the third must change. It works like this:

- If *q* is held constant and *t* must decrease, additional *m* will be needed;
- If *q* must increase, and *m* remains the same, additional *t* will be required; and
- If *t* can't be increased but *q* must be increased, then *m* must also be increased.

Four Basic Objectives of SPM

A good Supplier Performance Management (SPM) program requires your organization to achieve four objectives. These are:

1. **Aligning procurement strategies with organizational objectives so that maximum value is derived out of each deal.**
2. **Communicate requirements so clearly that there will be little need for changes later.** The supplier will know what you need and what must be delivered.
3. **Manage the process so that the supplier meets expectations and understands the need for superior performance.**
4. **Integrate company objectives into every contract.** The entire procurement department must buy into SPM or it won't work.

Toward a Systems Approach

To successfully manage supplier performance, you must apply a systems-engineering approach to procurement. This is what STeP is all about. A systems approach recognizes that there is a deal, and the deal is surrounded by a relationship, and the relationship is surrounded by a business environment that contains factors that impact both the buyer and the seller. Supplier management techniques that focus only on the deal fail to leverage the supplier base for true competitive advan-

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Systematic Technology for Procurement

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tage. Partnering and creating alliances or beating up on suppliers on price, quality and delivery aren't the answer.

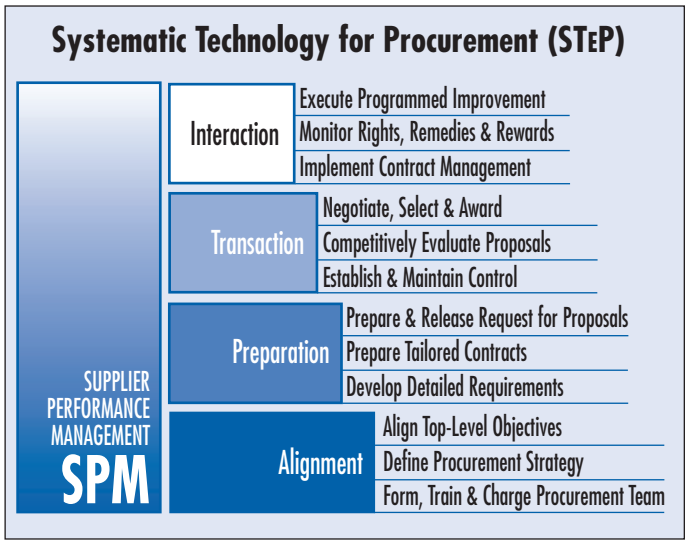
What you really need to do is build a system that ensures fair value from your suppliers, and that system must build in a method for correcting performance deficiencies and motivation. In other words, you must create a system of remedies and rewards consistent with your business model. Don't rely on deals made on the fly. The worst deals are those made by executives on the run. Cutting a deal on a plane or the golf course and then telling the procurement team the deal is done except for the details is no way to manage suppliers.

The STeP System

This summary introduces the Systematic Technology for Procurement (STeP) process, which will allow you to take a systems approach to procurement.

There are four major components in the STeP process:

- **Alignment:** This entails ensuring that the procurement objectives are correctly synchronized with the overall strategy of the organization. Supplier performance management begins with management understanding what and how it expects the supplier to perform and what it plans to do if the supplier doesn't live up to expectations.
- **Preparation:** Once you know what and how you want the supplier to perform, you must find the appropriate supplier. This process typically involves creating detailed requests for proposals that meet all your needs.
- **Deal Transaction:** Once proposals are received, you must begin the negotiation stage. Push your own terms. Because you have gone through the alignment and preparation stages already, you know what you need and won't be persuaded to make the deal strictly on the supplier's terms.
- **Ongoing Interaction:** Once suppliers are on board, the planning that went on earlier will serve as a performance management tool. Managed properly, your suppliers will become a strategic weapon in the marketplace. ■



Alignment of the Procurement

The first of the four elements of the STeP system is to strategically *align* your procurement team.

Create Your Procurement Team

Your suppliers want to make as much profit from your company as possible. Your company's objective must be to ensure that it gets value for the money it spends.

To accomplish this, you first need to create a multidisciplined team. This team will be high-performance, with all members clear about purpose, roles, values, expectations, functions and goals. Members appreciate and use their differences in a nonjudgmental environment.

The team will do much more than create the procurement deal. It will ultimately be responsible for managing the supplier's performance for the duration of the contract. To create an effective team, you must be sure:

- **The team is composed of the right members.**
- **The team gets proper training.**
- **The team understands the company's objectives and how the procurement process fits in with those objectives.**

Building the right team takes time and money. Don't cut corners. You have two choices: implement a procurement process using a team approach or give the job to a procurement official and live with the outcome when you have to manage the deal.

The first choice might involve more time at the beginning as the team learns to work together and to integrate the organization's objectives into the procurement process. But in the end the result will be a procurement process that gives the company a competitive advantage. High performance demands teamwork from conception of the deal through to the completion of the work. Making the procurement team operate as a team is an essential part of making the supplier act like a team member.

Members of the Team

Everyone with a stake in the outcome should be represented on the team. At a minimum, the following disciplines must be represented either by full-time members or by advocates:

- **End User:** He or she must represent the needs of the user community. For example, if the team has been charged with procuring new storage methods for radio-

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Alignment of the Procurement

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logical images, the needs of general practitioners on location and radiologists who provide advice from a distance must be considered.

● **Legal:** A procurement agreement is a legally binding contract and must be prepared with the assistant of counsel. Having counsel as an actual and active participant makes more sense than waiting until the terms of the agreement have been reached only to have the lawyer object. Get a good deal-making attorney involved.

● **Procurement:** These members bring two important skills to the team. First, they are good deal makers. They also know how to administer a deal.

● **Finance:** The team needs financial expertise. It must know what the services or goods it is procuring should cost.

● **Technical:** Technical personnel can determine what service or product is required. Your team needs someone with enough technical expertise to understand your requirements and what is available.

● **Technical Writer:** This specialist can ensure that all communications between the team and vendors are clear, concise and consistent.

● **Senior Management:** On a critical deal, senior management participation is important. The role of a senior manager should be one of sponsor rather than participant. He or she should offer the team insight into the strategic importance of the procurement project.

Training the Team

Once staffed, the team must be appropriately trained. Jump-start the team with an experienced teamwork trainer or facilitator. The facilitator can show the team how to accomplish its goals without using a leader-follower model. The team will be less dependent on the leader's abilities. It will take longer to train the team, but the approach produces consistently superior results.

There are four areas team training must cover. They are:

1. Team Dynamics: Team members must understand something about team dynamics to understand what they are going through. A team facilitator can explain that they will go through the stages of forming, storming, norming and performing.

During forming, enthusiasm is high and the team is very productive. However, the next stage, storming, is characterized by defensiveness, argument and competition. If the team understands this is normal, it will pass and the team won't be torn apart. The next step, norming, is vital for high-performance teams. Members at this stage will focus less on the goal and more on harmony, team cohesion and trust-building. Members accept the need to maintain team rules. They then easily move to the performing stage. Then, and only then, can the team's focus be concentrated on the objectives the team was formed to accomplish and the team charge be formulated. The team charge is simply a statement designed to make team members understand the organization's objectives and a mandate to structure the best deal the team can manage.

2. Roles and Goals: To be effective, team members must assume the roles of timekeeper, record keeper and gatekeeper. Training must cover this and the need for structured meetings, team schedules and agendas.

3. Tools and Techniques: The tools and techniques the team needs are embodied in the Total Quality Management process. These are process-driven methods designed to gather data, reduce the data to useful information sets and prioritize requirements.

4. Team Decision Making: When all the data has been gathered and the information has been prioritized, the team must make decisions. These decisions must be based on consensus and reflect the organization's strategic goals and objectives.

Defining Procurement Strategy

The primary objective of a strategic approach to procurement is to create competitive advantage from the relationship between customer and supplier. To accom-

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Why Focus on the Procurement Process?

Why should you focus on the procurement process when you want to create greater profits? Because the alternative means of growing profitability have serious flaws. There are four accepted ways to increase profits. You can increase prices, increase sales volume, decrease operating costs or decrease procurement costs.

Increasing sales price is not an easy solution. Unless you can differentiate your product in the consumer's mind and add value, you won't be able to raise the price beyond what the market will tolerate. Increasing sales is not easy either. After all, if there was excess demand for your product or service, you would be able to increase the price and wouldn't have to consider increasing sales. Decreasing operational costs is also difficult. In many companies the focus is on the first three with no attention to the fourth, decreasing procurement costs. The missing ingredient in many organizations is a comprehensive and systematic initiative to leverage the supply web for competitive advantage.

Alignment of the Procurement

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plish this objective, the team working on a complex deal must strive to sustain leverage and power over the supplier from the creation to the performance of the deal. You can buy either resources or results. Resource contracts are agreements to procure specific items, products or services that are generic. For the most part, in high-technology procurement you are seeking results rather than just resources. In these contracts, you are buying a solution or an outcome.

Contracting for results requires your team to focus on the scope of the solution. You must decide what system is acceptable, what performance and reliability requirements you have and what results will satisfy you. The results must have time, money and quality measures.

Aligning Top-Level Objectives

You must create a business plan for the procurement. The plan should be distilled into a deal summary sheet that can be used to secure upper management buy-in. To create the plan, you must know what the top-level objectives are. Get key decision-makers and stakeholders together. The plan must articulate the result you are seeking. This will be your mission statement.

Once the results desired are clear, you must determine what the top-level requirements will be for the deal. Brainstorming can yield three to 20 top ideas that go to the heart of the results you seek. Once clear objectives have been articulated, they must be aligned within the organization. Concise briefing packages will be helpful as you brief stakeholders and senior management. ■

For Additional Information on why traditional teams fail, go to: http://my.summary.com

Preparation Within The Organization

Once your procurement team has aligned the procurement objectives with top-level requirements, you are now ready for the *preparation* element of the STeP process.

In the previous stage, you determined what results you need; the first step in the preparation stage is to detail those needs.

Develop Detailed Requirements

The next module in the STeP process can be accomplished by preparing a statement of work (SOW) that explains:

- **What** needs to be done.
- **Who** will be responsible for doing it.
- **Where** the work will be performed.
- **When** the work must be completed.

Your SOW will form the basis for monitoring the supplier's compliance. The SOW must be set up to allow you to easily measure supplier performance.

Be careful when designing the SOW. If you are contracting for results, you must avoid telling the supplier how to accomplish the job. Let the supplier worry about the "how" of performance.

Market Survey

Once you have gathered information from everyone in the company who will be affected by the contract, you can begin a market survey. The survey will gather external data on technologies that can be applied to your objectives and a list of possible suppliers. The idea is to identify as many technologies as possible that meet your requirements and as many suppliers as possible that can utilize those technologies to solve your problem.

Use a request for information (RFI) to find out what suppliers might meet your needs. The RFI should include:

- A statement of the procurement objective.
- A statement that this is only a request for information and not a solicitation for proposals.
- A statement that communication must be limited to a designated team member and that communicating with others is grounds for disqualification.
- A due date.

In addition, you will want information about the organization's structure and financial status, a description of its facilities and infrastructure that would be used to ful-

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Avoiding Additional Cost

One of the sneaky ways suppliers operate is to find ways to bill extra. They bid low on your project to get the contract and then hope you won't provide them with enough information to get the job done. For example, suppliers add extra money to the bill by claiming they have incurred additional costs due to delays and disruptions, or ask for an "equitable adjustment" when a new piece of data that was not available at the time the contract was negotiated led to additional work for the supplier.

You can guard against this by creating a procurement library. Have every department that will be touched by the contract contribute specific information about its needs. The library becomes the information repository for the team developing the contract requirements and a baseline of data for suppliers preparing their bids.

Preparation Within the Organization

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fill the contract, a list of key people and their qualifications, and information about technological capabilities now in place and being developed. References and contact person information should also be requested.

Tailor the Contract to the Deal

Writing the contract should not wait until the deal has been made. Instead, it should be part of the request for proposal (RFP). The contract will have four sections.

The first section contains the administrative elements of the contract, including party names, recitals, contact information, requirements for legal service, invoicing and payment instructions and shipping addresses. The second section contains the SOW, either as a referenced attachment or in its entirety within the body of the contract. The third section contains the standard contract language used by your company for most mainstream deals. Finally, the fourth section contains the specific terms tailored to the deal. These set the stage for performance management and future performance enhancements.

Prepare and Release the Request for Proposal

Your RFP should stand on its own. It has three functions:

1. To communicate the requirements
2. To solicit responsive proposals
3. To position the procurement team for evaluation and negotiation

The RFP should be divided into five sections. These, along with their minimum requirements, are:

The Executive Summary: Be sure it clearly and concisely communicates the basics of the proposed deal. Include the mission statement and the top-level requirements and a statement that indicated you expect performance promises to be an integral part of any response.

The Requirements Section: The SOW comes next. Be sure all requirements are listed as performance criteria. Avoid mandating methods and focus on requiring results.

The Terms and Conditions: These include the standard terms and conditions that your company uses in contracting as well as the specific terms and conditions unique to this deal, such as intellectual property ownership terms, rewards and remedies, specific warranties and an exit strategy.

The Proposal Instructions: This section lays out the technical requirements for responding, such as the due date, who to contact and how many copies to send.

The Evaluation Criteria: This section lays out what you expect from the vendor's response. It lays out your top-level criteria. You may want to consider letting suppliers know they are welcome to come up with alternative proposals, so if you missed a possible solution to your problem, creative suppliers can provide you with a better idea. ■

What Makes a Contract

"Contract" is a legal term. A contract is an agreement that includes:

- ✓ An offer and acceptance of that offer
- ✓ The passing of consideration between the parties — that is, evidence of an exchange of something of legal value, such as money for services or goods
- ✓ Parties that are competent (that is, they have the capacity to enter into an agreement)
- ✓ The purpose of the agreement is legal

In addition, the parties have to have genuinely consented to the deal — not tricked or induced by fraud, duress or deceit.

The Deal Transaction

The third of the four major elements that make up the STeP process is the actual *transaction of the deal*.

Establish and Maintain Control

When the RFP is out, you must guard against letting control of the process pass to the supplier. Suppliers will do their best to derail your efforts at competition. Don't allow it to happen. One approach is to schedule a presolicitation conference before you release the RFP. Those who attend will get a general idea of what you are looking for and may even begin sizing up some of the potential suppliers as teammates.

You also want to enforce communications discipline. Employees should be instructed that they are not to communicate with suppliers about the RFP unless they are designated as the team member who is to be the contact person. Vendors can and will try to get inside information about the RFP and will try to enhance their chances by soliciting support for their company. They must understand that doing so won't be tolerated and will be grounds for disqualification. Questions that come in through the approved communications channels must be logged in a controlled manner. All questions and answers should be made available to all suppliers. There should also be a cut-off time for any questions.

Shortly before proposals are due is a good time for a bidder's conference. Be sure that the team member who has been fielding inquiries leads the meeting. This reinforces that he or she is the person to turn to with questions. Use an agenda and don't let the meeting degenerate into an open forum on the RFP.

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The Deal Transaction

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Evaluate the Proposals

You have two goals to remember when evaluating proposals. The first is to select the proposal that assures your company it is receiving the best overall value for the project. The second is to ensure that the selection process was fair.

A senior staff member should be responsible for selecting the winning supplier. He or she will receive recommendations from the procurement team. The team is responsible for sifting through the proposals and using predetermined selection criteria to winnow down the proposals to those that best solve the problem posed in the RFP. You may want to use sub-teams to evaluate individual parts of the responses. For example, a technical evaluation team can evaluate the soundness of a supplier's technical approach while a cost/price evaluation team looks at the cost estimated and proposed pricing.

When the proposals arrive, they must all be evaluated to see if they comply with the minimum stated requirements. Those that fulfill the minimum requirements are then evaluated by the appropriate sub-team. Next, using the evaluation criteria and the relative weight you assigned each in your proposal, you must tabulate the scores. The procurement team will by now have set a competitive zone (CZ). The CZ is the score cut-off for vendors. You should now only have two or three supplier proposals. Those who beat the CZ score are included in the procurement briefs sent to the ultimate decision-maker. Negotiation now starts.

Negotiate, Select and Award

Don't make the mistake of selecting the winner and then entering into negotiations. You should negotiate with all the suppliers in the CZ. The proper sequence is to negotiate, then select and then award the contract. Negotiations will consist of several rounds with each supplier. They should be told they are in the top group, but must understand that they have not been selected yet. Be sure that each supplier also understands that a deal may be made with any of the competition at any time during the negotiations phase. This puts pressure on the supplier's negotiations team to quickly commit to your performance and price requirements.

The team members who do the actual negotiations must be very well prepared. One of the best approaches to negotiations is to understand the principle know as BATNA. BATNA stands for best alternative to a negotiated agreement. Having a BATNA is very powerful and merely means that you know what your alternatives are if you cannot reach agreement. You may be able to do the work in-house or you may have another supplier available. You might be able to partner with another company. The important factor is that you know what your alternatives are. Because you do, you won't feel as if you must make a deal. It is better to walk away from a deal than to have to live with one that is worse than the alternatives identified in your BATNA. ■

Ongoing Interaction With Suppliers

The day the contract is signed is the day the customer must begin managing the contract or the supplier will start managing the customer. Implementing the contract management is the first module of the fourth and final element in the STeP process: *ongoing interaction*.

Implement Contract Management

If you have used the advanced procurement process outlined in this summary, you will be working with a performance-based contract that can yield significantly superior results. Such a contract requires ongoing attention.

You must manage contracts if you are to establish baselines for rewarding superior performance and punishing sub-standard performance. Contract management includes tracking documentation and making sure that milestones are reached. Contract managers make sure the supplier delivers and that there are no excuses for not delivering.

Rights, Remedies and Rewards

If superstar athletes have performance rewards built into their contracts, why shouldn't your suppliers have them, too? In the game of business, the players are your employees and suppliers. High-tech suppliers are your superstar athletes. Adequate isn't good enough for them. In order to win, you need to adopt a team approach, with suppliers and employees working toward common goals.

Just as your company probably prepares annual reviews for its employees, it should provide annual reviews for its suppliers. Such performance reviews require three things: goal setting before the performance period, performance assessment after the performance period, and feedback.

Goals and rewards must be built into the contract. Rewards can be more powerful than punishments. Consider this example. A contract has a built-in liquidated damages clause that is triggered if the supplier misses a critical date. As the supplier prepared the bid, it calculated the likelihood it would miss a deadline and built the penalty into the price. The supplier wins because its liquidated damages are covered in the price, but you lose because a critical deadline was missed. If instead you build in a reward for meeting or beating the

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Ongoing Interaction With Suppliers

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deadline, you won't find yourself paying for the supplier's missed deadline.

Rather than liquidated damages clauses, high-technology procurement contracts can benefit from clauses aimed at identifying important milestones and working together to correct deficiencies if they occur. Setting up a reward pool or rewarding outstanding suppliers can provide powerful incentives for superior performance.

Long-Term Programmed Improvement

Today, business changes at a rapid pace, and the contracts negotiated with suppliers months ago may hinder your ability to respond. Now try to imagine what it would be like if your key suppliers worked in concert with you. Together you formed a coalition with common goals and objectives. It takes more than imagination to make this vision a reality. It takes a plan — a programmed improvement plan.

Programmed improvement is about understanding the competitive direction of your industry and finding the pressure points in the value chain so that your suppliers realize that it is in their best interest to team with you. Teaming wisely creates competitive advantages for both of you. Suppliers who take notice of your objectives and consider them in conjunction with their own objectives can create valuable partnerships.

There are several programs you can consider to create partnerships. These include:

- **Setting up supplier-tiers** is one approach. Suppliers who qualify for high tiers earn awards like preferential treatment in future contracts. Qualifying for a tier depends on meeting objectives that are of strategic value to your company.
- **Business Base Consolidation** of suppliers can work in organizations that are trying to reap the benefits of economies of scale.
- **Create a continuous improvement initiative program.** Encourage suppliers to continually improve through built-in incentives in contracts.
- **Create innovation initiatives.** Encourage your suppliers to share innovations that can benefit you both.

Managing the Unmanageable Supplier

What can you do when, despite your best efforts, you are faced with a supplier who isn't performing? The supplier may be behind schedule or may demand more money for work you assumed was part of the original contract. If you cannot persuade the supplier to perform as agreed, you must use what leverage you have.

Leverage can come from several places. You may find some in the contract itself. A good contract will provide remedies. If the supplier refuses to budge, you may have to sue or threaten termination. You may also find leverage in the market. Threatening to send out a new RFP could get the supplier's attention. Personal relationships can also provide leverage. Having the president of your company speak directly to the supplier's CEO can be effective. Finally, don't discount the leverage found in your checkbook. Performance can almost always be had for a price. ■

Why Manage Contracts?

The main reason to manage contracts is to avoid problems. You do this by:

✓ **Monitoring Your Responsibilities:** You must identify all contract requirements that drive the supplier's ability to perform. Failing to perform on your end may mean the supplier gets paid for its non-performance if your neglect meant the supplier couldn't fulfill its end of the bargain.

✓ **Monitoring the Supplier's Responsibilities:** Once your house is in order, turn to the supplier's performance. Make sure performance standards are met regarding the time, money and the quality and quantity required under the agreement.

✓ **Get Superior Short-Term Supplier Performance:** Use the positive incentives you built into the contract to motivate suppliers into higher performance levels.

✓ **Get Superior Long-Term Supplier Performance:** Long range, you want to encourage the supplier to make investments that will reduce its future costs and to bring you its best ideas first.

Creating Performance-Based Incentives

Consider creating a composite award pool. The award pool works like this:

✓ **Identify critical performance factors.** These must be critical to the success of your organization.

✓ **Create the pool.** Prior to finalizing negotiations, tell the supplier you want to set aside a portion of its profit as a performance incentive. Have it propose the number and tell it you will match the pool.

✓ **Negotiate performance milestones.** These are the goals that must be reached before money is paid out of the pool.

✓ **Hold periodic award fee events.** This keeps the supplier's eyes on the prize.

For Additional Information on how an office supplier could become a valuable partner, and for an example of using contract language as leverage in a dispute, go to: http://my.summary.com

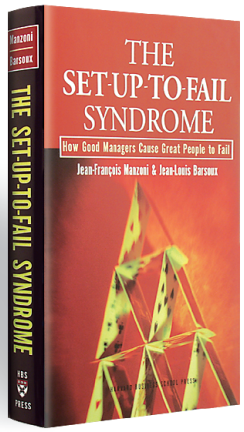
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The Set-Up-To-Fail Syndrome

Jean-Francois Manzoni and Jean-Louis Barsoux

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Jean-François Manzoni and Jean-Louis Barsoux

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THE SET-UP-TO-FAIL SYNDROME

THE SUMMARY IN BRIEF

When an employee does not perform up to expectations, managers typically believe the fault lies with the employee. Often this is true, but frequently the manager is complicit as well. Bosses create and reinforce a dynamic that sets up weaker performers to fail.

The "set-up-to-fail" syndrome begins innocuously, with a small act, such as missing a deadline. Once employees are cast (and often miscast) as "weak performers," they can do nothing right in the eyes of the boss. While the boss will see any miscues and setbacks as "confirmation" of his opinion of that employee, any of the employee's successes or proofs of high performance will be ignored. In response, the employee begins to live down to the boss's expectations, which, of course, only reconfirms those low expectations.

The goals of this summary are to unravel the biases, blinders and misperceptions on both sides of the boss-subordinate relationship and provide a way to interrupt the downward spiral of the set-up-to-fail syndrome.

What You'll Learn In This Summary

✓ How you, the boss, may be responsible for the self-fulfilling and self-reinforcing cycle that causes poor boss-subordinate relationships.

✓ Why you may have labeled a perfectly good employee as a weaker performer.

✓ How you are subtly letting subordinates know that you do not trust their work.

✓ How subordinates allow their bosses to view them as weak performers.

✓ The cost of the set-up-to-fail syndrome on the boss, other employees, and the organization.

✓ Why bosses are afraid to confront the problem or fix their relationships with weaker performers.

✓ How to intervene and change both your behavior and that of your subordinates.

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The Set-Up-to-Fail Syndrome

A boss's job of meeting numbers and targets has grown more frenzied and complex. Bosses are responsible for working with project teams that span geographic boundaries, and they are also held to tougher performance targets in shorter time frames. They must also motivate and manage an increasingly mobile work force. With evaluation systems tied to results as well as employee satisfaction, managers are torn between empowering employees and making sure they deliver on commitments.

The authors of *The Set-Up-to-Fail Syndrome* expected the managers they studied would either be good or bad at this balancing act. Instead they found that bosses achieve the balance with some subordinates, but fail with others. Employees rated as "higher performers" felt that though targets were tough, they received encouragement and support. Employees rated as "weaker performers" did not feel the same levels of consideration, recognition or autonomy from the bosses.

What Happened?

Perceived weaker performers are not the best, but still perform above the firm's minimum threshold. Perhaps, however, they make a mistake early in their career at the company. As a result, a well-meaning boss gives more attention to the subordinate, who interprets the heightened supervision as a lack of confidence. The subordinate doubts his own thinking and ability, but the boss misinterprets the ensuing withdrawal as confirmation of weaker performance and intensifies involvement in the subordinate's affairs. The boss steers important and risky assignments away from the subordinate, and the frustrated subordinate retaliates by ignoring instructions and continuing to perform below expectations. *Once people are miscast as weaker performers they join in the syndrome themselves and live down to that image.*

The boss's reaction to the subordinate's behavior seems like common sense, especially if the underperformer truly cannot do his work. But often the subordinate just had a bad start, and the set-up-to-fail syndrome is compounded by the superior's behavior.

The Entire Organization Suffers

The syndrome ends up affecting the entire organization. Weaker performers share their misery with peers and their own subordinates. The boss's career development is at stake, because she appears unable to develop relationships with subordinates. The syndrome also affects productivity as HR personnel deal with people who quit or need to be transferred, and employees who feel bullied spend valuable time worrying about unresolved issues and taking more days off. ■

Don't Treat People As Second-Class Citizens

Past management research focuses on an average management style of a leader. Even 360-degree feedback focuses on the average behavior perceived by peers, superiors and subordinates, not the variance between responses. This variance in perception is very important. If every one of your subordinates was asked to describe your leadership style, how different would the answers be?

Dr. Jekyll and Mr. Hyde

The idea for this book began when the researchers found a Dr. Jekyll and Mr. Hyde in one of their subjects, "Jack." Jack supervised four business managers (BMs). BM1 and BM2 described Jack as people-oriented, treating them as equals, demanding but supportive, available but empowering. BM3 and BM4 described him as formal, mean, meddling, and never giving them a break. Similarly, Jack rated BM1 and BM2 highly while BM3 and BM4 received lower-than-average ratings.

When the authors confronted Jack he first referred to different levels of maturity among workers and thin

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Don't Treat People As Second-Class Citizens

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skins. But when pushed about the clear split among the four people, Jack admitted that he behaved differently with them. He felt the need to show recognition and appreciation to the better performers, the "in-group," while the weaker performers, the "out-group," needed more counseling and teaching. Even though Jack believed in the benefits of delegation, coaching and recognition, he was deliberately acting differently with some of his subordinates.

So What?

The pattern described above emerged over and over with thousands of managers. There were two responses to this information. The first was, "Isn't it common sense to treat different employees differently?" Yes, but common sense is not infallible. Common sense suggests the world is flat. The second response was, "So what?" Perceived weaker performers have more negative attitudes toward their job and the company, so they need more oversight and support. But managers didn't realize their behavior could also lead to employees refusing to share knowledge, help peers, or volunteer for extra projects.

Reading the Boss's Mind

Subordinates are highly sensitive to comparative signals sent out by bosses. They watch body language, listen to what the boss says or doesn't say, and note the choices offered. You may think that even if you do treat employees differently it is barely noticeable, but subordinates are very perceptive. Below are six indicators of a boss's true beliefs:

1. Unsolicited Advice. Bosses tend to give far too much advice to "lower performers," offering help without considering what the subordinate has already tried.

2. Disguised Directions. Bosses offer quick and forceful suggestions to weaker performers, imposing solutions with subtlety ("This is only a suggestion …").

3. Disregarded Ideas. Bosses often give no weight to or ignore ideas from weak performers while giving high performers supportive feedback and the chance to "try it their own way."

4. Response to Failure. Bosses are quicker to seize on the failures of perceived weaker performers, sometimes unfairly.

5. Response to Success. Weaker performers rarely receive positive reinforcing feedback. Bosses are often incredulous when there is nothing to complain about.

6. Harsher Style. A manager's style toward lower performers tends to be one of "presumption of guilt."

These clues do not just affect weak subordinates. People are extremely susceptible to impacts on self-confidence and motivation, both strong impacts on performance. In the face of these undercutting behaviors from a boss, the desire to fight back has limits and is often short-lived. ■

Effects of Being in the Out-Group

When bosses treat perceived weaker performers differently, the subordinates can:

- ✓ Withdraw and reduce contact with the boss to avoid negative feedback.
- ✓ Cover up problems.
- ✓ Volunteer less unsolicited information to avoid attracting the boss's attention.
- ✓ Disconnect from the job, losing drive, enthusiasm and initiative.
- ✓ Stop fighting for her own ideas to avoid being rebuffed and second-guessed.
- ✓ Channel energies into outside activities.
- ✓ Lose motivation to make autonomous decisions or take action.
- ✓ Lose self-confidence from the boss's lack of trust and confidence.

A Vicious Cycle

Most managers feel their weaker performers are the hardest to deal with, and the slowest to improve. But they never consider that the difficulty may arise *because* of their own behavior, not *in spite* of it. Since few managers consider themselves the source of the problem, they do not respond properly. Because they don't see their own role, they create a vicious cycle based on the following problems:

Powerful Undertow of Expectations. Research shows that when interviewers send negative nonverbal signals, interviewees actually perform more poorly. Bosses don't understand the impact of even the subtlest of low expectations and don't understand why subordinates don't fight against it. *It is extraordinarily easy to turn high achievers into underperformers with constant rejection.* They can begin to doubt themselves, and lose enthusiasm within days.

Encouraging Underperformance. Not allowed to make autonomous decisions, having undermined self-confidence, and working under tight targets and deadlines, a subordinate does not have the freedom to think strategically, generate ideas, or develop and delegate to

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A Vicious Cycle

(continued from page 3)

his or her own subordinates properly. *Bad attitudes, low enthusiasm and resistance to change are to be expected from those who receive fewer choices, informal rewards, or challenging assignments.*

Self-Fulfilling Expectations. Combining the bosses' behaviors with their demotivational impact, performance improvement almost becomes impossible. Disregard and disrespect tears down self-confidence. With fewer opportunities and resources than higher performing colleagues, it is difficult to disprove the boss's opinion. From the boss's point of view *subordinates are exhibiting the very behaviors anticipated.* Bosses see no efforts to improve, only tangible evidence of trouble.

Bosses create a self-fulfilling process by their behavior. They actually create weaker performers in a way that blinds them to their own responsibility and spurs them to continue. The process becomes self-reinforcing, and turns into a vicious cycle that is difficult for either party to escape.

Caught in a Web

The subordinate's efforts to escape are precisely what draw him or her deeper into the cycle. A weaker performer's immediate reaction to micromanagement or unwanted help is to disconnect from the boss. This fuels the boss's anxiety and his or her desire to exercise greater control. The boss overreacts to any new performance anomalies because he or she feels cut off, and forceful intervention only further discourages the subordinate. Meanwhile the subordinate wastes time searching for more excuses in the face of the boss's intense scrutiny, instead of focusing on the future.

The subordinate's efforts to escape are precisely what draw him or her deeper into the cycle.

Not all subordinates give up immediately, but even those who try to pull themselves out of the out-group find that it is very difficult:

- It's hard to stay motivated with unchallenging assignments and lack of encouragement.
- It's easy to overstride in an effort to impress the boss, and they bite off more than they can chew.
- It's hard to live with conflict. Fighting bosses and their perceptions takes considerable determination and self-confidence and can be interpreted as aggressive or provocative. ■

For Additional Information on the Degenerative Spiral Triggered by the Boss, go to: http://my.summary.com

Labels, Biases and Misperceptions

Most managers assume the subordinate did something wrong to harm the boss-subordinate relationship. But frequently the boss unilaterally decided, often mistakenly, that the subordinate had a problem. Unfortunately, once we label someone, we have a lot of trouble accommodating contradictory information.

Managers, like all people, tend to label and sort their subordinates into the in-group and out-group, to make their lives easier. Working in an uncertain and information-rich environment, bosses need to make decisions quickly; labeling helps by reducing ambiguity and saving thinking capacity for more complex issues. Unfortunately labels are unreliable indicators of performance and potential. While managers admit it requires months to make an appropriate appraisal of a subordinate, in practice it can take as little as a week. Though new information will emerge, the *anchoring phenomenon* — the tendency to give disproportionate weight to a first impression — triggers the labeling process.

Early Labels

Bosses develop early labels based on qualitative issues, such as personal chemistry, empathy or fit. Actual job performance in the beginning of a relationship is less relevant, which means that the boss can still see an in-group member, whose job performance is poor, as a good performer. Labels stick over time because managers are overconfident about their judgment. Experts in their field develop overconfidence because their judgment helped them move up the ladder, and they have little time or latitude to revisit labels after they are assigned. The performance differences they see in their subordinates currently are likely driven by their early labels.

Shaking the Label

Managers believe that they will change their minds and that subordinates can overcome their labels if they meet their performance targets. However, even in the face of contradictory evidence, people who hold an opinion usually become more convinced of it. To shake off their label, weaker performers have to change what bosses notice, how they interpret their observations, and the ways they remember these interpretations.

Incorrect labels remain intact because bosses suffer from selective observation, which turns their labels into sieves, straining out contradictory information. They also tend not to give credit where it is due. Even if bosses notice achievement, they may not assign credit to the

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Labels, Biases and Misperceptions

(continued from page 4)

person, but to the *situation*. Bosses also have selectively biased recollection that allows them to remember only what they think is relevant. Often good news from weaker performers is dismissed as unrepresented

In sum, the same behavior can be attributed differently depending on who displays it (see box below). ■

Subordinates Collude to Collide

Just as bosses develop snap opinions of their employees, so do subordinates. They make decisions based on rumors or misinterpretations of unexplained decisions — and may perceive that a boss has deliberately mistreated them, when actually the boss had no choice.

Because of time and attention constraints, managers often make quick decisions that are not necessarily optimal. Subordinates assume the decision was made rationally — that bosses weighed all the options, considered all of the outcomes, and made this specific choice, which they knew would cause distress, offense or embarrassment. Subordinates overestimate the power of their bosses, not realizing that they are also subordinates working within their own constraints. Subordinates are very sensitive to their relative treatment and tend to read errors of omission as errors of commission.

After attaching labels to their bosses, subordinates look for confirming information, just as bosses do. They remember what conforms to their labels and conveniently forget the aberrations.

Once in this mindset, a subordinate will begin to exhibit behaviors that the boss fears:

After attaching labels to their bosses, subordinates look for confirming information, just as bosses do.

● **Discounting Feedback**. Honest attempts at coaching by the boss are perceived as unsolicited and indiscriminate. Subordinates are unlikely to act on the advice because they view it as unhelpful or unworkable.

● **Bringing Up the Past**. Subordinates who nurse perceived past wrongs will likely try to restore equity in some way.

● **Standing Up to the Boss**. Subordinates may challenge the boss's positions or turn down assignments. For people in the out-group who feel powerless, the only freedom they have is to say "no" to the boss.

● **Provoking the Boss**. Subordinates may use the same behavior as standing up to the boss, but the intent is to make the boss act negatively to validate their own view of him as an unreasonable person.

● **Looking for Senior Allies**. Subordinates may try to circumvent their boss by appealing to senior executives. Though this kind of covert lobbying is now being facilitated in many organizations, bosses can still feel threatened, and can hit back.

Psychological Baggage

Overall, it is difficult to know who starts the set-up-to-fail syndrome. Is it the boss who makes a false first impression or the subordinate who overinterprets the boss's actions? The problem is that no one sees the full causal chain. They both blame the other and feel justified in restoring the balance by retaliating. Their alternate realities lead them to keep score differently and assign varying values to different harms. Bosses and subordinates must understand the psychological baggage in each other's mind before they can break the cycle. ■

Same Behavior, Different Takes

	"Model Employee"	*"Underperformer"*
Inferred Motive	To improve the welfare of others, to promote the effective functioning of the organization	To make himself or herself look good, to secure unfair share of rewards or resources

	Interpretation	
Observed Behavior	***"Model Employee"***	***"Underperformer"***
Seeking feedback	Sign of learning, orientation (desire to improve)	Sign of weakness, insecurity, or trying to prime boss's memory
Complimenting the boss	Useful, upward feedback	Flattery, brownnosing
Helping a colleague/ listening to problems	Altruism	Manipulation, coalition building
Not complaining	Sense of self-sacrifice, understanding of the greater good	Conformity tactic
Working long hours	Dedication, owning the issue, taking responsibility	Value of input over output, inability to prioritize, slow mind, or trying to make others look bad
Volunteering for a difficult assignment	Sense of responsibility, sense of obligation	Seeking visibility, unaware of own limitations
Running errands for the boss	Respect for boss's time	Sycophancy, bootlicking
Publicly thanking colleagues	Selflessness, team spirit	False humility, hypocrisy
Agreeing with the boss	Good judgment, respect, effective followership	Weak, useless, ineffectual

For Additional Information on how subordinates set themselves up to fail, go to: http://my.summary.com

The Cost of the Syndrome

In addition to the subordinate who feels she is working without support, the boss **suffers** because of the amount of time and opportunity that is invested in trying to improve the weak performer's performance. Increased involvement produces diminishing returns, and the boss may even have to devote more effort to simply maintaining a performance level. The uneasy relationship is also an emotional drain on the boss and her reputation is at risk if she is judged on her ability to develop talent.

When the boss can no longer handle the problem, the cost shifts to the **HR department**. HR helps managers deal with perceived weaker performers, and also deals with the consequences of failed relationships, such as grievance procedures, transfers, terminations and exit interviews — none of which is the value-added work of motivating, attracting and retaining talent.

The **team** also suffers. A boss's natural reaction to a lack of faith in lower performers is to overload higher performers. These people have more to do and spend less time on actual jobs. They may end up leaving the company or burning out.

Having a boss in the out-group also affects his **subordinates**. The task-related constraints, short resources and limited autonomy of the boss will trickle down to his subordinates. Subordinates will also feel the pressure that their boss is under. Many disenchanted managers inflict downward the very behavior they complain about from above.

All of this suffering filters through the **organization**. The disenfranchised talk to people in other divisions and engage in commiseration sessions. Customers may start to notice poor service, and suppliers and industry peers will begin to hear from employees. ■

Why Not Change?

If the cost on an organization is so great, why don't managers change their behavior?

First, they do not realize the full extent of the costs. They don't see the hours wasted complaining about management and avoiding work.

Neither do they feel personally responsibility for the symptoms they see, either because they have never been in the out-group or they do not want to acknowledge responsibility. Even when they do acknowledge a problem, many managers suggest firing the underperforming employees. But that only deals with the symptom. The out-group is not necessarily full of the worst performers; in fact, they frequently exceed the firm's minimum performance threshold. Termination involves the costs of rehiring and training, as well as the costs associated with decreased morale.

Why Bosses Avoid Feedback

Despite the difficulty and stress involved in staging an intervention and the reasonable belief that trying to fix the relationship is a waste of time, the boss should still make the time to overcome the subordinate's belief that the boss's criticisms are invalid.

Many bosses won't make the effort, however. Although managers expect their better performers to react well to even critical feedback, they suspect that weaker performers will not take it well, will not likely change, and that monitoring them will only waste more time. As a result, many bosses would rather bear a tolerable situation than risk giving feedback that will be ignored.

The problem is that managers may simply be framing the situation incorrectly.

Just as people label things to make them easier to understand, we tend to frame a decision to focus on the key elements and relationships. For instance, in the 1980s, American car manufacturers were trying to calculate the optimum size of production runs, taking the cost of changing over production lines as a given. The Japanese car companies framed the same problem by considering the most efficient way to produce the requisite models by reducing changeover times.

Bosses frame their interactions with subordinates based on their mental picture of the issue and relevant elements. Research shows that bosses frame stressful situations in narrow, binary ways that stay frozen during the discussion, even if the discussion does not go their way. The boss insists on getting the subordinate to agree with his "right" point of view. The subordinate realizes the only two options are to comply or resist. No one is open to other valuable ways of looking at the issue.

Unilateral Change

Other managers decide to dive into changing things unilaterally — devoting themselves to more coaching and giving the weaker performer new and challenging projects. This does not work because it is difficult for either the boss or the subordinate to forget past grievances, and it only focuses on the boss's behavior. Trying to break the cycle without the subordinate's active contribution is self-defeating. Though this Pygmalion process can work, it can also overwhelm the subordinate with too much too soon. It does not address the underlying reasons for the original problems and does not prepare anyone to deal with another problem in the future.

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Why Not Change?

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Unilateral action by the boss at best will move one member of the out-group into the in-group, and at worst will cause the subordinate to fail and the boss's labels to be further reinforced.

Bosses and subordinates must deal with the problem bilaterally by starting a dialogue to untangle their complicity in the unhealthy relationship, but starting the dialogue is hard. Subordinates fear looking feeble or whiny, especially by suggesting that their problem is really the boss's problem. Bosses feel very uncomfortable giving feedback especially to underperformers. So both parties know something is wrong, but refuse to address it. ■

For Additional Information on incorrectly framing feedback, go to: http://my.summary.com

Cracking the Syndrome

Once you recognize a problematic boss-subordinate relationship, you as a boss must take concrete steps to intervene and break the cycle. The first step is to mentally reframe the forthcoming discussion explicitly — including your contribution to the dysfunctions — instead of focusing on fixing the subordinate.

Bosses should also prepare by developing data to back up views and the openness of mind to take in the subordinate's input. By challenging their own views and "evidence," they will be more open to a challenge from others. Ask searching questions about the subordinate, his performance, and what blind spots and prejudices you might have.

Steps for Intervention

1. Set the Stage. Acknowledge the tension and admit some responsibility for problems in the employee's performance as well as a desire to improve the situation together. Make sure the subordinate feels free to discuss your behavior and choose an appropriately neutral place for the discussion.

2. Agree on the Symptoms. Resting on facts and data, not feelings, come to an agreement on the symptoms you are going to address. Identify the specific areas where you concur that the subordinate has struggled.

3. Diagnose the Causes. Jointly explore the causes of weak performance, including how your behavior as a boss has affected that performance. Make both sets of assumptions explicit. Express why you act the way you do so that the subordinate understands your constraints, and allow the subordinate to vent about past injustices.

4. Find the Cure. Agree on a joint contract of performance objectives that will allow the relationship to go forward. This should include action by both parties and not just focus on "fixing the employee."

5. Prevent the Relapse. Agree to more open communication in the future. The subordinate must start delivering and you should drop the selective observation and recall any biased attributions.

6. Monitor the Effectiveness. You must follow through on the contract as a process. Make sure performance targets are reached, that communication occurs, and that you reach closure at the end of the period.

The effort that goes into the intervention and the commitment of the two parties will determine how successful it will be and what kind of payback the boss will receive. The two dimensions that can improve are the subordinate's performance and the quality of the working relationship. Optimally, both will improve, but even if only one improves markedly, the costs of the syndrome are decreased. Should the intervention have a poor outcome, the boss still benefits from the preparation and coaching of his employees.

If You're the Subordinate

If you want to take the initiative for the intervention as a subordinate, it will be easier if a third party helps. Get your job in order, put yourself in your boss's position, make it easy for the boss to discuss, and don't rush the situation. Give the boss time to come up with his own side. The steps are similar to the steps above, but in this case the boss is probably unaware that he is part of the problem. To broach the topic considerately:

- **Concentrate on what you can do for the boss,** such as improving your behavior.
- **Don't get stuck if your emotions get the best of you.** Continue the discussion later.
- Allay fears by **understanding the boss's key concerns** ahead of time.
- Bring up the boss's contribution to the process by describing **how his behavior makes it hard for you to follow his own advice.**
- Hammer out and **jointly agree on a workable plan**.
- Deliver on your plan. ■

Feedback Is Not Always Rejected

Subordinates accept negative feedback more readily when:

1. The source is perceived as reliable.
2. The receiver trusts the intentions of the source.
3. The receiver perceives the process by which the feedback was developed as fair.
4. The receiver perceives the process by which the feedback is communicated as fair.

Lessons from the 'Syndrome Busters'

In trying to escape the set-up-to-fail syndrome, do not think it is necessary to treat all employees the same. Providing perceived weaker performers with more guidance up front is appropriate in a context that makes it easier for them to seek guidance and accept feedback. Consistent syndrome-busters have several ways to keep the boss-subordinate relationship on the right foot.

1. Frame the Relationship. Communicate frequently in the beginning of the relationship about priorities, performance measures and time allocation. Be explicit about your own work style, and what you like and don't like.

2. Develop Relationships. Spend one-on-one time with subordinates in the first few months listening to their needs and establishing a distinction between the person and the performance of the person, so that criticism of one does not seem like criticism of the other.

3. Resist Crude Labels. Do not categorize employees in simplistic ways and do not label prematurely, before a subordinate has time to improve.

4. Monitor Evaluations. Be careful about seeking, noticing and remembering facts that confirm initial conclusions. Actively search for disconfirming evidence and alternate explanations.

5. Intervene Early. Do not wait to give feedback, because it compounds mistakes and makes it more of an adversarial situation instead of an opportunity to explore assumptions.

6. Share Responsibility With Subordinates. Invite subordinates to act as joint custodians of the boss-subordinate relationship. Subordinates are also part of the set-up-to-fail syndrome, but may feel uncomfortable taking the first step to intervene. ■

Getting There

As you attempt to stop the set-up-to-fail syndrome in your relationships, you will find certain challenges in turning the ideas presented in this summary into action. Here are some ideas to make the changes easier:

Nurture or Nature. Although some people have personalities that make them naturally good at supporting and empowering all of their subordinates, the majority of bosses have to work at overcoming aggression, impatience and micromanagement tendencies.

Make Change a Priority. So many things clamor for your time that it is easy to put off personal development, but no change happens if it is not a significant priority. Because of the boss's responsibility in the set-up-to-fail syndrome and the self-fulfilling nature of the dynamic, it is very easy to put off change.

Transition Phase. Remember that modifying your behavior on a situation-by-situation basis is one thing, but modifying your approach so that it becomes "second nature" takes time.

As you try to change, you will find yourself reverting to your dominant behavior when the pressure mounts.

Enlisting Help. Resolve and willpower are important to make the change, but there are limits to going it alone. Establish relationships and structures to encourage ongoing feedback from colleagues and subordinates. Also, find an unbiased ear or mentor to listen to you and sustain your resolve.

Crafting Your Behavior. As you try to change, you will find yourself reverting to your dominant behavior when the pressure mounts. Find ways to override your automatic response by slowing down the conversation, listening, considering responses carefully, asking questions to get relevant information, postponing responses if necessary, preparing for conversations and interactions that may be difficult, and reflecting on conversations and interactions so you don't make mistakes more than once.

Preparing for Setbacks. Successful change includes improvements, plateaus, regressions and recoveries. It takes smokers an average of three to four attempts to break the habit in a sustainable way. Do not be demoralized by reversals: They will not destroy your subordinates' faith in your commitment if they believe you are truly working to change.

Investing in Yourself. Just as you may be willing to spend years developing the right golf swing, you may have to spend years developing your leadership skills. Maximizing subordinates' contribution is a critical skill, and it is worth all the investment you can make. ■

For Additional Information on developing partnerships to enlist help, go to: http://my.summary.com

Personal Transformation

Andy Pearson, former head of PepsiCo and chairman and CEO of Tricon, realized he could change his behavior in his seventies. "There are a lot of ways to ask tough questions without killing somebody," he said. "I think I've gone from making my way by trying to be the smartest guy in the room to just asking questions and insisting that the answers be reasonable and logical." A colleague recalled that just three years before Pearson "was brutal. He'd just beat the crap out of us. I remember one time he told us, 'A room full of monkeys could do better than this!'"

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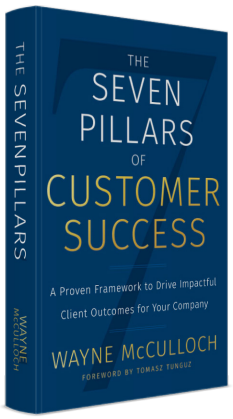
The Seven Pillars of Customer Success

Wayne McCulloch

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The Seven Pillars of Customer Success

A Proven Framework to Drive Impactful Client Outcomes for Your Company



by **Wayne McCulloch**

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THE SUMMARY IN BRIEF

Business leaders everywhere are struggling to understand how to build a sophisticated customer success organization and implement it into their businesses. ***The Seven Pillars of Customer Success*** is a framework designed to show you how to create and execute an impactful customer success organization, regardless of company maturity or industry.

Author Wayne McCulloch is a customer success leader at Google Cloud. He proposes that customer success is always there (physically or digitally), and this philosophy should be spread out across the entire company. It isn't just a little department that only owns the success of the customer; it is essential for the success of all departments. You have to build a culture of customer success inside your organization. When your company embraces a customer success philosophy and each department focuses on enhancing their moments of truth with their customers, you will see a better customer experience and an increased financial return.

IN THIS SUMMARY, YOU WILL LEARN:

- The importance of operationalizing customer success.
- The difference between onboarding and adoption.
- To leverage all departments for expansion.
- To view customers as a strategic part of organizational growth.

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Meghan P. Kozak, Editor-in-Chief • Kylie Waytuck, Graphic Designer

Pillar #1: Operationalizing Customer Success

The first pillar is arguably the most important pillar but is the least understood and the least mature. There are a lot of different definitions and interpretations of operationalizing customer success; the function has yet to be standardized. The customer success team delivers proven best practices at scale, in a repeatable way and with efficiency, to drive the desired outcome of your customer and your company, wrapped in an exceptional customer experience.

A Company Philosophy

Customer success should be a company philosophy, not limited to a department of people, although the customer success team carries the torch for the philosophy and coordinates customer success activities. We don't want one team to care about customer success; we want the whole company to care. So how do we make customer success a philosophy and not just a department? We help the rest of the company understand their role in making the customer successful. We can encourage the finance team to add little notes to the invoices such as, "We love working with you as a procurement team!" A simple example like this would help make the company more customer-centric. Correctly placing customer success within your organization will unleash its full power.

Pillar #2: Onboarding

At the Olympic Games in Rio in 2016, a Fort Lauderdale-born athlete named Jeffrey Julmis was running the 110-meter hurdles for his native country, Haiti. He had competed well enough in the quarterfinals and had advanced to the semifinals. Shortly after the race began, Julmis misjudged his spacing and tripped over the first hurdle. His arms and legs went flying, and when they made contact with the ground, they were all tangled up in the same hurdle that had done him in. Needless to say, because he tripped over the first hurdle, he didn't qualify for the finals. His Olympic adventure had suddenly ended. A poor onboarding experience is like tripping over the first hurdle.

Value Defined

What is customer onboarding? What does it look like? And why is it so critical? Customer onboarding is jointly defining a Customer Success Plan and proactively guiding a customer to achieve value one in the fastest possible time. Onboarding is the moment on the customer's journey when we can sit with the customer and confirm what we've learned from the sales handoff (or prior), ensure alignment around goals and milestones, reset expectations where there is confusion, and ultimately map out the Customer Success Plan with the customer. Next, we want the customer to clear that hurdle and have their first win.

During onboarding, you want to give your customer something they care about and value, so you need to sit down with them and agree on what value one should look like. Agree on a win your customer can share with their management that will help them (and your company) look good.

In one case, we were able to identify there was a risk to achieving value one, so we proactively got in front of it to remove it as a high hurdle to success. We suggested a much more feasible, value one. We suggested the "successful rollout and deployment of all new systems inside one airport." I explained this was a better value one because it would be a joint win early on. It would also give us a chance to work out the kinks and fine-tune our processes before we rolled it out across multiple countries. My customer's response? "Yeah, that makes more sense!"

Pillar #3: Adoption

Onboarding is a finite activity: it's the definitive period when the customer gets to know you. Adoption, on the other hand, never stops.

Value Adopted

Back in 2007, my boss at the time bought me my first iPhone. He gifted one to all of his direct reports. "This new Apple iPhone was just released this week and you should have one." I looked at the phone and thought, Why would I want this? I love my BlackBerry, and I can type 50 words a minute on it. It's my favorite device in the world, and you're giving me this thing that doesn't have any buttons on it and expect me to use it? The iPhone was too different, too foreign. I had no idea how to use it, and I didn't want to learn. I didn't adopt it because I didn't know how it worked. So I gave it to my executive business partner.

I can't remember the specific moment when I decided to bite the bullet and adopt the use of the iPhone, but when I did, my life invariably changed for the better. When I was first introduced to one, I couldn't be bothered, but today, I can't live without it. When customers adopt your product,

you want it to become something they can't live without. Better yet, they enjoy using your product. Customer adoption is achieving operational dependence, while simultaneously achieving business value by using the right features and functionality of the solution.

Pillar #4: Retention

Bain & Company, a management consulting firm headquartered in Boston, conducted a study that concluded a 5% increase in customer retention leads to a 25% increase in profits. Think about that for a second: a small increase in retention leads to massive profits for your company—each retained customer is very profitable.

Value Sustained

Customer retention is the carefully orchestrated process whereby the customer chooses to extend their relationship with you. The customer doesn't choose to stay with you because of the historical value you've driven for them—they stay because of the vision and promise of the future you have painted with them. They trust you because you have driven value in the past, but they will continue to work with you because of the future value you promise to provide.

The Deadly Churn

The breakeven point for a customer to start generating a profit is typically around the 18-month mark. This varies depending on industry, product type, and company maturity, but I have found that if a company churns a customer within the first 18 months, the company will typically lose money. On the other hand, if you keep a customer for five years, everything past month 18 is "practically" pure profit. Customer retention is one of the simplest ways to achieve profitability, ergo customer success can drive company profits.

Be the Growth Engine You Were Meant to Be

Customer retention means being continuously focused on the customers' desired outcomes. It means understanding your customers thoroughly, more than just their goals and desired outcomes. You need to know their personalities. Is the stakeholder driven by ego? Are they altruistic? Recognizing these nuances will change the way you approach an account. It will change the words you use and even the playbooks you write. Remember, a customer's goals and objectives are always changing.

Pillar #5: Expansion

Customer expansion occurs when a customer finds value in your solution and grants you the opportunity to increase that value.

Upselling

Upselling is buying more of the same thing you already have. It's supersizing your meal so you get a bigger portion of food. The most obvious example of this is supersizing your McDonald's fries, and upgrading from a medium to a large. Upselling is selling more of the same. Acquiring a new customer is more expensive than retaining an existing one. Upselling allows you to offset the cost of new customer acquisition.

Cross-Selling

Cross-selling happens when you offer your customer other products and services. If they already have a large order of fries, cross-selling means selling them a hamburger, a soda, and a piece of warm apple pie. A customer initially buys your solution because they have an issue or a challenge they're trying to solve. They come to you for one thing and may not be familiar with the other offerings you have. You might have software products and services that would help solve your customer's additional problems.

Know the stakeholder, identify priorities and room for improvement, connect the stakeholder to your findings, and bring in sales. With upselling, or customer education, you are explaining to your customer the opportunity they have to see increased value through the use of your solutions.

Pillar #6: Advocacy

Yesterday, I had a conversation with one of my biggest customers about their advocacy program. They are a $1 billion company with thousands of clients. "We have a ton of advocates," the stakeholder responded. "We always get thank-you notes and emails. And we have internal case studies and testimonials." "Wow, that's great," I said. "Do you capture that feedback and share it with the market?" "Oh, no. We don't do that." "Then you don't have customer advocacy." "What do you mean?" the stakeholder asked. "You have advocates, but you aren't leveraging them for advocacy."

Value Championed

Customer advocacy is more than just a pat on the back or a thank-you note from your satisfied customers. Customer advocacy is receiving great feedback and capitalizing on

it. Customer advocacy is a competitive advantage for your company because it assists in the acquisition of new logos and solidifies existing customers through a multitude of assets and programs. How can customer advocacy create a competitive advantage? It's like reading a review before you buy something. The more advocates you have spreading the word, the more evidence you have that your solution works.

Customer Acquisition through Building Advocacy

If we can create, find, and nurture advocates inside our customer base, marketing can amplify their voices via blogs, conferences, case studies, and references. Advocates are another asset that sales professionals can leverage to improve their sales process because ultimately, people trust other customers more than they trust you. You think you have the best solution (of course you do!), but your customers aren't necessarily looking for the best. They're looking for a partner that can drive the best outcome, and advocates can communicate that message.

Pillar #7: Strategic Advisor

Many of you think you need trusted advisors, but what you really need are strategic advisors. The Strategic Advisor Pillar focuses on how to elevate performance and value inside your customer base. A strategic advisor is someone who actively advises organizations on important strategic decisions, in an unbiased fashion, using deep industry knowledge and domain expertise, to deliver the best outcomes through business and digital transformation.

Why Do We Need Them?

Not only do strategic advisors look at the big picture to help solve overarching issues and challenges, but they also prove to your customers that your organization is knowledgeable about their business and the way they operate. Strategic advisors prove to your customers that you understand their priorities, processes, relationships, and politics. They also bring industry knowledge and in-depth understanding of their company's solutions. When you give your customer all that strategic advisor gold, it makes it that much harder to switch vendors.

Customer Success Managers respond to inquiries and incidents. They review results, analyze data, and examine events that have already occurred. They react. Strategic advisors, on the other hand, plot the course and look for deviations. They are heavily involved and own the Customer Success Plan. They hold firm in their recommendations (because of their experience) and aren't afraid to be assertive. They're prepared to push back and escalate if necessary because they want the customer to have success. A strategic advisor is an elevated layer of capability.

Customer success is here to stay, and how it looks in the future of your organization is entirely up to you. But I will tell you this, if you follow the pillars and take the steps outlined in this book, you're off to a really good start.



One of the world's leading customer success experts and a Top 100 Customer Success Strategist, **Wayne McCulloch** works with Google Cloud's entire SaaS portfolio as the Customer Success Leader. He's a keynote speaker and the recipient of multiple industry awards with more than twenty-five years of experience in customer-focused roles. For more information about The Seven Pillars, including downloadable templates and training and certification materials, visit **cspillars.com.**

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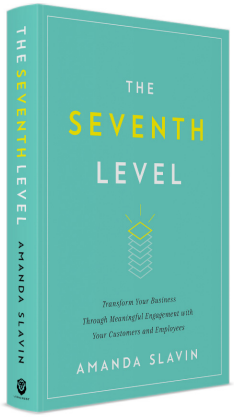
The Seventh Level

Amanda Slavin

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The Seventh Level

Transform Your Business Through Meaningful Engagement with Your Customers and Employees



by **Amanda Slavin**

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THE SUMMARY IN BRIEF

There are countless ways to connect with your customers, who can use the tools at their fingertips to widely publish their criticisms and positive feelings about your company. Companies that have been around for hundreds of years can disappear in an instant if an upstart competitor co-opts their market share by earning more brand loyalty through deeper customer connections.

The Seventh Level: Transform Your Business Through Meaningful Engagement with Your Customers and Employees teaches business leaders a structure for garnering the attention of their customers and employees and engaging with them on deeper and deeper levels.

Author Amanda Slavin explains each level of engagement and how to get there. The culmination of this journey is the Seventh Level of Engagement: when your personal values and beliefs align with another's message, and you derive meaning and even identity from connecting with this brand, person, or concept.

IN THIS SUMMARY, YOU WILL LEARN:

- What the Seventh Level Framework is and how it can help you.
- The characteristics of each level of customer engagement.
- What you should do to move your customers to the next level.
- How to apply the framework to your internal relationships.

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Introduction To The Seventh Level Framework

The Seventh Level Engagement Framework is a structure for creating engagement—for garnering the attention of your employees and customers. It can help you create a meaningful connection with other humans—be they employees, customers, peers, or stakeholders—and make changes within your company to increase engagement.

There are seven distinct levels of engagement. At the Seventh Level, customers are active participants in building and supporting the brands, companies, people, employers, or ideas they love.

Start with Your Seventh Level Statement. Before you can walk through this framework and reach the Seventh Level with someone else, you have to determine your own Seventh Level Statement.

Ask yourself: Who are you? What do you stand for? What do you believe in? What do you do what you do?

When you don't know your own Seventh Level, you end up trying to be something you're not, and your attempts to connect fail. Once you determine your Seventh Level Statement, you can use it to create meaningful, engaged relationships with the people in your life.

Level One: Disengagement

Someone at Level One is disinterested. Bored. Idle with their work. They're avoiding tasks, interactions, or attempts at communication.

At Level One, your audience doesn't respond to your efforts. You have to ask yourself if you're reaching out in the way your audience best receives information. Do they use snail mail or email? Have you announced your product in the channels they frequent? Do they use the same social media platforms you do? Don't try to be something you are not. Instead, identify how customers connect with who you are.

The beauty of online communication is having access to real-time data and metrics. Conduct market research to find out as much information about your customer as possible. Then target, optimize, test, pivot, and make sure you're converting at a very low-cost point. If it's not working, continue to pivot.

Level Two: Unsystematic Engagement

At Level Two, you need to clarify your communication. This can be a particularly huge issue in marketing. Companies often use jargon that no one understands, and they are surprised when customers don't want to buy anything from them. Or they want to communicate that they are a fresh, clean brand but choose colors that remind someone of McDonald's. The message you put out in the world needs to be aligned with your Seventh Level lens and your brand identity needs to communicate what you're trying to convey.

Think about what you are saying to your customers. You should be surveying your customers to understand the language they understand. A good rule of thumb: If you can't explain to an eight-year-old what you do, then your target customer probably won't get it either.

When you're communicating with employees, don't ask, "Does that make sense?" No one wants to admit not understanding. Instead, ask, "Did I explain that correctly?" This takes the pressure off them and puts it on you, the leader. And make your employees feel comfortable with the idea that they can come to you anytime if they don't get something.

Level Three: Frustrated Engagement

Level Three is characterized by a person demonstrating interest, only to have that interest wane due to distraction. Limit the distractions for your internal and external customers, because the world is distracting enough.

Make sure your website doesn't take too long to load. When a customer is asked to go to a landing page, make sure the pop-up you add to that page is relevant to what you're asking them to do and why they're there. Avoid vague messages: have clear calls to action.

Social media is inherently distracting. It's important to use the tools instead of letting the tools use you. If social media isn't employed in a way that pushes your customer base to a higher level of engagement by encouraging a specific targeted action, you're only hurting your messaging efforts.

The same thinking applies to a brick-and-mortar store. Work on creating engagement and meaning with your storefront instead of chaos and distraction. And to presentations. Tons of words and very few visuals don't speak to anyone.

This applies to your internal customers too. As a leader, how often do we ask something of an employee, then

Slack them with something else, then email them about yet another thing? We are constantly keeping our employees at Level Three: Frustrated Engagement, when we should set boundaries for each other.

Level Four: Structure-Dependent Engagement

Level Four is characterized by a person's active response to instruction when the suggested action isn't too demanding. In marketing, this may look like a social media engagement, such as when you post an image that says, "Comment below with your favorite ice cream flavor," and people comment.

Social media engagement in the form of likes, comments, retweets, click-throughs, and accumulated followers is, for many people, synonymous with meaningful engagement, and this is especially true at Level Four. The problem is that so many people are settling for Level Four engagement. This is more about tools using us than us using the tools. It says nothing about the quality of the response.

The metrics of how people interact with you on platforms such as Twitter and Facebook are crucial for measuring the effectiveness of your social media campaign and accomplishing goals such as generating leads and sales. But they aren't nearly enough to build legitimate brand loyalty. Use your Seventh Level Statement as your guiding force so you aren't obsessed with vanity metrics for no reason. Set a higher reason for the work you are doing and how it fits into a larger narrative.

Depending on the size of your audience, to maintain trust with subgroups who have shifted to lower than desired levels, you might need to segment your efforts—to customize how you communicate to each group.

In the workplace, Level Four engagement is common among low- and midlevel employees who clock in, complete the tasks they're given, and clock out. They lack initiative. But today, many people are looking for flexibility, a commitment to health and well-being, and purpose. This requires moving past Level Four.

Level Five: Self-Regulated Interest

Level Five is characterized by excitement, but the engagement is driven by self-interest rather than an interest in another person or organization.

Level Five in marketing often entails a sweepstakes, discount, referral code, or other incentive that entices customers to do something because they get something. The incentive isn't sticky, and when done carelessly can cause distraction. You must have a strategy to build a more meaningful relationship based on the incentive.

In the workplace, Level Five can look like giving employees comp days for working overtime—anything that incentivizes going above and beyond the bare minimum.

At Level Five, you still need to use your Seventh Level Statement in determining incentives to use and influencers and partners to work with. If you partner with a celebrity, for example, it's not just about how many followers or how many likes or comments they get but who is following them and what they are saying. Analyze the sentiment behind the comments, not just the number of comments.

Sweepstakes are also a key strategy for Level Five, but they have to mean something. Create a story behind the sweepstakes that communicates your brand.

In the workplace, for higher levels of engagement, you have to understand the needs of your employees, and they have to understand the company's needs. Higher levels of engagement require piquing an employee's interest and paying them the value they deserve. Often, it's not about the money. The key is finding out what drives or motivates your employees to do their job well and engage with the company.

Level Six: Critical Engagement

Level Six is characterized by a person feeling motivated and inspired enough to set goals to make a positive change in their life.

Level Six is a time to publicly share your core values that set your culture and distinguish you from competitors. It's about doubling down and ensuring you are living by the values you communicate. Make sure you are authentically aligned with your Seventh Level Statement when identifying your core values and communicate these core values so they are easily understood. Create a campaign around those core values to change the way people think about their lives.

Your internal goals must match your marketing message. Make sure you're walking the walk internally. Companies can inspire someone to become an activist or just to live differently, change their routine, or feel a little bit more strongly about a topic.

Testimonials are a huge part of Level Six: How did someone's life change by using your product? You don't have to be a philanthropic brand to inspire others.

In the workplace, companies that are structured as a bureaucracy are not set up to engage with employees at Levels Six and Seven. You want employees to feel a connection to the company's core values and start to adapt them to their personal lives. Moving toward a more self-organized workplace structure, away from a traditional rigid hierarchy to one that encourages employees to take ownership over their careers, is a great way to strive for the Sixth Level of engagement in the workplace.

Level Seven: Literate Thinking

When loyalty doesn't stop at a purchase and part of a customer's identity comes from the brands they use, the customer moves to the Seventh Level.

We're bombarded by content, writing, words, images, and videos all the time. How can brands that strive for Seventh Level Engagement connect meaningfully, deeply, and emotionally with their customers? At this level, stories are crucial. Books are a significant part of the Seventh Level. Sharing in long form in books and on LinkedIn leads to higher-level engagement.

At this level, it is about including your customers in your story and making them the hero. Make them feel special, seen, and heard, and they'll carry what you're doing forward. Companies announce exclusive offers, launch experiences, and new products to Seventh Level customers the day before the general public as a "thank you" for being loyal. This also activates Seventh Level customers to bring other customers up from lower levels.

Even these customers may be distracted by a million other things. It's important that you create a pathway for people to stay committed, which means that you have to also be committed to them. Loyalty and retention programs come to mind. You need to emotionally incentivize your customers by making them feel special.

This is a lot of work, but this relationship—and your job—will get easier, not harder, over time, the more energy and effort you put into it. That's because at Level Seven you are cultivating brand advocates who can spread your message just as effectively as you can! Maintaining Level Seven relationships is what separates the world's most beloved brands from those people forget about.

In the workplace, at the Seventh Level, employees are personally connected to the purpose of the company, not only to the benefits or their pay. They work there because of what the company stands for and does on a daily basis. A company should prioritize making its top-performing and most bought-in employees feel appreciated for their hard work and dedication to the organization's goals and values.

When you reach the Seventh Level, you'll see massive returns. Use the Seventh Level Engagement Framework across your entire organization. It's a flashlight shining light on how to build connections that can be used in every part of your life.



Amanda Slavin is the founder and CEO of the award-winning brand consulting firm CatalystCreativ. Amanda guides brands like Coca-Cola, Google, and WeWork to do good for the world without having to sacrifice their bottom line. She's spoken at events like SXSW and TED about how this framework is the future of meaningful connection, and had her work featured in Inc. magazine, Forbes, Fast Company, Wall Street Journal, and Time magazine.

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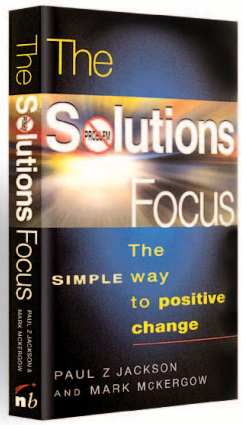
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The Solutions Focus

Paul Z. Jackson and Mark McKergow

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Paul Z. Jackson and Mark McKergow

The Simple Way to Positive Change

THE SOLUTIONS FOCUS

THE SUMMARY IN BRIEF

Traditional approaches to problem-solving assume a cause and effect between problems and solutions. The Solutions Focus *outlines a different way to attain goals that focuses on solutions not problems; the future not the past; and what to do as opposed to who to blame.*

To illustrate, we'll take an example in this summary: traffic jams on a highway caused by drivers abruptly changing lanes. The drivers behind the lane changers quickly apply the brakes, setting off a chain reaction that causes traffic down the line to come to a standstill. Examining the problem (drivers changing lanes) doesn't lead to a solution — there's not much you can do about the lane changers. Instead, the traffic authority in question applied a Solutions Focus mindset to find the solution (lowering speed limits during rush hour).

In The Solutions Focus, *authors Paul Z. Jackson and Mark McKergow give you the tools to head straight toward workable answers for your business or enterprise.*

What You'll Learn In This Summary

✓ **The SIMPLE Model.** The Solutions Focus methodology is built around a framework of six principles:

1. Solutions, not problems;
2. Inbetween — the action is in the interaction;
3. Make use of what's there;
4. Possibilities — past, present and future;
5. Language — simply said; and
6. Every case is different.

You will learn how to apply each of these principles to your own problems.

✓ **The Solutions Focus Tools.** You will understand how to apply certain Solutions Focus tools to help you implement the six principles of the SIMPLE model. The Solutions Focus Tools are: platform, future perfect, counters, scaling, affirmation and small actions.

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Key Principles and Tools For the Solutions Focus

What is the "Solutions Focus"? The answer isn't complicated. The Solutions Focus is a different approach to solving workplace problems and focuses on a positive method of dealing with organizations, teams and people. The Solutions Focus means avoiding the pointless search for what causes problems and instead provides a direct route that leads to a solution. In other words, the focus is on solutions (not problems), the future (not the past) and on what's going well (rather than what's gone wrong). This approach can be summarized in the phrase: "Find out what works and do more of it."

Assumptions

There are a number of key assumptions and principles that underpin solution-focused work:

- **Change happens all the time; Your job is to identify and magnify useful change.**
- **There is no one right way of seeing the world.**
- **A detailed understanding of the problem doesn't translate into a solution.**
- **The solution's clues are there in front of you; You just have to see them.**
- **Intelligent small changes can have bigger impacts later on.**
- **It is important to stay solution focused, not solution forced.**

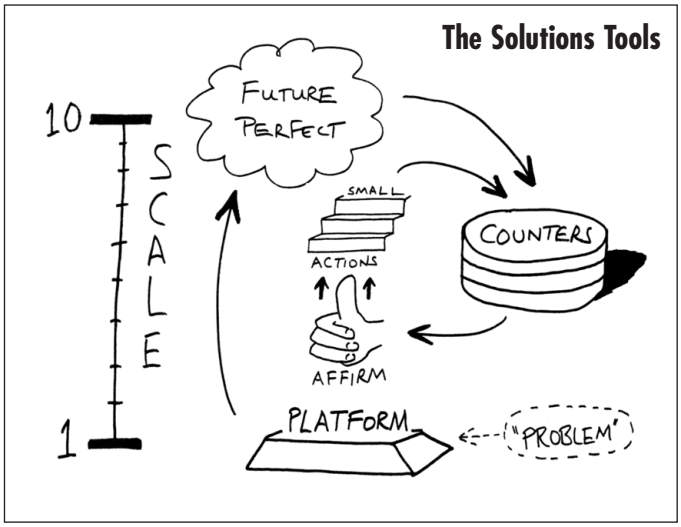
The Simple Model

The Solutions Focus methodology is built around a framework of principles known by the acronym SIMPLE. The six principles of the model are as follows:

1. **S**olutions not problems.
2. **I**nbetween — the action is in the interaction.
3. **M**ake use of what's there.
4. **P**ossibilities — past present and future.
5. **L**anguage — simply said.
6. **E**very Case is Different.

The Power of Simplicity

Every facet of SIMPLE is important, but the choice of acronym is deliberate. We choose simplicity because if we find a way that works then there should be no need



to make something more complicated than it already is. No matter how impressive sounding complexity or complication, organizations should strive for simplicity, directness and effectiveness.

The Solution Tools

The next six articles in this summary take each principle of the SIMPLE model in turn. As you read through these articles, you will encounter six solutions tools that help you apply the SIMPLE principle and achieve the solution you are seeking.

The first of these tools is the **Platform**. The Platform is a point of departure for the process of searching for what works. You need to establish the Platform early to support the changes that you are going to make.

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Key Principles and Tools for the Solutions Focus

(continued from page 2)

You must next define the **Future Perfect.** This tool describes in detail a future *without* the problem that you are trying to resolve.

As you travel from the Platform to the Future Perfect, you need to accumulate **Counters** along the way. Counters are any resources, skills, know-how and expertise that will help you move toward the solution. Later in this summary, we'll see how asking the right questions can help uncover the counters that point toward a solution.

Your Counters will typically line up along a fourth solution tool: a **Scale** that helps you measure progress on your path to a solution.

Another important tool is **Affirmation** — to recognize, value and affirm the contributions that people are making in the solution search.

Finally, **Small Actions** are key in finding solutions. Often these small actions will push you further toward a solution by helping you discover new Counters.

The illustration on the previous page shows one path or sequence toward a solution using the tools. However, different situations might emphasize different tools. For example, the solution to a strategic problem might be revealed by defining the Future Perfect. For another problem, finding Counters is the key step. ■

Solutions Not Problems

By focusing on solutions, you can encourage solution talk, negotiate solvable problems and establish who are change customers.

Problem Talk and Solution Talk

You enter the space of problem talk whenever you ask the client to tell you more about their problems, say what they feel are causing the problems, elaborate on when it's worst, find who's responsible for the problem and describe problems that are spawned by the problem.

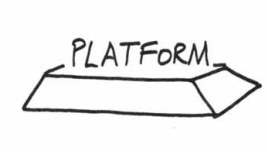
Solution-based proponents need to avoid problem talk. Problem talk, according to the Solutions Focus, actually does very little in solving the problem and in fact may make the problem worse and even more insurmountable. Focus on the solution and the first signs of it appearing. This can shortcut many hours of fruitless delving into the problem.

Potential Pitfall: Too Much Problem Talk

A major challenge for a Solutions Focused practitioner is figuring out a way to keep the conversation focused on positive solutions and not negative problems. This is when you need to build a Platform from which you launch the search for a solution.

To build the platform you need to stop the problem talk by asking questions that embrace positive solutions. Such questions include:

- **What do you want to accomplish today?**
- **Will you be aware if you've made progress?**
- **What is the payoff for solving this problem?**
- **Are you confident that something can be done about this?**
- **What skills and resources have you used to solve similar problems?**
- **What works for you generally?**



The last question is important in uncovering the counters that might lead to solutions, as we will see in the article on "making use of what's there."

Potential Pitfall: No Customer for Change

One of the big tricks for the Solutions Focus consultant is figuring out who in the organization is actually open minded about beneficial change. A Solutions Focus consultant can try to drive a group toward a solution but that usually irritates the client. A better way is for the consultant to drive the group toward offering the right solutions for themselves.

Keep it SIMPLE: "Who is the customer for change?" It is possible to influence your clients even if they're not interested in positive changes.

For example, Peter Ackroyd is a safety management consultant who finds himself in challenging situations. His tactic is to figure out who among his clients are Greens, Ambers or Reds. Greens are open-minded to new ideas and change. Ambers are hesitant about change and Reds are fairly hostile to new ideas. Needless to say, Ackroyd always looks for the Greens and looks to work directly with them. The Ambers will go along eventually and the remaining Reds will probably submit to peer pressure, according to Ackroyd.

Potential Pitfall: Trying to Solve An Unsolvable Problem

Do you know what you want? The question might surprise you, but it is often needed when discussing problems. Many people are adept at describing what they don't want, but only have a vague idea of what they do want.

Is your solution described in vague or fuzzy language? Will you be able to tell if your problem has been solved?

This is where the Future Perfect tool is important. Imagine that you were to awake tomorrow and your

(continued on page 4)

Solutions Not Problems

(continued from page 3)



problem had completely disappeared. What would your world look like? What would be different? (Think in detail, not vague changes.) What will you be doing and saying differently? What will be the first small signs that the problem has disappeared?

The purpose of these questions is to elicit a specific image of the Future Perfect. Now you are no longer focused on the past and on problems. You have turned your focus to the future and the solution. ■

For another example of the solutions approach, go to: http://my.summary.com

Inbetween — The Action is In the Interaction

The key to understanding solutions is understanding what happens inbetween the people involved, as opposed to people in isolation or to a particular party. This systems approach was first written about more than 25 years ago. Systems have elements that are "inbetween their component parts." For example, leadership is something that is created between the behaviors of two people.

There are a number of advantages to thinking this way:

- **Individuals aren't blamed for what are in reality systemic problems.**
- **You get a more realistic feel for how the organization works.**
- **You get a broader sense of how to generate positive solutions.**
- **It allows you to approach wider systemic flaws as opposed to indefinite causes.**

Systems Thinking

Peter Senge is the foremost spokesman for the idea of using systems thinking for organizations. His views were outlined in a book called *The Fifth Discipline*.

For example, under his systems analysis, the correct way to understand a company's problems is to understand how a company's management and CEO think and learn. That's because managers act as designers of the company's informal "rules, strategies and policies."

These tacit rules of an organization — appropriate dress, who gets internet access, public rewards for good work, etc. — emerge somewhat on their own. The Solutions Focus offers a way of putting together the ideas of emergence and system dynamics in a useful way: In exploring complex interactions between people, there is a useful maxim to follow: the action is in the interaction.

Organizations As Interactional Systems

The assumption of a systems approach is that everything in an organization is interdependent with everything else. In other words, the Solutions Focus change agent is wary of attributing causal fault with one person or policy. How this actually works in practice was used during a study of traffic problems in London's packed M25 highway.

The cause of the traffic jams was related to drivers abruptly changing lanes. In fast-moving traffic, a driver abruptly changing lanes causes drivers behind the car to brake to avoid hitting the car switching lanes. This braking action ripples backward, with cars braking harder and harder to avoid the car in front. Eventually, the traffic toward the back is at a standstill.

This is a problem that can't be solved; drivers are going to continue changing lanes. What actually worked was a systemic change. It was found that if you actually slowed down speeds during rush hour, the overall traffic moved faster and more efficiently. Note that this solution — slowing down traffic — does not address the 'cause' of the problem — abrupt actions by the drivers. It simply allows those actions to occur without undesirable consequences.

Behavior Emerges Unpredictably

The goal of the "solutionist" is to allow people to make the small changes they can in order that bigger and better results might follow. For this to happen, the Solutions Focus coach has to believe in the freedom of the individuals that he's working with. Without freedom, no small changes can be made. And without small changes and steps, no larger overall changes can be accomplished.

For example, from 1914 through 1918, the British Pubs were ordered to close at the same time, which resulted in people drinking all they could before closing hour and then subsequently crawling home through the streets and getting into a number of nasty fights.

While drinking was the cause of the problem, the eventual solution had nothing to do with drinking (prohibition had demonstrated that attempting to eliminate drinking was doomed to failure).

Instead of attempting to fix the problem of drinking, the government used systemic thinking to arrive at the solution: more freedom for the pub owners to control their closing hours. This new freedom eliminated the systemic tide of overdrinking and subsequent fights. ■

For another example of interaction in action, go to: http://my.summary.com

Make Use of What's There

There are often clues to possible solutions to the problem in front of you — you simply might not see them. This is why you must learn to make use of what's there — to recognize that there may be much in what you already have that can be useful in building the Future Perfect.

There are a number of benefits of working with what's there:

- **What is already there is meaningful.**
- **The very process of caring about what workers say will make them feel more valued.**
- **It provides you with a positive entryway toward looking for positive solutions.**
- **It prevents you from imagining things that aren't there.**
- **This method will force us to root our solutions in what is already in front of us.**

Frankly, the alternative to this is looking for what isn't there, for example deficits, shortcomings, weaknesses, lack of cooperation from others. This is not a positive way to initiate positive solutions and it's not a necessary precursor for positive change.

Everything is a Useful Gift

One way to make sure you use what's already there is to adopt a mindset that "everything is a useful gift" — including the negative. The idea keeps you open-minded about every element of the work environment that you're exposed to.

For example, instead of thinking that the boss is brusque, you would take the positive attitude that the boss is very concerned about his or her time, and then you would work that into your solution analysis.

Accumulating Counters

Your goal at this stage of the process is to accumulate Counters.

A Counter, one of the Solutions Focus tools, is anything that will help you move toward a solution (one dictionary definition of a counter is a small disc used in bargaining). By accumulating counters, you are putting together a stack of "what's there" to help you build the solution.



Counters might include:

- **examples of the solution happening already;**
- **evidence of parts of the solution happening** (see example above right);
- **skills and resources that will help create the solution; and**
- **cooperation from others involved.**

Cool Glasses, or How to Recognize Parts of a Solution in Front of You

A Zeneca chemical plant in Italy gives us an example of a solution partially happening — also an effective counter in the search for a solution.

Workers at this chemical plant resisted efforts to have them wear safety glasses. A problem focus would have examined the problem by investigating, for example, the cause of eye-damaging accidents or trying to understand why workers would be willing to risk their health.

The problem was resolved, however, when someone noticed that the solution was already partially occurring. Specifically, this person asked, "When are our workers willing to wear glasses?" The answer: when the glasses were cool, fashionable sunglasses.

The plant developed safety glasses with mirror shades, and the result was unequivocal: The workers not only began wearing the safety glasses immediately, they even kept them on when they left the plant!

Honda's Bikes: A Solution Already Happening

For example, Honda's strategy for entering the U.S. market was to offer large motorcycles, since this was what U.S. customers seemed to want. The strategy was not working: Honda's big bikes were not selling.

Meanwhile, however, the Honda staff brought over for their own pleasure their smaller motorcycles — and people kept asking the staff where they could find similar bikes. This unsolicited interest was the solution happening in front of their eyes: sell small, not big, bikes. Fortunately for Honda, someone recognized this counter and the solution to which it pointed.

Build Cooperation—Or Expect Resistance

It should be pointed out that the Solutions Focus is a cooperative one. When you're starting the process you want to, frankly, agree with the client about his or her perceptions about the workplace.

For example, if it's clear that your client's workplace is a mess, and the client thinks it's tidy, you agree with the client. Later, try to find out what definitions are being used.

A consultant who uses the SIMPLE approach has to accept what the clients say or the approach won't work. Also, try to anticipate cooperation not resistance. If you encounter resistance to change, suspect that you are generating it and ask what you could do instead. ■

Possibilities—Past, Present and Future

Possibilities are central to progress. It's impossible to have a better future if you haven't already imagined it first, then worked toward it. When you don't work with possibilities, it's almost impossible to create smart change. The alternative path, knowing the failure of the past and the uncertainty of the future, leads to the negative route of accusation and "stuckness." It's much more helpful to focus on how matters can be different as opposed to how you failed in the past.

Possibilities Past

If there are victories or mythic triumphs that are a part of a company's past, then they should be remembered in order to handle the challenges of the future. Trumpet the fact that "our company survived the depression and therefore we shall thrive during the late '90s recession." It makes a big difference when an executive who has weathered tough times is leading you as opposed to one who has never achieved a significant victory.

Possibilities Present

The positive future can only be arrived at if there are positive trends in the present. When you're using this method, always concentrate on the positive things that a client is doing. For example, instead of dwelling on the problem of a writer who can't write because of time or distractions, get the writer to focus on when he or she actually gets writing done. This way the writer can use this information to replicate positive results. Solutions-focused questions lead to a story of possibility.

Possibilities Future

If you don't create the concept of the perfect future for the client then they will be less likely to reach the outcomes they want, know what they want, recognize it when it's happening and take the necessary steps to make those forecasted events come true.

Much of this has to do with the power of positive expectation. There was a study by researcher Robert Rosenthal several decades ago that proved this idea. He went to a class and randomly picked 20 percent of the students and told the teachers that these students had true potential to grow and excel. A year later it turns out that those randomly selected students outperformed their peers. This proves that positive expectations can yield positive results.

Offering Compliments

During this possibilities stage of the SIMPLE model, you will want to use the solutions tool of Affirmed. Make sure to look back on what's helping already, compliment yourself and others on whatever you're doing well and



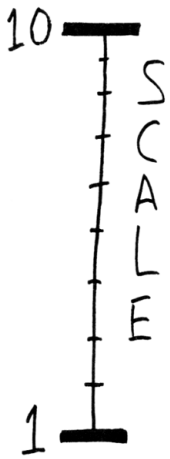
use this affirmation as a stepping stone to action. Don't underestimate the power of a compliment. You will be surprised how you can reinforce the Solutions Focus by catching people doing things well and quietly mentioning them: "I like the way you did that," or "I enjoyed your work on that." ■

Language — Simply Said

The benefits of simpler language and words are threefold: creates a better chance that the participants will effectively communicate with each other, means more precise communication, and results in a "reduction of impressive sounding nonsense." There are also dangers inherent in using Big Words or complicated terms in describing situations. Those dangers are also threefold: big words often impede progress, you are not using people's own language, and you create the danger of labels and generalities.

Scaling

Scaling, in which you determine the progress of your efforts to reach a solution, is an effective tool for explaining the situation in exact terms. For example, you might begin with the question: "On a scale from 1-10, where 10 is the perfect future, where am I now?"



Scaling not only helps you communicate your situation, it also helps you analyze your progress. In order to answer the question above (for example, "I am at 3"), you will need to examine your situation carefully. If you are at 3, then what helped you get past 1 and 2? And what would take you a small step (say one point) higher?

The point is not to ask yourself, "How do I go from 3 to 10?" If you knew that, you'd already be at or near 10. The point is to understand what it takes to progress along the scale — to move from 2 to 3, then from 3 to 4 and so on.

Potential Pitfall Words Are Personal

Different people define the same words differently. One man's "terrorist" is another man's "freedom fighter" even though the same person might be involved in the same activities. Likewise, some companies have "idle daydreamers" and other companies employ

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Language—Simply Said

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"imaginative creators." Remember to always accept the words of the clients at face value. Your goal is to first accept the client's words and then try to direct the conversation to what can be accomplished and solved. Always make sure that you're moving toward answers and solvable problems.

Potential Pitfall: Words Are Not the World

Be careful when using words like "organization" and "teamwork." Organizations, in the context of the SIMPLE philosophy, should be thought of as interactional systems where there are many starting and stopping points.

To see how this works, the consultant should ask the clients how they define "good teamwork." The consultant should then move toward figuring out the small steps necessary for the client's team to move toward the goal of whatever the optimum of "good teamwork" happens to be.

Don't turn something dynamic, like teamwork, into something that's static. Likewise, whenever you talk about changing a company's "corporate culture" remember that you're trying to define specific interactions and activities. In other words, if you want to change your organization's culture, a promising start is to select some simple words to describe how people go about their affairs. ■

Every Case is Different

The primary maxim of Solutions Focus is, "Find what works and do more of it." One important idea of this maxim is figuring out what we mean by "works" and what specific aspects of the present situation appear to be helping, sustaining, and exemplifying this working. This will lead you to the secondary maxim of the Solutions Focus: "Stop doing what isn't working and do something different."

Following these two maxims will lead to a number of positive developments, such as:

- **Better chance of reaching desired results.**
- **More relevance to the people involved.**
- **More apparent ownership of successful change actions.**
- **Enthusiastic rollout of ideas as results quickly occur.**
- **The avoidance of inappropriate theories and models.**

In other words, doing more of what works and less of what doesn't is a way of finding the solution that fits the particular problem you are trying to avoid — instead of trying to use a one-size-fits-all theory or methodology.

Other Pitfalls

In addition to avoid applying theories that don't fit the specific case, you must also avoid the pitfalls of:

- knowing too much and not being open-minded about the reality in front of you;
- relying too much on experts; and
- being "solution forced rather than solution focused."

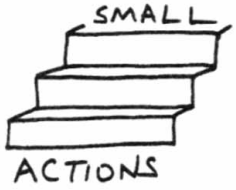
Jazz pianist Art Tatum used to look for the bad notes in pianos he played on the road in order to play around with them and use them. You have to approach each business the same way: Appreciate what makes each organization unique.

Appreciate what makes each organization unique.

Small Actions

When you're doing more of what works and less of what doesn't, focus on the small steps and small actions that move you toward a solution. Small actions is the final of our six solution tools.

Don't try to make dramatic and sudden progress. Instead, attempt the small changes that are the most likely to succeed or the easiest. These are also actions that can be undertaken tomorrow and are specific and clearly defined.



For example, golfers who want to hit a ball from 50 feet out don't aim for the pin; they learn to aim for a line a few feet from where the ball is. Likewise, a thriving start up had big plans for blue chip clients and community activities. But they first decided that they had to decide upon what companies to mail letters to and what meetings to arrange.

After the Small Steps—More Counters

After you've made your small steps, it's important to determine how effective your small actions were. Your main intent is to find what works. And what actually works may not be what you expected. Start the review of all small actions with the questions of "What's better?" and "How did I do that?" Other questions that you ask should include what effects did you notice, who has noticed the small actions, and what do you think should happen next? ■

For an example of the power of small steps and counters, go to: http://my.summary.com

THE SOLUTIONS FOCUS: APPLICATIONS

The Solutions Focus can be applied to problems in a variety of domains — for example, organizational, coaching and team issues. The article below and at right focus on the first two types of issues. A discussion of team solutions can be found in the Inside Info section for this summary at http://my.summary.com. ■

Organizational Change

The Solutions Focus approach to organizational change includes defining the future perfect, finding counters, and taking small actions — all in a SIMPLE way. In organizations, this means you figure out what works by acting, questioning and watching.

Keep in mind that the "organization" is usually a group of people who are organizing themselves and their work. Your job as the Solutions Focus coach or manager is to figure out how the culture of a business and organization actually works.

How the Solutions Focus Tackled Problem Passwords

Employees at many companies have problems memorizing passwords — especially if the passwords change frequently — and this was no different at one particular Welsh company.

To resolve this problem, the company could have taken the problem-focus approach of asking, "Why can't people remember long lists?" or "What gets in the way of them remembering changes to passwords?"

Instead, the managers used the Solutions Focus method and asked instead how they could make a more memorable password system. They asked: "What do people easily recognize and remember?" These solutions-focused questions eventually led to the solution: faces. Many people have problems remembering long strings of letters and numbers. But people have an innate ability to recognize faces.

Today, whenever a person logs on to a computer screen, the user sees nine faces and has to spot the position of his or her first password face. Increased security is generated by using multiple screens — the first screen features the first password face, a second screen feature the second password face, and so on.

The entire password system has become more reliable and faster. Trials proved that the system worked very well and calls to the help desk for forgotten passwords decreased appreciably. The company introduced the system on the Internet in 2001. ■

For another example of the application of the Solutions Focus to organizations issues, go to: http://my.summary.com

Coaching Solutions

Coaching is one of the most popular applications of solutions-focused work in organizations. The Solutions Focus has origins in psychotherapy, and like therapy coaching takes place within small groups or even just two people. Coaching proves a potent mix when combined with the Solutions Focus. Here's how coaches can use the SIMPLE method to achieve solutions:

- ✓ **Solutions, not problems:** Remember to steer the conversation toward solutions. This doesn't mean that you ignore problems, but that you work toward getting the subject to think in positive outcomes and solutions. It's nothing new that a coach concentrates on positive goals, but the Solutions Focus states: "there is rarely any sense of emphasizing a problem or starting with what's wrong."
- ✓ **Inbetween—the action is in the interaction:** When you're a coach you are on the lookout for positive and helpful interactions. Your goal is to search for improvement solutions and figuring out helpful interactions for your client.
- ✓ **Make use of what's there:** Try to note the evidence of what's there. Learn to find counters that measure the client's performance.
- ✓ **Possibilities—past, present and future:** As a coach, a main aim is to generate a sense of possibility. You have to act as if progress is inevitable.
- ✓ **Language:** Keep the language simple. Refrain from using words like "self-actualization," "disempowerment" and "cross-functional mindsets," please. Also avoid negative words like "failure" and "hopeless," and use the client's own words when describing his or her performance.
- ✓ **Every case is different:** Your every assignment should be fresh and new. It should be looked upon as a new challenge. Your only expertise should be in understanding how each case is special and how that hinders or helps them reach their solution.
- ✓ **Optimism and pessimism:** The Solutions-Focused coach has to be positive. Positive people take credit for their success and blame their failure on circumstances beyond their control; pessimists do the opposite, blaming all of their success on flukes and taking their failures personally. During sessions, you should stress what's impressed you about the performer's performance, and offer views on how the performer's efforts to improve have been successful.

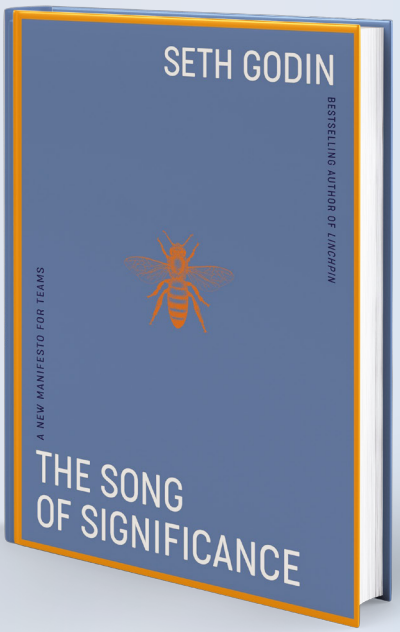
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The Song of Significance

Seth Godin

BOOK SNAPS™

Zooming In On Your Next Read



The Song of Significance

A New Manifesto for Teams

By Seth Godin

Seth Godin is the author of 21 international bestsellers that have changed the way people think about work. His books have been translated into 38 languages. Godin writes one of the most popular marketing blogs in the world, and two of his TED talks are among the most popular of all time. He is the founder of the altMBA, the social media pioneer Squidoo, and Yoyodyne, one of the first internet companies.

What Can We Do to Make Work Better?

From the very beginning of his book, Seth Godin says that his purpose for ***The Song of Significance: A New Manifesto for Teams,*** is to help his reader create teams based upon true leadership. He does not believe that the current way of the working world is, in fact, working, and he wants to help people center work around helping people create significance and meaning. The way Godin sees it, management is letting employees down, and employees are, in turn, letting managers down. This is partially because bosses want good work for little money while workers want to be paid well for their work. Industrialists, on the other hand, want to take away the worker's power, and one means to do this is by taking each job and breaking it down into many smaller jobs. This does not serve either employees or customers as it dehumanizes people. This does not have to be the case, however. Organizations work well when people seek increase, but too often, people are caught focusing on safety. This can lead to both burnout and dissatisfaction.

Significance

Godin believes that what people truly want is agency in their work. Agency refers to giving people control over their time and also encouraging them "to choose what [their] contribution looks like." Employers are at times reluctant to give their employees this agency because it is "antithetical to controlled industrial piecework." Godin believes that agency is key to giving people a sense of dignity in their work as it allows them to be treated like human beings and not like machines.

As an example of a company that does not give its employees agency, Godin examines McDonalds. Here everything is made as uniform as possible. Mechanization like this can give people jobs and create efficiency, but "late-stage industrial capitalism is different. It doesn't know where to stop. It not only captures those seeking safety, but also shackles those seeking significance." Companies that focus on such industrial processes will often win out over those who give their employees the opportunity to pursue significance. Companies exist on a continuum with some constantly surveilling employees while others rely on people for whom the very work is their reward. There are many companies that fall between these two extremes. Companies have to decide where they want to fall.

Godin explains that many companies seek outsourcing and automation as much as possible. Unfortunately companies sometimes take advantage of these options. He does not see real value being created this way. Rather he believes that real value is "created by personal interactions, innovation, creative solutions, resilience, and the power of speed."

Trust and Growth

Godin examines Amazon. It is one of the most managed companies in the country, but it faces such a serious problem with turnover that the company may eventually run the risk of running out of hires who have never worked for the company. Part of the reason for this is that people face very little opportunity for growth. No one can find significance because employees are not asked for their input.

Godin discusses surveillance, in particular surveillance on recorded phone conversations. Because of this surveillance, companies can better evaluate employees manning telephones. This is not always the best way to ensure success. Godin says, "The people you hire to follow instructions are rarely the people who will help you build something of innovation and substance." As companies seek to squeeze everything they can out of every asset, eventually employees will walk away in search of better opportunities elsewhere.

Managers Versus Leaders

Godin sees a difference between a manager and a leader. Where a manager seeks compliance, a leader "seeks to create the conditions for people to make a change happen." Attempts to treat people with dignity while using discipline to enforce compliance no longer work very well. The promise of the industrialists was that there would be a reward if people did what they were told. The effect, however, is low workplace satisfaction and low upward mobility. One way to find good leaders, Godin says, is to look at the people they have led and where they have gone to. The job of a leader is to help plant seeds for years to come, so the employees of solid leaders will often go on to become successful.

Godin sees a problem with the very idea of human resources. This is because companies squeeze resources, and employees ought not be squeezed. He believes companies need to "create value, cause change, and make a difference by leading with humans instead of treating them as cogs in a soulless machine." He says that human beings evolved to notice and avoid fearful situations. Industrialists have noticed this and have taken advantage of it. Managers threaten firing to underperforming workers, and as this triggers ancient fears, it becomes an effective way to keep employees in line. Godin says, "dancing with fear requires significance, tension, and the belief that we're doing something that matters."

Godin defines the Japanese word kokoro as an expression of personhood. It is "the dignity and connection we seek in the things we do and the way we're understood." He believes companies need to provide this kokoro to their employees. This respect needs to flow all the way to frontline workers. They need to be made to feel safe, however, before they will be able to contribute substantially.

Impediments

Meaningful work can be scary. People may face resistance which is a "natural, personal aversion to doing important or creative work." People need to be willing to make and keep commitments. There are numerous traps Godin says people can fall into such as avoiding solutions just because they are not perfect or focusing too much on discomfort. He believes that often just naming these traps can help people overcome them. Organizations need to overcome fear and mere compliance because "great work creates more value than compliant work."

The concept of enrollment is key to Godin's claims. He believes that employees need to be enrolled in the company or the project in order to make significant contributions. Organizations have gotten off track due to industrialism, but he believes they can go back and reclaim their human nature. He says, "enrollment, mutual connection, federation, recognized dignity, and the journey of increase: together these create the conditions for a powerful, reliant way forward." It is up to leaders to create these conditions.

People need to feel safe. After that, they seek affiliation and status. These are important, but Godin believes what people most want is significance. By this he means being able to impact the world around and making the world different than it would be had they never existed. Tension is not necessarily something to be avoided. He believes that tension and enrollment are partners. Enrollment as Godin describes it is "the desire to be right here, right now." None of this can be created merely through extrinsic means such as money. People must also be motivated intrinsically as well. This type of work of significance requires people to be present both where they are and where they want to be.

Working Environment

Godin says that "Significant work is project work." This project work is where people find significance. Because of this, leaders do not have to know how to do every aspect of a job. Rather, they need to be able to assemble a team competent to do these jobs. Miracles in the world of work do not happen instantaneously. Rather they are deliberate. It is not individuals who change the world. Rather it is connected people who work on significant projects. As an example of a successful way that a company sought significance for their employees is Barnes & Noble. James Daunt managed to turn the bookstore around by giving individual stores agency over their own shops.

Godin believes that people are dissatisfied with work when it is based on a lie. There are numerous commitments organizations need to make to their employees. One of these is providing a sense of belonging. Instead of working under the assumption that business thrive most when poorly working cogs are replaced, he believes organizations need to give people a chance to make a difference. Organizations need to support human dignity.

> Leaders should be looking for people who live up to standards rather than those who simply follow in obedience."

Likewise, companies need to embrace mistakes. Part of finding solutions is finding and then rejecting faulty solutions. Godin says, "If you're not trying things that don't work, you're not trying hard enough." He also extols taking responsibility and giving credit. Instead of relying on a traditional organizational chart, Godin advocates building a culture "around taking responsibility." People can be hesitant to approach criticism because of how they are conditioned to receive it and how others give it. Good feedback, however, is beneficial. People may see feedback as a threat if they think it will lead to getting fired, but really it is crucial if people are to improve.

Mutual respect is a non-negotiable for Godin. He does not want bullies around an organization because bullies kill connection which he already established as being crucial. To build this respect, every human encountered must be treated as though they are worthy of respect. Godin says, "an institution can't serve or collaborate with those who refuse to offer respect in reciprocity." Similarly, leaders should be looking for people who live up to standards rather than those who simply follow in obedience. People who do the right thing even when there are no possible negative repercussions are living by their standards.

Real Skills

Godin urges people to stop referring to interpersonal and leadership skills as soft skills and instead refer to them as real skills. He believes that companies hire based on vocational skills and retain employees for those same skills. Real skills are just as important, but they are often overlooked, and when people have weak real skills they often are not fired or even retrained. The ability to communicate with other people is the hallmark of a real skill, and yet the majority of managers claim to be uncomfortable speaking with those they manage.

Empathy is part of what is necessary to be a good listener. This requires people to acknowledge that other people experience the world differently than they do. Other people do not understand the world in the same way that we do, and people need to be humble in their listening and acknowledge that the other party may be hearing something differently than the speaker meant it. This requires people to acknowledge that they are dealing with human beings, not machines.

Godin encourages his readers to consider the meetings they hold. Conversations are key for businesses, but meetings can subvert this. Godin discusses the company Zapier that successfully implemented a week without meetings. To take the place of these meetings, the company employed numerous asynchronous and direct messaging procedures whereby employees could communicate with each other. They found that this method rewarded people who were working hard because their input made them directly accountable. Not all meetings are bad. Meetings which encourage two way conversation and in which only necessary people are invited can be productive. Meetings are most productive when there is a specific decision to be made.

Creating a Significant Organization

Godin then seeks to help his reader create significance within their organization. Many of these concepts have been covered in prior sections, but he adds to them at this point in his book. One of these methods is to embrace uncertainty. Godin does not believe in fake posturing if a person does not know the way forward. Rather, he encourages his reader to be clear about what they do not know. This allows others to offer suggestions and contributions. Godin also asks people, when they encounter novel situations, to avoid putting the situation into a familiar box. When they put it into a box, they have a tendency to believe they know what to do with it. This could prove helpful at times, but when the person is wrong in their assumptions, it creates problems. Wonder can open the door to moving forward.

Seth Godin has encountered a corporate world set on industrialization, and he sees this as a major cause of dehumanization in the workforce. People merely following directions are not invested in a company, and they are not going to put the safety of their job at risk in order to bring needed change and humanity to their workplace. The flow of his book, The Song of Significance: A New Manifesto for Teams, can be choppy and hard to follow at times as it is broken up into 144 different sections. Its purpose, however, remains clear and noble: to create a workforce in which all people can be treated with dignity and both the organization and the individuals invested in it can flourish.

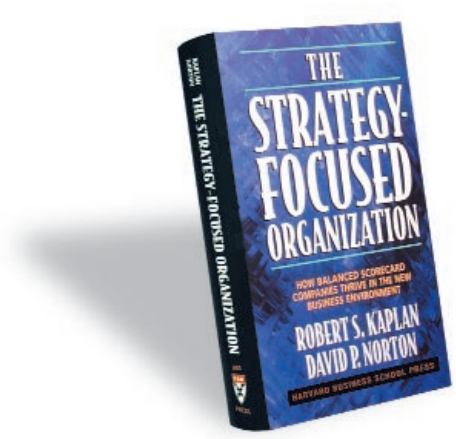
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The Strategy-Focused Organization

Robert S. Kaplan and David P. Norton

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How Balanced Scorecard Companies Thrive in the New Business Environment

THE STRATEGY-FOCUSED ORGANIZATION

By Robert S. Kaplan and David P. Norton

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THE SUMMARY IN BRIEF

In 1996, Robert Kaplan and David Norton introduced the Balanced Scorecard performance measurement method, which included not only traditional financial measures but also such qualitative measures as employee satisfaction, corporate mission and customer loyalty. In *The Strategy-Focused Organization,* they show how the following five principles transform the Balanced Scorecard from a tool for performance measurement to a tool for creating a strategy-driven performance management company:

1. Translate the strategy into operational terms. Use the Balanced Scorecard to describe and communicate strategy in consistent, insightful, operational terms.

2. Align the organization to the strategy. For organizational strategies to work, they must be linked and integrated across many functions — finance, manufacturing, sales, marketing and so forth. The Balanced Scorecard can link these disparate and dispersed functions.

3. Make strategy everyone's everyday job. Use the Balanced Scorecard to educate the organization about strategy, help employees develop personal objectives, then compensate them based on their adherence to and implementation of the business' strategies.

4. Make strategy a continual process. Use the Balanced Scorecard to link strategy to the budget process; review strategy regularly in management meetings; and develop a process for learning and adapting strategy.

5. Mobilize change through executive leadership. Through a method of mobilization, governance and strategic management, executives can embed new strategy and new culture into their management systems, creating a continual process to meet the strategic needs of today and tomorrow.

Formulating strategy is one endeavor. In this summary, you will learn how to make strategy work.

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THE STRATEGY-FOCUSED ORGANIZATION

by Robert S. Kaplan and David P. Norton

— THE *COMPLETE* SUMMARY

In today's business landscape, it has never been more important to implement solid strategies — the unique and sustainable ways by which organizations create value. Yet, research reveals that companies have an increasingly difficult time executing the strategies they need to remain competitive. One reason for this is clearly that while these strategies, and the business issues behind them, are changing constantly, the tools for measuring the effectiveness of these strategies have not kept pace.

Many corporations still use tools that measure success in terms of tangible assets — investments in inventory, property, equipment, etc., and the resulting returns. The decentralized nature of business that prevails today, however, values more intangibles (knowledge, capabilities, relationships). Constant changes in technology and the competitive environment dictate that all business units, support units and employees be linked to strategy — and that all have a common language to communicate strategy, as well as the processes and systems to implement it.

Strategy-Focused Organizations have transformed the Balanced Scorecard from a performance management tool into a strategic tool.

The Balanced Scorecard was initially conceived as an organizational performance measurement tool that included non-financial as well as financial measures. By ensuring that all of the objectives and measures inherent to it are derived from an organization's vision and its resulting strategy, Strategy-Focused Organizations have transformed the Balanced Scorecard from a performance management tool into a strategic tool. Com-panies like Mobil, CIGNA and Chemical (Chase) Retail Bank have used the Balanced Scorecard approach to focus their organizations on strategy by adhering to the five key principles that will be explained in detail in this summary:

1. **Translate the strategy into operational terms.**
2. **Align the organization to the strategy.**
3. **Make strategy everyone's everyday job.**
4. **Make strategy a continual process.**
5. **Mobilize change through executive leadership.** ■

Principle 1: Translate Strategy into Operational Terms

In order to be a Strategy-Focused Organization, you must put strategy at the center of your organization's management process. Strategy cannot be executed if it cannot be understood; it cannot be understood if it cannot be described. In the past, however, there has been no generally accepted framework for describing strategy and the value created from intangible assets.

The Balanced Scorecard links the intangible and tangible assets in value-creating activities. Using strategy maps of cause-and-effect linkages, it describes how intangibles are mobilized and combined with other assets to create value-creating customer value propositions.

Specifically, strategy maps illustrate the processes for transforming intangible assets into tangible customer and financial outcomes, providing executives with a framework for describing and managing strategy in a knowledge economy. The example illustrated on the following page (of a fashion retailer specializing in women's clothing) shows the key components of the strategy map.

Four Perspectives

The strategy map and Balanced Scorecard provide a framework to look at a value-creation strategy from four different perspectives:

1. **Financial —** the strategy for growth, profitability and risk, viewed from the perspective of the shareholder.
2. **Customer —** the strategy for creating value and differentiation from the perspective of the customer.
3. **Internal business processes —** the strategic priori-

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Principle 1: Translate Strategy into Operational Terms

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ties for various business processes, creating customer and shareholder satisfaction.

4. **Learning and growth** — the priorities to create a climate that supports organizational change, innovation and growth.

The arrows in the strategy map show the cause-and-effect relationships between elements in each perspective, clearly displaying how such intangible assets as strategic awareness feed into themes that eventually yield tangible results.

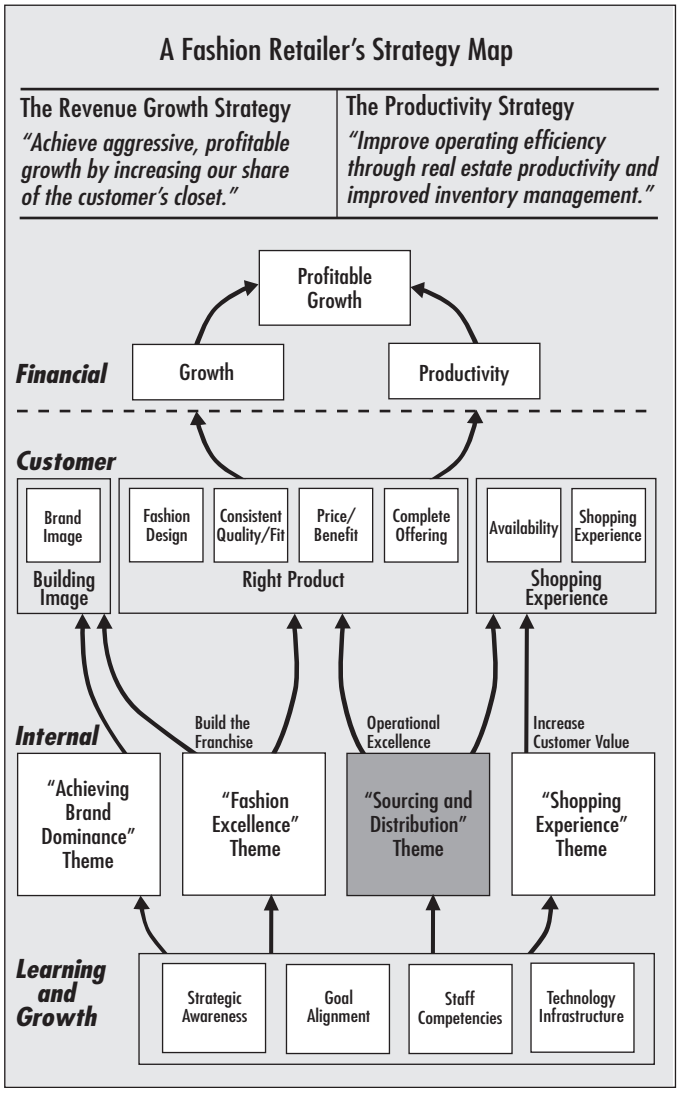
Within each of the strategic themes, a second strategy map and Balanced Scorecard [on the right] breaks down into detail how the theme affects the customer objectives that result from the theme. In this example, we see how **sourcing and distribution** affect customer objectives of product quality and product availability that, in turn, drive customer retention and revenue growth, as well as the internal processes (factory management and line programming) that contribute to those objectives.

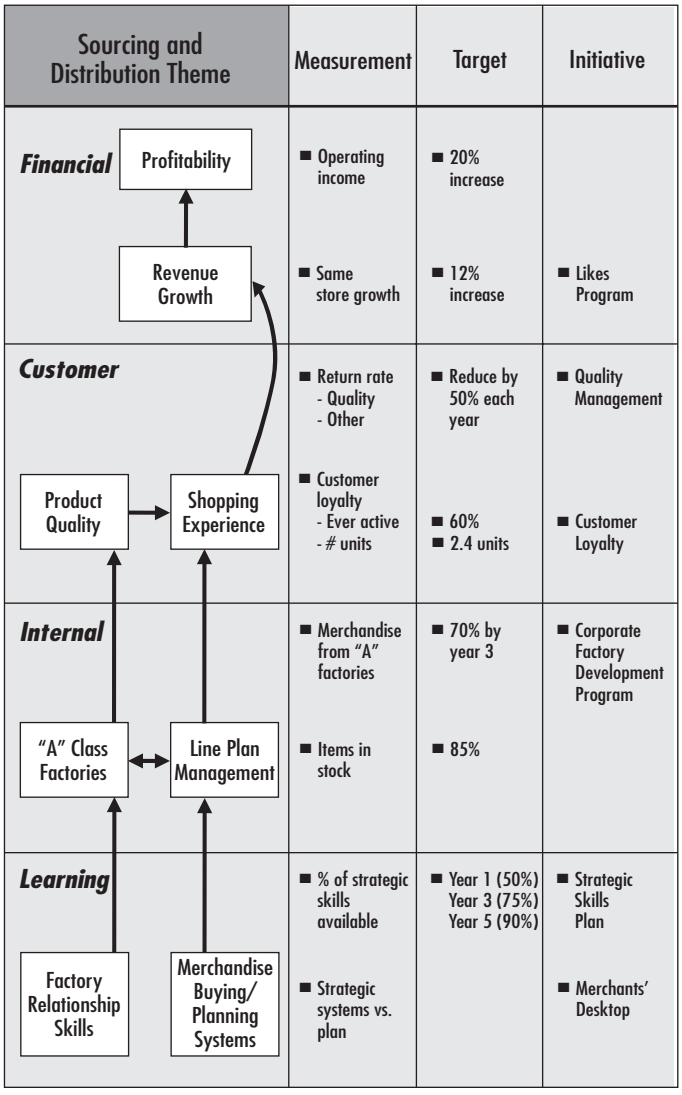
In Balanced Scorecards, value-creating processes and critical roles for intangible assets are clearly portrayed, in the correct context of how those intangibles create value, providing the measurement and management framework for knowledge-based strategies. ■

Principle 2: Align the Organization to the Strategy

The Balanced Scorecard provides a powerful framework for business units to describe and implement their strategies. A Strategy-Focused Organization, however, requires more than just having each business unit use its own Balanced Scorecard to manage a great strategy; the strategies and scorecards for all such units should be aligned and linked with one another. Synergies can then

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Principle 2: Align the Organization to the Strategy

(continued from page 3)

develop from efficient interactions between those units — interactions which must be explicitly recognized in the strategies and scorecards of each unit.

Many organizations share common business processes and require a corporate role to ensure their most effective use; others share common technologies and knowledge. A corporate scorecard should articulate the rationale behind keeping different business units operating within a corporate structure rather than spinning them off into individual, independent entities.

A corporate scorecard can clarify two elements of a corporate-level strategy:

- **Corporate themes —** values, beliefs and ideas that reflect the corporation's identity and must thus be shared by all business units.
- **Corporate role —** the actions mandated at the corporate level that create synergies at the business unit level.

Shared Services Units

Organizations can also create synergies by aligning the internal units that provide shared services. These shared service units are created at a corporate or division level because of economies of scale and the advantages of specialization and differentiation that these units can create — for example, purchasing, manufacturing, distribution, real estate, etc.

Shell Services International

The Shell Services International (SSI) division of the Royal Dutch/Shell Group of Companies provided nonroutine services in consultancy, IT, business services and human resources to Shell's business units. SSI used the Balanced Scorecard to develop multiple levels of service, in accordance with the needs of the business units it served. This multi-level system was achieved largely due to the enhanced measuring capabilities that the Balanced Scorecard provided, including cost figures and performance measures related to the following:

- **Customer satisfaction.**
- **Quality/speed of support.**
- **Customized technical measurements.**
- **Business alignment/ease of doing business.**

These measurements and resulting service-level agreements changed the mindset of the business units from focus on cost-related factors to quality and service-centric concerns.

For example, the Limited (an apparel retailer with eight retail divisions, each with its own target audience and retail chain) has a real estate division, which acquires and manages retail properties. The real estate division is a single organization that can be deployed to the benefit of all eight retail divisions.

The Limited also has one division that manages the relationships with factories that supply products for the eight retail divisions. The company has found that it is more cost-effective to concentrate such expertise in a single shared services division, rather than have each of the retail divisions manage its own capabilities in those critical areas.

The challenge is for the centrally supplied service to be responsive to the strategies and needs of the business units it serves. These units should be aligned through the creation of a Balanced Scorecard for the shared service unit that adds value and responsiveness to the strategies of the business units. In an ideal world, there would exist a top-down strategic architecture that defines the corporate role and how shared service units contribute to the corporate strategy; often, however, this architecture does not exist. In the absence of that architecture, shared service units can use the Balanced Scorecard in a somewhat different manner, using one of two models: the strategic partner model and the business-in-a-business model.

The *strategic partner* model allows for the shared service unit to be a partner in the process of the business units' development of Balanced Scorecards. Successful Balanced Scorecard companies typically first develop scorecards for business units that sell products and services to external customers, then develop shared service unit scorecards. The linkage between business unit and shared service unit scorecards requires four components:

1. **A service agreement between the business units and shared service unit that defines expectations about services and costs.**
2. **The shared service unit scorecard, which reflects its strategy to support the service agreement with the business units.**
3. **A linkage scorecard, in which the shared service unit accepts accountability for improving selected measures on the business unit scorecards.**
4. **Customer feedback from the business units on the performance of the shared service unit.**

The *business-in-a-business* model can be employed when business units do not have Balanced Scorecards; in such situations, the shared service unit must view itself as a business and the business units as its customers. The shared service scorecard defines the relationship. This

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Principle 2: Align the Organization to the Strategy

(continued from page 4)

approach works best in such functional organizations as human resources, IT, finance, marketing and R&D. The scorecard enables executives of these functional units to build a management approach that motivates their organizations to be customer-focused and competitive. ■

Principle 3: Make Strategy Everyone's Everyday Job

In the past, aligning all employees to a strategy was not critical. In the age of sequenced, repetitive, task-based manufacturing jobs, employees did not have to understand or implement strategy; they simply had to perform the narrow tasks management assigned them and trained them to do.

Today, this type of work is virtually obsolete, replaced by knowledge-based work. Employees must be aligned to the strategy in order to create value. Indeed, there are several critical factors that require intense alignment of employees to organizational objectives:

- While many companies focus on employee satisfaction by bulking up compensation and benefits packages, this satisfaction does not imply commitment from the employee to the goals of the company.
- Companies might claim that employees are their most valuable asset, but the frequency with which they check employee attitudes and skills reveals a different story.
- Not all employees are equally important to their employers; those who directly affect customer experiences and relationships are not always the ones who are given the most compensation and training.
- Some companies are implementing programs to involve customers more directly in the hiring, training, and rewarding of key employees.

Strategy-Focused Organizations understand that, ultimately, employees are tasked with implementing strategy, and are often the ones who come up with the innovative ideas that make strategies work. These organizations use the Balanced Scorecard in three distinct processes to align their employees to the strategy: creating strategic awareness, defining personal and team objectives, and linking incentives and compensation to the Balanced Scorecard.

Creating Strategic Awareness

Employees must learn about and understand the strategy before they can help implement it. Executives must use communication processes at the launch of their new strategy, starting with education and followed by 1) testing to ensure that employees understood the message; 2) checking that employees believe the strategy is being followed; and, 3) determining how many are teaching others about it. Think of a product launch. You wouldn't put a new product on the shelves without telling customers about it; don't expect the strategy to generate much excitement or buy-in if you haven't evangelized it to your employees.

Your communications program should have the following objectives:

1. **Develop an understanding of the strategy throughout the organization.**
2. **Develop buy-in to support the strategy.**
3. **Educate the organization about the Balanced Scorecard measurement and management system for implementing the strategy.**
4. **Provide feedback, via the Balanced Scorecard, about the strategy.**

Defining Personal and Team Objectives

Employees must understand how they can influence the successful implementation of the strategy. Homogeneous organizations whose outcomes are easy to measure — sales organizations, for example — can focus on a few primary metrics. More complex organiz-

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Sears' Strategic Learning Maps

Sears, Roebuck and Co. uses visual representations of strategy, or learning maps, to help employees understand the changes that are occurring and how they can contribute to successful implementation of change initiatives. These maps consist of images and pathways designed to create employee discussions of a strategic theme.

One such learning map helped Sears develop a vision of its future in retail sales. The map showed a winding street that started with pictures of the retail environment in the 1950s, and progressed through successive decades until the street showed the environment of the 1990s: Wal-Mart, J.C. Penney, The Limited, etc. The maps were accompanied by tables and charts that defined the context for employees to respond to three strategic themes about the company: that it was a compelling place to shop, work and to invest. Employees had to answer the question, "What are the implications of these themes on our business and our team?"

Through use of the map and a series of town hall meetings, Sears communicated its vision and enabled employee involvement in the day-to-day efforts required to make that vision reality.

Principle 3: Make Strategy Everyone's Everyday Job

(continued from page 5)

tions must share the outcomes and strategy they are trying to achieve. They will allow individuals and teams to define personal objectives that can influence and will have an impact on the organizational objectives.

The city of Charlotte, N.C.'s Department of Transportation (CDOT) linked the department's Balanced Scorecard measures to the department's high-priority programs and assigned individual work teams to each of those programs, including measurements of accountability and performance. Each of the 41 programs had a one-page report that included their objectives, the action steps required to implement the program, the desired outcomes, responsible managers, critical factors and program-specific performance measures. This method and its inherent accountability factors enhanced the motivation of frontline teams by mapping their day-to-day activities up to high-level business unit and corporate objectives.

Linking Compensation to the Balanced Scorecard

Employees should feel that their organization's successes result in shared rewards for those who brought about those successes — namely, the employees. Conversely, when the organization experiences shortfalls, employees should feel some pain. Incentive and reward systems provide the link between organizational performance and individual rewards.

Citicorp (now Citigroup, Inc.) linked the three tiers of its Balanced Scorecard (corporate, business unit and personal performance) to levels of compensation. The performance of the business unit, for example, was based on six dimensions: financial performance; customer/franchise performance; strategy implementation; risk and control; people; and community standards. Each component of the business unit's performance scorecard was scored either below par, at par, or above par with bonuses at branch management level tied to those scores. This scheme provided strong incentives for managers not to under-perform on any of the six performance dimensions. ■

National Bank OFS: Using the Scorecard as a Budget Filter

National Bank Online Financial Services (OFS) used its Balanced Scorecard to develop a process to screen and rank budget initiatives. Management first sorted initiatives into two categories — "strategic" and "business as usual" — by grading each initiative on a set of three criteria:

1. Helps OFS achieve a strategic objective (defined by the strategic themes on the Balanced Scorecard).

2. Builds competitive advantage.

3. Builds sustainable points of differentiation.

The second screen focused on the initiatives that drew upon the resources from several functional units and required significant costs and time to implement. The effect of these screens was to separate operational budgeting tasks from strategic budgeting tasks. Senior management only wanted to consider strategic projects that could create new capabilities for supporting strategic objectives. And it worked — the two screens filtered hundreds of initiatives down to about a dozen, which were then ranked and considered for the budget based on the strategic themes from the Balanced Scorecard.

Principle 4: Make Strategy a Continual Process

One reason so many organizations have difficulties in implementing strategy is that these companies have at least one (sometimes many) disconnects between how they manage strategy and how they manage operations. These companies use their budget as a planning and control system, creating a loop that defines resources allocated to operations (inputs) and the performance targets required to hit their budgetary goals (outputs).

Strategy-Focused Organizations use a "double-loop" process, integrating the management of budgets and operations with the management of strategy. The Balanced Scorecard creates a reporting system that allows the progress against the strategy to be monitored and corrective actions to be taken as required. The scorecard also serves as a link between the operations control process and the learning and control process for managing strategy.

This management system enables you to do three essential things:

- **Link strategy and budget.** Stretch targets and strategic initiatives on the Balanced Scorecard link the rhetoric of strategy with the rigor of budgets.
- **Close the strategy loop.** The Balanced Scorecard links with feedback systems to provide a new framework for reporting and a new strategy-centered focus for management meetings.
- **Test, learn and adapt.** The Balanced Scorecard explicitly states the hypothesis of the strategy, allowing it to evolve in real time as new ideas and directions emerge from the organization.

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Principle 4: Make Strategy A Continual Process

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Two Processes

Strategy-Focused Organizations must view their budgets for financial numbers and resource allocation as arising from two different processes: operational budgeting and strategic budgeting.

Operational budgets consist of a forecast of the revenues expected from sales of goods and services and the expenses expected to be incurred, under efficient operations, for the goods and services to be produced and delivered to customers. Spending decisions can be determined by first estimating the production and sales volumes for the next period, then forecasting the demand for activities, calculating the resource demands, and determining the actual resource supply.

Operational budgets reflect expenses expected to be incurred to support recurring operations; this aspect of budgeting is informed by the Balanced Scorecard because of its connection to the business model for growth in existing businesses. Operational budgeting does not, however, represent the most significant opportunity for the scorecard to redirect and align the organization to its growth strategy, particularly if the strategy represents a distinct departure from the past.

Strategic budgeting authorizes the initiatives required to close the planning gap between desired breakthrough performance and that performance that is achievable by continuous improvement and business as usual. It authorizes spending initiatives that enable an organization to develop new products and services, new capabilities, new customer relationships and expanded capacity for future growth. The Balanced Scorecard helps organizations determine the quantity and mix of spending in their strategic budget. ■

Principle 5: Mobilize Change Through Executive Leadership

Implementing new strategies requires large-scale change; the term transformation has emerged to differentiate the scale of change required by business strategy from the continuous improvement that organizations routinely perform. The leaders of Strategy-Focused Organizations lead transformations, not small-scale changes.

Getting transformations started, however, is often a challenge commensurate with the scale of the change. Some companies engage in strategic transformations out of a "burning platform" motivation — their organizations were failing, and drastic measures were in order. Some examples include:

✓ Bob McCool, of Mobil North American Marketing and Refining (NAM&R), who implemented strategy-based organizational changes after his company's expenses and capital had doubled, its margins had flattened, and its volumes were trending downward.

✓ Gerry Isom, of CIGNA, who used the Balanced Scorecard to turn around the Property and Casualty division of the company when its ratio of outgoing expenses to incoming premium revenues far exceeded the industry average.

✓ Bill Catucci, of AT&T Canada, who came to the company when it was close to bankruptcy, losing $1 million every day.

In other cases, the companies were successful; rather than resting on their laurels, however, their leaders created stretch targets to eliminate complacency and drive creative efforts. Some examples include:

✓ Jack Welch, who, shortly after becoming CEO of General Electric, energized the company by declaring that every division should become Number One or Number Two in every market they served. The change transformed his company from a lumbering giant to a giant with the speed and agility of a small enterprise.

✓ Douglas Newell, who, as head of the Internet banking division of National Bank OFS, set a goal to become the Number One Internet banking company in the world. Newell used the Balanced Scorecard to set stretch targets that kept the division ahead of the pack in the fast-moving world of the Internet.

These and other leaders set remarkable goals, goals that fell far outside their organizations' comfort zones, goals that required total organizational commitment to achieve them. They also recognized the benefits of using measurement to lead their change efforts. Executives that create Balanced Scorecards for their strategic initiatives help build their strategy, the team to implement that strategy and the commitment from the team that is required for success.

It's easy to build a business plan that addresses and meets specific growth objectives; the hard part is identifying how that growth will be achieved. The Balanced Scorecard helps organizations specify in detail the critical elements for their growth strategies:

- **targeted customers where profitable growth will occur;**
- **value propositions that lead customers to do more business and at higher margins with the company;**
- **innovations in products, services and processes;**
- **investments in people and systems to enhance processes and deliver differentiated value propositions for growth.**

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Principle 5: Mobilize Change Through Executive Leadership

(continued from page 7)

Without clear specifics on these elements, employees cannot reinforce one another's efforts to implement strategy.

Ultimately, however, the ability to create a Strategy-Focused Organization depends less on structural and design issues and more on the leadership of the organization's senior executive. The leaders listed above created a climate for change, and provided the vision for what that change could accomplish, as well as the governance process that promoted communications, interactive discussions and learning about their strategies.

Indeed, most of these strategy-focused leaders found that their most important challenge was communication of their strategy to those whose job it was to implement it. They had to gain the hearts and minds of all their middle managers, technologists, sales forces, frontline employees and back-office staff. They developed their visions of what success would look like and the outcomes they wanted to achieve, then let their employees help find innovative ways to accomplish the strategic mission. In so doing, they found it more effective to communicate vision and strategy, rather than to try to control the actions of their subordinates; they used the Balanced Scorecard as a communications tool, not a control tool. ■

What Are the Pitfalls of Implementation?

Although many companies enjoy the benefits from their Balanced Scorecard management systems, implementation failures do occur. More often than not, these disappointing results are self-inflicted, owing to factors internal to the business rather than attributable to external events. These pitfalls tend to fall into two categories: design failures and process failures.

Design Failures

Some failures occur when companies build poor Balanced Scorecards. They may use too few measures in their perspectives, failing to obtain a balance between the outcomes they are trying to achieve and the performance drivers of those outcomes. Others include too many measures and never identify the critical few.

Failures also occur when units within the company are not aligned with an overall strategy. If each unit follows its own path in developing a Balanced Scorecard, organizations will not have a common strategic vocabulary — they will instead have a "Scorecard Babel." The management system collapses when each unit approaches its scorecard differently, with no overall link to group or corporate strategies. Senior leadership is then unable to mobilize at any level, local or organization-wide.

Process Failures

The most common causes of implementation failures, however, are due to poor organizational processes, which tend to fall into at least one of seven common categories:

- **Lack of senior management commitment.** Senior management must articulate the organization's strategy and bring about consensus if consensus about the strategy is difficult to achieve. They must also be emotionally committed to the strategy, investing time and resources to see the strategy through.
- **Too few individuals involved**. Commitment must come from the appropriate decision-makers in an organization to keep business practices in line with strategic goals. The excuse that individuals (particularly key senior managers) "already attend too many meetings" is not a valid one.
- **Keeping the scorecard at the top.** The opposite error of not involving senior executives is to involve only senior executives. For the scorecard to be effective, it must be shared with everyone in the organization.
- **An over-long development process** (the Balanced Scorecard as a one-time measurement project). Some teams believe they only have one chance to launch the scorecard, so they want to produce the perfect scorecard, spending months refining it — so long, in fact, that it never gets implemented. The most successful implementations, however, start with missing measurements; the organizations simply learn by doing.
- **Treating the Balanced Scorecard as a systems project.** Sometimes, the Balanced Scorecard is implemented by consultants that specialize in installing large systems. These consultants spend months and millions of dollars automating and facilitating access to thousands and millions of data observations collected by the company. This has little to do with the engaging strategy that should be at the center of the Balanced Scorecard management system.
- **Hiring inexperienced consultants.** Using inexperienced consultants or consultants who deliver their favorite methodology under the rubric of the Balanced Scorecard is a recipe for failure.
- **Introducing the Balanced Scorecard for compensation only.** Linking strategy to compensation is a powerful lever to gain the attention and commitment of individuals to strategy. Some companies, however, forget that they must translate the strategy into terms each of their employees can understand and use in their everyday activities — a key component of implementation. ■

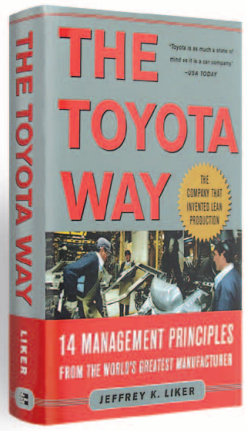
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The Toyota Way

Jeffrey K. Liker, Ph.D.

SOUNDVIEW Executive Book Summaries®

FILE: MANUFACTURING



By Jeffrey K. Liker, Ph.D.

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Fourteen Management Principles From the World's Greatest Manufacturer

THE TOYOTA WAY

THE SUMMARY IN BRIEF

Toyota is the world's most profitable automaker. Its "secret weapon" is lean production — the revolutionary approach to business processes that it invented in the 1950s and has spent decades perfecting. Today, businesses around the world are trying to emulate Toyota's remarkable success by working to implement the company's radical system for speeding up business and service processes, reducing waste, and improving quality. It is a system that is derived from balancing the role of people in an organizational culture that expects and values their continuous improvements, with a technical system that is focused on high-value-added "flow."

To help other companies learn to continually improve on what they do, Professor of Industrial and Operations Engineering at the University of Michigan Dr. Jeffrey K. Liker describes the results of his year-long research into Toyota and its managers, executives, suppliers and training centers. While detailing the company's culture, processes and people, Liker provides readers with a management model that can be used to transform business across industries, and the key principles that drive the techniques and tools of the Toyota Production System and the management of Toyota in general. These principles embody the long-term philosophy, processes, results, people, partners and problem solving that drive the organizational learning at Toyota, and can make the Toyota Way work for any organization.

What You'll Learn In This Summary

- ✓ How to foster an atmosphere of continuous improvement and learning.
- ✓ How to satisfy customers and eliminate waste at the same time.
- ✓ How to get quality right the first time.
- ✓ How to groom leaders from within rather than recruit them from the outside.
- ✓ How to teach employees to become problem solvers.
- ✓ How to grow together with suppliers and partners for mutual benefit.

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THE TOYOTA WAY

by Jeffrey K. Liker, Ph.D.

— THE *COMPLETE* SUMMARY

PART ONE: THE WORLD-CLASS POWER OF THE TOYOTA WAY

Using Operational Excellence As a Strategic Weapon

Toyota first caught the world's attention in the 1980s, when it became clear that there was something special about Japanese quality and efficiency. Japanese cars were lasting longer than American cars and required much less repair. By the 1990s, it was apparent that there was something even more special about Toyota compared to other automakers in Japan. It was the way Toyota engineered and manufactured the autos that led to unbelievable consistency in the process and product.

Toyota designed autos faster, with more reliability, yet at a competitive cost, even when paying the relatively high wages of Japanese workers. Equally impressive was that every time Toyota showed an apparent weakness and seemed vulnerable to the competition, Toyota fixed the problem and came back even stronger.

Today, Toyota is the third-largest auto manufacturer in the world, behind General Motors and Ford, with global vehicle sales of over 6 million per year in 170 countries. Auto industry analysts estimate that Toyota will pass Ford in global vehicles sold in 2005, and if current trends continue, it will eventually pass GM to become the largest automaker in the world.

Quality Reputation

Much of Toyota's success comes from its astounding quality reputation. In 2003, Toyota recalled 79 percent fewer vehicles in the United States than Ford and 92 percent fewer than Chrysler. According to a 2003 study in *Consumer Reports*, 15 of the top 38 most reliable models from any manufacturer over the last seven years were made by Toyota/Lexus.

The Toyota Production System is Toyota's unique approach to manufacturing. It is the basis for much of the "lean production" movement that has dominated manufacturing trends for the last 10 years. Lean manufacturing is a five-part process that includes defining customer value, defining the value stream, making it "flow," "pulling" from the customer back, and striving for excellence. To be a lean manufacturer requires a way of thinking that focuses on making the product flow through value-adding processes without interruption (one-piece flow), a "pull" system that cascades back from customer demand by replenishing only what the next operation takes away at short intervals, and a culture in which everyone is striving continuously to improve. ■

How Toyota Became The World's Best Manufacturer

The most visible product of Toyota's quest for excellence is its manufacturing philosophy, called the Toyota Production System (TPS). TPS is the next major evolution in efficient business processes after the mass production system invented by Henry Ford.

Although Toyota now has more than 240,000 employees around the world, in many ways it is still a large "family business" with considerable influence still exercised by the founding Toyoda family. To understand TPS and the Toyota Way, and how the company became the world's best manufacturer, it is helpful to understand the history and personalities of the founding family members who left an indelible mark on the Toyota culture.

Sakichi Toyoda was a tinkerer and inventor who grew up in the late 1800s and invented a sophisticated automatic

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How Toyota Became The World's Best Manufacturer

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power loom. In 1929, Sakichi sent his son, Kiichiro, to England to sell the patent rights to his "mistake-proof" loom. With that money (100,000 English pounds), he started the Toyota Motor Corp., and tasked Kiichiro with building the car business. After studying mechanical engineering and engine technology at the Tokyo Imperial University, he built the company on his father's management approach, but added his own innovations. As his father had driven his success with *jidoka* — automation with a human touch, or "mistake proofing" — Kiichiro contributed the second pillar of the TPS: Just-in-Time, a system based on the U.S. supermarket system of replacing products on shelves just in time as customers purchased them.

TPS evolved to meet the particular challenges Toyota faced as it grew as a company. It evolved as Taiichi Ohno, Toyota's plant manager who was assigned to improve Toyota's manufacturing process in 1950, and his contemporaries put these principles to work in the shop through years of trial and error. Out of the rubble of WWII, they accepted the challenge of matching Ford's productivity "with a creative spirit and courage," solved problem after problem, and evolved the new production system. Infused with the teachings of American quality pioneer W. Edwards Deming, TPS became a powerful philosophy that all types of businesses and processes could learn to use. ■

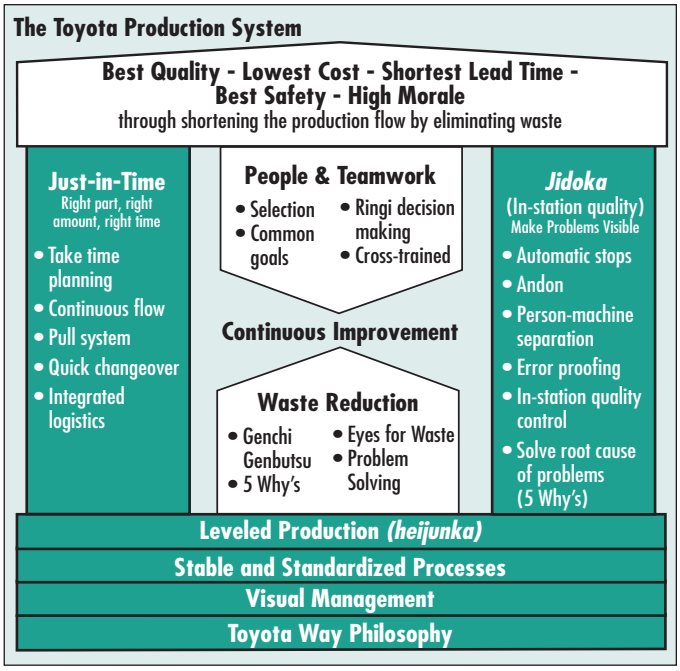
Eliminating Waste

The Toyota Production System is *not* the Toyota Way. TPS is the most systematic and highly developed example of what the principles of the Toyota Way can accomplish. The Toyota Way consists of the foundational principles of the Toyota culture, which allow TPS to function so effectively. Though they are different, the development of TPS and its success are intimately connected with the evolution and development of the Toyota Way.

When applying TPS, you start with examining the manufacturing process from the customer's perspective. The first question in TPS is always "What does the customer want from this process?" This defines value. Through the customer's eyes, you can observe the process and separate the value-added steps from the non-value-added steps. You can apply this to any process — manufacturing, information or services.

Toyota has identified seven major types of non-value-adding waste in business or manufacturing processes, and an eighth has been added. These are:

1. Overproduction. Producing items for which there are no orders, which generates overstaffing and storage and transportation costs because of excess inventory. Ohno considered this to be the fundamental waste because it causes most of the other wastes.



2. Waiting (time on hand). Workers merely serving to watch an automated machine or having to stand around waiting for the next processing step, tool, supply, part, etc., or having no work because of stockouts, lot processing delays, equipment downtime, and capacity bottlenecks.

3. Unnecessary transport or conveyance. Carrying work in process (WIP) long distances, creating inefficient transport, or moving materials, parts or finished goods into or out of storage or between processes.

4. Overprocessing or incorrect processing. Taking unneeded steps to process the parts. Inefficiently processing due to poor tool and product design, causing unnecessary motion and producing defects. Waste is generated when providing higher-quality products than are necessary.

5. Excess inventory. Excess raw material, WIP, or finished goods causing longer lead times, obsolescence, damaged goods, transportation and storage costs, and delay. Also, extra inventory hides problems such as production imbalances, late deliveries from suppliers, defects, equipment downtime, and long setup times.

6. Unnecessary movement. Any wasted motion employees have to perform during the course of their work, such as looking for, reaching for, or stacking parts, tools, etc. Also, walking is waste.

7. Defects. Production of defective parts or correction. Repair or rework, scrap, replacement production, and inspection mean wasteful handling, time and effort.

8. Unused employee creativity. Losing time, ideas, skills, improvements, and learning opportunities by not engaging or listening to your employees. ■

PART TWO: THE 14 BUSINESS PRINCIPLES OF THE TOYOTA WAY

Long-Term Philosophy

Toyota's biggest contribution to the corporate world is that of providing a real-life example that a modern corporation can thrive in a capitalistic world and be profitable while doing the right thing, even if it means that short-term profits are not always the first goal.

Every person interviewed in Toyota's engineering, purchasing and manufacturing departments, in Japan and the United States, has a sense of purpose greater than earning a paycheck. They feel a greater sense of mission for the company and can distinguish right from wrong with regard to that mission. They have learned the Toyota Way from their Japanese mentors and the message is consistent: *Do the right thing for the company, its employees, the customer, and society as a whole.* Toyota's strong sense of mission and commitment to its customers, employees and society is the foundation for all the other principles and the missing ingredient in most companies trying to emulate Toyota.

● **Principle 1: Base Your Management Decisions on a Long-Term Philosophy, Even at the Expense of Short-Term Financial Goals.**

The purpose of Toyota is *not* to make a quality product that will sell well and make money for owners. That is a requirement in order to achieve the mission. The true mission, according to its North American Mission Statement, has three parts:

1. Contribute to the economic growth of the country in which it is located (external stakeholders).

2. Contribute to the stability and well-being of team members (internal stakeholders).

3. Contribute to the overall growth of Toyota.

The poignant message is that the company must enhance the growth of society or it cannot contribute to its external or internal stakeholders. Toyota challenges its workers to contribute to Toyota and make a place in its history. Toyota genuinely wants its associates to grow and learn, to invest in long-term technologies, and create lasting customer satisfaction with the goal of getting repeat business for life.

The Toyota Way is about adding value to customers, employees and society. It provides a framework for Toyota to make short-term and long-term decisions, and it rallies employees around a shared purpose that is bigger than any of them. ■

Guiding Principles at Toyota

1. Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.

2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.

3. Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.

4. Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.

5. Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.

6. Pursue growth in harmony with the global community through innovative management.

7. Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.

The Right Process Will Produce the Right Results

Toyota leaders truly believe that if they create the right process the results will follow. Within the next six principles are most of the TPS tools for improving manufacturing processes as well as the more routine processes for product development and service organizations. Important and powerful as these tools and processes are, they are only the tactical or operations aspects of the Toyota Way and becoming lean. These tools are far more effective when they are supported by a company-wide, long-term management philosophy.

● **Principle 2: Create Continuous Process Flow to Bring Problems to the Surface.**

A good place for any company to begin the journey to lean is to create continuous flow wherever applicable in its core manufacturing and service processes. Creating flow means linking together operations that otherwise are disjointed. When operations are linked together, there is more teamwork, rapid feedback on earlier quality problems, control over the process, and direct pressure for people to solve problems and think and grow.

Flow is at the heart of the lean message that shortening the elapsed time from raw materials to finished goods or services will lead to the best quality, lowest cost, and shortest delivery time. Flow also tends to force the implementation of many of the other lean tools and philosophies, such as preventive maintenance and built-in quality (*jidoka*).

● **Principle 3: Use "Pull" Systems to Avoid Overproduction.**

The Toyota Way is not about managing inventory; it is

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The Right Process Will Produce the Right Results

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about eliminating it. Very early on, Toyota started thinking in terms of pulling inventory based on immediate customer demand. In the Toyota Way, "pull" means the ideal state of just-in-time manufacturing: giving the customer what he or she wants, when he or she wants it, and in the amount he or she wants.

● **Principle 4: Level Out the Workload (*Heijunka*).**

Fujio Cho, the president of the Toyota Motor Corp., said: "In general, when you try to apply the TPS, the first thing you have to do is to even out or level the production. And that is the responsibility primarily of production control or production management people. Leveling the production schedule may require some front-loading of shipments or postponing of shipments, and you may have to ask some customers to wait for a short period of time. Once the production level is more or less the same or constant for a month, you will be able to apply pull systems and balance the assembly line. But if production levels — the output — varies from day to day, there is no sense in trying to apply those other systems, because you simply cannot establish standardized work under such circumstances."

● **Principle 5: Build a Culture of Stopping to Fix Problems, to Get Quality Right the First Time.**

Quality (*jidoka*) should be built in. This means that you need a method to detect defects when they occur and automatically stop production so an employee can fix the problem before the defect continues downstream.

Jidoka is also referred to as *autonomation* — equipment endowed with human intelligence to stop itself when it has a problem. In-station quality (preventing problems from being passed down the line) is much more effective and less costly than inspecting and repairing quality problems after the fact.

● **Principle 6: Standardized Tasks Are the Foundation for Continuous Improvement and Employee Empowerment.**

Whether your employees are designing intricate new devices, styling new attractive products, processing accounts payable, developing new software, or working as nurses, they are likely to respond to the idea of standardizing their work in the same way: "We are creative, thinking professionals and every task we do is a unique project." If you are not in manufacturing, you may be surprised to learn that even workers on the assembly line believe they have a knack for doing the job best their own way and that standards will simply set them back. But some level of standardization is possible and is the backbone of the Toyota Way process.

What can be perceived as negative or ineffective becomes positive and effective within the Toyota Way and builds collaborative teams rather than conflict between employees and management. Standardized work was never intended by Toyota to be a management tool to be imposed coercively on the work force. On the contrary, rather than enforcing rigid standards that can make jobs routine and degrading, standardized work is the basis for empowering workers and innovation in the workplace.

The critical task when implementing standardization is to find that balance between providing employees with rigid procedures to follow and providing them the freedom to innovate and be creative to meet challenging targets consistently for cost, quality and delivery. Standards have to be specific enough to be useful guides, yet general enough to allow for some flexibility.

● **Principle 7: Use Visual Control So No Problems Are Hidden.**

Visual control is any communication device used in the work environment that tells us at a glance how work should be done and whether it is deviating from the standard. It helps employees who want to do a good job see immediately how they are doing. It might show where items belong, how many items belong there, what the standard procedure is for doing something, the status of work in process, and many other types of information critical to the flow of work activities. In the

(continued on page 6)

The Three M's

The Toyota Way document refers to the "elimination of *Muda, Muri, Mura.*" The three M's are:

✓ *Muda — Non-value-added.* The most familiar M includes the eight wastes mentioned earlier. These are wasteful activities that lengthen lead times, cause extra movement to get parts or tools, create excess inventory, or result in any type of waiting.

✓ *Muri — Overburdening people or equipment.* This is in some respects on the opposite end of the spectrum from *muda. Muri* is pushing a machine or person beyond natural limits. Overburdening people results in safety and quality problems. Overburdening equipment causes breakdowns and defects.

✓ *Mura — Unevenness.* In normal production systems, at times there is more work than the people or machines can handle, and at other times there is a lack of work. Unevenness results from an irregular production schedule or fluctuating production volumes due to internal problems, like downtime or missing parts or defects. *Muda* will be a result of *mura.* Unevenness in production levels means it will be necessary to have on hand the equipment, materials and people for the highest level of production — even if the average requirements are much lower than that.

For Additional Information on visual control and eliminating wastes, go to: http://my.summary.com

The Right Process Will Produce the Right Results

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broadest sense, visual control refers to the design of just-in-time information of all types to ensure fast and proper execution of operations and processes.

Visual control goes beyond capturing deviations from a target or goal on charts and graphs and posting them publicly. Visual controls at Toyota are integrated into the process of the value-added work. The *visual* aspect means being able to look at the process, a piece of equipment, inventory or information, or at a worker performing a job and immediately see the standard being used to perform the task and if there is a deviation from the standard.

● Principle 8: Use Only Reliable, Thoroughly Tested Technology That Serves Your People and Processes.

At Toyota, new technology is introduced only after it is proven out through direct experimentation with the involvement of a broad cross-section of people. This does not exclude new or cutting-edge technology. It means the technology has been thoroughly evaluated and tested to ensure it provides added value. Before adopting new technology, Toyota will go to great lengths to analyze the impact it may have on existing processes.

First, it will see firsthand the nature of the value-added work being performed by the workers for the process. Toyota will then use a pilot area to improve the process with the existing equipment, technology and people. If it determines that the new technology can add value to the process, it is then carefully analyzed to see if it conflicts with Toyota's philosophies and operating principles. If the new technology is acceptable, the guiding principle is to design and use it to support continuous flow in the production process and help employees perform better within Toyota Way standards.

Ideally, the new technology will be used right where the work is being done so it does not require a person in an office to input the data. The important principle is to find ways to support the work process while not distracting people from the value-added work. ■

The Disappearing Taurus

The Donnelly Mirrors (now Magna Donnelly) Grand Haven plant, which produces exterior automotive mirrors, was so disorganized when management began implementing lean manufacturing that no one could see much of anything except waste. One day a Ford Taurus mysteriously disappeared. It had been in the factory so they could try fitting it with some prototype mirrors. When it vanished, they even filed a police report. Then it turned up months later. Guess where it was. In the back of the plant, surrounded by inventory. Donnelly associates now tell this story to illustrate how far they have come since implementing lean.

Add Value by Developing Your People and Partners

It seems the typical U.S. company regularly alternates between the extremes of stunningly successful and borderline bankrupt. The solution to severe problems is often to bring in a new CEO who will take the company in a radically new direction. This roller-coaster ride is exciting and even works in bursts. Then, when something goes wrong, someone else preaching a still newer direction replaces him or her.

In contrast, Toyota's President Fujio Cho grew up in Toyota and was a student of Taiichi Ohno. He and Ohno provided a theoretical basis for the Toyota Production System (TPS) and the Toyota Way principles in order to teach them throughout the company. Cho was the leader of the Georgetown, Ky., plant — Toyota's most important venture in the United States. He was a board member and came into his new role when the company was already successful. At Toyota, the new president or CEO does not need to come in and take charge to move the company in a radically new direction to put his or her imprint on the company. The leadership role of Cho focuses on something entirely different.

● Principle 9: Grow Leaders Who Thoroughly Understand the Work, Live the Philosophy, and Teach It to Others.

Even when Toyota promoted someone from an unusual part of the company to save it from impending doom, there has never been a sudden change of direction. Perhaps this is the concept of eliminating *mura* (unevenness) at work at the executive level. Throughout Toyota's history, key leaders have been found within the company, at the right time, to shape the next step in Toyota's evolution.

Another important leadership tenet of the Toyota Way is the effort leaders make to support the culture year after year so it can create the environment for a learning organization. In W. Edwards Deming's terms, Toyota uses "constancy of purpose" throughout the organization, which lays the groundwork for consistent and positive leadership as well as an environment for learning.

● Principle 10: Develop Exceptional People and Teams Who Follow Your Company's Philosophy.

First, look at the system dynamics of your organization. Building excellent people who understand and support your company's culture is not a matter of adopting simple solutions or an afterthought for applying motivational theories. Training exceptional people and building individual work groups need to be the backbone of your

(continued on page 7)

Add Value by Developing Your People and Partners

(continued from page 6)

management approach, an approach that integrates your social systems with your technical system. You need a social system and a culture of continuous improvement to support positive problem-solving behaviors and motivate people to improve.

● **Principle 11: Respect Your Extended Network of Partners and Suppliers by Challenging Them and Helping Them Improve.**

Auto industry suppliers consistently report that Toyota is their best customer — and also their toughest. We often think of "tough" as difficult to get along with or unreasonable. In Toyota's case, it means the company has very high standards of excellence and expects all its partners to rise to those standards. More importantly, it will help its partners rise to those standards.

One way that Toyota has honed its skills in applying the TPS is by working on projects with suppliers. Toyota needs its suppliers to be as capable as its own plants at building and delivering high-quality components just in time. There are many methods Toyota uses to learn with its suppliers and, in the Toyota Way style, these are all "learning by doing" processes, keeping classroom training to a minimum. The important learning happens through real projects on the shop floor. ■

Continuously Solving Root Problems Drives Learning

You cannot be sure you really understand any part of any business problem unless you go and see for yourself firsthand. It is unacceptable to take anything for granted or to rely on the reports of others. Tables and numbers might measure results, but they do not reveal the details of the actual process being followed every day.

● **Principle 12: Go and See for Yourself to Thoroughly Understand the Situation (*Genchi Genbutsu*).**

Literally translated, *genchi* means the actual location and *genbutsu* means the actual materials or products. But *genchi genbutsu* is interpreted within Toyota to mean *going to the place to see the actual situation for understanding*. *Gemba* is a term that has become more popular. It refers to "the actual place" and means about the same thing as *genchi genbutsu*. The first step of any problem-solving process, development of a new product, or evaluation of an associate's performance is grasping the actual situation, which requires "going to *gemba*."

Toyota promotes and expects creative thinking, and innovation is a must, but it should be grounded in thoroughly understanding all aspects of the actual situation. This is one of the behaviors that really distinguish someone trained in the Toyota Way — they take nothing for granted and know what they are talking about, because it comes from firsthand knowledge.

There is a surface version of *genchi genbutsu* and a much deeper version, which takes many years for employees to master. What the Toyota Way requires is that employees and managers must "deeply" understand the processes of flow, standardized work, etc., as well as have the ability to critically evaluate and analyze what is going on.

● **Principle 13: Make Decisions Slowly by Consensus, Thoroughly Considering All Options; Implement Decisions Rapidly (*Nemawashi*).**

For Toyota, how you arrive at the decision is just as important as the quality of the decision. Taking the time and effort to do it right is mandatory. In fact, management will forgive a decision that does not work out as expected, if the process used was the right one. A decision that by chance works out well, but was based on a shortcut process, is more likely to lead to a reprimand from the boss.

Toyota's secret to smooth and often flawless implementation of new initiatives is careful, upfront planning. Underlying the entire process of planning, problem solving, and decision making is careful attention to every detail.

This principle includes the important process of *nemawashi*: *Make decisions slowly by consensus, thoroughly considering all options; implement rapidly.* The process of *nemawashi* is often used to describe how junior people build consensus by developing a proposal and circulating it broadly for management approval. In the *nemawashi* process, many people are giving their input and this generates consensus. By the time the formal proposal comes up for a high-level approval, the decision is already made.

● **Principle 14: Becoming a Learning Organization Through Relentless Reflection (*Hansei*) and Continuous Improvement (*Kaizen*).**

Toyota is an outstanding learning organization because it sees standardization and innovation as two sides of the same coin, melding them in a way that creates great continuity. For example, Toyota has judiciously used stability and standardization to transfer individual and team innovation into organization-wide learning. It is one thing for individual employees to come up with innovative ways to do things. But to be transferred to organization learning, the new way must be standardized and practiced across the organization until a better way is discovered. This is the Toyota Way of learning — standardization punctuated by innovation, which gets

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For Additional Information on five elements of decision making, go to: http://my.summary.com

Continuously Solving Root Problems Drives Learning

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translated into new standards.

The philosophy of Toyota and its experience support the belief that if it focuses on the process itself and continual improvement, it will achieve the financial results it desires. Continuous improvement (*kaizen*) can occur only after a process is stable and standardized. When you make processes stable and have a process to make waste and inefficiencies publicly visible, you have an opportunity to learn continually from your improvements.

A key to learning and growing, not only within Toyota but in Japanese culture, is *hansei*, which roughly means "reflection." According to George Yamashina, who runs the Toyota Technical Center, *hansei* had to be introduced to U.S. managers because: "Without *hansei* it is impossible to have *kaizen*. In Japanese *hansei*, when you do something wrong, at first you must feel really, really sad. Then you must create a future plan to solve that problem and you must sincerely believe you will never make this type of mistake again. *Hansei* is a mind-set, an attitude. *Hansei* and *kaizen* go hand in hand." ■

PART THREE: APPLYING THE TOYOTA WAY IN YOUR ORGANIZATION

Using the Toyota Way to Transform Technical and Service Organizations

As companies experience extraordinary improvements on the shop floor, it is natural to ask how this can apply to technical and service operations. Many service companies that initially look at Toyota are attracted most by the technical TPS principles of flow and how they can apply them to a highly variable and often chaotic process.

Creating lean flow is the technical backbone of the TPS in both technical and service organizations. There are five steps to creating flow in technical and service organizations. They are:

1. **Identify who the customer is for the processes and the added value they want delivered.**
2. **Separate out the repetitive processes from the unique, one-of-a-kind processes and learn how you can apply the TPS to the repetitive processes.**
3. **Map the flow to determine value added and non-value added.**
4. **Think creatively about applying the broad principles of the Toyota Way to these processes using a future-state value stream map.**
5. **Start doing it and learn by doing using a Plan-Do-Check-Act (PDCA) cycle and then expand it to the less repetitive processes.**

The key to applying the TPS in any environment is to focus on the value-added operations and work to eliminate waste. This is more challenging for service operations, because defining the customers and understanding their needs can be tricky. But with extra effort, it can be done.

It is impossible to define value in a service operation without first understanding its *core value stream*. Once you define the core value stream, then all support service operations must view their roles as supporting the core value stream. The leaner the core value stream, the leaner the support operations can be. Generally, it is recommended to start by applying the TPS to the core value stream and then branch out to the support functions. ■

Build Your Own Lean Learning Enterprise

If there is anything to learn from Toyota, it is the importance of developing a system and sticking with it and improving it. You cannot become a learning organization by jumping willy-nilly from fad to fad.

The Toyota Way model was intentionally built from the ground up, starting with a philosophy. And the philosophy starts with the chief executives of the organization. Their goal should be to build an enterprise for the long term that delivers exceptional value to customers and society. This requires long-term thinking and continuity of leadership. It might take decades to lay the foundation for radically transforming the organization's culture. Here's what we know about changing a culture:

1. **Start from the top — this may require an executive leader shakeup.**
2. **Involve from the bottom up.**
3. **Use middle managers as change agents.**
4. **It takes time to develop people who really understand and live the philosophy.**
5. **On a scale of difficulty, it is "extremely" difficult.**

Understanding and Commitment

A prerequisite to change is for top management to have an understanding and commitment to leveraging the Toyota Way to become a "lean learning organization." This understanding and commitment extends to building the lean systems and culture and, the most difficult for Western companies, sustaining and constantly improving the system. ■

For Additional Information on top leadership's "commitment to lean" journey, go to: http://my.summary.com

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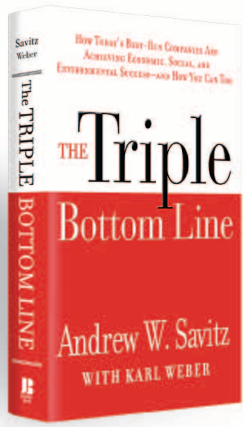
The Triple Bottom Line

Andrew W. Savitz with Karl Weber

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FILE: LEADERSHIP



By Andrew W. Savitz with Karl Weber

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How Today's Best-Run Companies are Achieving Economic, Social and Environmental Success – and How You Can Too

THE TRIPLE BOTTOM LINE

THE SUMMARY IN BRIEF

Expectations around corporate responsibility have been increasing for decades and people today are perhaps more concerned about corporate behavior than at any time since the Great Depression.

While the recent focus has been on financial integrity, the scope of corporate responsibility has been growing steadily since the 1960s when companies first began to play a leading role in assuring the safety of their products and the sanctity of the environment. Corporations today must answer not only to concerned investors, but to a variety of increasingly empowered stakeholders demanding that they promote diversity, eradicate poverty, foster public health, guard against child labor, protect human rights, oppose corrupt regimes, eliminate hunger, measure and report their results and actively engage with them about all of it.

Call it the age of accountability: corporate leaders that want their companies to survive for the long haul must develop a more integrated, responsible and sustainable way of doing business – driven not by philanthropy or government regulation but by the hard and fast truths of succeeding in a global economy. They must find ways to provide an array of benefits to the world even as they enrich their shareholders.

What you will learn in this summary:

- ✓ ***How to create an enterprise that is truly sustainable.***
- ✓ ***How to do business in an interdependent world.***
- ✓ ***How sustainability is different and more important than corporate social responsibility and corporate philanthropic efforts.***
- ✓ ***How companies can become more profitable by doing the right thing.***
- ✓ ***How to measure the impact of an organization's activities on the world.***
- ✓ ***How companies are reaching out to their harshest critics and seeking new forms of collaboration, innovation and partnership to improve results with startling success.***

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THE TRIPLE BOTTOM LINE

By Andrew W. Savitz with Karl Weber

— THE *COMPLETE* SUMMARY

PART ONE: THE SUSTAINABILITY IMPERATIVE

The concept of sustainability originated around a growing awareness in the 1980s. It has since come to denote a corporation that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts. It operates so that its business interests and the interests of the environment and society intersect. ■

Selling Hershey

July 25, 2002, was a day like any other in the picture-perfect town of Hershey, Pennsylvania, home of the world-famous Hershey bar. Tourists strolled Chocolate Avenue, gawking at streetlights shaped like Hershey Kisses and shopping for candy-themed souvenirs at dozens of gift shops. Bedazzled children and obliging parents lined up for tours of Hershey's Chocolate World and squealed with delight on the 10 roller coasters in nearby Hersheypark.

All of these pleasures had one thing that united them even more than their chocolate flavor: the steady stream of income they produced for Hershey's 12,000 residents.

On July 25, 2002, the *Wall Street Journal* ran a story which revealed that Hershey Trust, the charitable organization that owned a controlling stake in the Hershey Foods Corporation and thereby in the future of everyone in town, was planning to sell to the highest bidder.

A coalition of angry citizens formed within hours. It included former CEOs of Hershey who hated the idea of selling the company they'd nurtured; leaders and members of the union that represented 2,800 employees at the Hershey plant; alumni of the Milton Hershey School, the remarkable educational center for orphans created by company founder Milton S. Hershey himself; and thousands of business owners and residents of central Pennsylvania who feared the death of a town they cherished. How had Hershey's leaders so badly misgauged the reaction to their plan?

Lessons From the Chocolate Mess

Business leaders in all industries can learn some basic lessons of sustainability from the Hershey fiasco:

- **Focusing on profit alone can backfire.** The managers who made the decision to sell Hershey were doing the right thing by purely financial yardsticks. But in today's business world, the financial bottom line is not the only (or even the most important) measure of success. Executives also must consider the social, economic and environmental impacts on anyone with a stake in the outcome.
- **Businesses are accountable to more people than they realize.** Hershey management acted as if their fiduciary duty was the only interest that mattered. They forgot about other crucial individuals and organizations with a vested interest in their actions.
- **Bad things can happen to good companies that fail to take a broad view of accountability.** Well-intentioned, well-managed organizations like Hershey that focus exclusively on shareholders as if they were the only stakeholders that matter are headed for trouble.
- **Stakeholder engagement is an increasingly critical component of successful management.** Companies have legitimate reasons for keeping secrets and for confining decisions to a small circle of insiders. But bringing your stakeholders inside the tent on matters that might affect them is increasingly a matter of responsible corporate citizenship and sophisticated risk management. ■

(continued on page 3)

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The Sustainability Sweet Spot

Business leaders with a superficial understanding of sustainability think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily by writing a check to the United Way or allowing employees to volunteer for the local cleanup drive or food kitchen and then get back to work.

This approach reveals a fundamental misunderstanding. Sustainability is not about philanthropy. There's nothing wrong with charity, but the sustainable company conducts its business so that benefits flow naturally to all stakeholders, including employees, customers, business partners, the communities in which it operates and, of course, its shareholders.

The vision of a company that renews society as it enriches its shareholders may seem remote, but think about sustainability as the common ground shared by your business interests (those of your financial stakeholders) and the interests of the public (your nonfinancial stakeholders). This common ground is what we call the sustainability sweet spot: the place where the pursuit of profit blends seamlessly with the pursuit of the common good.

The overlap between winning increased market share and supporting healthier lifestyle habits is a sweet spot for PepsiCo. If the idea of healthy products sounds like a stretch for a company famous for its sugary sodas and salty snacks, think again. Having purchased Tropicana and Quaker Oats, PepsiCo has made the healthy-product sweet spot the fastest-growing segment of its North American portfolio. Social responsibilities have thus helped PepsiCo earnings per share grow at a prodigious 13 percent in 2004 and to surpass Coca-Cola in market cap for the first time in history. ■

The Age of Accountability

Whether you find or even look for the sweet spot, the principles of sustainability can improve the management of your business by:

- **Protecting the business,** which includes reducing risk of harm to customers, employees and communities; identifying emerging risks and management failures early; limiting regulatory interventions; and retaining the explicit or implicit license to operate granted by government or the community at large.
- **Running the business,** which includes reducing costs, improving productivity, eliminating needless waste and obtaining access to capital at lower costs. Eco-efficiency is a basic component of sustainability that applies to running your business. It means reducing the amount of resources used to produce goods and services, which increases a company's profitability while decreasing its environmental impact. The underlying theme is simple: pollution is waste and waste is anathema because it means your company is paying for something it didn't use.
- **Growing the business which includes opening new markets,** launching new products and services, increasing the pace of innovation, improving customers satisfaction and loyalty, growing market share by attracting customers for whom sustainability is a personal or business value, forming new alliances with business partners and other stakeholders and improving reputation and brand value.

An Old Idea Made New

DuPont's sustainability philosophy dates back more than 200 years to when the firm was an explosives manufacturer. The underlying social principle was simple and suited to the times: "Don't blow up the workers – and mind the town as well." It took another 200 years for DuPont (and society at large) to develop a comparable concern for the environment. By then, DuPont had helped create more than 250 hazardous waste sites, which it has so far spent $1.2 billion to clean up.

A More Interdependent World

The relationship between vendors and purchasers has become far more complex. Procter and Gamble and Wal-Mart, for example, recognizing their financial and operating interdependence, now work closely together to develop information and logistics technologies that will benefit both. Mutual dependence isn't merely financial. It is reputational and legal.

Doing business in this emerging world – freer, more interdependent, wired and filled with powerful, vocal stakeholders – demands a high degree of accountability. You can't pretend you are operating in a vacuum. Instead, you're in a crowded neighborhood where everyone knows your business.

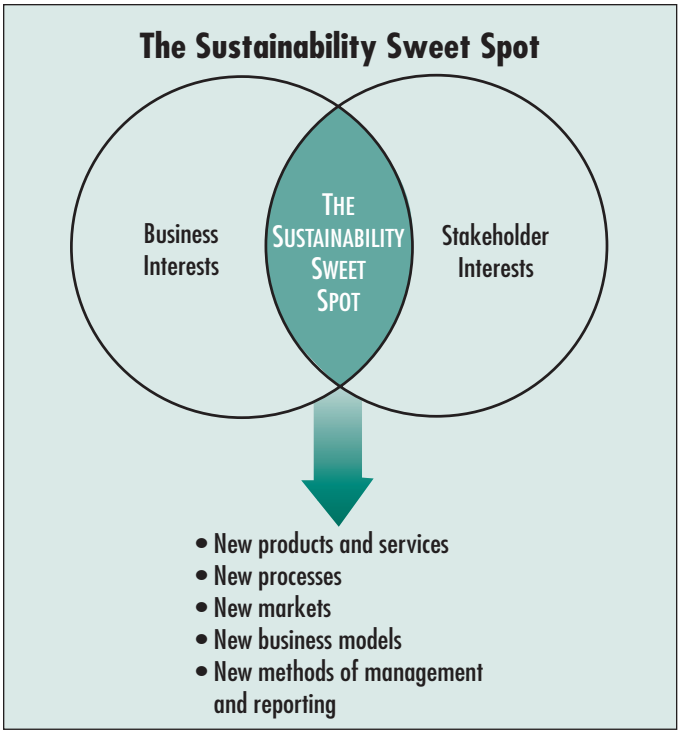
A Wired World

The spread of freedom, the growth of a worldwide economy and business interdependence are all being driven by an astounding explosion of global communications advances.

You are now doing business in a world where what you say can easily be drowned out by a multiplicity of voices over which you have no control.

Adidas, which outsources 83 percent of its global manufacturing to Asian companies, owns almost no tangible assets. What the company does own is intangible: ideas and patents, financial and management resources,

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For additional information on a map to the sweet spot, go to: http://my.summary.com

The Age of Accountability

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business relationships, brands, knowledge and goodwill – most of which depend on its reputation. And if 75 percent of your assets are intangible, it's obvious that an attack on your reputation can be financially devastating.

An Imperiled World

A number of events and trends have reinforced the sense of a shared and fragile world including the discovery of acid rain; repeated oil shocks in which political, military or financial troubles in the Middle East that create economic dislocations in the rest of the world; ecological disasters like the Exxon Valdez oil spill, the Bhopal chemical disaster and the Chernobyl nuclear disaster; the hole in the Earth's ozone layer; the HIV/AIDS catastrophe and the 2004 tsunami disaster.

In what seems a smaller and imperiled world, it is difficult for any business to say that social, economic or environmental problems across the state, nation or globe are irrelevant. People assume that anything that happens anywhere on Earth may affect them directly or indirectly, and they are extending these assumptions to the businesses they patronize or for which they work.

A Socially Conscious World

Popular culture reinforces these concerns. Movies from *Silkwood* to *A Civil Action* to *Erin Brockovich* have lionized environmental heroes and vilified polluters. Actor Leonardo DiCaprio drives a hybrid Toyota Prius, rock star Bono is on a crusade to alleviate poverty and actor Richard Gere is deeply involved in the fight against AIDS.

The mind-blowing outpouring of funds in response to the tsunami in South Asia was unprecedented in scope but it followed naturally on the heels of similar outreach efforts – Live Aid, Band Aid, Farm Aid. Tens of millions of today's young people know what's happening around the world and they care.

A Corporate World

Even as our world increases in complexity and interconnectedness, governments in many regions are in retreat – practically, philosophically and politically – from some of their traditional social responsibilities.

A graphic example of the shift in power from the public to the private sector came in the aftermath of the Hurricane Katrina in 2005. While the entire U.S. government fumbled the disaster relief effort, giant companies with powerful logistical capabilities such as Wal-Mart, Home Depot, PepsiCo and Federal Express provided more effective relief than the feds, responding to the stranded masses days before the U.S. government.

The shift in power from the public to the private sector means that societies at large will be looking to business to help solve social, environmental and economic problems.

A World of Investor Activists

Corporate shareholders are becoming more engaged with social issues. From mainstream investors to endowment managers for religious and educational organizations, investors have begun to push corporations to pay more attention to non-financial risks.

Both the number of resolutions and their success at drawing votes from shareholders have been steadily increasing. Between 2001 and 2004, shareholder resolutions related to social responsibility increased 51 percent, from 739 to 1,116. Each year, dozens of resolutions are withdrawn by corporate dissidents after negotiated settlements are reached in which the companies yield to most or all of the demands.

In addition, more investors are choosing investment opportunities on the basis of companies' environmental and social records, a practice commonly referred to as socially responsible investing (SRI). ■

Business Responds

Just as individual businesses are responding to sustainability, so are many institutions.

Colleges and business schools have dramatically

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Business Responds

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expanded coverage of sustainability issues in their curricula. Some universities have academic centers focused on corporate responsibility that work with and develop case studies about affiliated companies.

Corporate reporting is another way sustainability is being incorporated by the business sector. Approximately 3,000 companies around the world voluntarily issue reports covering environmental, social or other sustainability issues and the number grows every day. Endorsing this trend, stock exchanges in France, the United Kingdom, South Africa and many Scandinavian countries require or strongly recommend broad nonfinancial disclosure as a condition of listing.

The Dow Jones Sustainability Index (DJSI), created in 1999, tracks the financial performance of the leading sustainability driven companies worldwide, helping investors examine sustainability as a defining measure of corporate performance. Currently, the DJSI World Index includes 250 firms drawn from 59 business sectors in 23 countries including such industry giants as GE, Toyota, Hewlett-Packard, Citigroup, Pfizer, Unilever, 3M and P&G.

Perhaps most telling, the International Organization for Standardization (ISO), plans to issue guidelines for social responsibility in 2008 similar to those it has issued on quality. ■

For additional information on how Disney fought a boycott lodged by a religious organization, go to: http://my.summary.com

Embracing Accountability

Sustainability requires a detailed understanding of your interdependence in relation to those with whom you interact – whether as a company, a department, a plant or an individual manager. It means embracing and partnering with your stakeholders rather than assuming that they are adversaries to be defeated, skeptics to be lectured to or, at best, temporary allies to be held at arm's length.

Stakeholders Have a Vote on Your Future

The notion that you must partner with your stakeholders may seem counterintuitive at first. Most companies maintain a distant, if not outright antagonistic, relationship with nonbusiness stakeholder groups such as environmentalists, community organizers, social justice advocates and shareholder activists. Many stakeholders have ways to influence your decisions. In some cases, they have a direct vote: shareholders aligned with activist groups have been increasingly successful at forcing proxy votes on social and environmental issues. Outside the corporate structure, citizens in the city, state or nation where you operate can vote for or against your company indirectly be electing or defeating government officials who are friendly to your company's interest.

Customers can vote with their wallets by choosing to shop elsewhere when they are offended or by flocking to patronize you when they consider you supportive of their values. Activist groups can orchestrate rallies or organize boycotts against you; employees can stage walk-outs or sick-outs.

The giant retailer Wal-Mart, for example, is now beginning to reach out to environmentalists, community organizations and others whom it previously scorned. The company launched an expensive advertising campaign and created a communications "war room" to present its side of the controversies in which it has become embroiled. ■

For additional information on the backlash against sustainability, go to: http://my.summary.com

PART TWO: HOW SUSTAINABILITY CAN WORK FOR YOU

Where Do You Stand Today?

When speaking about the challenges of corporate responsibility, Dennis E. Welch of Northeast Utilities (NU) used to say, "If you want to transform your company, it helps to have a crisis."

Welch should know. He was given the job of transforming NU from the inside after it found itself the subject of a massive criminal investigation by the U.S. Environmental Protection Agency and the Connecticut Department of Environmental Protection. Welch is no masochist, but he recognizes that at many companies, transformation change begins with the pain of an ad hoc response to an immediate crisis.

Turning Crises Into Opportunities

The sooner you can create a big-picture vision to give context to today's problem, the sooner you can begin transforming crises into opportunities – a practice we like to call sustainability jujitsu. Nike learned this the hard way. The use of child labor in outsource manufacturing plants by suppliers of clothing, shoes and sporting goods was a festering issue among social advocates throughout the 1980s and 1990s. But most American companies that marketed or retailed those goods did little to address the problem until *Life* magazine pub-

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Where Do You Stand Today?

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lished a story titled "Six Cents an Hour," in June 1996.

Nike showed a willingness to learn from the crisis, eventually launching a six-point reform effort which included requirements that all new employees in factories making Nike products be at least 16 years old, that free middle school and high school classes be provided to workers and that independent Non-Governmental Organizations (NGOs) be permitted to monitor working conditions at Nike.

Determining Where You Stand

A crisis often motivates a company to embrace sustainability. But a crisis can carry you only so far. What's the next step? You should begin looking at where your organization stands today: its strengths, weaknesses, opportunities and risks in relation to the sustainability imperative. We suggest looking at four areas:

1. What your company says: Its reported policies and performance in regard to the environment, labor, health and safety concerns and other sustainability issues, and what it is saying and measuring internally.

2. How your company operates: The environmental and social impacts of the company's practices and processes on employees as well as up and down the supply chain and in the communities where the company operates.

3. The nature of your company's business: The impact of the products and services the company offers as well as its business and profit models.

4. How sustainability applies to your industry: The particular ways in which sustainability is being defined in your industry in terms of specific performance or reporting issues. ■

Key Sustainability Issues in Selected Industries

Each industry has a unique set of sustainability issues. Here are a few examples:

✓ **Pharmaceuticals:** Demand for new business models to make medicines affordable and accessible in the developing world.

✓ **Agriculture and biotech:** Need for measures in response to criticism and fears surrounding genetic modification of seeds and food organisms.

✓ **Pulp and paper:** Creation of certification programs designed to guarantee environmentally friendly means of harvesting timber.

✓ **Computers and telecommunications:** Need to narrow the digital divide through philanthropy and development of bottom-of-the-pyramid products, and electrical trash.

✓ **Apparel:** Demand for intensified scrutiny of supply-chain labor and environmental practices.

Shaping Your Strategy

You've analyzed the current sustainability status of your company or business unit and developed a general sense of its strengths and weaknesses. Now it's time to translate those strengths and weaknesses into business opportunities.

Minimization and Optimization

A fruitful way to think strategically about your business's sweet spot is to think in terms of minimization and optimization.

Minimization means reducing the size of your footprint in terms of the adverse environmental, social and economic impacts of your activities. Minimization is aimed at reducing ecological damage, reducing employee accidents and decreasing harm to the community. Here are some examples of "being less bad," so to speak:

- **Look for processes and procedures that generate waste.**
- **Look for areas of stakeholder conflict.**
- **Benchmark your company against others.**

Optimization is "being more good." We use the term to mean producing positive benefits in the three areas of environmental, social and economic impact. Optimization aims not just to reduce pollution but to restore the environment; not just to eliminate employee accidents but to create a healthier, happier workforce; not just to decrease harm to the community but to revitalize it. Here's what to do:

- **Push minimization efforts toward optimization.**
- **Look for new product and service ideas that grow out of your sustainability efforts.**
- **Look for new markets that are hidden in the margins of more obvious, traditional markets.** ■

Launching Your Program

There's no single correct starting point for your sustainability program. Starting with strategy is an excellent approach, but not the only way to begin.

For many companies, the answer is to go after the low-hanging fruit: to start by grabbing a few early victories with projects that are easy and obvious, that meet an established need, such as customer demand or a requirement to cut costs.

Here are some ways to identify some early wins for

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Launching Your Program

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your business:

- **Look at your customer's needs.** Volvo followed this approach when it made auto safety a differentiated factor and a sales strategy in the 1980s.
- **Work with your supply chain.** Examine your supplier code of conduct or individual contracts to see what requirements are in place.
- **Leverage your current position.**
- **Start with your current skill set.** Don't try to be all things to all people.
- **Anticipate an impending change.**
- **Empower individuals.**

Goals, Process and Key Performance Indicators

One easy way to get some traction is to consider how sustainability could be built into your existing business goals. You'll need to define specific goals, both to establish what you're trying to accomplish and to make it possible to measure whether you're getting there.

You'll need procedures and Key Performance Indicators (KPI) that will allow you to reach your goals. Following are some ideas about how to define sustainability metrics for reporting purposes:

- **Establish goals that further the primary objectives of your business.**
- **Strive for simplicity by keeping the number of goals small and mutually reinforcing.**
- **Make sure goals are clear and understandable.**
- **Develop clear, consistent definitions of every term and measurement unit.**
- **Strive to define every goal and KPI in terms of a number.**

Getting Organized

Because of the wide range and interdisciplinary nature of activities that fall under the rubric of sustainability, many companies start with a task force to define and drive their efforts.

A sustainability department can be an important resource for managers throughout the company, offering expertise, resources, connections and coordination. But locating sustainability in its own department risks isolating it as an "add-on" to core business processes.

In the long run, integrating sustainability into operations is the only way to go. Like quality, sustainability must be built in, not added on. Sustainability can be the specialized province of a handful of experts, but it's far more effective to educate your operating managers about sustainability and let them apply this knowledge to their own goals and strategies. ■

Managing Stakeholder Engagement

Taking a fresh view of yourself and your company is one of the many concrete benefits you can derive from stakeholder engagement – provided that you enjoy real rather than sham engagements. It's not about pretending to listen to your stakeholders, it starts with active, empathic listening: trying to understand and accept the viewpoint of even your worksite enemies and experiencing your business as they do.

One of the hardest aspects of accepting your opponents' point of view is bearing with a degree of tunnel vision on their part. Many advocacy groups feel that they are trying save the world and they view their favored issue as being of paramount importance to that salvation. ■

Special Stakeholder Challenges

Sustainability involves issues of communication, shared vision and the balancing of interests with all your company's stakeholders, both inside and outside. Among the most crucial challenges are those with the other companies in your value chain. These include companies both upstream (those who supply you with raw materials, finished products, skilled or unskilled labor and services of all kinds) and downstream (distributors, marketers, retailers, middlemen and others who help you deliver goods and services to customers).

Once sustainability is on the agenda, the nature of the relationship changes. Now profit may no longer be the defining consideration in mapping out contract terms. Thus when Nike, newly focused on sustainability issues, negotiates contracts with supplier factories in Asia or Latin America, the discussions are not solely focused on increasing profit margins, reducing costs, improving efficiency and guaranteeing quality.

Complexities of Responsible Value-Chain Management

It would be easy if value-chain management was simply a matter of applying your company's internal policies up and down the chain. The reality is complicated by a range of factors:

- **Varying legal and regulatory regimes.**
- **Social and cultural differences.**
- **Difficulties of enforcement.**

Because of these and other constraints, pushing your entire value chain toward greater sustainability can be a tricky balancing act. Today, for example, Levi's has considered phasing out operating in China because of

(continued on page 8)

Special Stakeholder Challenges

(continued from page 7)

that country's human rights record. In other countries where child labor provides a family's only income and where human rights are protected, Levi's pays contractors to keep the children in school to age 14. ■

For additional information on who your stakeholders are, go to: http://my.summary.com

The Future of Sustainability

Almost two decades after the word was coined, the idea of sustainability continues to evolve. As more companies explore its implications in their own industries and businesses and among their own networks of stakeholder connections, new ways of envisioning and creating the sustainable company are being spun off.

Lean Thinking: Perfecting Business Processes

A lean-thinking company constantly examines the life cycle of every product or service it creates, seeking to manage that cycle in accordance with the following principles:

1. **Understand the value created by each product:** identify with precision the real sources of benefit to consumers and others that are provided by any good your company offers.
2. **Identify the value stream for each product:** study your company's processes to determine which activities are contributing to real value and which are depleting it.
3. **Make value flow without interruptions:** organize all your business processes to reduce waste of time, money, energy and other resources.
4. **Encourage customers to pull value through the entire system:** use modern communication and information sharing so that the process of creating value can be driven by actual customer needs.
5. **Pursue perfection at every stage:** constantly examine, redesign and re-examine each step in the life cycle of any product or service in search of incremental improvements in efficiency.

Dematerialization: More Value, Less Product

Dematerialization is based on the surprising – yet ultimately obvious – realization that consumers don't necessarily want the physical materials used in manufacturing, shipping and using many products

When you buy a television, you don't want a box of electrical components – so many pounds of glass, plastic, metal, silicon and other materials. You want the fun, information and entertainment you derive from watching TV. If the materials could be reduced or eliminated altogether while keeping the benefits TV provides, everyone would be better off. Take for instance today's large, flat-screen televisions which contain much less material than the small-screen, big-cabinet units in most living rooms a generation ago. And old-fashioned vinyl record albums have given way, first to smaller CDs and then to completely dematerialized MP3 files stored by the thousands of tiny digital players.

From Products to Service

Pushing dematerialization further, many companies are exploring ways to transform the goods they sell into services, thereby providing the same value at less cost or more value at the same cost. Consider Zipcars, the growing business that leases cars by the hour or the day. It's a smart new business model that also creates huge environmental benefits.

Rethinking the Corporation

Sustainability does not necessarily require companies to de-emphasize profit or accept diminished financial results. But it will eventually demand that businesspeople abandon a short-term, single-minded focus on maximizing shareholder value and recognize that corporations exist to serve other stakeholders as well.

If the ultimate purpose of business is the efficient provision of goods and services that society wants (not just what investors or customers want) then an array of stakeholders, not just shareholders, have a legitimate interest in how a company uses its resources.

The Ennobled Enterprise

Imagine an enterprise expressly created for profit and for social and environmental prosperity. What would it look like? We can get a glimpse of what such an ennobled enterprise might look like by considering the current phenomenon of social entrepreneurship, a discipline that has found its way into the curriculum of some 30 U.S. business schools. ■

SOUNDVIEW RECOMMENDED READING LIST

If you liked *The Triple Bottom Line, you'll also like*:

1. ***Walking the Talk*** **by Chad Holliday, Stephan Schmidheiny and Philip Watts.** This book makes a compelling business case for corporate responsibility.
2. ***The Triple Bottom Line: Does It All Add Up?*** **edited by Adrian Henriques and Julie Richardson.** The world's leading experts on corporate responsibility assess the benefits and limitations of this balance.
3. ***The Next Sustainability Wave*** **by Bob Willard.** Beyond the PR crisis of the first wave, sustainability requires different drivers.
4. ***Field Notes From a Catastrophe*** **by Elizabeth Kolbert.** Kolbert chides the U.S. for refusing to sign on to the Kyoto Accord and singles out Burlington, Vt., for its impressive energy-saving campaign.
5. ***Capitalism at the Crossroads*** **by Stuart L. Hart.** Believe it or not, there are unlimited business opportunities in solving some of the world's most difficult problems.

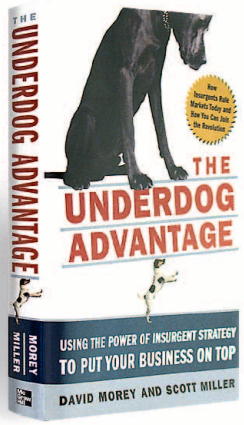
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The Underdog Advantage

David Morey and Scott Miller

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By David Morey and Scott Miller

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Using the Power of Insurgent Strategy To Put Your Business on Top

THE UNDERDOG ADVANTAGE

THE SUMMARY IN BRIEF

The Underdog Advantage *is about a set of principles that have been proven to win and to build a winning attitude, character and culture in the most difficult circumstances. These are principles that can drive your business, marketing and communication strategies and transform your company. And they can transform your career. Established and refined over centuries of military and political experience, these principles have worked on the battlefield and at the ballot box. For 25 years, business has been applying these principles globally to corporate strategy. They have been used to develop competitive strategies, crisis solutions, and cultural changes.*

The advantages of the incumbent seem to have diminished or even disappeared in today's brave new world. Today's consumers are empowered with a tsunami of instant information. As a result, consumers of information feel overloaded, and the tried-and-true rules of mass marketing have been tried and are no longer true. According to David Morey and Scott Miller, two strategy consultants who have worked with Microsoft, The Home Depot, McDonald's, Disney, Coca-Cola and Nike, it's the underdog's day. In The Underdog Advantage, *they present the insurgent strategy's key concepts and describe how to develop them into effective tactical planning.*

What You'll Learn In This Summary

✓ How the rules of leadership, business and communications have completely changed.

✓ How to instill the kind of insurgent behavior found inside today's most highly competitive and successful organizations and individuals.

✓ How to promote insurgent strategic planning and execution in every aspect of your company's operations and communications.

✓ How to create a spirit of innovation in your company that leads to new and different approaches to every aspect of your operation.

✓ How to expose individuals to new ways of thinking and infuse them with insurgent principles that they can apply to daily business challenges.

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Adopt the Political Campaign Model

There are no excuses on the morning after Election Day. There are no equivocal results — you win or you lose. If you get 49.9 percent, you take a hike.

The political campaign model is a simple model that is easily understood at every level of an organization. Insurgent political strategy was made for today's challenging business environment. The political campaign model clearly frames a company's objectives and focuses its people on winning. It creates a bolder, more aggressive spirit and drives the organization to settle for nothing less than a win over the competition. It creates an "Election Day" finish line in terms of getting results.

As noted by Marc Gobé, author of *Emotional Branding: The New Paradigm for Connecting Brands*, "Brands have to be elected to be part of the culture now." This strategy is clearly evident at Red Bull, which dispatches legions of foot soldiers in "mobile energy teams" that tote a huge can of Red Bull on the trunk — raiding college campuses, construction work sites, health clubs, and anywhere else that they can generate word-of-mouth acceptance and "votes" for their product. This is how Red Bull carefully and methodically built and grew a core audience — with deliberate stealth, effective low-cost spending, and a "do the doable" grass-roots marketing campaign.

Election Day

Every strategic goal in your company should have its own Election Day, and the results should show that it either "won" or "lost" on that day. Chances are that you are in the campaign mode whether you realize it or not.

The insurgent political approach has been used successfully for centuries by revolutionaries across the globe in politics, war and business. It is what drove America's own revolutionaries: Jefferson, Adams and Washington. And it is what drives the insurgents who rule U.S. markets today: Starbucks Coffee, Wal-Mart and Southwest Airlines; Bill Gates, Rupert Murdoch, Charles Schwab and Oprah Winfrey. They all have boldness, an outsider's perspective, curiosity and imagination. They also have classic insurgent leadership skills, planning and tactics.

Although overpowering force still dominates many markets, it is a very expensive way to win. Insurgency is becoming the most effective and efficient way to win.

Even if you are a market leader, *you must make a commitment not to act like the incumbent,* no matter how overwhelmingly you may dominate your market. Insurgent strategies will not only help you continue to gain ground, but will also help you develop more satisfied customers and happier, more productive, and totally committed employees.

Change Rules

Today's incumbents must learn to adopt a political campaign model and utilize insurgent strategy. Change rules the markets today, and the rules of change greatly favor the insurgent because the insurgent embraces and loves change. The traditional structure of markets is crumbling under the weight of the information revolution. The information revolution's effect has been to provide consumers with infinitely more choices in every marketplace and infinitely more information about those choices. Today's consumers know more and demand more, so product integrity — how your product or service lives up to its inherent brand promise — is more critically important in this environment than ever.

(continued on page 3)

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Adopt the Political Campaign Model

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Frito-Lay

One great example of a top-tier brand playing by the insurgent rules of the bottom tier is Frito-Lay. After decades of putting its faith in mass advertising, Frito-Lay has put its faith in product — which strongly implies that it has put its faith in customers. The core of Frito-Lay's marketing is product differentiation, which is in a constant state of development and change. That's because Frito-Lay annihilated its major, mass-marketed brand competition, and because it was forced to turn its attention to the local and niche snack brands that might otherwise have nibbled it to death, market after market.

Frito-Lay pulls products before customers get a chance to sense that those products are stale (stale, in terms of having been "seen" or "raised" by competitive options). For the insurgent Frito-Lay, new products mean new forms, flavors and packaging concepts. In the 10 yards of shelf space that Frito-Lay controls in the snack section of a supermarket, every five feet or so there is a "keeper" brand, flanked by several "temporary" brands. It's the combination of keeper and temporary brands that builds the franchise and Frito-Lay's brand.

To adopt the political campaign model, you must focus on delivering the win; develop an idiot-proof strategy that delivers the win; and create a more results-focused, aggressive spirit. To do this, you must adopt the reality of a campaign, define "Election Days" for every business objective, model insurgent leadership, and prepare a change map that describes where you and your competitors are. Finally, commit to changing the dialogue in your market. ■

For Additional Information on an insurgent spirit at the helm of 7-Eleven, go to: http://my.summary.com

Do the Doable

There is one core principle that drives nearly every decision within a successful political campaign: Do the doable. Today, it's about real results. Business is focused on performance now: not buzz, glitz or excuses.

Winning always begins with practical dreaming. A company must have a clearly defined destination in mind. First, define what winning will mean in the broadest, but clearest, possible terms: How is it going to change the future? Define the future in detail. Tell a great story. This is the future that will result if your company, product or service achieves real success over the next three to five years. You need to define the future in the context of your customers' lives, because your success will be achieved *only* if your customers achieve the future you have defined. Microsoft's mission statement in the 1980s is a perfect example of this: "A computer on every desk and in every home." Do the best job of defining the future and you'll have the best chance of controlling it.

Your company's people want to be part of something great. It takes energy and focus to win in markets today. This comes from understanding that you're a part of a big-picture effort that is going to change people's lives. Define goals in a sequence based on order of difficulty — "do the doable" means "win the winnable" first.

Many new and insurgent brands find an opportunity in the seams ignored by the big incumbent brands. Arizona Iced Tea, for example, wanted placement in stores anywhere except on the soft drink aisle. And today, it has ended up with three or four placements — near bottled waters, near bagged teas, near juices, and sometimes off on its own. It even helped to create a "new age" beverage display category in many stores (and immediately started trying to break out of there).

Arizona Iced Tea didn't follow the leaders on packaging, either; it pioneered a 20-ounce can, as opposed to the standard 12-ounce cans and 16-ounce bottles.

Develop a 'Must-Win' Attitude

To get real results, set achievable goals and develop a "must-win" attitude toward reaching them. But to win, do the doable. Winning today requires a clarity and realism superior to that of the market incumbent. Don't even think about objectives that are impossible to reach. Think about success in terms of a set of steps that will lead to a big, but achievable win. List all of the elements of your success as objectives, even if that means listing 10 or 15 objectives for your plan instead of the traditional three or four.

Next, establish your objectives in order of difficulty. Knock off the easiest (most winnable) ones first. By establishing your objectives in order of difficulty, you create "momentum objectives." Winning each one makes the next one easier to win. Creating momentum objectives also preserves your resources for the harder challenges that lie ahead. Generally, political campaigns budget from Election Day backward, realizing that up to 60 percent of the budget will be spent in the campaign's last two weeks.

Today, most brands cannot afford to carpet-bomb their way through the markets. You've got to get much more out of much less. Most businesses adjust to that reality by cutting back on budgets for traditional strategies and tactics. The best way is to establish new strategies and tactics for this new reality. Don't retreat, rethink. ■

For Additional Information on how Patagonia defines its core values, go to: http://my.summary.com

Move the Movable

Don't waste time and energy fighting for votes you can't get. "Move the movable" describes how to develop a better strategy — the objectives are your destination; the strategy is your road map. Developing a move-the-movable strategy starts with defining your movable market targets. In business, the best use of your marketing and sales resources and the best way to move an internal or stakeholder audience is to focus on attitude.

Demographic and psychographic segmentations are useful, but you should impose attitudinal segmentation on top of these definitions. Attitudinal segmentation tells you where to place your resources in order to get the win. It focuses you not only on where to start your success, but also on where to start the momentum that will ensure that success.

Attitudinal Segmentation

An attitudinal segmentation map looks like this:

HO SO UNDECIDED SOS HAS

- **HO = Hard Opposition.** These people hate your candidate, and they'll endure a driving blizzard to vote against that candidate. Write these people off. Battling with them wastes resources and energy, demoralizes yourself and your colleagues, and energizes the enemy.
- **SO = Soft Opposition.** These consumers prefer your competitor's brand. But they're not loyalists. In consumer marketing, the soft opposition often has attractive long-term potential. Note the words "long-term." This is exactly where *not* to start your campaign.
- **Undecided.** Campaigns will do anything in order to move the undecided on Election Day, including buying votes. Because buying votes is not very effective, they must be bought over and over again, which is expensive.
- **SOS = Soft Support.** These are the consumers who like your brand, but don't buy it often enough, don't buy enough of it, or aren't willing to pay a premium for it. Moving the soft support is easier and cheaper than moving the undecided, you don't have to compromise your value system to move soft support, and the movement of soft support to hard support creates true market momentum. Today, the most effective and efficient way to move the undecided is by creating movement of the soft support. There is a tipping point when more and more see, hear and feel more and more demonstrating their choice in the marketplace. When that avalanche happens, you get buried in money.
- **HAS = Hard Support.** Do anything you can to hold the hard support, and do whatever you can to activate them to help you sell more by helping you move the soft support. Hard support can also help you develop strategies that will move soft supporters. Do "loyal voter research" to understand how they define the product and product experience.

Once you understand the product in the minds of your hard support, test their personalized brand positioning among soft supporters. When soft supporters increase their usage of any product or service, the activity has a seismic effect on the marketplace. Do market research to create this attitudinal segmentation among market targets. It can also be done informally, with internal or small client audiences.

How can you develop a strategy that moves soft support to hard support? Remind them constantly of the benefits you provide them and remind them constantly how you do that uniquely. Activate the hard support to recommend your brand to others, and transfer ownership by developing a strategy with soft supporters. Listen and allow those whom you lead to shape your strategy for action. Make it clear how their input has been incorporated into your strategy. Incorporate a "we hear you" message into any change in operations, product, or service/support.

Early Adopters

The first consumers of new products are called "early adopters." Early adopters strongly influence other consumers and lead others to new products through their demonstrated behavior in the marketplace and their word-of-mouth advertising. To hold on to early adopters, maintain and upgrade or refresh the relevant and differentiated benefits that brought them to your product. Develop more effective marketing for them by developing more truly new ideas, and ensure they can find your brand by implementing wide distribution and packaging that stands out among the competition. ■

Don't Buy the Undecided

Price promotion is essentially buying votes. Marketers keep using price promotion because "it works." The problem is, it works for everybody. Unless you can develop the lowest price in the marketplace every day, you don't have real market differentiation. Nobody did or ever will get rich promoting to the undecided.

The low-cost operator — like Southwest in the airline business or Dell in computers — *doesn't have to have the lowest price at any given time*, because it's established its brand as having a low price all the time. On any given day, American or Delta will dive down below Southwest's prices to create a "sale." This buys a day's worth of loyalty. Southwest holds its loyal customer franchise by refusing to play the games the big airlines play with their passengers.

Moving the undecided is imperative. But buying the undecided is stupid.

Play Offense

Consider the clarity an insurgent brings to the marketplace competition by defining itself against a big, bloated, bureaucracy-loving incumbent — against a marketplace "enemy." Even a great company like Microsoft can lose its focus until it finds such an enemy. For example, in 1994, the enemy was Novell. In 1995 and 1996, it was Netscape. In 1997 and 1998, it was Sun. And today, it's Linux and the so-called open systems.

To win, the insurgent must constantly take the battle to the incumbent. The insurgent must play offense. Your people can't play to win if they don't understand the stakes of the game. Define winning in these three ways:

1. **How will winning make customers' lives better?**
2. **What will winning mean for the company and all its stakeholders?**
3. **What will winning mean for each employee?**

One great way to sharpen your definition of success is to find an enemy. Often, the best enemy to define is a problem that innovation will solve: It may be a problem that consumer education will solve; it may be a problem created by a big player's marketplace domination.

Represent Choice and Change

In order to instill an insurgent culture, you must make your brands and your company represent choice and change in the marketplace. Incumbents hate choice and fear change. Your job as an underdog is to destabilize and disrupt. Force choice. Force change. Make everything about your brands represent change and refreshment of the incumbent's marketplace offer. Build your brand around the concept of change and choice in these five key dimensions: active presence, relevant benefits, competitive differentiation, brand credibility, and change imagery.

Creating an insurgent culture depends upon change leadership at the top of the company. Lead by example. Set the example of taking action. Taking action creates leadership differentiation.

The *Washington Post*'s Katherine Graham inherited the undistinguished regional newspaper following the suicide of her husband in 1963. In 1971, CEO Graham faced a critical decision: Should she publish a leaked Defense Department study detailing Vietnam War deceptions, called the Pentagon Papers? Either way, the consequences of her decision might put the entire company at risk.

Graham concluded that *not* printing the Pentagon Papers would contradict the company's very soul and purpose. She published — and started a trajectory that helped transform modern journalism. Soon thereafter, Graham was making tough and correct calls on covering the Watergate scandal and managing a 1976 strike. And the *Post* went on to both a Supreme Court vindication over its decision to publish the Pentagon Papers and to become one of the top 50 IPOs over the past 25 years.

You want to create an action culture — a culture of people who take the initiative and are willing to take responsibility for their decisions. Create an atmosphere that rewards action at every level. Celebrate action even when it doesn't result in success.

Disrupt the Marketplace

As an insurgent, disrupt the marketplace. The insurgent brands in every market's bottom tier create most of the innovative thinking in every category. These days, these insurgents can ride that innovation right to the top.

Most big companies in global markets are constantly preparing to fight the last war — the war of mass marketing. To beat them, never fight on their terms or on their turf. Instead, represent everything they are not; meet their market tactics not with the same, but with the opposite. The incumbent doesn't want to change and will resist changing at almost all costs.

Control the market dialogue and you win the market. Here are three ways in which insurgents drive the marketplace change and control the dialogue:

1. Define yourself. To be fully energized, your entire company system must know not only *what* you believe but *why* you believe it. They must understand *how* you will make decisions and what drives every decision.

2. Define your business. Define your brand and your business with extraordinary efficiency and effectiveness.

3. Define the future. Define the future context and you win the opportunity to control it.

The insurgent always fights the battle on the field and in the minds of the citizenry. Celebrate every win to create a sense of victory. This will motivate the sacrifices necessary for the revolution to succeed. But never, ever declare the war won. Stay connected to your customers by remaining in constant, fluid dialogue with them. ■

Ben & Jerry's Challenges a Rival

Ben & Jerry's challenged the incumbents, such as Häagen-Dazs, head-on in true "David and Goliath" style. Its very first commercial employed a simple jingle that said: "There ain't no Häagen, there ain't no Dazs, but there are two real guys named Ben and Jerry!" Faith Popcorn, the futurist and consultant on consumer trends, best characterized this approach as a "real sell, delivering a real message in a real way." As diehard idealists who refused to compromise, Ben and Jerry vigorously identified themselves as "hippie capitalists," wedded to their values and flaunting them in every manner possible.

Communicate Inside-Out

Throughout the 1980s, IBM literally fell apart from the inside out. The computer giant had a confused mission, an unfocused strategy, lackluster employee attitudes, and an outdated culture — played out in undifferentiated products and strategies in the marketplace. It took Lou Gerstner in the early 1990s to refocus and reenergize its employees from the inside out and reclaim IBM's great success and legacy. To understand the power of Gerstner's inside-out success, consider the view of IBM in the 1980s as a powerless, slothful giant.

Under Gerstner's command, a few hundred employees were fired, and many new "Gerstnerites" were hired. But it was the thousands of long-term IBM employees who turned the company around, by turning around their perceptions of themselves, the company, and their conviction to succeed. They went from the worst to first by creating an insurgent strategy from the inside out.

Three groups are part of the definition of "inside": employees; system partners, including suppliers, distributors, sponsors and investors; and friends and family (i.e., stakeholders). Selling inside-out is more important now than ever. You can no longer expect blind faith and unquestioning commitment.

Energize Your Internal Culture

Energizing your internal culture demands communicating and reinforcing employees' core values — their sense of what the company believes and the values for which your brand stands. This means defining your organization's *conviction* and the larger *context* of why these employees come to work each day, adrenalized about their own success as a part of the organization's success. "Success cultures" create an emotional context and an environment of excitement and open communication. They stand for something far greater than the products they make and the services they provide.

Nike stands for unbending excellence on every playing field; Coke stands for the refreshment of mind, body and spirit in everything it does. Chip Coe's company, Smartwool of Colorado, makes socks and underclothes for skiers and hikers. His people firmly believe their fanatical dedication to quality has a direct relationship to the skier's performance.

Your job as a manager must be to wage the equivalent of an insurgent and ongoing campaign inside your organization to ensure your ultimate success.

Attitudes Create Behavior

Perceptions create attitudes, and attitudes create behavior. So the behavior you need is a result of the right attitudes shaped by the right perceptions.

- **Understanding insiders' perceptions and attitudes will be the foundation for the development of your inside-out strategy.** Turn the microscope around. Define these insiders' most basic perceptions and attitudes. Effective strategy is impossible without this information and analysis.
- **Develop attitudinal segmentation among employee and market partner groups.** This will tell you where to focus your communications for the best effect.

Since you can't win in the marketplace until you win in your own company and system, here are nine keys to inside-out communicating:

1. *You must sell your own employees before you can sell anyone else.*
2. *Assume that your employees are sophisticated and cynical.*
3. *Never tell them; sell them.*
4. *Monitor employees' perceptions and attitudes.*
5. *Overcommunicate key themes and messages.*
6. *Create employee satisfaction the way you create customer satisfaction,* by defining expectations in advance, overdelivering on a key benefit, and reminding them of what you are doing together.
7. *Make sure you can define your business insurgency and market revolution* in a "what we believe" speech.
8. *Remember that tone and style are as important as substance in driving an inside-out strategy.*
9. *Create an insurgent culture within your company.* ■

Forget Reality: Perceptions Rule

Microsoft used to scoff at market research and marketing in general, claiming that product development was simply about making "cool stuff." But, at the same time, the company has always devoted a hefty share of its total resources to its usability labs. These labs focus on how people use software, how they use PCs and other devices, how they work and think about work, how they decide on purchases, and so on. Invariably, Microsoft uses this competitive intelligence to find new ways to get closer to its end users and to these consumers' needs and wants.

Listen

Without listening, dialogue is impossible. Without constant, perceptive market research, effective strategy formation is impossible. Perceptions and attitudes are changing faster and faster. The only choice in this environment is constant dialogue: the market conversation.

Research is often the best way to get into this dialogue. Research, particularly qualitative research, can be done informally as well as formally — just start asking questions and listen to the answers. This is where the best CEOs not only begin thinking about their future

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Forget Reality: Perceptions Rule

(continued from page 6)

business challenges, but also monitor progress and learn about perceptual dangers and opportunities.

The key to research is to ask the right questions — to develop points of inquiry that penetrate most deeply and attract and inspire the most relevant and useful answers.

Great research begins with great questions, including: What surrounds your customers' world? How do they see the future? What do they dream about? What's in their hearts? Where is their pain? What's relevant and different? Are they movable? How can you overdeliver on their expectations? How can you best define yourself? How can you control the dialogue in your favor?

To answer these questions, you can't simply rely on analyzing consumer behavioral data from the market or polling for current opinions. These techniques give you a clear picture of what was, but not of what will be.

Customers' Perceptions

Today, your business should use *presearch* to dig deeply and pragmatically into customer perceptions of the future. Presearch is a powerful tool to help identify the most compelling and relevant set of customer strategies, themes and messages into the next market.

Presearch can be conducted qualitatively or quantitatively. Qualitative focus groups are particularly powerful in helping us understand the way in which new information moves a collective psychology, together, in discussion. Qualitative in-depth interviews, with their one-on-one focus, are among the most helpful research methodologies to establish initial strategic assumptions that can be tested through quantitative research.

In order to find out what today's customers want, start with five critical perceptual axes along which a company, product or brand must position itself to gain marketplace momentum. These five axes are:

1. Control. People want to regain control of their time, finances, kids' education, families' safety, and health care.

2. Customization. Customization lets people feel that companies care about their own needs, wants and dreams.

3. Convenience. Time-pressed consumers don't just appreciate convenience: They demand it.

4. Choice. Providing choice within an existing brand family isn't easy, but it's totally necessary.

5. Change. When customers reward a product or service with their loyalty, it's because that brand makes constant change and refreshment part of its value proposition.

Remember, pigs fly — as long as your customers believe they do. It's their party. And we get into it only at their invitation. Be careful with that relationship and respectful of customers' views. ■

Rebels With a Cause

Ten candidates have identified themselves as having a passion for playing offense, for controlling the dialogue, for riding ahead of the forces of change, and for taking advantage of nontraditional marketing strategies and communications tactics. These companies are:

- ✓ Ben & Jerry's
- ✓ Google
- ✓ Jet Blue
- ✓ Krispy Kreme Donuts
- ✓ Linux
- ✓ MobileOne Singapore
- ✓ Nokia
- ✓ Patagonia
- ✓ Red Bull
- ✓ Starbucks

Herd the Details: Remember, Everything Communicates

Everything that you say and do is important in defining the value of your brand and the success of your company. True market insurgents pay attention to the details because, quite often, that's all they have to control. They agonize over the fine print on the back of the label. They put messages about quality on the inside of their bottle caps. They swarm all over customers in their showrooms. Most of all, they worry about the product — its quality and its integrity.

Ray Kroc's Philosophy

McDonald's founder Ray Kroc was a famous stickler for nanodetails. His motto for the level of operational discipline he expected from owner/operators was, "Clean the corners. The middle will take care of itself." That's why Kroc insisted that his franchisees be actively involved in their businesses: "You cannot buy a McDonald's restaurant as an investment; it's your main business or it's not your business."

Even today, the average franchisee in the sprawling McDonald's system operates just three stores. And today's "back to basics" management under Mike Roberts will still drum an owner/operator out of business for running a sloppy restaurant. Kroc instilled fanatical attention and an "everything communicates" microscopic focus on everything within the property lines, from the front counter to the far reaches of the property. He understood how important the little things are to customers, particularly at a restaurant.

Details need direction. It's not enough to tell your people to care about the little things. You must tell your people exactly what the details should be communicating. The most effective way to create a discipline for controlling the details of your company and brand is to form everything around one core communications strategy. Your company's core message must define who you are

(continued on page 8)

Herd the Details: Remember, Everything Communicates

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in terms of the relevant and differentiated benefits that you provide for all constituents. It should also provide some reasons why the relevant benefits should be believed. Your core communications strategy tells your people what's important.

Hub-and-Spoke Relationship

Your company's core communications strategy should connect to every other strategy in a hub-and-spoke relationship. Do an "everything communicates" audit of your company and your brands. Include everything that your customer might come into contact with. Start inside your own company and work outward toward the marketplace and then to usage and customer support. Try to include in the audit every word and image, from first impressions to relationship management. Ask of every single thing in this audit, "What does this communicate?" Then ask, "How can we make it better communicate our core message?"

Every aspect of your company should add value. That's why everything is marketing. Everything that you do and say is either selling or unselling your value. That's why the everything-communicates audit is so important — because the details can unsell just as surely and effectively as the broad strokes can.

You must develop a strategy and a tactical discipline to express the brand in every possible detail — in everything you do and say, in everything and everybody that has anything to do with the brand. ■

Deal With Crisis as SOP

Stew Leonard, Jr., who runs the famous Stew Leonard's Dairy Stores in Connecticut, treats every instance of customer dissatisfaction as a crisis — and has created a model for dealing with crisis on any scale. When a customer brings a half-gallon of milk back to the store saying that it smells funny, the employee who opens it up to smell it is putting his or her job on the line. "No questions asked" is the policy, and Stew Junior enforces it strictly.

At Stew Junior's, the employee takes the milk back immediately and, importantly, doesn't just provide a replacement half-gallon in return. Instead, it's up to the employee to be creative and "oversolve" the customer's problem. For example, the employee may give the customer a half-gallon of ice cream to go along with the milk. This "crisis response" is considered everyday modus operandi at Stew Leonard's.

Don't manage a crisis: Solve the crisis. Tell the truth. Tell it all. Tell it fast. Create an organization that deals with crisis as standard operating procedure.

Train for Every Possibility

Train for crises the way airline pilots do at Flight Safety. Train for every possibility. Develop scenarios that define the worst that can happen. And develop checklists of actions to take. Not only will this help you solve crises, it will also make your everyday actions and communications sharper.

Here is an example of a crisis checklist:

1. Solve the next crisis before it happens. Assume that what can go wrong will go wrong — sometime. Create a core strategy group consisting of your executive team plus product experts, market researchers, corporate counsel, and communications managers. Create the mindset: *You will not just survive the next crisis, you're going to turn it to your advantage.*

2. Count to 10 — but not to 11. Stop, breathe, think and act. Step back, remain cool, think and work out solutions. That keeps the whole organization cool and collected. And that can keep you in business.

3. Segment your target constituents. Find out who must be moved and who can be moved. Define the hard opposition, soft opposition, undecided, soft support and hard support. Pay particular attention to the soft support. It's vitally important to activate them to support you.

4. Form a core communications strategy. Drill down to the details — remember, everything communicates. In a crisis, it's the details that communicate most vividly because of the increased scrutiny. If you try to manage a crisis without a strategy, you'll be in constant defensive mode — which is where you don't want to be.

5. Get control of the dialogue. Get control of the dialogue in a crisis at the very beginning. Tell the truth: Define what you know, when you knew it, and what you're doing about it. Only the truth solves crises. If there's heat, take it sooner rather than get fried later.

Start at the Core

6. Communicate inside-out. Start at the core of the crisis and focus first on your internal audiences. After all, they're the ones who are most directly and profoundly affected by a crisis. Get this right and nothing else matters. Get it wrong and your operations freeze up.

7. Play offense. No attack should go without response. Correct every single inaccuracy quickly. Speak clearly, speak simply, and let your actions communicate as often as possible.

8. Develop strategy for the "other side" of the crisis. Winners plan, and only planners win. Develop a strategy for what you'll do when you win.

9. Keep in touch with reality. Keep a sense of dialogue with your key audiences. Make attitudinal research a launching pad for your actions. ■

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The Way we're working Isnt Working.qxd

Tony Schwartz

SOUNDVIEW Featured Book Review
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Make the Move to Better Energy Management

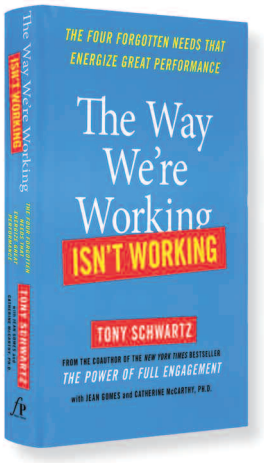
Review by Chris Lauer

THE WAY WE'RE WORKING ISN'T WORKING

by Tony Schwartz with Jean Gomes and Catherine McCarthy, Ph.D.

© 2010, Free Press, 334 pages, $28.00, ISBN 978-1-4391-2766-7

In a world where overtime work is often mandatory and keeping a job often means sacrificing personal time for a professional career, it's easy to wonder whether all of that extra work truly adds up to a better life. Does putting in all of that extra energy on the job move us any closer to our goals, or is it just leading us to less satisfaction and an early grave? In *The Way We're Working Isn't Working,* author Tony Schwartz and two of his colleagues from the consulting firm, The Energy Project, examine the performance problems every leader, manager and employee faces in the working world, and offer a multitude of helpful suggestions for getting more from our time and energy.



Schwartz knows much about the link between energy and performance because he has been studying and writing about how people do their best work for the past 30 years. His books on the subject include *The Power of Full Engagement*, the best-seller that he co-authored with sports psychologist and business consultant Jim Loehr, and *What Really Matters: Searching for Wisdom in America.*

The Energy Project

Today, Schwartz is president and CEO of The Energy Project, a consultancy that helps people and organizations find ways to improve their energy, engagement, focus and productivity through the science of high performance. He is also a successful executive coach to dozens of corporate CEOs and senior leaders.

Schwartz and the chief operating officer at The Energy Project, Dr. Catherine McCarthy, were pivotal in moving the organizational world away from the concepts of time management and into the realm of "energy management" in October 2007 when their article "Manage Energy Not Time: The Science of Stamina," was published in the *Harvard Business Review.* In that article, Schwartz and McCarthy describe how The Energy Project helped three Fortune 100 companies and their leaders improve engagement and performance in their organizations.

The other co-author of *The Way We're Working Isn't Working* is consultant and executive coach Jean Gomes, who is senior vice president of The Energy Project and chairman of The Energy Project Europe. His work with Sony and The Energy Project is one of the subjects of that 2007 *Harvard Business Review* article.

Uncovering the Path to Success

In their work as consultants and in their book, the authors offer advice that can help anyone become happier and more productive, as people, employees, team members and leaders. Their words of wisdom describe a path to personal and professional success. But that success goes beyond short-term rewards. It's a sustainable, long-term success that continues even when we're not struggling so hard to get it. The reason their advice moves us from mere daily successes to a more durable, long-haul success is because it focuses on creating positive and permanent habits that lead to healthier and happier lives.

According to Schwartz and his colleagues at The Energy Project — as well as a multitude of researchers, business leaders, psychologists and other experts in a variety of fields — enduring personal and professional success comes from a clear focus on the four sides of energy expenditure and renewal, which extend from four innate needs that we each must address.

Focusing on Energy

Schwartz writes that these needs are really "energy" needs: physical, emotional, mental and spiritual. He adds: "By moving rhythmically between activity and renewal in each of these four dimensions, we fulfill our corresponding needs: sustainability, security, self-expression and significance. In the process, we build our capacity to generate more and more value over time."

> **… the latest science shows that quiet time, meditation, daydreaming and rest breaks improve the work we do when we return to active mode.**

Satisfying these four needs — needs that rise above a simple survival mode in which we are merely meeting our material needs and desires — means that we are creating value and enjoying the powerful benefits that result from it. These benefits define the success we seek, and they include the goals all people and organizations strive to achieve: engagement, positive energy, focus, creativity, innovation, productivity, satisfaction, passion and performance. In *The Way We're Working Isn't Working*, Schwartz and his co-authors offer a powerful system for maintaining the energy we need to regularly create all of these important aspects of a healthy individual and organization.

Real Fitness Goes Beyond Exercise and Diet

The sustainable success that Schwartz describes begins with taking better care of our physical bodies. On the most basic level, when we create healthy practices in our daily lives, we are more fit and ready to face the world at the peak of our abilities. He explains that real fitness goes beyond physical exercise and eating right, although those are both vital to maintaining high energy levels. Regular times for relaxing and renewing ourselves also play an important role in high performance.

Schwartz offers dozens of studies to show that when we set aside time to take care of our bodies through regular action and renewal, we are better prepared to create value. With this in mind, he points out that businesses that take the latest research seriously can improve their own performance by developing business practices that take the energy needs of their people more seriously. This includes creating corporate policies that give people time to exercise during the day for active energy renewal or encouraging regular rest breaks for passive renewal.

Every day, new research appears that backs up Schwartz's claim that time to relax helps us perform. For example, in the June 7, 2010, issue of *Newsweek*, reporter Sharon Begley supports the idea that relaxing and making time for energy renewal can actually improve how people's brains function when they get back to work. In her article "The Hidden Brain: What Scientists Can Learn From 'Nothing'," she writes that the brain's relaxed mode serves many important functions that help it perform better when it gets back into gear. She quotes neuroscientist Alvaro Pascual-Leone, who points out that the brain's resting state prepares it for future challenges. "The resting activity seems to create images about what to expect from the outside world," Pascual-Leone explains, so we can be better prepared for challenges when our busy lives resume. In other words, the latest science shows that quiet time, meditation, daydreaming and rest breaks improve the work we do when we return to active mode.

Our Need to Feel Successful

The second core need that Schwartz discusses in *The Way We're Working Isn't Working* is our need for security, which reflects our emotional satisfaction. When we feel appreciated and cared for, and we feel that others value us for who we are and what we do, then we feel emotionally successful.

The other two core needs that must be kept in mind when we are trying to feel successful are the need for self-expression and the need for significance. Self-expression, which means we feel free to express our individual talents and skills, is a need of the mind. Significance, on the other hand, is the spiritual need for a sense of meaning, in work and life. When we feel that we are doing work we believe in or stand for, we feel spiritually satisfied and successful.

When we are meeting all four of our energy needs — physical, mental, emotional and spiritual — we are working and living at our best. Throughout the book, Schwartz presents the skills and tools that can help anyone get closer to meeting all four of these needs. He also describes how organizations can encourage and support their people in meeting these needs so they can perform at their best, creating more value for their people, the organization and their customers.

Creating Rituals

An important aspect of the book is that its advice is based on sound evidence from a variety of fields, includ-

ing nutrition, cognition, strength training and brain science. By bringing many results from the latest research together into a single program of sustainable energy creation, it offers a complete guide to creating the essential habits — or rituals — that can help us maintain the professional and personal success we seek.

Schwartz explains that the four keys to physical sustainability are nutrition, fitness, sleep and rest. Each of these forms of active and passive renewal is essential to the physical energy that we need to become more successful. The main point that he makes when discussing this energy need is that improved performance depends on creating better habits that allow us to move rhythmically between periods of action and rest.

> … the four keys to physical sustainability are nutrition, fitness, sleep and rest.

Anyone with even the most basic grip on his or her physical needs can understand this lesson almost intuitively: We do great work, we rest; we do great work again because we are refreshed. But Schwartz goes the next step by citing valuable new research that shows how truly important that resting period is to high performance.

Sustaining High Performance

For example, one study done by Florida State University Professor Anders Ericsson shows how important regular rest was to the highest performers in a group of young violinists at the Music Academy of Berlin. Divided into three groups based on their performance levels, the violinists demonstrated not only that practice was vitally important to their sustained high performance, but also that regular and prolonged sleep was "the second most important activity when it came to improving as violinists," Schwartz writes. He explains that the best violinists slept almost an hour longer than those in the lowest performing group. Considering that the average American sleeps only 6.5 hours each night, this study suggests that regular periods of renewal are an integral part of the high-performance equation. In addition, Ericsson's research also shows that the top two groups of violinists also took more naps than the lowest-rated group. The best musicians napped for about three hours each week while the lowest performing group napped for a total of less than an hour each week.

Another fascinating discovery that this study and others found was that deliberate practice should also be limited for the best results. Basically, we can operate for about 90 minutes at our peak of performance. Then we need to take a break. Four hours of practice, broken into 90-minute periods, is pretty much the maximum time that the best performers practice. If they go longer than that, they get exhausted. Organizational leaders can benefit by keeping this information in mind when they are creating guidelines for their people. Encouraging regular rest breaks for mental and physical renewal after long periods of extended work can help people recuperate so they can return to peak performance again.

One tip that Schwartz offers that can help anyone maintain optimal performance is to eat more energy-rich foods, and eat them more frequently. He explains that eating good foods — including lean proteins and complex carbohydrates rather than junk foods that are filled with caffeine, sugar and simple carbohydrates — in moderation at least every three hours is a great way to keep blood sugar and energy levels stable.

Boost Your Emotional Energy

Beyond mere survival needs and physical needs, our emotional needs and sense of security must be met to be able to perform at our best. When we feel devalued, Schwartz explains, we become distracted by fear and our energy dramatically drops. When these things happen, our creativity and productivity are at their lowest. A better way to raise our emotional energy level is to cycle between what Schwartz calls our "Performance Zone," where we feel calm, optimistic, challenged, engaged and invigorated, and our "Renewal Zone," where we feel carefree, peaceful, mellow and receptive.

Employers and other leaders can help their people move more effectively between these two zones by helping them feel more appreciated at work, Schwartz writes. One way to do this is by putting more focused and conscious attention toward showing people that they are appreciated. According to the Gallup Organization, employee retention, productivity and engagement are directly linked to the relationships their workers have with their direct superiors. Employers who give their people regular recognition or praise for doing good work create better performers. When employees feel that someone at work cares about them or encourages their development, they feel more emotionally connected to their work. When we feel more connected, we become more successful at work.

The Ability to Focus

At the mental level, we all have a core need for self-expression, Schwartz writes, which involves where we place our attention and how well we focus. The best performers fluctuate between a precise, tactical focus that is logical, analytical and methodical, and a big-picture focus that is more intuitive, imaginative and open-ended. The most successful people, studies show, move fluidly

between times of narrow concentration and wide focus.

Schwartz points out that Google has put this kind of research into action by encouraging its engineers to set aside up to 20 percent of their time to work on projects that they choose, so they can do the creative thinking necessary to reach longer-term goals, beyond daily work responsibilities.

When employees have more control over where and how they focus their attention, Schwartz explains, and they are better able to make purposeful decisions about where they put their attention and for how long, they are better able to develop their capacity to focus on their work.

Finding Significance in Work

And finally, the need for significance represents the spiritual energy quarter of the four-part program that Schwartz and his colleagues from The Energy Project define throughout *The Way We're Working Isn't Working*. We all need to have deeper meaning in our lives, which is made up of deeply held beliefs and values as well as a clearly defined sense of purpose. Since our beliefs, values and purpose are best expressed through our actions, we demonstrate our significance through our behaviors and renew them by "nurturing our awareness of what we stand for," Schwartz writes. To tap into the power of our spiritual energies, we must learn to rhythmically move between exercising our most significant behaviors and nurturing our best values. Passion, perseverance and focus are born from the rituals we create around our fluctuation between these two sides of our spiritual energy.

How do you nurture your spiritual energy? That's for you to decide, since it is such a personal part of who you are. Schwartz writes that serving others should be balanced by taking time to renew ourselves, otherwise we could face "compassion fatigue" which can leave us depressed or burned out.

One company that acknowledges the need for significance in the lives of its people is Zappos.com, Schwartz writes. Leaders at Zappos encourage their people to make real connections with customers to build stronger relationships with them. They have found that this type of genuine connection helps to make their customer service representatives proud to work for the company. Enduring relationships help employees find significance in their work. This significance, in turn, helps them provide an exceptional experience to the company's customers.

Gateway to Competitive Advantage

What happens when an organization recognizes the physical, emotional, mental and spiritual needs of its people? The short answer is competitive advantage, as the many case studies, examples and research results explored throughout *The Way We're Working Isn't Working* demonstrate. But the longer answer goes deeper than a simple business benefit. Along with the measurable benefits that can be achieved by recognizing people's four energy needs, and by shifting organizational policies to accommodate those needs, there are even greater advancements that can be made when the advice offered in this book is applied. One is greater organizational resilience as external and internal changes increase every day. Another benefit is more effective employees who are more satisfied on and off the job.

Along with improvements in employee morale, productivity, engagement, job satisfaction, retention and performance that result when employers tap into the results of the latest studies that focus on people's energy needs, there is something else that both employees and their organizations can gain when people's needs to regularly expend and renew their energy are formally and informally acknowledged by their employers. The most important benefit that everyone can enjoy when new systems and rituals are put in place that recognize the value of balancing intense effort with regular, restful renewal, is a greater sense of personal and professional success. ●

The authors: Tony Schwartz is the founder, president and CEO of The Energy Project, which helps individuals and organizations harness the science of high performance to fuel energy, engagement, focus and productivity. He co-authored the best-seller *The Power of Full Engagement* with Jim Loehr and has written three other books.

Jean Gomes is senior vice president of The Energy Project and chairman of The Energy Project Europe. Catherine McCarthy is chief operating officer of The Energy Project.

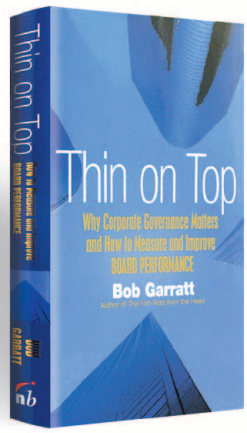
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Thin on Top

Bob Garratt

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By Bob Garratt

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THIN ON TOP

THE SUMMARY IN BRIEF

Corporate boards of directors have seen better days. The roles played by corporate boards and the people who direct them are misunderstood by stakeholders, employees and the general public. Many see boards as ineffective groups of former top executives who have settled into retirement and attend board meetings now and then to keep busy.

But "corporate governance" has become an important topic in the executive suite. Given the high-level scandals of recent years, companies are concerned that corporate boards not only make decisions that improve a company's profitability, but that they conduct their activities in an organized, efficient and ethical manner.

In Thin on Top, *Bob Garratt discusses the current condition of corporate boards, dispels troublesome myths and gives step-by-step recommendations on how to help board members and directors learn, develop and perform.*

What You'll Learn In This Summary

✓ **There is a difference between managing and directing an organization** — Effective board directors must create strategic direction for an organization, not just manage day-to-day operations.

✓ **To be effective, board directors must understand their roles** — The director is the "boss of the board" charged with steering it to wise decisions about moving the company forward while maintaining control.

✓ **The ten universally applicable "directorial duties"** — These duties are guidelines for directors that form a useful basis for improving corporate governance.

✓ **Why corporate boards fail** — Many directors let ignorance of their roles or personal and group cowardice create conditions in which negative things happen.

✓ **How to develop an effective board** — Continuous training, learning and evaluation are the keys to improving a board's performance.

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The Future of Corporate Boards

There are basic differences between managing and directing an organization, and most of today's corporate board directors are actually glorified managers. There is a crisis in corporate governance in both the public and private sectors that is a complex mixture of board directors' ignorance, strategic incompetence and greed.

A key to resolving this crisis is to induct, train and evaluate directors as true professionals. Unless a systematic upgrading of directorial competence and board performance takes place, our corporate and economic systems will sharply decline.

The crisis in corporate governance exists because the roles and responsibilities of corporate boards are not understood by politicians, business executives or the general public. As a result, public confidence in corporations and the people who run them is at an all-time low. Developing effective corporate governance and board performance is essential to solving this problem.

We must install a system for selecting board directors and training, developing, evaluating and regulating them, which will bring the type of rigor to the boardroom table that is usually found at other levels of the business. In other words, we must learn how to measure and reward directorial — apart from executive — competence.

It's wrong to assume that friends of the CEO or distinguished executives from other companies will automatically become effective board directors. Experience is required, but not sufficient, for a place at the boardroom table. Only distinct directorial skills will do, and these skills are difficult for many existing and aspiring board members to obtain.

It's no secret that most board directors aren't fully competent. Most can't distinguish between managing a business and directing one, and their success has come from being effective managers, not from giving strategic direction. Most board directors are given that role late in their careers, and it doesn't occur to many of them that they must be trained to become a competent board director. ■

The Crisis of Corporate Governance

Corporate governance is the activities, processes and values of the people and board structures that must cope with the rapidly changing demands of shareholders and stockholders.

Many businesses haven't made the connection between the demands of shareholders and those of stakeholders. Stakeholders are individuals and groups who have the power to sanction board actions. If anything, boards have turned their backs on both shareholders and stakeholders and have created inappropriate reward systems for executives. We have over-praised "celebrity chief executives" and over-rewarded the clever maneuvering of financial professionals.

It's time to return to basics, to remember what companies are for, to manage businesses correctly and create value. We must reaffirm and rigorously apply rules on the roles, tasks, duties and liabilities of boards of directors. Diligently enforcing these rules will prevent most of the "directorial disasters" we read about in our newspapers every day.

Myths of Corporate Governance

The following are three powerful, widely held organizational myths that are obstacles to effective corporate governance:

1. The myth of the all-powerful chief executive.

Many chief executives believe they "own" the organization that employs them and have total freedom to do whatever they want with it. This is not true. CEOs aren't "free agents"—they're directly accountable to the board

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The author: Bob Garratt is Chairman of the board of Board Performance, a consultancy that specializes in director development and strategic thinking.

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The Crisis of Corporate Governance

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of directors and, ultimately, to the shareholders. CEOs must use care and sound judgment in their work, and nurture and develop the company for future generations.

2. The myth that a director's primary duty is to the shareholders.

The second major myth of corporate governance is that the main responsibility of a director is to the shareholders. This is not the case. In most societies with a developed system of commercial law—including the US and UK—the moment a director is appointed to a board, his or her main loyalty switches from those who appointed them to the company itself.

3. The myth of executive and non-executive/independent directors.

The third myth is that there are two types of directors, executive and non-executive. This is not true. In case-law countries the only term used is director, and even then much of the description of the director's role is found in the Insolvency Acts rather than company law. The key assumption is that the board acts together as a group of equals around the boardroom table, driving the enterprise forward while keeping it under control. ■

For Additional Information on the myths of corporate governance in the U.S., go to: http://my.summary.com

Back to Basics: Reasserting The Superiority of the Board

Directors who are unaware of their role, rights, duties and tasks cause abuse of the direction-giving process around the boardroom table. This usually leads to under-performance by both the board and the business.

A main problem of ineffective board directors and boards is a misunderstanding of the roles and tasks of the CEO. A chief executive is not a full member of the board but reports to it. Though CEOs often behave as if they own the corporation, they do not. Most of today's problems with corporate governance are caused by this incorrect assumption.

A true chief executive reports to a board, debates with it, takes instructions from it, but is not a voting part of it. The title Chief Executive Officer illustrates that this is the head of the executive function—the operational side of the organization—not of the board.

How Chief Executives Take Unlimited Power

Given many board directors' lack of legal and practical knowledge, it's easy to see how we have reached the point at which shareholders and stakeholders are demanding much higher levels of competence from directors. But instead of relying on boards, most companies still rely on a powerful chief executive to get things done. Those CEOs usually have the power to "bet the business" with very little input or criticism from the board.

There are four main reasons for this over-reliance on a powerful CEO:

1. Most people chosen to become board directors have little or no knowledge about board roles, tasks and liabilities.

In 1992 the Institute of Directors in London surveyed its members and found that less that eight percent of the directors had even one day's training in being a director. Internationally, that figure was even less than eight percent. By 2001, the number of directors who had been trained for the role had increased to only 15 percent.

These percentages make a very disturbing comment about the global condition of effective corporate governance. There seems to be a general acceptance of the fact that one of the most important jobs in an organization—directing the board and its future—is given virtually no training.

2. After a successful managerial or professional career, many board directors don't want to "rock the boat" by asking probing questions of a powerful CEO.

If directors are for the most part ignorant of their roles and tasks, they don't want to make this known, even within the board. As a result, such directors are more likely to ask questions that relate only to their previous discipline and avoiding any position that might put them in an embarrassing spotlight.

3. A misperception by the public that the chief executive's role is not only important in itself but symbolic of the cultural philosophy of the company.

Chief executives may be no more competent than any other board member, but they are assumed by most, inside and outside the corporation, to have absolute competence and are granted absolute power.

One reason is that with weak board directors and chairmen, criticizing the CEO or managing director is often viewed as beyond the board's authority.

Also, since the board chairman is not the boss of the company and its day-to-day affairs, the chairman is viewed as less important to the company's welfare then the CEO. In addition, most people view the corporate board as an amusing, useless anachronism. Finally, the media and the general public tend to emphasize the chief executive role, rather than the board, as the leadership of a company.

4. Shareholders, trustees and the general public have no knowledge of the board's true roles and tasks.

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Back to Basics: Reasserting The Superiority of the Board

(continued from page 3)

Educating shareholders and the general public on what boards should be doing is key. But there is still a ways to go. For example, corporate governance is not a serious part of any MBA program.

In the end, boards of directors will re-establish their credibility only by recapturing their role of properly giving direction and providing control. To do this effectively, the chief executive role must be moderated and the board director's role enhanced in the minds of all players. ■

The Ten Directorial Duties: Back to Basics

The ten duties of a board director are designed to be universally applicable. They're a useful basis for developing improved corporate governance. They ask a board and its director to behave within the legal and ethical bounds of:

1. The duty of legitimacy.

It is essential for a board and its director to stay within national and international law. Many directors find themselves, usually through a lack of knowledge of their role, ignorant of the ways they can be held corporately and personally liable.

2. The duty of upholding the three values of accountability, honesty and openness to stakeholders.

Accountability to the owners. The owners' appointment of a board of directors is based on the assumption that the directors will be fully accountable, corporately and individually, for their actions on behalf of those owners.

Honesty in dealing with the board and stakeholders outside it. Honest dealing is the key to board competence and prevents board corruption, including the abuse of power and privilege. It is based on mutual trust and having confidence in your colleagues.

Opening the decision-making process to the owners of the company. Many directors, especially new ones, are horrified by the lack of rigor in their board's decision-making processes. Shareholders should be aware that there is an agreed and transparent process by which decisions are made by the board.

3. The duty of trust.

Board directors have their company entrusted to them for the future. But in these turbulent times, that duty conflicts with the desire of some shareholders to take their money quickly and run. While the owners of the business have the right to overrule the directors at a general meeting, it's unclear how courts would rule if the directors show that shareholders' demands could threaten the future of the business.

4. The duty of upholding the primary loyalty of a director.

From the moment a person is elected as director, their primary loyalty must be to the company as a legal entity, rather than to those who appointed them. Directing is

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The Legal Foundation of Boards

Let's go back to basics again, specifically to the legal basis for the theory and structure of boards.

By the mid-nineteenth century, the original, closely held ownership of companies couldn't direct or control increasingly complex businesses. Managers were now employed as agents of the owners to interact with both customers and the workforce.

But as businesses expanded further, so did the need for capital. With the original owners often unable to supply it, the search for capital spread wider. As the original ownership became diluted, legislation in the form of company law was needed to regulate the relationship between the managers and the more distant owners.

In 1776, Adam Smith was concerned that in the long run, centuries before the anti-globalization movement, the new corporations could gain the power to destabilize society through:

- ✓ **Unlimited life**
- ✓ **Unlimited size**
- ✓ **Unlimited power**
- ✓ **Unlimited license**

Smith argued that corporations could potentially become a force for harm as well as good. He realized that those companies would need effective regulation inside, through a controlling group elected by the owners, and outside, through the legislators.

Smith's second and equally radical idea was the development of a board of directors made up of "merchant adventurers." The concept of a board of directors under a governor developed with the formation of the East India Company in 1600. This company was based on the novel assumption that previously autonomous merchant adventurers would do better to pool their funds and become owners of a "joint stock" company. It was only after the mid-eighteenth century that the idea of the company itself having a separate legal personality and limited liability was accepted. This paved the way for boards of directors becoming more common.

The Ten Directorial Duties: Back to Basics

(continued from page 4)

all about exercising judgment, corporately and individually, and this issue is always a contentious one.

5. The duty of care.

Directors must perform their roles and tasks competently. They must be careful in what they do and how they do it, and ensure that what they decide is for the benefit of the company, not themselves.

It's essential that directors know what they should be doing and are evaluated on the results.

6. The duty of critical review and independent thought.

The responsibilities of a board director can seem intimidating to a new—or incompetent—director. Every director must be sufficiently self-aware and mature enough to make their own judgment on the best direction for the health of the company.

7. The duty of delivering the primary roles and tasks of the board.

The roles of the board can be described as four intertwined dilemmas. 1) Driving the enterprise forward while keeping it under control; 2) Knowing the day-to-day workings of the business while developing a longer-term overview of developments outside the business; 3) Balancing short-term, local demands with broader regional, national and international trends; and 4) Focusing on the commercial needs of the business while acting responsibly toward other stakeholders in your society.

8. The duty of protecting minority owners' interests.

This is another aspect of honest dealing. In most developed economies this is not a major issue because regulators are making it more difficult for minority shareholders to be treated poorly. But in countries where the rule of commercial law is weak, minority shareholders are not given enough respect.

9. The duty of corporate social responsibility.

On this issue, it's easy to take an extreme position and much more difficult to take a moderate, balanced one. But that is what any board must do if its enterprise is to survive. Corporate social responsibility must be built into directors' business calculations.

10. The duty of learning, developing and communicating.

Too many directors still assume that the reward of a directorship is the acknowledgement of a long and successful executive career, not the beginning of a new one. They assume they don't have to learn anything new. But accepting a directorship is the start of a new and challenging career. It requires a systematic retraining to break away from the old professional behavior and acquire an approach that emphasizes policy-making and strategic thinking. ■

The Triple Bottom Line

After an unfortunate series of events at one of its oil rigs caused bad publicity, political damage and potentially negative long-term economic effects, Royal Dutch/Shell Group learned that its "science and reason only" approach to corporate issues didn't work in a customer-oriented society. The company recognized that, as a major international investor and employer, it must play a positive role in both economic and social development through its choice of investments and corporate behavior. Shell set out to reposition itself and its reputation by accepting its corporate social responsibility. It developed the concept of the "triple bottom line"—it now strives to reach established goals in three essential areas:

- ✓ **Financial performance**
- ✓ **Physical environmental performance**
- ✓ **Corporate social responsibility performance**

Why Boards Fail: Power and Corruption on the Board

A common public perception of corporate boards is that they're always up to some form of corruption or another. In reality, that's the exception, not the rule. But many directors let ignorance of their roles or personal and group cowardice create conditions in which bad things happen.

A fundamental building block for any board is trust: trusting each other and being trusted by the owners and stakeholders. Trust is defined most simply as "having confidence" in oneself and in others. Directors need to know that once a decision is made, the other directors will stay committed to it outside the boardroom and be comfortable living with the consequences. A lack of trust, especially when big egos are involved, usually causes great uncertainty and diverts the board's attention from their primary duties.

The Abuse of Board Power

For the last two decades, the media have been intensifying their campaigns against incompetent, corrupt businesspeople. But these attacks have been general in nature. To achieve focus, we must consider specifically the abuse

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Why Boards Fail: Power and Corruption On the Board

(continued from page 5)

of power by the managing director or CEO, especially around the boardroom table. Its debilitating effect on board performance has rarely been examined in detail.

The ideals behind the three values of corporate governance best practice — accountability, probity and transparency — are rooted firmly in the notion that people with an official position in the private, public, or not-for-profit sectors should not abuse their office. They should be paid sufficiently to do their job well without the temptation of bribery or greed, or the need to exploit their position to support their families or friends.

The Shadow Side of Boards

At what point does the interaction around the boardroom table stop being legitimate discussion and turn into bullying, harassment, discrimination and the abuse of power? That point has been reached when a director and/or board members feel they can't fulfill their roles and are becoming depressed, have low morale, don't participate and show signs of absenteeism, sickness, self-censorship and under-performance.

A great deal of such abuse comes not from one powerful person, but from collusion, implicit or explicit, among board members to avoid dealing with differences between the members and to maintaining the status quo regardless of the negative impact on the company.

The Chairman's Neutral Role

All boards are political. It's human nature that a group of people with big egos is going to be very competitive. This is where the psychological aspects of boardroom abuse come into play. This will ultimately spell disaster for any board because the members' psychological energies are focused on fighting interpersonal battles rather than on developing imaginative, practical strategies.

The interplay of the powerful personalities around a boardroom table will always need careful handling. This is the chairman's job, and it's a demanding one. While powerful personalities often enjoy controlling others, they do not enjoy being controlled themselves.

The chairman is technically neutral and must declare his interest in the issues under discussion. Very basic training in the processes of chairing a board will allow a chairman to umpire a board in a neutral manner. When his interests are in conflict, he must relinquish the chair, letting a director who is neutral on that subject chair the meeting.

Professionalizing Board Performance

Originally, boards were designed to ensure proper auditing and development of a company's purpose, vision, values and performance. These needs must continuously be monitored and developed for any board to be effective.

Training and coaching directors to competence — giving them directorial knowledge, skills, and attitudes — then celebrating the diversity around the boardroom table is essential. Only then can the true power of a board be released. Working in such a group should be an enjoyable experience. After all, the word "company" derives from the Latin *companio*, which means an association of people coming together in trust to break bread. ■

Directorial Dashboards: The New Board Metrics

On most boards there has been an over-reliance on management numbers. But directors are not managers. They must keep their eyes on a different pattern of figures, so they need a *directorial dashboard* to help them oversee total business performance.

If boards use only the balance sheet, profit and loss account, and management accounts, they tend to be seduced into micro-managing and cost-cutting rather than generating revenue.

Directorial Dashboards

Directorial dashboards measure the performance of both the board and the total business. The approach is to develop systems that clearly reveal the performance of the company and its subsidiaries in such a way that the board can monitor and understand trends.

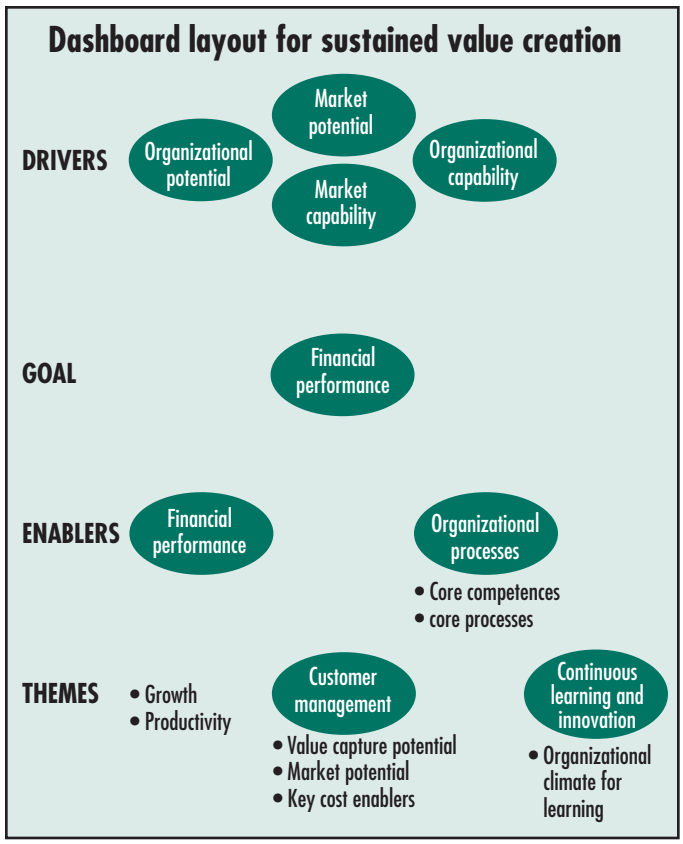
The dashboard concept helps the board focus its attention on key business performance indicators, prioritize actions that need to be taken, implement strategies and learn from the results.

On a car's dashboard, there are three critical dials: a speedometer that shows the speed at which the car is traveling, an odometer that measures miles traveled, and a fuel gauge that tells how much fuel is in the tank. Using a simple business analogy, if the business's "engine" is running efficiently, the speedometer and odometer can show overall business achievement in terms of the number of miles that must be traveled to achieve its goals. The fuel gauge measures the cash flow that keeps the business engine running and tell the directors when they must take action to keep the business from stalling.

The Number of Dials on a Dashboard

How many "dials" should there be on a directorial

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Directorial Dashboards: The New Board Metrics

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dashboard? Since the main dial will show added shareholder value, between seven and ten dials are needed to assess the opportunities, risks and costs involved in making a strategic decision, as shown in the example above. ■

Developing the Learning Board

Many boards don't have a total process for their decision-making or the consistent leadership and support of the chairman. They often don't understand that decision-making is a continuing cycle of learning from their decisions on the four board dilemmas rather than a simple process of saying "yes" or "no" to executives' proposals. What is usually lacking is a linked, rigorous sequence for making effective strategic decisions.

Strategy and Uncertainty

Nothing is ever certain in the world of directing. Even the seemingly "easy controllables" of internal performance can cause unexpected problems when, sales targets are not met, staff are unruly, budgets are overspent, project times are extended or customers do not pay. Such examples are heard frequently around the boardroom table. But all these examples are from the operational world of executives, and it's not the directors job to resolve executive problems. Their job is to oversee the pattern of executive performance within the context of delivering the board's policies and strategies. The board must not be seduced into trying to micro-manage such problems.

The Board's Strategic Learning

All learning has a moral dimension—we learn good and bad things all the time. The key question about board learning is whether we learn in a "good," open, questioning manner or in a "bad," unquestioning, blame-giving and information-hiding manner. It is crucial for directors to be viewed by the colleagues and their stakeholders as aware of their roles, tasks and duties in relation to developing their strategies. To do this effectively, they must be comfortable generating a range of ideas for implementing their strategies and giving organizational leadership by learning from their decisions and being true to their values.

The Learning Board Process

The model the author has developed over the last 15 years to help professionalize directors is called the *learning board*. This model has been effective in bringing directors from a basic understanding of their roles, tasks, and duties to a higher, more professional level. Two conditions must be met—that the chairman and managing director are totally committed to making this change happen, and that they are willing to learn and change—for the process to succeed.

The learning board model was constructed using the two fundamental roles of the board—driving the enterprise forward while keeping it under control—then adding both business timelines (short-term and long-term) and business perspective (internal and external) dimensions. This concept is fully formed by adding the four key tasks of a board:

- **Formulating policy and foresight.**
- **Strategic thinking.**
- **Supervising management.**
- **Accountability.**

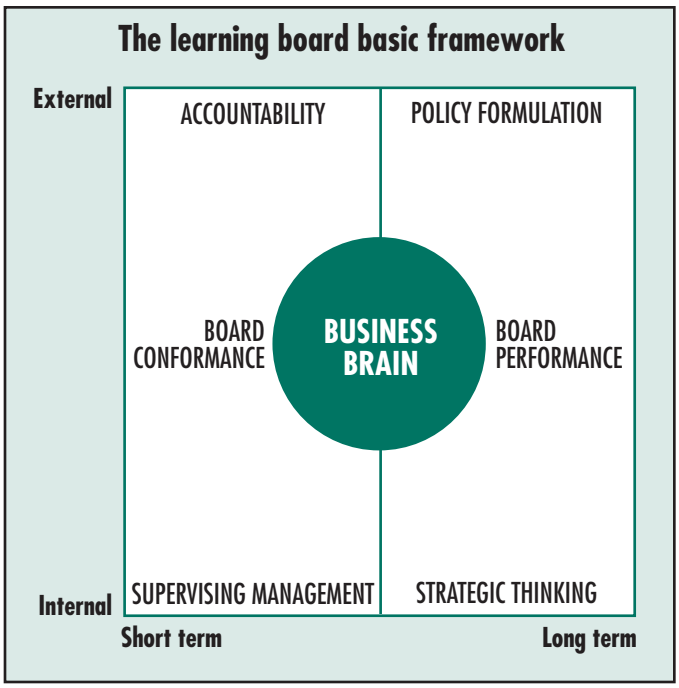
The four board tasks of the learning board model can be fleshed out by adding detailed tasks and assessable behavior in a cycle of board learning.

The sequence begins with *policy formulation and foresight,* which involves:

- **Stating organizational purpose.**
- **Giving organizational vision and values.**
- **Creating an effective emotional climate and organizational culture.**
- **Monitoring the external environment.**

The link to *strategic thinking* is through the board's

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Developing the Learning Board

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crucial strategic debates and risk assessments on the relationship between monitoring the external environment and positioning in changing markets. This is the crucial debate of the board. These decisions are the lifeblood of the organization because they generate future revenue streams and lead to:

- **Setting corporate direction.**
- **Reviewing and deciding key resources.**
- **Deciding implementation processes.**

The second crucial board debate is over the relationship between implementing strategy and ensuring organizational capabilities, which test whether the proposed strategy is workable and properly resourced. The board and executive learning from this helps inform the rest of the *supervising management* tasks:

- **Reviewing key business results.**
- **Monitoring budget control.**
- **Overseeing management performance.**

Ultimately, *accountability* takes the main place in the board's annual learning cycle as the board alone is responsible for the total control and performance of the business and must account for its stewardship in order of legal precedence to:

- **The company (as a separate legal personality).**
- **The owners.**
- **The regulators and legislators.**
- **The other stakeholders.** ■

Professionalizing the Board

The end of a board's decision-making cycle is not the end of its learning, it's simply the start of a new round of higher-quality learning.

Board Evaluation and Appraisal

The first step in board evaluation and appraisal is to create a system of benchmarking for individual and group capabilities. The techniques for board appraisal are no different from any other appraisal system:

1. Identify key performance areas (tasks) and value-based behaviors (processes) that reinforce the business's purpose and vision.

2. Develop a system for assessing board members and assess them regularly and rigorously.

The Basis of a Board Appraisal System

The simplest system of board and director appraisal consists of five elements:

1) A review of the self-disciplinary processes of the board, essentially its self-control mechanisms.

2) A review of its working processes, especially its budgeting of time and development of its competencies.

3) A review of its future income-generation and control mechanisms.

4) A review of the values used in learning opportunities offered to the board.

5) A review of the overall performance of the business and the board's specific contribution to shareholder value.

Developing the Content of Board Training

An effective board-appraisal process reveals the need for training and development of the individual directors. A problem with today's director development is that training is a replica of the "mini-MBAs" being taught to directors using the functional areas of accounting, human resources, strategy, marketing, procurement, etc. This type of education is not helpful for board directors.

In the future, the development of director and board competencies must be very different. Training should cover the following topics:

- **Working on a board effectively.**
- **Performing the legal roles, tasks and accountabilities of the board.**
- **Formulating policy.**
- **Developing strategic thought.**
- **Assessing risks.**
- **Effective board decision-making.**
- **Implementing and learning from strategy.**
- **Funding.**
- **Overseeing organizational change.** ■

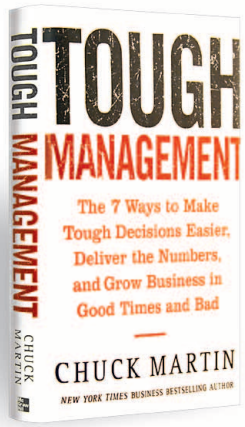
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Tough Management

Chuck Martin

SOUNDVIEW Executive Book Summaries®

FILE: HANDS-ON MANAGEMENT



By Chuck Martin

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The Seven Ways to Make Tough Decisions Easier and Grow Business in Good Times and Bad

TOUGH MANAGEMENT

THE SUMMARY IN BRIEF

Faced with shrinking budgets, smaller staffs, shorter deadlines, more demanding customers and an unrelenting call for innovation and growth, many executives and managers are feeling "highly stressed." The old management paradigms aren't working, which means we need a fresh, bottom-line approach designed for what really works in today's business environment. This new approach is what business strategist and CEO of NFI Research Chuck Martin offers in this summary.

Based on more than two years of surveys of more than 2,000 senior executives and managers, this summary provides managers with a new way to tackle tough decisions in today's high-pressure business world and deliver the results their companies need for sustained growth.

In it, Martin also explains how successful business leaders have met the demand to do more, deliver more and grow more by using practical, powerful and proven techniques — without raising stress levels. By focusing on actual results and forcing the hard decisions, you can learn to communicate and collaborate while remaining flexible. This summary offers real solutions to real problems in the real world.

What You'll Learn In This Summary

The seven skills every manager should know. These are:

- ✓ How to focus on results.
- ✓ Ways to force the hard decisions.
- ✓ Better ways to communicate more clearly.
- ✓ How to remain flexible.
- ✓ Ways to prove your value to the company.
- ✓ Better ways to force collaboration.
- ✓ How to be a tough manager without being a tough guy.

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Tough Management

Work today is more demanding than ever before. The bottom-line orientation required for budget-constrained organizations is the new reality. The need for improved output has increased without there being a proportionate increase in personnel. This situation drives shareholders, executives and managers to demand more from their employees and themselves.

Everyone is in the same situation with the work mantra of today: *Do more with less.* Everyone is affected by the burden and the burden will fall on you, the people you manage, your customers, their customers, and the managers and employees at all of those places.

Tough management is a way to approach work. It is a reasonable, practical and organized way to reach decisions more easily, make your numbers more consistently, have those around you understand where you stand, and increase your business.

Here are some of the reasons why the business world of today is tougher than it has ever been:

- **The workload has increased for 80 percent of executives and managers over the past few years and significantly increased for more than half of them.**
- **Compensation has not increased significantly for 90 percent of executives and managers.**
- **Today's workplace is highly stressful, with 80 percent of executives and managers saying they are stressed, with a third feeling highly stressed.**
- **The social contract between employer and the employee has changed thanks to actions by both parties.** The amount of time an executive or manager will stay with a company has changed from decades to years.

Businesspeople state that keeping an overall perspective is one of the most important skills for success. ■

The Seven Rules of Tough Management

There are seven rules that comprise tough management. These guidelines can help overworked managers make tough decisions more easily and grow the business:

1. Communicate clearly. Tough management requires an abundance of communication that is clear, concise, timely and truthful. Clear communication that is clearly received aligns those creating strategy with those executing it throughout the ranks.

2. Force the Hard Decisions. It is tough to make the hard decisions when they need to be made. Managers need to collect all the necessary information available at the time, make the decision, communicate it and then move on. People are at the heart of the toughest decisions, but they still have to be made.

3. Focus on Results. Tough management demands that every person identify the results that matter most at any given time and determine actions that produce those results. It also means being realistic about what results are being demanded, and ensuring all parties agree on the necessary tools and time frame needed to deliver those results.

4. Remain Flexible. Managers need to be organized so they can change directions quickly to keep pace with the changing needs of their organization and customers. It also requires stopping actions — such as institutionalized tasks, projects or meetings — that waste time. You should view yourself more as a "virtual enterprise."

5. Prove Your Value to the Company. You must align yourself with your company's values so that you can prove your value. This translates into accepting new challenges and becoming the person to whom everyone turns for solutions. Keep in mind that there is a fine line between proving your value and the organization taking advantage of you.

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The author: Chuck Martin is a bestselling author and an internationally known business strategist. As chairman and CEO of NFI Research, he operates a global idea exchange and research engine with a network base of more than 2,000 executives and managers from more than 1,000 companies in more than 50 countries, including half the Fortune 100.

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The Seven Rules of Tough Management

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6. Force Collaboration. Tough management requires teamwork at every level. This requires new levels of information sharing and a willingness to learn.

7. Practice Tough Management Without Being a Tough Guy. You can deliver valuable results without being brutal to subordinates in the process. You have to improve morale, protect the talent, recognize superior work and provide what is necessary for people to do their jobs betters. ■

Communicate Clearly

Communication is king in business. Tough management requires an obsessive attention to the effectiveness of all communication, including the what, when, how, and most importantly, the why, of what you are communicating. Businesspeople, in this noisy and fast-paced world, must share ideas, discuss tasks, and clearly communicate vision and direction.

One senior executive at a small company explains, "Effective, consistent communication is the key, because by so doing a leader can attract and retain the only sustainable competitive advantage there is: a focused, motivated and committed work force."

It can be difficult to convince without the ability to communicate well. If members of a department or business team communicate well, much can be accomplished. Specific tasks become clear and each member understands his or her role.

Clarity of Communication

Though communication is the most important skill for executives and managers, the majority of them are not clearly hearing directives from those above them. "Communicating up, down and sideways is a daily task that takes energy and time. The time and effort invested keeps us all focused on our goals and is well worth it," according to one senior executive at a small company.

Tough management requires more listening as part of the overall communication process, to determine what was heard compared to what was said.

Tough management also requires easy access to management and almost an overabundance of communication. The secret of effective communication is to ensure that everyone who needs to hear the message does, in fact, receive it in a timely fashion.

Joe Puglisi is the chief information officer (CIO) of EMCOR Group, one of the world's largest specialty construction firms with about $4.6 billion dollars in annual sales. Puglisi answers his own phone, and the people who work for him do the same. "People can get to me easily and I make sure I can get to my people whenever I need to," says Puglisi. His group uses e-mail, meetings, instant meetings and telephones all the time. He opposes instant messaging because he thinks it's too intrusive.

Tough management requires that communication be constant and in a continual loop. Peter Baker reports directly to Puglisi as the director of applications at EMCOR. He is constantly in communication with his boss as well as his peers, customers and vendors. He sees his role as maintaining the communication bi-directionally. "We're all straight up and down the line," Baker says.

It's a cultural decision to allow the free, bi-directional flow of information in an organization. This means that hoarding of information is not tolerated.

A side benefit of this free flow of information is that people can make correct decisions relatively quickly. That's because all stakeholders are already following the details and discussions leading up to a decision. "In our group, everyone has the information, so consensus is pretty quick," Baker says.

Corporate Truth Versus Street Truth

The result of bad communication is a disconnection between strategy and execution. One of the toughest challenges businesses face today is how to bridge the gap between the top executive's vision and the reality of the managers and workers who must make that vision happen.

Managers and employees generally are closer on a day-to-day basis to customers and their short-term demands and needs, which may not be the same as the demands and needs of the corporate strategy. This gap can be the ultimate undoing of a leader's strategy, as well as total frustration in the ranks, as managers see a distance between what their leaders say and what their customers want. It is the difference between "corporate truth" and "street truth."

The *corporate truth* is what the chief executive or cor-

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Monthly CEO Lunches at Westminster Savings

Tough management requires not only clarity in communication, but also increased frequency and checks for effectiveness. Barry Forbes, CEO of Westminster Savings in New Westminster, British Columbia, invites 25 of his employees to lunch every other month. No managers attend, and the employees are invited to ask any questions they wish. Forbes uses the meetings to explain the "why" of why the company does things. The workers have his telephone number and e-mail address and he encourages them to contact him. The credit union is the leader in its market and has less than 10 percent annual employee turnover, which is low for the industry.

Communicate Clearly

(continued from page 3)

porate leadership announces to the world, to Wall Street or even to the company's own employees about what the company is going to do.

The *street truth* is the reality of the company's managers and employees, who hear the message and determine how much of that pronouncement actually will be realized. The street truth is more closely aligned with the day-to-day realities of the managers and employees who do the work.

The Communication Gap

Poor communication is one of the primary reasons behind this gap between corporate and street truth. The gap results when executives do not effectively communicate their messages to their subordinates, leaving managers to draw their own conclusions about the company's direction. Managers then behave according to their own understanding of how to act, based on other things, such as customer expectations, self-interest and individual relationships.

Puglisi identified this gap five years ago. "The higher up you go, the closer you are to strategic thinking. In the trenches, it's how to get through the day. Skills are lacking in linking those things together. Senior management should appreciate that and keep the lines of communication open through the ranks."

The Last Third

The EMCOR CIO has one advantage that other people in his position might not have: He was the company's first corporate CIO and he had the option of starting his group with a policy of open and total communication.

Yet there are downsides to even the best communication efforts. It can be called "the law of the last third." What this means is that a third of the people will buy in immediately, and the second third will have some questions but will still follow along. The last third of the people causes problems because they never buy in. Many top executives have to keep communicating the message until everyone buys in.

One of the reasons communication isn't clear within organizations is that senior executives and managers look at and live in somewhat different worlds. For example, senior executives find hiring and firing their toughest decisions, but managers find changing jobs their toughest hurdles. Senior executives have different perspectives than managers about customer expectations, challenges and compensation. Tough management requires understanding the context in which others live.

The 50 Percent Rule

With so much on the plate of every executive and manager, it is challenging to take the appropriate amount of time to communicate effectively. When resolving an issue or a problem, executives and managers should adhere to *the 50 percent rule*. This means that more than half of the communication from the superior should involve listening and not talking.

John Nadeau is the president of Chest Physical Therapy Services, a New England-based health care agency that deploys therapists to children with cystic fibrosis. He says this: "You can get more from people by pulling it from them than you can from pushing demands onto them. Most people derive happiness from a job well done. That can be a powerful driving force in their daily work lives."

Effective, Truthful Communication

Gord Huston, president and CEO of Envision Credit Union in British Columbia says, "Yesterday, the validity of the information was based on who was delivering it. It was command and control. Today and tomorrow it is the message itself that will be judged, not who is sending it. People have to be honest."

Tough management requires frequent and consistent communication. Once communications are fine-tuned so that messages are easily conveyed and well understood, decisions at the top can be understood all the way through the ranks. This also makes it easier to convey in a clear way when and why a tough decision has been made. ■

For additional information on statics about communication, go to: http://my.summary.com

Force the Hard Decisions

Not all decisions in business are created equal. It is only natural to follow the easiest path and wait longer to tackle decisions that are more difficult and complex. Tough management requires the exact opposite: Executives and managers must make the tough calls as soon as possible and encourage those around them to do the same and then move on. When you make the tough calls you may not make many new friends, but it will create a new sense of respect for the decision-making process.

Tough Calls and Time Frames

It's tougher to make the hard decision at work than it looks, and it gets harder the higher up the ladder you go. Bad calls cannot only hurt your company but can also hurt your personal career.

Timing and the amount of information play significant parts in making the difficult decisions. "Making a tough decision when I don't have enough knowledge or information is the hardest thing I have to do," says the manager of one large company.

Decisions often become more difficult higher in the ranks because at that level, more people and potentially more of the business can be affected. However, there are some tough

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Force the Hard Decisions

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decisions that can have dramatic professional and personal consequences, either positively or negatively.

The Emerging Business Organization

When IBM identifies a potential sea change in a market, it creates what it calls an EBO — an emerging business organization — to analyze that market and determine what role, if any, IBM should play in it. For example, when the Internet and the World Wide Web were up and coming, IBM established an EBO and ultimately determined that the company should make serious investments in e-business, which it ultimately did. The company also set up EBOs for life sciences and grid computing.

IBM recently made the tough decision to enter the Linux market, and Doug Dreyer, now the worldwide program director of Linux strategy and business, had to make the tough choice to join the Linux group at IBM. IBM made the tough call to change the traditional legacy approach of using custom engineered products, and introduced off-the-shelf products based on standards. Dreyer said, "We saw Linux and open standards as game-changing technologies … it was a gamble on timing."

Ducks and Eagles

The big problem in making the hard decisions has to do with the personal and professional well-being of the person making the call. No one wants to be perceived as the bad guy when there are families to support.

When it comes to making the tough decisions, there are generally two types of managers, either ducks or eagles. The ducks tend to follow the lead duck, don't really make any waves and certainly never take a chance to make a bold decision. They are followers. The eagles are significantly more independent and look at the organization in a broader context. They are doers.

Three steps are included in the hard decisions: collecting information, making the decision and communicating it, and moving on. Different approaches are appropriate for different circumstances. You are either a duck or an eagle.

The decisions that are toughest to make are those that affect someone else's life. One manager notes, "The entire layoff process is gut wrenching, from identifying individuals, who are friends, to performing the task." Yet the tough decision has to be made and executed. The key is to actually make that decision rather than procrastinating and letting the situation linger too long. Success also involves identifying the most important tough calls that need to be made and knowing when to make them.

Segment Tough Decisions by Time and Level

Decisions that are strategic generally fall into the longer time frames, while tactical decisions should be made within a shorter time frame. Antonio Monteiro, the chief information officer of Internet Securities, says his tough decisions fall into four time frames: "I put decisions into four buckets: today, 30 days, a quarter and a year." He adds that buying a new piece of infrastructure might be a one-year decision while a downed computer system would need more immediate attention.

Tough decisions have to be made at all levels of an organization for several reasons: The decision maker gains ownership of the hard decision, the immediate ramifications are more quickly known, not all tough decisions can be centralized because there are too many of them, and no one has enough information to make every tough call. Tough decisions have to be made in the context of "seeing around corners" because the long-range implications of what looks like a smart decision today can turn out to be negative tomorrow. ■

Focus on Results

The bottom line is the bottom line. Whether a specific company focuses on profits, sales, customer satisfaction or any other measurement, everyone in every organization faces some fundamental measurement he or she has to make, either individually or as a department.

Tough management requires every person to determine precisely what results matter most to him or her at the time and create the proper focus to achieve those results. Every action should have consequences that produce results. To focus an action on results, ask: How does it affect our customers, how does it affect our staff, is it on strategy, who else should know about the decision, how does it affect the numbers, and is there a better action that would produce better results?

The following guidelines will help you stay focused:

- **Limit your involvement.** Don't get involved in every aspect of everything going on around you. Businesspeople can truly be responsible only if given responsibility without second-guessing.
- **Remember strategy.** Don't let events distract you from the overall strategy and direction of the organization. Stay focused on what matters.
- **Keep others focused.** Some people in business have short attention spans. This means that you have to focus their attention for them.
- **Pick your time.** Select the right time to get something done. Identify employees' best time to focus, based on the situation and tasks at hand, and then it is heads-down time.

Working Smarter, Working Harder

Working more hours won't cut it anymore, primarily because many managers are getting to a point where

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Focus on Results

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there are no more hours left to work. The only solution is to work smarter.

Here are some quick tips for working smarter and harder: Manage expectations all the way along the line, determine precisely what others are expecting, clearly articulate your expectations of results, ask for clear definitions of others' expectations of results, clearly and frequently communicate the status of work toward those results, and put a number on everything so progress can be measured.

Delegation, Meetings and Realistic Results

Tough management sometimes requires letting go and empowering others in order to gain results. Delegation requires crystal clear communication so that people know precisely what is expected of them. Ways to improve delegating include: being surrounded by good people, articulating a strategy and direction, making sure people understand the message, checking to make sure they have the proper tools to do their jobs, and letting them do their jobs.

Tough management also means fewer meetings. No business manager sees increasing the number of meetings as a way to increase productivity. You should ask yourself these questions before you go off to your next meeting: Is this meeting necessary for me to attend? What is the potential ultimate benefit of this meeting? Should this meeting be canceled or eliminated for good? Why are we having this meeting?

Tough management requires business leaders to be more realistic in the results they demand from those who work for them. It's no secret that many organizations have become more results-oriented in recent years. The economy, market conditions, increased competition, price pressures, globalization and more selective customers all have forced businesses to watch the bottom line more closely. Everyone is doing more with less, while unforgiving shareholders and top management are expecting even more. Tough managers need to insist that original demands remain consistent and that those who are expected to deliver are properly equipped.

Customer Expectations

A big payoff for tough management is at the customer level. Businesses are facing higher customer expectations, and those who are not tough inside their organizations on issues such as clear communication, forcing hard decisions, and results orientation will pay at the customer level.

The overwhelming majority of senior executives and managers say their customers' expectations are higher today than in the past. The real-time world of today, with always-on access to everyone, has changed what people have come to expect. "Information technology has played a significant role in raising customer service expectations, particularly from an immediate access to information perspective," says one manager. "Customers also expect to interact with empowered employees."

When you focus on results, it requires a new view as to what results are being delivered and to what customers. While all customers are important, not all are of the same value to a company. Segmenting customers by value potential will become more common, so the best customers will continue to get the best service. The rules of tough management will satisfy higher customer expectations, which can, in turn, provide the motivation for new ideas, approaches and performance. Those who miss this will simply lose the business.

- **Recharge the workplace.** People in business also need to continue to learn and grow. Recharging the workplace involves remotivating the individuals in that workplace. Individuals can take a few steps to help get charged for the work ahead: Change something about the job or the actual work at the job, stop and think about what you do every day, and take it upon yourself to learn something new about your organization. ■

For additional information on working smarter and sales, go to: http://my.summary.com

Remain Flexible

The longer someone does something, the easier it is for that person to keep doing the same thing. Tough management requires that managers identify habits, challenge and break them, and insert an added degree of flexibility into their work life. Even while communicating effectively, forcing the hard decisions and focusing on results, individuals must organize themselves to remain flexible enough to change directions quickly when necessary and adapt to changing conditions.

Flexibility is critical for the manager today because it is the relief valve in a world of work where executives and managers continually face increased stress and mounting numbers of projects. Flexibility, in both work and personal life, is a key to tough management. To remain flexible, you must try new approaches, learn from others and encourage others to be flexible as well.

The Spiral of Stress

The top causes of stress are deadlines, customer deadlines and conflicting responsibilities. Many managers are working from deadline to deadline, with no breathing room or time for assessment. These pressures come from the manager's superiors, peers and subordinates.

The number of hours of work is also rising and contributes to the spiral of stress. One tool managers can use in order to complete their tasks is a list. Lists — the

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Remain Flexible

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majority of business lists have six to 10 items — keep managers on track by setting priorities. These lists are not static. Executives and managers have several reasons for keeping lists: predetermining the day, keeping track and insurance (if it's on the list, it's not likely to be forgotten).

Morphing

One way to remain flexible is through morphing, which essentially means taking the shape of the environment.

For example, DuPont, the oldest industrial company in the Fortune 500, found itself in a changing world in the late 1990s as the knowledge economy took hold in the marketplace. DuPont, a 200-year-old company, reorganized itself around the concept of "One DuPont" with the focus of creating science-based solutions for customers. The refocus on customers was similar to the approach Lou Gerstner took when he stepped in at the helm of IBM.

DuPont adopted Six Sigma — a quality improvement process for achieving close to zero defects. It was created in order to apply a universal quality metric regardless of product complexity. After Six Sigma was well underway throughout DuPont, the company found itself morphing to remain flexible. DuPont's move toward using Six Sigma for revenue growth from its initial focus on cost savings happened over a period of time. It was a process, not an event.

Sometimes flexibility means knowing when to stop the organization from heading in a direction. In the case of DuPont, senior executives held a series of meetings to determine what should be stopped, and simply stopped those projects. It takes tough management to stop projects. It's easy to start projects within organizations, but when it comes to stopping a project or process in an organization, it's a different story. Almost 40 percent of top leaders say that stopping something is extremely or very difficult.

The Virtual Enterprise

Managers must also become more flexible in their personal careers. They can do this by living the "what if" life at work. This means that they should be constantly evaluating and re-evaluating work scenarios that can affect them personally. Gone are the days of getting out of college and working for one institution until retirement, with full pensions intact.

Tough management requires being realistic in how you view your relationship with your job. While this doesn't mean that there should be no loyalty to the company, you should have more loyalty to yourself and view yourself as a virtual enterprise. Kimberly Barnes, a high-powered saleswoman, says: "I think of myself as a consultant collecting a W2. You can't expect to stay anywhere a long time these days."

Employee loyalty just isn't what it used to be. Mergers and acquisitions, company closings, corporate corruption and intense pressure in the workplace contribute to the decline in employee loyalty. Tough management demands that management creates incentives to keep good people. In order to improve employee loyalty, tough managers need to do the following: Improve company culture, increase trust, create advancement opportunity, promote the stability of the company, provide autonomy and challenge, provide job stability, provide fair compensation, provide flexibility and monitor benefits. ■

E-Mail Overload

E-mail overload is out of control, threatening to negate the great productivity of fast, ubiquitous electronic communications. Companies lose millions of dollars in productivity because of e-mail. Spam is expected to cost U.S. businesses roughly $10 billion a year. The real hit is being felt at the individual level, as managers and employees spend hour after hour and day after day scrolling through message after message, trying to sift through to those that matter. "E-mail is killing me," says one vice-president, who gets more than 100 messages per day.

As a challenge, pick a week, perhaps a summer week, and don't use any e-mail at all. Use that extra time to actually talk to managers and customers. You might even use it to do some extra thinking.

Prove Your Value to the Company

Even though most senior executives and managers feel they are more valued today than a few years ago by the people for whom they work, that value can still be increased. The people and departments that deliver results receive the investments and growth opportunities; that's what tough management is all about. The top 10 ways to be more valued by your organization are: increase revenue, do more with less, increase profit, communicate more, cut costs, provide creative ideas, assume more responsibility, collaborate more, share more information and spend more time with customers.

As you attempt to align with your business' value, it is important to assess the less tangible parts of the value. For example, there is great opportunity for businesses to sell things that can't be seen. Consumers around the world in one year spent $3.5 billion for cell-phone ring tones. More than $1 trillion was spent on insurance. The point is there is tremendous revenue in things that you can't see.

Once your superiors understand how the value you provide is aligned with the value the business is attempting to provide, your worth to the organization will rise. By taking on more challenges in areas that are the most important to the business, you increase your value even more. ■

Force Collaboration

Tough management requires teamwork. Collaborating with others at every level of the organization is a critical skill for success for executives and managers. With the economic and competitive pressures companies face today, a more integrated approach is needed for solving problems. Forced collaboration involves priority thinking, information sharing and a willingness among employees to learn.

Collaborating with others can improve a person's ability to create work relationships, better utilize those relationships and view them as critical resources. A manager describes the need this way: "Resource management, internal and external, may be the single most important skill that executives and managers must possess in the future — where and how to find the information that you need to get the job done. That requires both management and networking skills to establish and manage relationships. Managing relationships is resource management."

Organizations that encourage collaboration with highly interactive participation by all team members can provide that organization with the great advantage of focusing all energies in an agreed-to direction.

Forced collaboration frees time for executives and managers all the way down the line, as more conflicts are resolved between departments and divisions. The forced collaboration at the MasterCraft Boat Co. in Tennessee requires that each person learn more of what the other departments are doing and the critical elements for their success. This approach helps link all the small successes to the greater strategic success of the business, as each department head becomes more aware of the impact of what he or she did on the other departments. ■

Tough Management Without Being a Tough Guy

While the first six tenets of tough management deal with quantitative improvement, such as focusing on results and forcing hard decisions, the seventh deals with the qualitative aspects: improving your work life and that of the people around you. This can be done while still maintaining a tough — but fair — posture. After all, tough management does not require treating subordinates brutally.

It takes an understanding of the situation of those being managed in order to practice tough management without appearing to be coldhearted. For example, the hours worked by executives and managers have gotten out of control. The myth of the eight-hour day has all but vanished and the nine-hour day is falling by the wayside as well. The challenge is for businesspeople to disconnect. The key is to understand that everyone is in the same situation. Managers and those being managed are all working at the same feverish pace. You have to force yourself as well as those around you to pause and take a break; otherwise, you all will lose perspective.

Compensation

It's not just the time put in at work that causes stress; it is the actual workload that you and your colleagues face during that time. Responsibilities have increased for most workers, but only 10 percent have seen their compensation rise significantly. Economic pressures of the last few years have forced companies to trim staff while maintaining and even increasing the workload. Tough management requires that leaders take the time to check if those who have taken on additional work are being fairly compensated for their work, which is not always the case.

Here are a few ways you can change focus from work's daily grind: Take a two-hour lunch, go home early one day, think, exercise and read. Taking more breaks from work may not change the work or the workload, but it can improve the attitude of those charged with doing it.

Recognize Someone

To practice tough management without appearing tough requires that you recognize those around you for a job well done. These are, in order, the top 10 ways people want to be recognized for their work: a bonus, increased compensation, personal thank-you, increased responsibility, promotion, e-mail from a superior, personal note from a superior, recognition at a company event, time off, and a phone call from a superior.

One of the best ways to practice tough management without being a tough guy is to stop what you're doing; look around your group, department or company; and identify someone who needs and deserves a pat on the back. Thank a customer for buying your product. Thank your family for appreciating how hard you work when you are not at home. Thank the chief executive who clearly articulated the company's strategy and direction. If everyone did this, there would be a more appreciative office environment. ■

For additional information on recognizing someone for doing a good job, go to: http://my.summary.com

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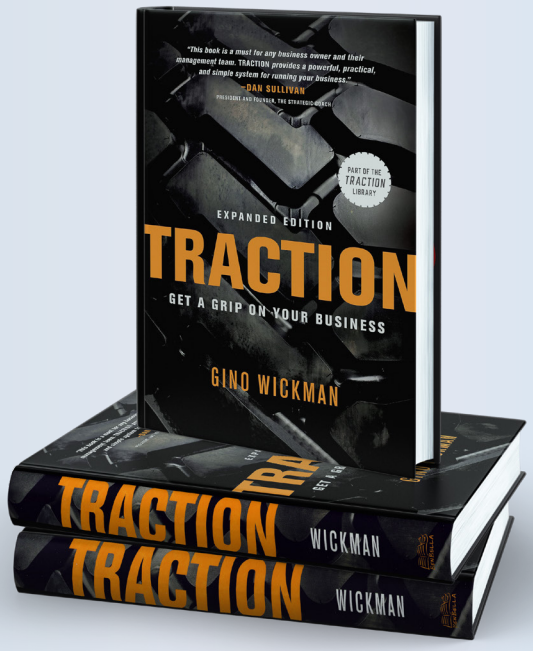
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Traction

Gino Wickman

BOOK SNAPS™
Zooming In On Your Next Read



Traction
By Gino Wickman

Gino Wickman's passion is helping people get what they want from their businesses. To fulfill that passion, Wickman created the Entrepreneurial Operating System (EOS)®, a holistic system that, when implemented in an organization, helps leaders run better businesses, get better control, have better life balance, and gain more traction; with the entire organization advancing together as a healthy, functional and cohesive team. He is the founder of EOS Worldwide, a growing organization of successful entrepreneurs from a variety of business backgrounds collaborating as certified EOS Implementers to help people throughout the world to experience all the organizational and personal benefits of implementing EOS.

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Time to Strengthen and Re-Energize Your Business

Survey any group of entrepreneurs and you will find a common set of frustrations. Feelings of limited control, concerns with people inside and outside of the operation, bottom-line profits, stifled growth, and feeling stuck and stymied after trying several strategies to get things moving in the right direction are all sources of stress, fatigue, and overwhelm for many entrepreneurs. If you count yourself among those entrepreneurs who have made a great start but are ready to take their business to the next level, this book is for you.

Every leader and every business will face challenges. That is part of the experience and fully to be expected. However, it is possible to ease the burden of typical roadblocks and elevate your leadership abilities and your business results by identifying and applying a set of core principles. In ***Traction: Get a Grip on Your Business,*** author and hands-on business consultant Gino Wickman shares his highly effective Entrepreneurial Operating System (EOS). The book does not offer a quick fix or a secret sauce. Instead, it provides entrepreneurs and leaders with a "practical but thorough method to help strengthen and re-energize your business."

Wickman believes that you already have everything you need to succeed. You just have to put all of the moving parts into the right places within the system and before you know it, your business will be running like the well-oiled machine you've intended it to be. And get this. Part of the system calls for you to step back and allow your operation to become a "self-sustaining organism," which can be life changing in the most positive way.

If you are looking to "melt away the five common frustrations," you need only read on to learn how to implement basic tools that have been proven effective for countless other organizations before you. In the end, you will be "more in control, happier, and less stressed" and be left with a business that is "more profitable, more focused, and staffed by great employees."

The Entrepreneurial Operating System

Systems are simply a group of core components that function

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together to serve a whole. In the case of the Entrepreneurial Operating System, the system is centered around your business and the core components are vision, people, data, issues, process, and traction. The very fact that the system is organized into a limited number of groups is freeing. Instead of worrying about every little thing, you can target your energy and focus on just six key areas.

Vision

All business owners who find a baseline level of success know that they need to create and communicate a compelling vision of where the business is, where it plans to go, and how it plans to get there. What happens sometimes, though, is that leaders create a vision that is overly complicated or they fail to communicate it in a way that other people in the organization find useful. A vision that is not embraced and put into action is simply a poster on a wall. In order to be effective, leaders must make sure that everyone in the organization can see the vision just as clearly as the leader themself. The process of creating, clarifying, and above all, communicating your vision is the first step in gaining traction.

People

Entrepreneurs who find success eventually learn that they cannot and should not do everything on their own. They need help, expertise, opinions, ideas, support, and strategy from others. Assembling a team of people that will take your business to the next level is all about putting the right people in the right seats. This is not a new idea but it has always been offered as a piece of nonspecific advice. Wickman erases the murkiness by explaining simply, but very clearly, what makes a person or position "right" within your organization.

"The right people" have values that are aligned with the core values of your organization. They "fit and thrive in your culture." They are people that you like to be around and they make your workplace better. "The right seat" means that those people who have been selected as being the right ones are put into positions that leverage their "greatest skill and passion" within your organization.

You can analyze each team member to determine if you have chosen the right person by using Wickman's People Analyzer tool. List out your company's core values and choose a team member. Go through each value and assign a plus, minus, or neutral for how that person stacks up against each value. At the end of the exercise, it will become visually evident who is "right" for your business and who is not.

To determine if you have placed people in the right seat, Wickman recommends looking at them through the lens of what he calls "GWC." This stands for "get it, want it, and capacity to do it." Does the person in the seat understand the roles, responsibilities, and concepts required to perform the job? Do they want the job? Do they have the capacity to actually perform? If the answer is no to any of these questions, it is highly likely that you have made a "seat" mistake.

Data

Even when leaders have the absolute best intentions to remain objective, at the end of the day, we are only human. Without clearly defined and measurable metrics, decisions invariably come down to "ego, subjectivity, emotions, and intangibles." To make decisions that are productive for the company, a leader has to rely on factual information.

The leading and most important tool a leader will learn to use for this component is a Scorecard. This is a "weekly report containing five to 15 high-level numbers for the organization" that enables you to keep your finger firmly on the pulse of your business. To create your company's unique Scorecard, you and your leadership team will engage in a six-step process.

1. Through contributions by all on the leadership team, make a list of 5-15 categories of data that need to be tracked in order to have a grip on your business on a weekly basis. Examples include sales activity, accounts payable and receivable, or weekly revenue.

2. Determine which team member is responsible for providing the data for each category on a weekly basis and communicate their accountability for it.

3. Decide what the goal number will be for each category. These goals should align with and be tied to the company's one-year plan.

4. Fill in the Scorecard with next week's date, which is when you will start tracking.

5. Assign the task of physically filling out the SCorecard to appropriate team members and figure out how they will receive the numbers from the person accountable for them.

6. Commit to keeping track of and actually use your Scorecard! Over time, patterns will emerge that will drive decision making based on facts, not feelings.

Issues

In the course of running a business, problems are going to come along that must be addressed. Wickman labels such obstacles as "issues" and believes that the expediency with which a leader is able to solve problems when they arise is directly proportional to how successful the leader's business becomes. If problems are left to fester and linger, they can cause the downfall of your organization. Instead, they should have the light shined brightly upon them rather than be hidden away, ignored, or covered up. "Unresolved issues take up time and energy." Solve them and your business is free to move forward.

The first critical step in ensuring that problems are dealt with is to foster a culture in which everyone feels safe and secure being open and bringing attention to issues. This starts at the top. You must work hard to reward, not punish people who bring problems into the light of day. You must be open yourself, admitting mistakes and embracing them as opportunities for growth.

Most entrepreneurs don't understand how powerful process can be. . . "

Once the environment is ripe for sharing openly, the team should keep an active list of issues that are related to the values, plans, and goals of the organization. Prioritize issues that have a more immediate impact and put them through a simple system called "The Issues Solving Track." In this process you and your team look to your issues list and methodically identify, discuss, and solve issues. This sounds incredibly simple but of course, it is a bit more nuanced than it may appear at first glance. Of paramount importance is for team members to look for underlying causes of the stated issues on the list. Things are often not what they seem without some digging.

Process

In the context of the Entrepreneurial Operating System, process refers to the way you operate your business. In Wickman's experience, this component is often completely overlooked by leaders, much to the detriment of their organization. The problem is not necessarily that leaders don't have processes that they use. The problem is that many of them keep these systems inside their own heads, not explicitly sharing and implementing them with their team.

"Most entrepreneurs don't understand how powerful process can be, but when you apply it correctly, it works like magic, resulting in simplicity, scalability, efficiency, and profitability." Systemizing your business requires two major steps. First, you have to take the time to get the existing systems out of your head and onto paper. You must document all of the core processes that keep your business running. This will work best if you engage the entire leadership team. This way you can all agree on what your core processes actually are and what language you will use to describe them. There will be processes for every major department of the business, such as HR, sales, operations, and so forth.

Next, you have to get everyone on the team on board with following and using the systems. This also starts at the top. If leadership fails to buy into the importance of the systems, those they lead will also fail to use them. Make it clear how each system works, how it fits into the bigger picture, and communicate the intent to hold all people accountable for sticking to them.

Traction

The best laid plans and processes will fall flat if you do not execute them well. This is where the rubber meets the road and your business either takes off, moving forward with speed, or simply spins its tires, getting nowhere fast. To strengthen this frequently weak component of propelling a business forward, leaders will have to model and institute two disciplines across the entire organization. One is called "Rocks" and it relates to "clear 90-day priorities" for every single person in the organization. The other is called a "Meeting Pulse" and it allows for focus, alignment, and communication at all levels of the organization.

"Rocks" are a handful of the top priorities for your organization over the next 90 days. This breaks down your big vision into manageable chunks that can actually be accomplished over the time frame of one quarter. You will have Rocks for the company as a whole, for teams, and for individuals. They must be "specific, measurable, and attainable" like all achievable goals.

Holding productive meetings is not a waste of time. Rather, they can serve as the "moment of truth" for any organization. Meeting Pulse measures the heartbeat of your organization. These well planned and run meetings will provide information similar to that of an EKG machine. They will show spikes, slow downs, and steadiness. Wickman recommends using both weekly and quarterly meetings to take the pulse of your company.

Leaders who can understand the context of the core components will find that mastery of them is well within reach. Tackling workplace problems like meetings, prioritizing work, and assembling the right team are not new topics for leaders. However, the Entrepreneurial Operating System is different in the way it assembles the six disciplines "into a complete system of running an entrepreneurial organization." Each tool contributes to the overall effectiveness of the entire system. The integration and strengthening of the "Vision, People, Data, Issues, Process, and Traction Components us what makes the real magic occur."

If your business feels stagnant and you find yourself hitting a proverbial wall in growth, it could be because of a shortcoming in the way you are running your organization. In Traction, Gino Wickman shows you how to run and build your business in such a way that is fully aligned with your core values, your core focus, and for the greater good of the company itself through the deliberate and thoughtful implementation of the Entrepreneurial Operating System.

This process is hard and takes time, but shifting your organization from a state of chaos to one that is strong in the Six Key Components will result in measurable progress and free you from being inextricably tied to the daily life of your business.

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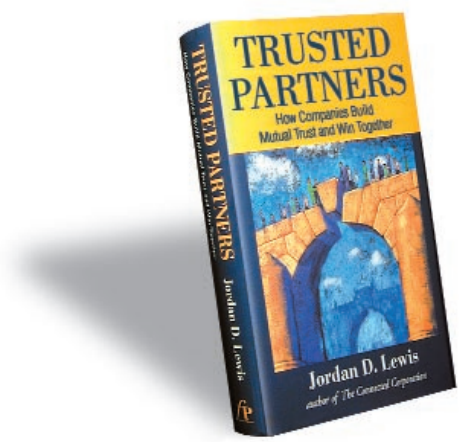
Trusted Partners

Jordan D. Lewis

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FILE: STRATEGIC MANAGEMENT



By Jordan D. Lewis

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How Firms Build Mutual Trust and Win Together

TRUSTED PARTNERS

THE SUMMARY IN BRIEF

It may seem anomalous to say that trust is the glue that holds businesses together, particularly in these days of mergers and acquisitions, of "free agent" talent available to those companies willing to pay top dollar, or of multinational firms either absorbing or being toppled by tiny, tech-savvy startups. Yet, in increasingly competitive environments, trusting relationships both within and between companies free partners to be creative and innovative, and to step up to the challenges that lay before them.

In *Trusted Partners*, Jordan D. Lewis provides solid advice on how to develop, improve or repair trust in every aspect of your business alliances. Lewis bolsters his points with case studies that demonstrate the successes that are possible when trust is built and sustained in every business relationship. Among the secrets he shares are the following:

- The eight conditions for trust to exist in every alliance.
- The conditions and practices that must be established early in every alliance, including the criteria and responsibilities for joint leadership.
- The strategies that must be enacted in order to combine each firm's objectives, and how to use those results as a guiding framework to develop the alliance.
- Ways to align both organizations around mutual objectives, thus helping to develop planning and policy-related strategies that support continuity if people in the process leave to pursue other interests.
- Keys to effective implementation of an alliance, as well as post-implementation governance.
- Ways to repair a broken trust, from diagnosing failure to getting the alliance back on course.
- Methods you can follow to sell alliances to customers, including educating them on the value of trust between both allied partners.
- Steps to develop a trusting alliance between entities involved in an acquisition or merger.

Are you interested in building a better, more trusting future with your alliance partners? Turn the page to get started ...

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TRUSTED PARTNERS

by Jordan D. Lewis

— THE *COMPLETE* SUMMARY

How to Build Trust in Alliances

Many businesses form partnerships that, for one reason or another, wind up being dysfunctional at best, professionally fatal at worst. Take the example of Northwest Airlines and KLM Dutch Royal Airlines, which combined their networks linking Holland and the U.S. KLM wanted to build a global airline; with an eye on future financial flexibility, it tried to oust Northwest's co-chairmen, who were trying to position KLM to engage in a leveraged buyout for much more than the Dutch carrier wanted to spend. Neither side discussed their contrary objectives with one another, causing a schism that almost sunk an extremely profitable partnership.

What was lacking in this partnership was trust. The two companies shared resources, joint ownership and subsequent profits, but never acted as an alliance — a cooperation between groups that produces better results than can be gained from a mere legal transaction or contract agreement. Companies in an alliance cannot merely call each other partners, they must actually function as partners. The glue that holds alliances together is trust — a bond that must be initiated, sustained, and grown throughout the life of the alliance.

Depending on Each Other

Mutual trust is a shared belief that you and your alliance partner can depend on each other to achieve a common purpose. As the Northwest/KLM partnership suggests, trust exists only under specific circumstances, such as having shared objectives. While trust does not imply easy harmony, in a trusting business relationship, conflicts motivate you to probe for deeper understandings and search for constructive solutions. Each firm must be able to depend on the other to get results that exceed what a transaction could do. That notion leads to a set of eight conditions for trust:

1. Mutual need creates the opportunity. An early step in weighing a possible alliance is to determine whether it will serve an important objective in your firm. Then, determine the best way to achieve that objective, comparing the merits of internal development, alliances and acquisitions. Involve the units that the alliance will serve in the partner selection process; nothing discourages teamwork more than imposing an unwanted partner on your people.

The Eight Conditions of Trust

1. Mutual need creates the opportunity.
2. Interpersonal relationships make the connection.
3. Joint leaders deliver both firms.
4. Shared objectives guide performance.
5. Safeguards encourage sharing.
6. Commitment creates enthusiasm.
7. Adaptable organizations support alignment.
8. Continuity sustains understandings.

2. Interpersonal relationships make the connection. Alliances live through people — this is how all the parts come together, and how deep trust is strengthened, creating value and solving even the most difficult of problems.

3. Joint leaders deliver both firms. When top executives work closely together, those below them know it's safe to cross internal boundaries. In contrast, polarization at the top virtually assures conflicts below. The alliance between Hewlett Packard and Canon was strengthened by the solid, trusting relationship between HP's Doug Carnahan and Canon's Takashi Kitamura, who could not only cut through serious problems together, but who also genuinely liked each other.

4. Shared objectives guide performance. If your objectives are not mutually agreed upon and aligned, expect discord. It can be surprisingly difficult to develop common objectives between partnering companies (remember the Northwest/KLM example). The way to achieve effective mutual objectives is to develop them from those of each firm. If your mutual objectives are met, your individual ones will be as well.

5. Safeguards encourage sharing. Cooperation

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The author: Jordan D. Lewis, Ph.D., is a leading consultant and lecturer on strategic alliances. His book, *The Connected Corporation*, was reviewed by Soundview in November 1995.

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How to Build Trust in Alliances

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entails sharing information and making investments with a partner. How far you go depends on your conviction that sensitive data will be protected, and that an equitable sharing or distribution of the data, assets and resources you develop together will be effected should the alliance ever end. These agreements must be worked out before the alliance begins.

6. Commitment creates enthusiasm. An alliance excels when each of your firms invests its best effort — assigning its finest people, backing them with needed policies and resources, and adjusting organization to meet expanding needs.

7. Adaptable organizations support alignment. Organizations that collaborate well internally — between departments — often form excellent external partnerships. Companies that manage by objectives on the inside make better partners because they more easily link their internal objectives to their alliance objectives.

8. Continuity sustains understandings. To maintain superior performance, you and your partner must be confident that your successful collaboration will extend into the near and distant future. When those involved in an alliance move on to other opportunities, the attitudes and understandings those people brought to the alliance must be carried on. Continuity is an invaluable condition for mutual trust. ■

Pick Team Players

Alliances are among people, not just companies. For example, if you compare alliances to transactions, you'll note that negotiation of a transaction produces a detailed agreement — timing, quantity, delivery, payments, etc. Once the deal is in writing, it can be handed off to other parties, who can act on its provisions without having ever been involved in the deal to that point.

In crafting an alliance, on the other hand, the central goal is to develop a creative team between the involved firms in order to produce new value. You cannot document intangibles like shared understandings of each other's situation and how to manage change (both of which will be needed to forge a successful partnership). More to the point, support cannot be easily transferred to other, uninvolved parties.

Invest in Relationships

Start investing in relationships now. Interpersonal relationships are the conduits through which understandings flow in an alliance. You must reach a level of mutual comfort and understanding such that, if trouble surfaces, you can discuss it logically and candidly. An alliance may fall on hard times; personal relationships should not. You must select the right people and develop an intimate understanding of the individuals and politics in each firm. Personal relationships help you discuss these issues candidly, develop constructive understandings and reach practical conclusions.

When your discussions with people from another company first turn to business, begin by sharing your views. Cover key people and possible constraints, and identify issues that you must resolve before implementation, including deal breakers for either firm. Begin to divulge information slowly, gauge reactions, and monitor your own reactions as your counterparts begin opening up as well.

Ensure Joint Leadership

Joint leadership is key; only with joint leadership can you expect joint followership. From early negotiation through implementation, you will need consistent joint leadership at policy and operating levels. At the policy level, leaders must define a shared vision, building on separate and shared objectives and gaining alignment within firms as the alliance proceeds. At the operating level, leaders must develop mutual objectives, guide team building and produce results.

You must also invest in team development in an alliance, just as you would internally. In an alliance, however, team building requires more attention. With unfamiliar people and organizations, those involved must learn how to gauge their counterpart's judgments, adapt to one another's ways, and develop shared norms. Team members should thus be designated only as the alliance develops.

For example, when Proctor & Gamble formed an alliance with Wal-Mart, teams were comprised of people who could think out of the box and build relationships — people whose interpersonal skills were valued above their dry intellect. The same general rule guided management team building in the alliance between Ford and ABB Paint Finishing. Key roles in the alliance's management structure were reserved for people with good attitudes, communication skills and problem-solving prowess. Relationships overrode function, to great success. ■

Define a Single Purpose

Superior results emerge from blending your separate abilities in a way that best meets your mutual purpose. Indeed, the sole criterion for deciding what goes into an alliance should be whatever creates the most value for both firms, as defined by mutual objectives. These objectives must be used to plan every aspect of the alliance, from policies and resources to job assignments and organizational design. To not do so means risking

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Define a Single Purpose

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failure on a dramatic scale.

Developing Mutual Objectives

Setting mutual objectives in an alliance requires more breadth and clarity than is typical for doing so internally. Be aware, however, that a mutual objective may not be an obvious combination of your separate objectives; sometimes creativity helps. Use these ten steps to develop mutual objectives:

1. Begin by having each company define its own priority objectives for working with the other. Again, take nothing for granted — even objectives that are intrinsic to the culture of your firm must be listed.
2. Together, define your shared vision — a qualitative summary of both firms' priority objectives.
3. Derive mutual business and financial objectives that, when met, will achieve your shared vision.
4. Make sure that meeting your mutual objectives will satisfy each firm's separate objectives.
5. Rank mutual objectives in terms of priority and desired implementation sequence.
6. Derive subordinate mutual objectives for each function and activity to be involved in the alliance (for example, objectives from customer selection, value proposition, sourcing, cycle time, etc.).
7. Go into enough depth to ensure that your operating-level objectives have the clarity to guide day-to-day actions.
8. Define future objectives, such as those for development, that will need attention soon.
9. Identify each firm's objectives that must be met separately from your objectives, such as retaining customer leads.
10. Define organizational boundaries in each firm that separate shared objectives from conflicting internal objectives. ■

Global One's Fractured Alliance

The partners in Global One — the alliance of Sprint, Deutsche Telekom and France Telecom — failed to define their mutual objectives, and paid dearly. After agreeing to build an "international business," the firms never got around to discussing in depth the implications of that objective. Busy with other matters, management in each partner firm assigned much of the negotiation to attorneys, who, in turn, focused on tax, financial and legal issues.

The results were predictable. Once Global One was underway, Sprint thought the alliance's main purpose was to give them the worldwide network they needed. Deutsche Telekom believed that fending off domestic rivals should be the alliance's primary objective. France Telecom wanted priority given to projects that would boost their image alone.

The organization that emerged lacked practical guidelines for such basic objectives as investment priorities and network integration, making a seamless network impossible. Each individual unit has headed in its own direction, with little bearing on how its partners are affected; performance has thus been dismal, and a breakup is imminent.

Align Your Organizations

Once your mutual objectives are defined, you must forge an alignment of your organizations — to get the needed parts of each company to work in concert. Your objectives should be the focus of the joint business plan and will guide alignment within each firm.

As with any good business plan, an alliance plan begins with these objectives and describes important factors (markets, products, resources, etc.) in enough detail so that those who will contribute know what is expected of them. The plan should also spell out how both firms will actually cooperate. In deciding what each firm will do, bear in mind that all alliance activities must be connected, and that the more new links you must create, the harder the alliance will be to manage. Indeed, streamlining should be an objective for most alliances to ease management and cut costs and cycle times.

Once authority is delegated to each of those links, you must set internal boundaries, to avoid conflict with other activities in either firm. IBM and Apple found this out the hard way, in their joint software development venture, Kaleida. Inside Apple, one software group created roadblocks to Kaleida, because the new venture competed with the group's work. At the same time, both IBM and Apple barred Kaleida from acquiring the tools that outside programmers would need to design Kaleida-based products. Both companies were developing tools for the new venture themselves, but when Kaleida needed those software tools, the tools weren't ready. Without these, Kaleida's products could not meet even basic software standards.

After you clear out conflicts, you must align each partner's incentive systems with shared objectives. While effective teamwork with a partner does not require that you reward performance in the same way, you should motivate people to achieve the same objectives. At HP, for example, employees are formally assessed on results at both the business unit and product/project levels; each

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Align Your Organizations

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level must adequately reflect the contributions of individuals. Canon, conversely, has a more group-oriented culture and uses a combination of group and individual performance measures to encourage work toward shared objectives. The two different approaches toward incentives still align toward the same goal. ■

Orchestrate Many Units

When a company is comprised of closely related business units, allying them with another firm's similarly related units can produce far more value than connecting just one part from each; the trick is to get leaders at all levels from each business to pull together. To be included in an alliance, each of the participating units must satisfy the same eight trust conditions (as previously outlined), and several additional guidelines at the corporate level as well as at the local or individual level.

In order to achieve best performance at the corporate level, insist on the following requirements:

- Give leaders enough authority to make or obtain needed decisions in desired time frames.
- Constantly reinforce desired patterns of behavior for local levels.
- Change budgets and accounting systems as necessary.
- Include local participation in overall governance.
- Encourage and facilitate experience sharing across the alliance.
- Emphasize conflict resolution at the local level.

It is also imperative to stress requirements at the local or individual unit level, as follows:

- Seek a local role in partner choice.
- Ensure that the subordinate trust conditions (for example, local mutual need) are met at each link.
- Model local governance on overall alliance governance.
- Tie performance measures and incentives to local and overall success. ■

Take Nothing for Granted

An alliance is like a foreign body that has been grafted onto separate organizations; to keep it alive, you must guard against rejection from each one. To accomplish this, you must have a solid start and be able to avoid breakdowns that can strangle an alliance. In other words, you can take nothing for granted. Every aspect of the partners' respective buy-in for the alliance must be addressed and explored. Here's how:

Planning for Continuity

The final steps in aligning organizations is recognizing the pitfalls of discontinuity and working toward maintaining continuity in the pursuance of shared objectives. Discontinuity weakened and undermined one of the earliest computer outsourcing alliances, between IBM and Kodak, which lost one of its architects to a competing firm six months into the partnership, then gradually lost key leadership one level below her.

There are ways to avoid — or at least greatly reduce — the problem of continuity in an alliance, notably in three particular areas:

1. The careers of key individuals. To ensure continuity, keep people in positions longer than normal, create career ladders at key links to compensate for less job rotation, and develop transition plans for people who will take key alliance positions.

2. Training, incentives and rewards. Steps you can take in this area include having joint training in trust practices for newcomers from both firms, giving key people mentoring roles after they move on to other positions, and arranging for people who will be joining an alliance to attend meetings as observers.

3. Management tasks geared toward maintaining continuity. Specifically, you should reduce staff turnover by making employment more attractive; discuss candidates for key alliance positions with your partner to be sure of a good match; articulate shared norms at all alliance meetings and actively use them as a guide; and regularly and visibly remind everyone that even when people change, continuity is expected in partner relationships.

Define performance measures. Develop ways to monitor progress in your venture by making shared measurement the foundation of your joint management. One set of measures should compare alliance progress with what market transactions would do; another set compares results with your objectives and plans.

Get everyone on board. Take on the demanding task of ensuring that everyone understands their respective roles in the alliance, investing their efforts in the success of the endeavor.

Make your meetings special. Alliance meetings must be distinct from those within a firm. The goals of such meetings are to help keep the two firms stretching together by creating a need for mutual learning and addressing issues that present a higher risk of polarization. Encourage creativity, reinforce trust, and encourage participation from everyone involved.

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Take Nothing for Granted

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Anticipate tough issues. Because new issues surface all the time, make it a habit to review potentially divisive matters frequently, then settle them early or have contingency plans. Small issues can get bigger and harder to correct if they are not addressed early.

Don't try to win (even when you're right). Know when to back off a sensitive issue, even when you feel it might be easy to press your views on a partner. Engage in conflict resolution techniques and make constructive problem solving a habit. Always give your partner's thinking weight, particularly if the issue is important to that partner's company.

Communicate widely. While communication is important in every company, it is even more so in an alliance, due to the fact that you do not share the kind of fabric that connects companies on the inside. Provide updates to your alliance partner when meeting within your company to keep individuals across levels at both entities on the same page. ■

Repair Broken Trust

The KLM/Northwest alliance changed course only after both firms realized their backstabbing and maneuvering was eating away at their ability to compete with rival airlines. Mutual need had been overshadowed by competing objectives, and individuals who should have been joint leaders did not assume that role. Once those leaders moved on to other opportunities, the first roadblocks to trust left with them, allowing the companies to start the slow process of repairing the broken trust between them.

How Trust Gets Damaged

The most common reason for damaged trust is a lack of effort to build that trust in the first place. If initial expectations collapse as an alliance proceeds, there may be a misconception that the trust between entities was broken; in fact, it likely never existed at all.

Trust can also be damaged through inattention. When partners stop working at their relationship, issues that require better understanding are never settled. Rather than try to understand and reconcile differences, the partners chose to endure growing discomfort and simply get through the business of working together. These alliances almost never last, and when they do (if trust is somehow repaired), the resulting alliance may be different from the original plans of its participants. Renewed trust can expand partners' ambitions and shared horizons — factors that need to be addressed in order for the alliance to proceed.

Mending trust

Mending the weakened trust in an alliance must begin by attending to the basic trust conditions (out of the eight listed) that have failed. If mutual need, for example, is unclear, you must address it first; or, if those involved recognize mutual need but have grown apart, you must work on those relationships before you can reassemble the other building blocks of trust.

When you search for the roots of weakened trust, you must consider the practices that earn trust, as well as the underlying conditions that support the practices. Tasty Wares (a joint retail alliance owned by two food companies) went through fire before it got on a productive path, hiring and firing three general managers in an attempt to improve deteriorating performance before its board recognized they had never truly defined their objectives for the venture. Each executive they had brought in and let go had been given mixed messages, then jettisoned when he could not deliver. The company had failed to address underlying and overarching trust conditions. ■

Hostility at Tasty Wares

When hostility dominates an alliance, repairing trust can be even more difficult. The parent company of Tasty Wares, a pseudonym for a retail business owned by two food companies, were rivals — and often used the venture to defeat suggestions made by the other, even when doing so hurt all involved parties. It took the combined efforts of a new human resources vice president at one parent (who had not been involved in the hostilities) and an existing counterpart at the other parent (who had been fed up with the situation) to repair the trust and get Tasty Wares back on track. They did several important things to achieve the renewal:

- *They forged a personal trust between each other.* The renewal began on a ski trip the two HR executives took together.
- *They recruited senior management in the effort.* The duo interviewed managers at all levels to pinpoint where trust conditions had been violated. They then got the buy-in of their respective division presidents, as well as an ad-hoc team of senior managers.
- *They got away from it all.* The HR duo, their division presidents, and the executive management team convened a three-day meeting away from company offices to address the alliance's problems. It was during that meeting that the executives truly understood in detail why they needed each other. A dialogue began from there.
- *They got top-shelf commitment.* Under the joint leadership of the two presidents, Tasty Wares ended its losses and regained market share, adding over $50 million to the annual profits of each parent company.

How to Sell Alliances to Customers

The closest kind of relationship you, as a supplier, can have with a customer is through an alliance, but many customers are hesitant to engage in such intimate dealings with their suppliers. The reasons for this are many and varied. For most customers, purchasers are evaluated on how low a price they pay suppliers, rather than the value they receive. Likewise, most salespeople on the other side of the transaction are gauged by narrow criteria, such as short-term revenue gains. Neither side has much incentive to align themselves with the other — a consequence of short-sighted leadership and lack of trust.

By using the eight trust conditions as a guide to selecting customers and selling them alliances, you have a better chance of reaping the healthy revenues and margins that are the reward in such partnerships. You should also use market research to identify receptive market segments, and company-specific analysis to narrow your search to the best prospects.

Next Steps

Once you have a list of promising companies, meet with each to assess whether its organization can perform as needed and how an alliance with your company would add unique value. Also, gauge whether the firm is interested in your company as a supplier, and explain how what you propose will work.

The next step is to meet with the key change leader(s) at your target company, to start building rapport and mutual understanding. Make sure your meetings with the target company include a cross-functional contingent, not just members of its purchasing department. Solicit support from relevant buyers and include them in the decision-making process.

Address all concerns raised by the prospective customer and prepare to explain in detail how your proposal will work. Invite staffers to make on-site visits and set up future meetings, when necessary, to keep tabs on the process and to address new concerns as they arise.

Finally, the work of building an alliance does not stop with the sale. Because competitive markets keep improving what your customer can get from transactions, an alliance has to continue advancing to remain useful — this commitment to continuous improvement is inherent to any alliance. ■

Craftsman Covers It All

Within each target customer segment it identifies, the Chicago-based Craftsman Custom Metal Fabricators sets up half-day seminars for any prospect that expresses an interest in what the firm offers. The presentations, aimed largely at engineering staffs, act to convince prospects that it functions as its salespeople say. The company also invites prospects to its facility to observe its operations first-hand, to allow potential customers to be confident about the match, and to provide them with enough understanding about how Craftsman works (as Craftsman knows about the prospects' businesses).

The results are encouraging, to say the least. Fifty percent of its qualified prospects enter into an alliance with Craftsman.

How to Trust a Rival

A decade ago, who would have guessed that entities such as Visa and American Express, Coke and Schweppes, Kodak and Fuji Photo, and countless other bitter rivals would find reason to cooperate with one another at any level, much less form alliances? Today, however, the logic is sound; markets demand better performance from companies, many of which find they cannot excel on their own at everything they must do to meet those demands. Rivals who have so much in common make natural allies.

Start with a Mutual Need

In order to successfully partner with rivals, you must, as always, start with a priority mutual need. For example, General Electric and Pratt & Whitney, competitors in the aircraft engine market, recognized that neither company alone could meet the operating cost reduction demands imposed by Boeing for a new version of the 747 aircraft. GE and Pratt allied to meet the need, and continue to do so, even though their status as rivals causes some awkwardness and friction on occasion. Simply put, both companies recognize the alliance is the best way to develop engines.

Interpersonal relationships are essential, more vital to alliances between competitors than it is to those involving non-rivals because rivalry creates more opportunities for misperception and conflict.

Prepare for instability and termination. Have an exit strategy, or a "prenuptial" agreement worked out with your partner from the very beginning of the alliance. This type of agreement is imperative in an alliance of rivals, since one partner in an alliance may not be able to proceed in a market on its own.

What's In and What's Out

You must also separate alliance activities from conflicting, competitive ones in each firm. Indeed, extra attention must be given to boundary creation and man-

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Instability Sinks Autolatina, Ford

Ford and Volkswagen's joint South American venture, Autolatina, illustrates the need for negotiating deal termination up front. The rationale for the alliance was to help the automakers cope with an economic crisis there; once the Argentine and Brazilian economies regained strength, competitors entered the market, causing VW to choose to abandon the alliance. Although Ford decided to tough it out, it lacked the smaller cars that accounted for the most volume.

VW stayed as well, on their own, and captured significant market share. Ford, conversely, lost $645 million in its South American division in one year.

How to Trust a Rival

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agement, since there is greater chance of resistance to cooperation and more potential for using an alliance to undercut the other firm. The most productive and creative joint behavior is possible only when you can fully sort out cooperative and competitive outlets and operations on a day-to-day level.

Once again, the Canon/HP alliance provides a terrific example. In the laser printer business, both companies cooperate in product development, but compete in sales, marketing and pricing. Though many early product development tasks are performed jointly, each firm develops its own final product to support its own business strategy. The competitive operations for each company are structured so that they occupy a separate organizational space from the cooperative operations. ■

How to Build Trust in Mergers and Acquisitions

Since most mergers and acquisitions are made with a focus on deal making and not implementation, forging a trusting alliance between the merging companies can be difficult. For the best results, you must acquire or merge in a way that grows trust widely. Building trust starts with the same steps used to develop alliances on the outside, and proceeds through implementation to establish the conditions for trust on the inside.

Seek Understanding

For a start, both sides must understand one another. When lead executives and members of their teams take time to understand one another's issues, culture, people and politics, fewer mistakes or surprises occur later. Chrysler and Daimler-Benz became the world's third-largest auto company by blending two very different cultures — Chrysler's knack for cost cutting was merged in with Daimler's superior engineering prowess. Executives from both companies encouraged staffers to invest in relationships to minimize misunderstandings and gain a better grasp of what each brought to the table.

Set Priorities

Each company's priorities must be identified up front, before the merger or acquisition takes place. You also should map out how each firm works, going into enough detail to identify distinct processes and informal networks.

In the Daimler/Chrysler deal, each company had to identify and understand how the other was run. Although cost cutting was a top objective for both firms, there were several serious issues to address. For instance, Daimler was accustomed to a single, straight-lined organizational chart; Chrysler's organization was a Web of dotted lines and cross-reports. Chrysler's negotiation team explained it all in detail.

Develop Shared Objectives

Once you have identified your distinct issues and priorities, use them to develop shared objectives; these will become the basis for agreements on key integration issues. These top-level issues (such as senior management, planning and preparation, and team building) must be locked down quickly. Appropriate leadership at the top must be established. If both units will remain significantly intact, management should stay in place; in contrast, if a purchased firm is to be absorbed into the buyer, new management will take up positions. Leadership will depend on your objectives, cultures and the skills of the individuals in management positions.

> ***Shared objectives will become the basis for agreements on key integration issues.***

Implementation

Once the deal is done, implementation involves two sets of tasks.

First, you must create teams and post managers to effect a smooth transition, mapping out inter-unit processes and determining how to best align and combine activities and accountabilities, using your shared objectives as a guide.

Second, you must build trust into the combined organization, emphasizing relationships and shared processes and successes.

When correctly implemented, the trust and cooperation established will set you on your way to creating a profitable future together. ■

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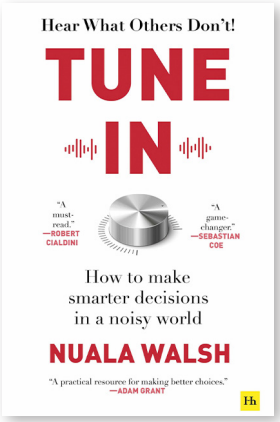
Tune In

Nuala Walsh

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Tune In

How to Make Smarter Decisions in a Noisy World



by **Nuala Walsh**

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THE SUMMARY IN BRIEF

In today's fast-paced, always-on world, our ability to make good decisions is under threat. We're overwhelmed by data, distracted by digital noise, and bombarded with conflicting narratives—all of which distort how we hear, interpret, and act. It's not just a matter of poor judgment—it's a crisis of perception that affects everything from personal relationships to public policy. ***Tune In: How to Make Smarter Decisions in a Noisy World*** explores how context and cognition collide to shape our decision-making, and reveals how most people mishear and misjudge in subtle, predictable ways. The book introduces the PERIMETERS™ framework, outlining ten psychological traps—from Power and Ego to Emotion and Storytelling—that quietly influence our thinking and impact how we interpret the world around us.

Author Nuala Walsh doesn't just diagnose the problem. She provides clear, practical strategies to help individuals, leaders, and organizations "tune in" more intentionally. The result is sharper judgment, better decisions, and stronger communication—whether in boardrooms, communities or conversations at home. Tune In empowers you to filter the noise, hear what matters, and make smarter, more ethical choices. It's a timely call to listen better—and lead wiser.

IN THIS EXECUTIVE BOOK SUMMARY:

- Discover how fast living and digital noise derail decisions.
- Learn why mishearing leads to predictable human error.
- Explore how the PERIMETERS™ traps distort judgment.
- Reflect and reinterpret what you hear with SONIC strategies.

Misjudgment in a Noisy World

Decision-making doesn't exist in a vacuum. Our ability to tune in to the most relevant voice is dictated by our context. Despite the advances of the 21st century, our fast-paced, data-driven and highly visual world affects how we think, what we hear and ultimately, what we decide.

While modern technology provides more platforms than ever to express our voice, the volume of conflicting, competing and contradictory voices dominates the airwaves. Despite increasing societal pressure to hear the voices of customers, employees, stakeholders, voters and marginalised groups, that ability to tune in has been severely contaminated.

Countless channels broadcast messages 24/7. Notifications and newsfeeds bombard the mind, making it impossible to pause long enough to decode them and decide what serves us best. Instead, we judge events in a spinning ecosystem of digital noise, data overload and misinformation. The result?

Most people hear less than ever before – and in turn, feel less heard. Moreover, if you don't hear others, you've less chance of your message being heard.

To control our decision context, we must understand how it's influenced by a tapestry of factors from culture to climate, character and the company we keep. I argue context combines with cognition to mold our interpretation, the essential step before judgment that dictates decision quality.

Mishearing, Misinformation and Misjudgment

Amid so much noise, we can't hear ourselves think. Specifically, four factors subtly but substantively shape judgment, steering us to think in more binary and short-term ways:

1. A fast-paced, frantic lifestyle accelerates short-termism: We live in a world of instant meals, instant money, instant pain-relief and instant weight loss. Today's fast-paced ecosystem amplifies the probability of making fast-paced decisions. The problem occurs when problem-solvers jump to conclusions rather than reflect.

2. Data overload distracts and overwhelms the mind: An unintended result of the modern information tsunami is an overloaded, distracted and inattentive mind. We tune out. We're drowning in data, pumped and dumped on us all day long. Our brains can't cope. Our ability to distill what matters shrinks rather than expands.

3. Visual stimuli increase what we see and reduce what we hear: Thousands of images on smartphones, television, TikTok and Instagram overstimulate our brains. While this serves and satisfies us, the problem is we assume that what we see is much more reliable than what we hear.

4. Polarised systems and structures embed binary perspectives: We reduce choices to 'either/or' conditions. Is a policy good or bad, right or wrong, positive or negative? While one-dimensional classifications make sense, if our world is punctuated with oversimplified categories, segments or choices, it prohibits lateral thinking.

These factors diminish the time, attention and patience available to reinterpret the most important information and conversations. As a result, we mishear what's said or, alternatively, infer what's not said. We misinterpret what we think was said rather than reinterpret what was actually said. This accelerates a rush to misjudgment and predictable human error.

Judgment Killers: Blind Spots, Dead Spots, and Dumb Spots

Any scandal you read about or decision dilemma you face can be traced to a suite of biases which either accelerate or decelerate a rush to misjudgment. You've likely heard of bias blind spots but perhaps are less familiar with deaf spots or even dumb spots. Blind spots overemphasise what we see, literally and figuratively. The biggest error is not pausing to decode information. Deaf spots amplify the tendency to mishear, tune out or not hear. Dumb spots occur when we self-silence as others can't hear our voice. Each of these psychological phenomena cause us to misjudge what we see, hear and say.

You Can't Trust All You Hear

Our judgment is a composite of internal and external factors. When uncertain, under pressure or intense scrutiny, several unconscious factors activate the tendency to think narrowly and limit what is really heard, namely Power, Ego, Risk, Identity, Memory, Ethics, Time, Emotion, Relationships and Stories - the PERIMETERS traps.

> . . . in high-stakes cases, reappraisal and reinterpretation are essential steps that come after listening and before judgment.

Several traps play out in most everyday situations. When these limit your perspective and derail your best judgment, that's the PERIMETERS Effect.

Of course, we want to believe the overpromising politician, backslapping colleague, worshipping priest or silver-tongued salesperson. But in high-stakes cases, reappraisal and reinterpretation are essential steps that come after listening and before judgment. As the great Russian composer Igor Stravinsky once declared, "To listen is an effort, and just to hear is no merit. A duck also hears." Interpretation matters.

The Perimeters: Judgment Traps

Investor Warren Buffet tells how he met a Polish woman who escaped a Nazi concentration camp. She still struggled to trust people, having seen too much and lost too much. She said something unforgettable: "When I look at people, the questions I ask is 'would they hide me?'"

That's a bounded perimeter view. We all have filters for viewing the world, assessing situations and reading people. It's neither right nor wrong. How you judge people is simply a product of what you've seen, what you've heard and how you've lived. Each of these bias-triggered PERIMETERS traps binds our thinking, so we tune out, risking misinterpretation of a situation, strategy or stranger.

Power-based Traps: Charging Ahead

Power is context specific. In some situations, you're the powerholder, but in others, you're not. Power might belong to the assistant upgrading your hotel room, the banker approving your mortgage or the traffic warden clamping your car.

Hunting and holding power derails our judgment. For instance, obsessively hunting power can reduce your power base rather than enhance it. That said, strategic use of power is a tremendous asset.

Throughout history, leaders like Nelson Mandela, Abraham Lincoln and Martin Luther King Jr. have been applauded for using their voice to advance democracy and human rights. Every day leaders of corporations, clubs and communities use their influence for good. Some do it at scale. Presidents construct libraries, sporting legends build academies, and foundations distribute wealth. That's using power for good. Whatever power you hold, it should be used for good. Whatever power you want, hear what voices matter.

A major driver of using power for good is of course ego and the desire to self-congratulate. Just as ego can be a force for good, ego is one of the most toxic and least acknowledged decision derailers.

Ego-based Traps: Nothing Compares to Me

Egotism operates on a spectrum. In small doses, idle boasting and displays of vanity are harmless. We all do it to feel good. In larger doses, the hunt for recognition and reward can be career kryptonite. As power rises, so does ego. The more successful you are, the less likely you are to doubt yourself or hear shortcomings. Our overconfidence makes us poor at spotting or accepting incompetence. How can we make good decisions if we don't realise, let alone accept, our own failings?

Regardless of industry or life stage, you can stem bullish tendencies and shrink ego by collecting disconfirming data, alternating views and recalibrating expectations. Humility is the hallmark of good judgment, making us more willing to ask questions and question answers, assertions and beliefs.

Humility is not a foreign science or dark art. It can supercharge innovation, artistic differentiation and social good, especially when combined with power.

On the other hand, when ego dominates decisions, rational calculations of risk evaporate. Individuals and organisations are so convinced by the sound of their own logic that overestimation of reward and underestimation of regret results.

Risk-Based Traps: Decision Roulette

Formula One drivers, fire crews, suicide bombers, skydivers, hunger strikers and mountain climbers all have

one thing in common. They risk their lives for ideologies, causes or dreams.

Few decisions are risk-free. Most people want maximum reward for minimum risk. Decision-makers make the best risk-reward choices they can with the best intentions, information, time and capacity available.

For some, risk-taking is an essential part of their DNA and personality. People pride themselves on the title of risk-taker, worn like a badge of honour. Like power, ego and risk, even unmanaged identity can contribute to misjudgment.

Identity-based Traps: Photoshopped Lives

Preconceived identity can be a trap no matter how successful you are or what profession you hold. We have pre-formed impressions of actors, moms, teachers, junkies and traders. We don't expect the king to curse, presidents to 'grab crotches' or leaders to embezzle funds.

We like people to stay consistent with their words, appearance and positions. If people, processes and systems are consistent, it makes the world more stable and controllable. It provides elusive certainty and comfort in a type of mental sorting. The desire for consistency simplifies reality but omits complicating shades of grey. Employees, customers, voters and viewers value the predictability of products and promises. Yet this desire to satiate what others want is a mental trap that stifles creativity and evolution. It holds you back.

The best asset you have is yourself so be yourself. Knowing who you are and what you stand for enables freedom of expression. It allows you to speak up and have a voice, ingrained in your DNA and your memory. Sometimes, unconscious memory interferes with your judgment, which is the next set of decision derailers.

Memory-Based Traps: Recall Roulette

When individuals forget processes, misinterpret conversations or recall fictitious events, misjudgment cascades. Lives are lost, money squandered and relationships cratered. Yet memory is the least acknowledged PERIMETERS trap.

What we hear is what we remember. If we mishear, we're more likely to misremember. We think that what we remember is accurate, but several factors impact our judgment, such as overload, distraction and stress.

It's understandable as we're overloaded with so much information we can't process it into memory. When we misremember, forget, repress and distort data, decision risk accelerates, contributing to human error. Memory-based misjudgment is best considered alongside the temporal traps, amplified by nostalgia and hindsight. The most easily identifiable decision derailer is recall bias.

Underpinned by neurological processes, memory is based on distorted recollections that form in our neural networks. Memory operates like a highlights and lowlights movie reel with missing scenes. We unconsciously edit the movie and replay certain narratives - a snarky comment, rude remark or insensitive statement. Sometimes it's our wittiest moments too! Yet what we experience isn't always what we remember.

The Decision Ninja leverages memory as an asset, recording important occasions and statements. Remembering your fiduciary responsibility and moral obligations boosts ethical decisions rather than derails them - discussed next.

Ethics-based traps: Conscience Chaos

The voice of arrogance and ambition often supersedes the voice of conscience and compassion. For instance, many well-meaning leaders decide with a business lens rather than a moral lens and downplay conflicts of interest. In the moment, doing the right thing gets tuned out. Some compensate for wrongdoing by performing kindnesses, then justifying wrongdoing as revisionist historians.

There are numerous examples from pharmaceuticals, banking, manufacturing, law and sports to illustrate how easily misconduct fuses with power, emotion and ego to constrain the right voices.

The ethics-based PERIMETERS traps dominate a noisy world where it's hard to hear the voice of conscience amid the daily din of data, disinformation and distraction. Nowadays, individual, corporate and national perpetrators are increasingly behind held to account and brought to justice. But progress is slow, selective and the world isn't always fair. The worst offenders can escape justice.

Scores of inspirational voices take the right path and reinterpret motivations with a moral filter. Institutions play a role by dialing up rewards and punishments to stem the routinisation of deviance. Every effort makes a difference.

Human vulnerability to power, ego, risk, identity, memory and even ethical traps depends on a temporal mindset.

Human vulnerability to power, ego, risk, identity, memory and even ethical traps depends on a temporal mindset. Are you thinking through the consequences? Are you wedded to past decisions and the voice of nostalgia? While seemingly irrelevant, these decision dealers impact the Time-based PERIMETERS traps.

Time-based traps: Here Today, What Tomorrow?

Time isn't something we think about as a decision influence. It's too abstract. Yet we unconsciously tune in and evaluate situations with a past, present or future orientation. Time-related factors such as impatience, nostalgia and procrastination curb reasoning, derailing the choices we make.

Temporal biases distort what we hear. In a hurry, we use the gist of conversations rather than the detail to reach conclusions. Most people prefer to live in the permanent present with a short-term mindset, despite proven long-term benefits. Some fear change and stick with what's familiar rather than experiment or reinvent strategies. Others recast choices after the fact, thinking "It worked before, it'll work again." The majority of us are awful at predicting how we'll feel in the future and are inconsistent over time.

Most of us unconsciously decide with a past, present or future lens. No approach is risk-free. Too much living in the future leads to daydreaming and nothing gets done. Living in the past risks getting stuck in a rut, not letting go and sacrificing perspective. Living in the present stops us learning from history. Temporal derailers will always challenge you to some extent but even helicopter awareness can alleviate decision damage. It's a huge advantage for the Decision Ninja, especially when emotions ride high- perhaps the greatest set of PERIMETERS traps of all.

Emotion-based Traps: Rollercoaster Reasoning

Sometimes, adrenaline-filled emotions like anger or envy destroy objectivity. When we don't like what we hear, we panic or deny information to avoid doleful regret. Fortunately, emotional intelligence and self-regulation enables distancing for greater hearing and reasoned decisions.

No situation or decision is devoid of emotion, it's a complex web. The phrase "emotion decides and reason justifies" is so cliché it's ignored, like the drone of airline safety instructions. But it has merit. In its vice-like grip, we're more likely to flip out or freeze, mishear and tune out reason than we realise.

The successful Decision Ninja learns to regulate emotions and manage leakage in daily conversations. To gain perspective and reduce intensity, some employ self-distancing techniques. At its core is situational reappraisal, the ability to identify and label the vagabond bias-inducing emotion.

Interpreting communication means deciphering implicit messages. It requires your willingness to pause long enough to gain a better understanding of what's really meant or what people are trying to say. Awareness of the power of pausing and the PERIMETERS traps is a significant step forward and a source of relative influence and peace of mind. Ask yourself who else might suffer if you don't pause and reflect? This is particularly the case when it comes to the effect of collective others in our decisions - the Relationship-based traps.

Relationship-based Traps: Crowd Contagion

Who do we hear in a crowd? When do we tune in? When should we tune out? The collective voice can deafen decision-makers when it matters most.

Derailment starts with the need for belonging. We obsess about what others think, comparing ourselves to strangers and affiliates. We act as 'they' do. We overweight difference and our relative ranking. Ironically, if unsure, we elevate crowd opinion. Assuming the crowd is correct, we imitate its behaviour as it's easier to go along with the group. The problem is we can lose our voice in the crowd and contradict private views to fit in. Notwithstanding the crowd's power to inspire order, stimulate reform, boost social cohe-

sion and sometimes promote justice, we tune out the voice of objectivity when it matters - even if we know better.

No PERIMETERS trap is all bad news. The crowd often remains a prevailing force for good. At a societal level, activism can change laws, reform countries and bring attention to neglected voices. Your relationship with the crowd changes perspective. Knowing which crowd to tune in to is easier than you may think. That said, one factor will determine whether you tune in or out of the crowd: the lure of the narrative it tells.

Story-based Traps: Great Explanations

Story-based decision traps increase vulnerability to misjudgment when we pay too much attention to social, political and organisational narratives. These traps amplify deaf spot risks and encompass elements of ego, power, time, ethics and crowd relationships.

Story-based decision biases have one thing in common: they feed mishearing, misinformation and misjudgment. Instead of seeking truth, we're swept up in Spielberg momentum and become inattentionally deaf. It's the fodder of fake news. No one is immune from mass delusional beliefs including government leaders, academics and policyholders.

It's human nature to weigh stories over scientific data. It's why fake news and conspiracy theories spread. It's why smart people believe in mystical seances, fairies, Santa and the paranormal. Conversely, it's why positive narratives boost well-being, resolve conflict and inspire innovation.

Storytelling is a gift. The Tinder raconteur gets the date, the defendant goes home, the politician gets elected and the candidate gets the job - only if they tell a better story than everyone else. Throughout history, stories have transformed behavior and attitudes, pointing to past victories, present suffering and future triumph.

You have a personal and professional narrative even if it's hard to articulate. If you don't control your narrative, your narrative will control your judgment as well as your reputation. Like the 12th juror, when you make any decision, you have the power to change other people's lives. It's a huge responsibility that should be used wisely and with the utmost respect. Hearing what matters helps hone a next-generation skill. That's the focus of Part Three.

Tuning In: Just-in Time Judgment

The PERIMETERS traps and associated biases have just revealed how much we can't trust what we hear. What you hear isn't all there is, and what you say isn't necessarily what people hear.

In a noisy, full-on, tuned-out world, well-intended decision-makers typically rely on first impressions and don't slow down long enough to probe contradictions, coincidences or inconsistencies. We haven't time. The result is a Molotov cocktail of misinformation that fuels predictable human error, collateral damage and avoidable regret.

If you don't slow down, you can't selectively filter the voices you hear. If you don't reinterpret filtered voices, you can't get judgment right. If you can't get judgment right, you can't get decisions right. Better judgment saves time, money, relationships and reputation. It only takes a reasonable commitment to temper the adrenalin rush and selectively tune in to voices that matter in a given situation and discard the rest.

The benefits of tuning are apparent at the individual, organisational and societal level. Tuned-in individuals will be more persuasive, differentiated and even popular, while organisations become more trusted, sustainable and productive. A tuned-in society can hope for more tolerance, equity and harmony. Predictable damage can be avoided with greater preparedness. While the human condition is bias-prone, that's different to being bias-destined. When you see, hear and speak the truth, you multiply your performance impact and connection with others.

In this final part, I provide a roadmap for the tuned-in Decision Ninja to counteract the biases delineated in the PERIMETERS traps. It's a fast track to being a happiness superspreader and a wiser 12th juror. For leaders, influences and powerholders, it's both a fiduciary and a moral obligation.

Hearing What Matters: Sonic Strategies

Listening interpretatively, intentionally and selectively is a choice. If you decide you want to be a successful Decision Ninja, you first adopt the right frame of mind, treating judgment as a controllable factor before consciously assessing any unconscious decision risk and selecting a counter strategy.

Decision-makers can reflect, reinterpret and reappraise more with the strategies encapsulated in the mnemonic SONIC.

- Slow down long enough to recalibrate and reinterpret what we hear - or don't.
- Organise your attention. Does your big decision have some, all or none of your attention? Unconsciously, you might magnify the dilemma disproportionately, which thwarts rational judgment, or deny reality in the ostrich effect.
- Navigate novel perspectives. We care too much about being heard and not enough about hearing others.
- Interrupt mindsets. Every smartphone buzz or blink interrupts your headspace and creative flow when you're writing, speaking or strategising. The University of California Irvine estimates that it takes 23 minutes to revert to a pre-interrupted state!
- Calibrate situations, strangers and strategies. Recalibration of what you hear can be achieved with the PERIMETERS bias checklist. This is available on the website www.nualagwalsh.com.

There's no silver bullet or perfect judgment, but decisions can always be made better. Even mild effort will pay off and boost sonic intelligence. The trick is to start small. Even a 1% differential would save time, effort and money. All anyone can do as we try to make a difference, not just for ourselves but for those in our care, is our best.

In Tune: The Decision Ninja

As a Decision Ninja, in your personal and professional context, you have the power to write your own story and construct the best possible ending. It's free and sometimes, takes only seconds.

By hearing others, those who hold power and influence have the opportunity to heal a divided world, calm conflict and alleviate senseless violence. Those who tune in consciously and strategically will literally make the world a better place.

I hope the perimeters of your worldview are broadened a little more with this book. I hope you tune in to what matters and hear things that others don't. Above all, I hope that others hear your voice and you achieve what matters most to you. Thank you for tuning in.



Award-winning author **Nuala Walsh** is CEO of MindEquity Consulting, non-executive director and former FTSE 50 Chief Marketing Officer with 30+ years in global investment management. She has been recognized among the 100 Most Influential Women in Finance, now advising Fortune 500 companies, sports and human rights organizations on brand, reputation and culture change. A behavioural scientist, she is adjunct professor at Trinity College Dublin, and Fellow at the London School of Economics.

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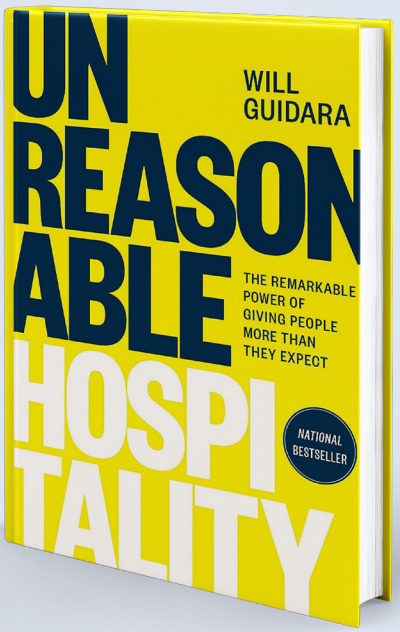
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Unreasonably Hospitality

Will Guidara

BOOK SNAPS™

Zooming In On Your Next Read



Unreasonable Hospitality

The Remarkable Power of Giving People More Than They Expect

By Will Guidara

Will Guidara is the founder of Thank You, a hospitality company that develops world-class destinations and helps leaders across industries transform their approach to customer service. He is a former co-owner of Eleven Madison Park and the NoMad, and is the cofounder of the Welcome Conference, an annual hospitality symposium. He has coauthored four cookbooks, was named one of Crain's New York Business's 40 Under 40, and is a recipient of WSJ Magazine's Innovator Award. He lives in the Hudson Valley with his wife, Christina, and their daughter, Frankie.

Lessons In Hospitality for Every Business

Unreasonable Hospitality: The Remarkable Power of Giving People More Than They Expect is Will Guidara's book about the importance of hospitality in the restaurant industry, but he hopes that his message will resonate with readers from across all industries, both those serving the public and those serving other businesses. Through his years in the restaurant industry, Guidara has found great meaning in going to extreme measures to make people feel welcomed and appreciated, both his guests and his employees. Viewed through this lens, he views being able to serve people as an honor, a noble endeavor. *Unreasonable Hospitality* walks Guidara's readers through his many years in the hospitality industry, leaving the reader with wisdom he gleaned along the way. His book sets out to demonstrate to others how this unreasonable hospitality can completely change a business for the better.

Guidara opens his book with an event that he and his partner, Daniel Humm, considered a failure. Their restaurant had been named one of the world's 50 best restaurants, but when they arrived at the ceremony, they learned that they came in 50th place. Despite the honor that being named to the list was, the two had been hoping for a better placement their first time on the list and left the ceremony feeling disappointed. What Guidara learned from this experience was that even though their restaurant, Eleven Madison Park, was truly an excellent establishment, it had yet to do anything revolutionary. Guidara realized that most of the restaurants higher on the list excelled at innovation. What he wanted to excel at, however, was how his restaurant takes care of people. To him, hospitality means going far beyond just doing a competent and efficient job. It is about making people feel spectacular and forging a true connection, and this is what he set about doing. For Guidara, this type of service is selfish because it makes him feel wonderful being able to serve people in this way. Because of this, when unreasonable hospitality is employed, the employee, the business, and the customer all thrive.

Hospitality

Guidara grew up in the world of hospitality. His parents met while they were both in the hospitality industry, and Guidara graduated from the School of Hotel Administration at Cornell. His mother became a quadriplegic due to brain cancer, and he

remarks in his book about a meal he had shortly after his mother died when the chef invited him and his dad into a special private dining room overlooking the kitchen. Despite the night being the saddest of Guidara's life, he still had one of the best evenings of his life thanks to the hospitality of that chef. This event showed him "how important, how noble, working in service can be."

Guidara goes on to explain how important it is to exhibit hospitality to a person's employees. He explains the philosophy of restaurateur Danny Meyer who believes in Enlightened Hospitality or the act of prioritizing employees over all else. Meyer believes that if a business takes care of its employees then those employees will take care of everybody else. Guidara goes on to explain how important intentionality always was to his father, a man he exhibits great respect for. By intentionality, Guidara "means every decision, from the most obviously significant to the seemingly mundane matters."

Upon graduation from Cornell, one of Meyers partners, Richard Coraine, offered Guidara a job, and Guidara's father urged him to take the position explaining that it is easier to learn to do things the right way the first time around than to break harmful habits. He could learn these enlightened ways from Coraine's business. Guidara talks about lessons he learned when he first entered the business. One of these lessons is to embrace optimism and to try to infect a room with your own energy rather than let the energy in a room influence you. He remembers a time when the general manager, Randy Garutti, gave him the keys to have him close up one night. This helped instill in Guidara a sense of ownership over the establishment and allowed Guidara to know that he was trusted. He tries to give his own employees these same two graces. He also discusses the importance of a shared language between employees engaged in an enterprise.

Restaurant Versus Corporate Smarts

In his next chapter, Guidara compares restaurant smarts to corporate smarts. At his job at the time, Guidara was being educated in restaurant smarts. This type of smarts prizes creativity and autonomy and places hospitality at the center. It can sometimes be in opposition to corporate smarts which frequently prizes control and can sometimes stifle creativity while prioritizing business acumen. While learning about corporate smarts at this new job with Restaurant Associates, Guidara learned how important profit and loss statements are, and he excitedly anticipated the day he could get his hands on them. Both restaurant smarts and corporate smarts are important in running a successful restaurant, and Guidara maintains that "creativity was going to be the main ingredient in striking a true balance between restaurant-smart and corporate-smart." To walk this line, Guidara works by the 95/5 principle in which 95% of a business is financially managed very closely, and 5% is managed extravagantly. This 5% is important to Guidara because he believes that it is here where the greatest impact is made.

Building a Team

Guidara began to get frustrated by the pull between the cooking staff and the dining room staff that frequently occurs at restaurants and in which the dining room staff are less respected than those who work in the back. Guidara realized that while the food is very important, so is the service aspect of a restaurant. Guidara was offered a position at Eleven Madison Park as the general manager, but he was hesitant to take the position because he did not believe he wanted to work in more fine dining establishments in no small part because the chef was often so far exalted among other employees. He met with the chef, Daniel Humm, and they decided to have "open communication between the kitchen and the dining room staff." They decided that both the front end and the back end would run the restaurant. They believed they could create an organization that could do both what is best for the food and for the service.

What Guidara and Humm set out to achieve was a cool restaurant, one that married excellence with fun. Guidara quickly learned that there were tensions at EMP between the employees who had been there for years and the newer employees. The older employees were used to a more relaxed environment than the newer ones who mainly came from fine dining establishments. Guidara realized that he needed to get the more established employees on board with his new plan, and this required communication and consistency. Guidara relied on his principle of taking care of his people to do this. He started out his tenure by listening to all members of his team. Then he worked on locating the strengths of all of those team members. He worked on giving both ample praise and correction, but the latter was given with little emotion and in private. He believes both types of feedback need to be constantly given. He also instituted thirty minute meetings every day. He believes that these meetings are crucial in creating cohesive teams. They are one of his ways of treating his employees with hospitality.

Guidara believes in the importance of good training and rules as long as they are sensical and help an organization move forward. To him, tradition is no reason to continue doing something a certain way if it is no longer working for the people or their organization. Genuine relationships are a key aspect to the service profession, and sometimes these relationships require breaking down barriers..

When hiring people, Guidara started to recognize that servers who came from the world of fine dining often had hard habits to break. What he was looking for was people who demonstrated true hospitality who find a reward in making a person's day better. Hiring is important, he maintains, because in the process of hiring a person, the manager is hiring someone who will represent and support both the manager and the entire team. Because of this, Guidara is a proponent of hiring slowly. He started a practice of hiring multiple people at a time and treating them as a class that can grow together and help one another. He maintains that while it is unenjoyable to be short handed, it is better to be short handed for a bit and then hire an exceptional person than to hire someone who will not be good for the organization in the long term. Guidara looks to make caring cool in his organization. He wants employees who get excited about being really invested in their work and in the company. This passion, vulnerability, and enthusiasm is key to Guidara.

> [People] can give up trying to achieve perfection, or they can get as close to it as they possibly can."

Guidara believes it is important to give all people a sense of ownership over their place of employment. To facilitate this, his restaurant starts every new employee out working at least temporarily as a food runner. This allows employees the opportunity to see the business from a different perspective. Guidara and his colleagues instituted ownership programs whereby employees are given specific challenges the restaurant faces and are tasked with figuring out a way to make the systems work better. While these programs initially take a lot of work to oversee, Guidara believes the time is worth it. Through this program, people are able to solve problems, save money, and become more invested in their workplace. Guidara is a firm believer in giving people more responsibility "before they're ready" because most people will live up to the challenge. He also gives his employees the opportunity to teach classes to the rest of the staff about issues that are important to them and that they are knowledgeable about. Guidara believes in the importance of investing in his teams. People cannot perform well if they are not filled up themselves. Therefore, at times he has had to realize that he has to scale back on his plans if he wants to maintain the morale of his employees.

Perfection

Guidara goes on to discuss excellence and perfection. He understands that perfection is unattainable, but he believes there are two roads people can take with that knowledge. They can give up trying to achieve perfection, or they can get as close to it as they possibly can. He chooses the latter. In his team, they "chased excellence in every element of what we did." This is important because "that precision in the smallest of details translated to precision in the bigger ones." In other words, excellence in the small things matters. Guidara believes that excellence becomes evident when employees are promoted within to ever higher roles, and he also makes it a priority to promote from within rather than from outside the organization.

A Culture of Respect

Guidara allows that when everyone is invested in excellence, disagreements are bound to arise. He also maintains, however, that people have to care for one another while they also care about the business's mission. His company's rule is to never go to bed angry. While he admits that this advice does not always work in marriages, he believes it is important that employees do not leave work still angry with each other, and he thinks a key part of this is listening to the other person. When two people cannot come to an agreement, he believes it is often important for the wishes of the person who cares more about the issue to win out.

Guidara believes that both affirmation and criticism are important for those in positions of leadership. Many people enjoy giving out affirmation, and he insists that when people are praised for the work of their team that they direct that praise to the appropriate team member. Criticism, maintains Guidara, is an investment in another's work. It helps an employee become better. Guidara also believes in the importance of a leader apologizing and showing vulnerability to team members in order to gain trust.

Towards the end of his book, Guidara goes back to his principle from the beginning: unreasonable hospitality. He works hard to make every aspect of his guests' experience excellent. One example of this is eliminating the podium at the door and scouring the internet for pictures of guests before they arrive, so his employees can greet the guests by name, without a podium and an ipad between them. He relays numerous instances in which he and his staff went far beyond guest expectations in both large and small ways that made the dining experience truly memorable for those dining at his restaurant. He hires people whose specific job is to create unique experiences for guests, calling these experiences Legends. Performing these Legends frequently benefits the employee as much as the guest because employees delight in the feeling of joy they are able to impart. Guidara cautions his reader against worshiping practicality. Often he says a person should not focus first on practicality and instead should focus on how to make dreams a reality.

Eventually Guidara and Humm worked their way through the ranks of the best 50 restaurants, finally achieving their coveted number one spot. Throughout his book, Guidara attempts to share his secrets to success with his readers in order to allow them to apply the same principles of his success to their own endeavors. In what reads like a narrative, Guidara's readers are given a blueprint laying out the most important ingredients for the culture Guidara and his company attempted and succeeded at fostering. In this way, Guidara's book is relevant to anybody trying to create a respectful, human-focused culture centered around the principle of excellence.

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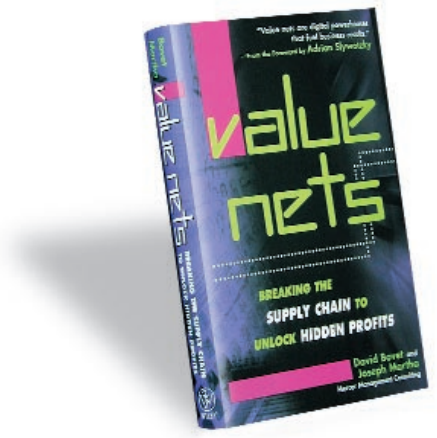
Value Nets

David Bovet and Joseph Martha

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FILE: STRATEGIC MANAGEMENT



By David Bovet and Joseph Martha

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Breaking the Supply Chain to Unlock Hidden Profits

VALUE NETS

THE SUMMARY IN BRIEF

If your company is like most, substantial profits are locked away where you would least expect to find them — in those activities commonly called the supply chain. Whether your company is a young dot-com company or a seasoned incumbent, enormous new value can be found and unlocked in the operating end of the business — how you handle orders, source components, build products and get them to customers.

The key, according to authors David Bovet and Joseph Martha of Mercer Management Consulting, is for your company to adopt an entirely new business design, the **value net**.

Value net design combines strategic thinking and recent advances in supply chain management, resulting in a flexible system that is driven by customer choice, not the company. This customer-driven system — with a mindset focused on *value creation*, not *supply* — replaces the traditional supply chain business design that fails to deliver the exceptional convenience, speed, reliability and customization that today's customers demand.

In this summary, you will learn how to use the business design methodology first introduced in *The Profit Zone* (written by a Mercer Management Consulting team of authors led by Adrian Slywotzky) to develop your company's value net business design.

Specifically, you will learn how to:

- choose among the different types of *value propositions* — service, convenience or customization — that you must offer customers;
- define the *scope* of the business design — which activities need to be performed, and by whom, to deliver the value proposition;
- capture *profit;*
- gain *strategic control* to keep those profits coming in; and
- *execute* the transformation from supply chain company to value net company.

But before you begin dealing with these five elements of the new business design, you will first learn in more detail how the value net improves on the old supply chain model — and why your company needs this new value net design today.

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VALUE NETS

by David Bovet and Joseph Martha

— THE *COMPLETE* SUMMARY

The Power of Value Nets

A new business model is emerging. If you've ordered a computer over the Internet, you have already been in contact with this model. It links increasingly stringent customer requirements to flexible and cost-effective manufacturing. It uses digital information to move products rapidly, bypassing costly distribution layers. It adapts to constant change. This new model, which is replacing the traditional supply chain business design, is the **value net.**

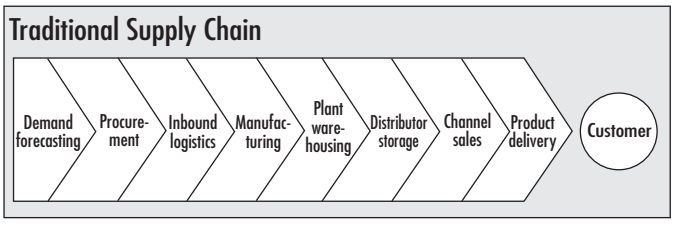
Value Net Defined

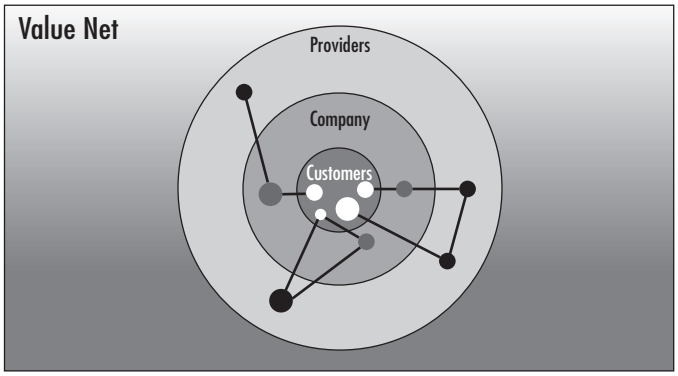
A value net is a fast, flexible system aligned and driven by customer choice. It is a dynamic, high performance network of customer and supplier partnerships and information flows. A value net begins with customers, and builds to satisfy actual demand. It is nothing like the old supply chain theory, which relied on manufacturing products and pushing them through distribution channels in the hope that someone would buy them. In fact, a value net is not about supply; it is about creating value for customers, the company and its suppliers. The value net replaces the sequential links of the supply chain (see figure below) with a network of two-way customer/supplier relationships.

Customers Choose

A value net views every customer as unique. It allows customers to choose the product or service they value most. Manufacturing, delivery and associated services are differentiated to meet the needs of each customer segment, profitably.

Companies like Dell Computer, Gateway, furniture maker Miller SQA, and delivery innovator Streamline.com are in the vanguard of creating value nets. These companies allow customers to configure their own orders, then build and deliver them to their doorsteps in a matter of days. No hassles. No mistakes. No excuses. And they are killing competitors who cannot do the same. If you want to survive and thrive in the new economy, you must learn to respond to customer demand the way these companies have. When you adopt the value net as your business model, you will.





A value net looks nothing like the old supply chains, which relied heavily on demand forecasting followed by manufacturing and delivering products or services to a customer who might or might not want the product. Instead, a value net places the customers at the center of the entire process, as shown in the figure above.

The choices of these customers are captured in real time and transmitted digitally to other value net participants. In the next concentric circle, surrounding the customer, is the company. It controls the customer contact points by accessing customer information, nurturing the relationship, and managing satisfaction through digitally integrated service and support.

At the outer circle of the value net are the providers who perform some or all of the sourcing, assembly and delivery activities.

Five Characteristics of Value Nets

There are five characteristics distinct to a value net business that give it an edge over a traditional business design that relies on supply chain thinking. Value nets are:

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The authors: David Bovet and Joseph Martha are vice presidents with Mercer Management Consulting's Supply Chain Strategy Team. Bovet is a well-known speaker on the subject of supply and value nets. Martha leads the Supply Chain Strategy Team, building Mercer's supply chain practice into a market leader.
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The Power of Value Nets

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Customer-aligned. Customer choices trigger sourcing, building and delivery. Customers command the value net.

Collaborative and systemic. Each activity is assigned to the partner best able to perform it, with many operational activities delegated to specialists.

Agile and scalable. Value nets are responsive to changes in demand, new product launches and rapid growth. Working capital shrinks and process time is collapsed.

Fast-flow. Order to delivery cycles are fast and compressed. Delivery is fast and convenient, at the customer's plant, office or home. Inventories are low.

Digital. E-commerce is a key enabler, and new digital information pathways link and coordinate the activities of the company, its customers and its providers.

Herman Miller's Value Net

You need look no further than office furniture maker Herman Miller for an example of value net design. A new unit, Miller SQA, makes office furniture with a twist. Its products and the entire furniture-buying experience are designed to be "simple, quick and affordable." Take, for example, the ordering experience. With the use of a digital interface, customers can configure a purchase to order. Once an order is placed, the information suppliers will need to build the furniture is instantly transmitted for just in time delivery. So fast and efficient is the operation that order to delivery time is measured in **days** not **months**. Orders are being shipped 99.6 percent on time and complete. It's no wonder sales are growing at 25 percent a year.

Time for a Value Net Design?

Take this test to see if your company or one of its units needs to migrate from supply chain to a value net design. Look for the following indicators and ask yourself the tough questions they raise:

✓ **Your business isn't meeting customer demand for speed, reliability and convenience.** A good product isn't good enough anymore. Today's customers want rapid fulfillment, on-time delivery and convenience in doing business with you, and won't settle for less.

✓ **Your customers are defecting.** Your most profitable customers don't necessarily fit the "average" mold. Don't let the customers who want customized offerings shift their spending to the competition.

✓ **You worry about being "Amazoned."** You need to meet the Internet challenge and view e-commerce as an opportunity, not a threat.

Supply Chain vs. Value Net

Supply chains and value nets differ in five key ways.

Old Supply Chain	New Value Net
One size fits all	Customer-aligned
Arms length and sequential	Collaborative and systemic
Rigid and inflexible	Agile and scalable
Slow and static	Fast-flow
Analog	Digital

✓ **Profits are migrating elsewhere.** If your revenues per customer are stagnating, you need to change your business design to compete with all players, including the incumbents and the dot–coms.

✓ **You equate "customer-centric" with a good marketing department.** Nothing could be further from the truth today. Superb service doesn't happen when it's designed after the product and service mix decisions have been made.

✓ **Your managers view suppliers as enemies.** Think partnership rather than playing one off against the other. Collaborative initiatives define value nets.

✓ **Senior executives view the supply chain as an operational issue**. It must be much more if your business is going to be reshaped into a value net. ■

Value Nets and Business Design

There are profound changes occurring in the marketplace. The change drivers include:

Demanding customers. Consumers and business customers today want it all. They want speed, service and customization, all at a low price. Overnight and even instant delivery is becoming the norm for a growing spectrum of goods and services. Books, clothing and computers arrive at a consumer's doorstep in a few days. Today, with leisure time scarce, customers want and will pay for time-saving convenience, delivery, support and maintenance, and ultimate disposal of a wide range of products.

Digitization of the economy. The digitization of the economy is revolutionizing the way companies do business. The Internet is the most visible manifestation of

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Value Nets and Business Design

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digitization, and the catalyst for thousands of new businesses. But many of these new businesses have been better at designing fancy web pages than fulfilling their potential as value nets. The key to success is speedy e-fulfillment rather than a slick order page. Meanwhile, whole industries are being transformed by the power of the Internet. Postage stamps and music can now be delivered digitally.

Digital technology is impacting every aspect of business. Software can connect customer orders directly to shop floor activities, algorithms optimize production automatically, wireless global positioning systems guide deliveries, and remote sensors control machine maintenance.

High competition. Competitive pressures are emerging from unexpected quarters. Obscure entrepreneurs can launch new ventures that suddenly threaten established businesses. Venture capitalists are major players.

Globalization. Finally, globalization is providing new markets and new supply sources as never before. Low-cost, low-skilled labor is located in one nation, state-of-the-art contract assembly plants in another, and a pool of technically specialized workers can be tapped in yet another country.

Value Migration

The four change drivers just described cause value migration. Value migration is the flow of profits and value away from outmoded business designs toward others that are better designed to maximize utility for customers and profits for companies. A perfect example is the computer industry, which has shifted from traditional manufacturing and distribution to a build-to-order model. Dell Computer and Gateway together benefitted from this shift to the tune of $134 billion in added market value from 1990 to 1999. During the same time, more traditional computer manufacturers Digital Equipment and Compaq created only $22 billion in market value. Migration patterns like these are signals that business redesign is needed.

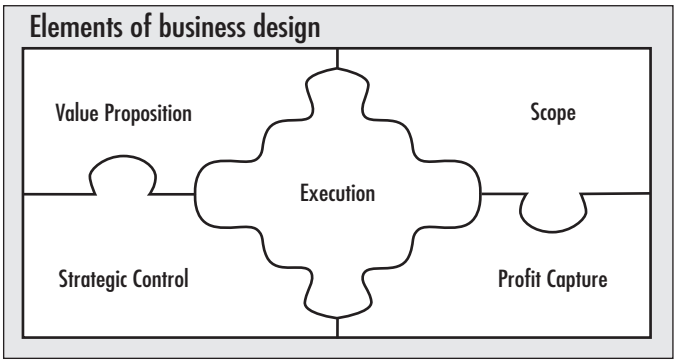
Business Redesign

There are three essential factors that determine market value. These are the growth rate of profits, capital efficiency and the ability to sustain profitable growth.

Taking into consideration these three factors, Mercer Management Consulting developed a business design model based on five key elements:

✓ **Value proposition —** what the company will offer to potentially profitable customers.

✓ **Scope** — which activities need to be performed and by whom.



✓ **Profit capture** — how the company aims to earn a compelling return on shareholder capital.

✓ **Strategic control** — the ability to protect the profit stream over time through sustainable advantages.

✓ **Execution** — the human capabilities and digital technology that hold all the elements together.

The first and third elements represent the company's ability to grow profitably. The second element represents the efficiency with which the capital is employed. The last two elements determine a company's ability to sustain profitable growth over time. These five elements are the keys that will help you create a value net company. ■

Value Proposition: Crafting the Offer

The first piece of the business puzzle is understanding customer needs and serving them with unique products and services that respond to each segment's most relevant priorities. It is no simple matter. The value proposition is the utility-creating product or service that a company offers to customers. In many cases, product and service are tightly bound together. Purchase decisions are determined by the service and information attributes that enhance tangible products; a pleasing store ambiance, next day delivery, expert assistance and after sale service. These are the *service wrap*.

Three Powerful Value Propositions

The innovators who have capitalized on the demographic and social trends that are emerging offer three powerful value propositions. These are:

✓ **Super service** — including speedy and reliable delivery;

✓ **Convenient solutions** — delivering complete and targeted services addressing a broad set of customer needs; and

✓ **Customization** — providing customized products and services, bundled together in unique ways.

To take advantage of these value propositions, you must target them at the right customers: those who

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Value Proposition: Crafting the Offer

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place a high value on the offer and are profitable to serve. The key is to stay focused on the needs of specific profitable customer segments, develop a proposition they value highly, and design a value net capable of profitably delivering on the proposition.

Super Service in Action

Super service is a quantum leap. Super service delights the customer and differentiates the provider. It may be product availability, quality service or easy returns, or it may be rapid, reliable product delivery. There are two key aspects of super service: speed and reliability.

Consider what happened when the nation's fifth largest auto insurer, Progressive, changed its delivery design to make settlements happen fast. Until the 1990s Progressive took days or weeks to settle a claim. The company had banker's hours. Every Monday started with taking loss reports. The rest of the week was spent catching up, as claims agents were dispatched into the field. Then the CEO redesigned the organization to respond immediately when the customer called. Before long, the company had an on-the-spot system for settling claims. An Immediate Response® fleet of 1500 Ford Explorers equipped with cell phones, laptops and wireless modems made it possible for claims adjusters to access the company's databases immediately and settle claims on the spot.

Shrinking Leisure Time = Demand for Service and Convenience

Shrinking leisure time and larger household incomes have boosted the demand for all types of services, from house cleaning to personal chefs. They have also spurred demand for time-saving conveniences like home shopping and delivery. Busy people don't like spending their scarce leisure time doing routine errands or milling around malls. At the same time, the public appetite for fast and reliable service has mushroomed. E-mail and fax provides fast communication, as do cell phones, pagers, ATMs, one-hour photos, 10-minute loan approvals, downloadable software and drive-through liquor stores. You now have a culture in which people expect that anything can and should be available anytime, anywhere.

Reliability at Cemex

Cemex has almost made reliability its trademark. The company is the world's third largest cement producer, and sells cement, ready-mix concrete, aggregates and clinker primarily to the construction industry. It has operations in 10 countries and sells in 60.

Reliability is an important virtue in the ready-mix business since delivery delays can wreak havoc with construction schedules. Yet reliability is difficult to achieve since many customers, unable to control their own schedules, frequently cancel or reschedule orders. For years, delivery was chaotic. Then the CEO began to rethink the entire operation with an eye toward reliability.

Using state-of-the-art communications and information systems, Cemex now boasts "Quality cement available anywhere, anytime." The delivery of cement product is now tracked from plant to customer via wire, satellite and the Internet. The company now boasts a 98 percent on-time performance using a 20-minute delivery window.

The end result for Progressive has been increased customer retention, increased referrals, reduced fraudulent activity, reduced car rental costs and rising insurance premium revenues. While the rest of the auto insurance industry grew at an annual rate of about five percent, Progressive has grown at a rate of 25 percent.

Reliability is the other component of super service. Reliability means predictable, on-time delivery of "perfect orders," as expected by the customer. A perfect order is one that is shipped on time and complete and received at the customer's desired location within a precise time window, in excellent condition, and ready-to-use. It includes the flexibility to respond to last minute changes requested by the customer.

Convenient Solutions

Convenient solutions is another powerful value proposition. Customers today are looking for solutions. To offer this, you must do two things well: pinpoint the convenience needs of the customer, and deliver the solution without a slip. Value nets pinpoint needs by capturing critical customer information at "touch-points" during the ordering and selection process, while tracking order status, and during delivery and maintenance.

Streamline.com for example is one of the new breed of companies providing convenient Internet-enabled home delivery of goods and services. Streamline was created as a service enterprise, offering scheduled delivery of

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Value Proposition: Crafting the Offer

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groceries, personal care products and dry cleaning. Streamline's aim is to simplify the lives of busy families by eliminating the need for trips to the supermarket, the dry cleaners, the florist, and so on.

Streamline Delivers

Streamline's targeted customer segment is the busy suburban family with children, high income and homes close to its distribution facility. The set of products and services include food and non-food items that ordinarily would require trips to many stores. Customers place orders via the Internet directly into the company's order entry system. These are then routed to the warehouse management system. The warehouse is supplied by dry grocer vendors, a local bakery, a top of the line meat supplier, a UPS package service, Blockbuster Video, and dozens of others.

Each customer is on a fixed weekly schedule, and selects items for the week at least one day before delivery. There is a "Don't Run Out" list, along with a selection that the customer can change. Delivery is to the customer's special refrigerated "Box" in an accessible part of the house such as a garage. Customers pay $30 monthly for the service, plus the price of goods purchased. The company has identified a consumer problem and provided a convenient way to solve it. Streamline has created a value net. ■

Scope: Deciding Where and How to Play

Every business must define the critical activities it will perform in creating value for customers, maintaining strategic control of the customer interface, and capturing the profits it needs to prosper. These activities represent the scope of the business designs. Scope decisions determine what activities must be performed to deliver on the company's value proposition and who will perform them — the company or outside partners. Three categories of scope must be incorporated in the value net design: customer choice, production and delivery.

Choiceboards

The choiceboard is a new phenomenon made possible by the Internet. Companies now can enjoy real-time two-way interaction with customers. When you configure a personal computer at Dell or Gateway, you are using a choiceboard. Choiceboards have four key elements. First, choiceboards involve a fast two-way conversation between the company and its customers.

A Virtual Company

SOHO Inc. is a virtual company with an expansive mission, a narrowly-defined scope and brilliantly-executed value net operations. The California startup makes ergonomic computer desks and sold $8 million dollars worth of them in 1999. Initial capitalization was a mere $100,000. SOHO used 14 suppliers and six retail partners from around the U.S. Those partners do everything except marketing, order entry and customer service. The company now operates on $400,000 working capital and fixed costs per year and does no advertising. Instead, SOHO relies on offering retail partners promotional discounts in return for premium shelf or catalog space.

Second, a choiceboard captures real demand by linking their desires to its operational design. A choiceboard allows companies to determine real choice instead of guessing it from customers' purchases. Companies can observe buyer reactions and gain accurate insights into exact customer preference. Third, a choiceboard allows choice management by the company as it makes available limited choices. For example, Gateway is using choiceboards to manage demand by steering customers to components that are in better stock positions, resulting in lower inventory and superior profits. Finally, a choice board allows product definition as each customer configures a product or service to his requirements.

Value-Enhancing Delivery

A value net does not see delivery as an afterthought. Instead, delivery is an important opportunity to enhance the value of the offer, delight the customer and make money. But delivery is more than getting the product from the company to the customer. It includes physical delivery, installation and training, ongoing support, product returns and end-of-life retrieval.

Outsourcing

Value net companies face a major question, "Which activities should we outsource to others?" They place a high value on delivering performance through whomever has the ability to execute with superior efficiency and added value. You should control customer touch-points like ordering, customer service and delivery, and outsource other functions as needed.

Outsourcing provides flexibility and scalability, all ideal characteristics for a young start-up company. If you are an entrepreneur with a vision for a new product or service, you can take that concept to market faster and with less cash by outsourcing production, distribution and

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Scope: Deciding Where and How to Play

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other functions, creating an almost virtual company.

Every company needs to understand that the best place to play in the interconnected world of customers and suppliers is not constant. Outsourcing is about collaborative business cultures and support for the spread of technology. Outsourcing is no longer a trade-off between lower cost or better service. Both are possible. ■

Profit Capture: Casting the Net

A company can grow if it has a powerful and appealing value proposition. But growth only benefits a company when it can capture profit from the value it creates for its customers. A value net uses elements of its operating design to generate and capture superior profits.

Profitable revenue generation is driven by the ability to provide super service and convenient solutions. On the cost and asset side, value net designs drive profits through magnitude reductions in inventory, extremely efficient operations processes and the ability to grow rapidly with limited cash for working capital or fixed asset investments.

Profits from Super Service

Companies that provide superior service are often able to charge a premium for that "customer wrap." Companies can also increase profits by increasing profitable volume rather than raising margins.

Consider an example from the fashion industry. Rapid and reliable delivery plays a critical role since customer tastes can change in the blink of an eye. Fashion retailers know what's hot today may be on the clearance rack tomorrow.

Rapid and reliable delivery plays a critical role [in the fashion industry] since customer tastes can change in the blink of an eye.

The key in the fashion industry is to make products available when and where they are hottest. The Limited has designed a supply chain delivering $10 billion worth of goods through the company's ten main brands. Getting the trendy new products into stores quickly is a must. To maximize profits, the company has developed an operating design that prioritizes time, service and cost of delivery in that order.

How do they do it? They meet every Monday night for an "information scrub." By 10 p.m. the conference room walls are lined with data on what's selling where. Product redeployment plans are developed, and products are shifted. The Limited can get the right products to the right stores and change the floor layout of every store within 72 hours.

Iomega Slashes Inventory Stockpiles

Iomega, a $1.7 billion manufacturer of data storage systems, demonstrates the benefits to be gained when companies create direct information links in the supply chain. The company creates several i2 Technology software packages. These packages, including the Demand Planner, the Factory Planner and the Supply Chain Planner, enable an efficient information flow through the company's value net. With the software deployed, the company has slashed inventory by 50 percent.

Money in Solutions

There is money to be made by value net companies that provide a more complete solution for customer needs. Nowhere is this more true than in the business-to-business world. GE Medical is an example of a company that realized the value of providing a complete solution to a customer problem. Broken medical equipment costs the medical profession plenty in lost time. So GE began servicing not just its own equipment, but other makers' equipment also. By 1998, services represented almost half of GE Medical's revenues.

Cost and Assets

By adopting a value net system to replace an older system, companies can dramatically cut costs and optimize asset usage. Companies do this by melting inventory stockpiles, achieving operations effectiveness through digitization, and growing without cash.

An important factor in shrinking inventory levels is reduced product complexity. Remember that about 90 percent of customer demand is satisfied with about 10 percent of a product line. Don't complicate matters with too many choices. Concentrate instead on mass customization rather than a large inventory of every possible combination. One powerful technique is to use standard components to reduce inventory. You must also manage supply reliability by building supplier relationships rather than stockpiling components for a rainy day.

Digital technology forms the backbone of a value net. By digitizing the manufacturing of custom doors, for example, Weyerhauser has turned "a dead dog" plant into a profitable center. Gone are hand-written notes stapled to doors as they move through the production line. Door design instructions are now delivered via computer. ■

Strategic Control: Staying in the Game

After companies begin making money through profit capture, they must turn to strategic control to protect those profits over time. Value net companies achieve strategic control through mechanisms like a **brand** that provides differentiation in the eyes of the customer, through a **hook** that holds customers, through a solid provider **relationship** with supply partners, through **innovative design** that puts your service ahead of others', and through a **low price** that competitors find hard to match. The more your value net focuses on brand and hooks, the less likely competition will move in and deprive you of long term profitability. The more it focuses on design innovation or low price, the more likely you will face significant competition in the future.

Value net companies hook customers with superior service and convenience. Consider Ritz Carlton Hotels. The chain keeps a database that lets a returning customer skip the usual check-in questions, no matter in which hotel the original information was gathered. ■

Value Net Brands

Product brand can account for as much as 100 percent of sustained profitability. Consider examples like Coke, Tide, Advil and Sony. Over time, brand holders can spend less on customer acquisition, experience fewer defections, and charge a premium for the name. Brands are more than names for products, however. Value net companies like Gateway don't have a distinct product. Instead, the brand is comprised primarily of the value associated with customization and rapid delivery.

Designing for Execution: Realizing the Net

Execution is the fifth element of value net business design. It translates business design into fast, reliable and flexible value-creating activities. Execution links all other design decisions. Nothing else you have done to create a value net will work unless you can execute. Mess up execution and you are out.

You will have to create a breakthrough culture with leadership vision, an entrepreneurial team, simple and clear goals, and new skills. Visionary leadership requires commitment from the top; it does not percolate from the bottom. Once the visionary leadership is in place, the next big challenge is to get people on board who can carry through that vision. A team-oriented culture is essential. Everyone must be on board, including the rank and file.

Value net companies must also take full advantage of digital technology to communicate with customers and suppliers. ■

Lessons from the Innovators

The companies who are successful value net operations can offer valuable lessons for any company that wants to reinvent itself as a value net company.

Customer Focus

First, clarify the offer. Successful value nets don't try to be all things to all people. Instead, these companies identify and target market segments and offer value propositions with powerful appeal to those segments. Value nets then deliver to that segment.

Second, use a choiceboard as your customer interface. A choiceboard's ability to accurately gather customer preferences and feed them digitally to supply partners lays the groundwork essential for customer knowledge and rapid turnaround.

Third, compress the order-to-delivery cycle so that customers get the speed they want. And finally, provide convenient delivery no matter what your product or service is.

Operating Effectiveness

Customer focus must be complemented with effective systems for production and distribution. Operational "innards" must be digitized to make good on the promise made to customers. Learn to build to order. Design your net to be fast, to provide customization, and to respond to actual orders, not guesses about what customers want.

Next, select strategic supply partners, including outsourcing partners, who can offer flexibility and scalability.

Digitizing the Value Net

Design the information flow first. Decide which partners need and should have access to information, taking into account that suppliers may also work for competitors. Then automate communications across the value net, especially communications from customers. Use software to harness bits to power decision-making. Automate processes where you can.

Management Techniques

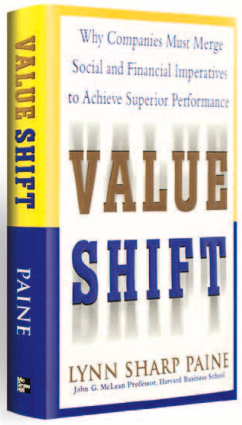
Adopt simple and clear goals to drive successful performance. To make the transition from supply chain to value net company, don't create a formal organizational structure. Instead, use a small, strong, entrepreneurial team that sees the company vision, identifies the goal, and works across functions to build the value net. ■

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Value Shift

Lynn Sharp Paine

SOUNDVIEW Executive Book Summaries®



By Lynn Sharp Paine

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Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance

VALUE SHIFT

THE SUMMARY IN BRIEF

There is an emerging new standard of corporate performance that encompasses both moral and financial dimensions. This book describes the turn to values in the past decades, interprets what is motivating this phenomenon and why it is significant, and explores the implications of this movement for management practice as well as organizational strategy and corporate leadership.

Whereas in the past, companies were measured purely on their financial performance, they are now held to a different standard. How they demonstrate moral intelligence in their dealings with employees, customers and other constituencies is becoming as important as increasing shareholder value. Companies are no longer just convenient devices for pooling capital. In this summary you will learn about the development of the moral personality of the corporation and how it is changing the face of business.

What You'll Learn In This Summary

✓ **Does ethics pay?** You will discover why corporate ethics do provide financial benefits, but that alone is not a good justification for ethics.

✓ **The new corporate personality.** You will see how companies have evolved from amoral entities to moral actors in society.

✓ **The new definition of outstanding corporate performance.** You will learn that outstanding corporate performance is no longer just a measure of financial performance, but also a measure of investor, employee, customer and community wants.

✓ **How much accountability?** You will find out how managers must change their perspective to succeed in the face of the new performance standards.

✓ **Achieve the new performance standards.** You will learn how to use the manager's compass to navigate through complex situations and satisfy both ethical and economic standards.

✓ **The center-driven company.** You will see examples of companies innovating to become "center-driven" companies that marry NPV (net present value) and MPV (moral point of view).

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VALUE SHIFT

by Lynn Sharp Paine

— THE *COMPLETE* SUMMARY

The Turn to Values

Until recently "business ethics" was considered a contradiction in terms. The market and corporations were amoral, and ethics generally meant corporate philanthropy. In light of recent corporate scandals, ethics has now become an important corporate concern. More than a frill or indulgence, values are becoming an integral part of effective management.

When asked about their interest in values, executive rationales cluster into the following main areas:

- **Risk management.** Values can manage and eliminate risks associated with corporate and individual misconduct.
- **Organizational functioning.** Values build a well-functioning company that encourages cooperation, inspires commitment, nurtures innovation and energizes the organization's members around a positive self-image.
- **Market positioning.** Values shape a company's identity and reputation, build its brands, and earn the trust of customers, suppliers and other partners.
- **Civic positioning.** Values establish a company's standing and reputation in the community as a progressive force for social betterment, or as a solid citizen that obeys laws and pays taxes.
- **A better way.** Values are worthwhile and fundamental principles of responsibility, humanity and citizenship, and need no corporate justification. ■

Does Ethics Pay?

When AES Corporation went public in 1991 its prospectus stated that in a conflict between values and profits, the company would try to adhere to its values, even if that diminished profits. Because of this position — at that time, extraordinary — the SEC insisted that the values be listed in the prospectus under "risk factors."

Attitudes are changing, and executives are beginning to see that ethics stances can actually have a dollars and cents value.

The Cost of Scandal

Certainly, managing a company without ethical standards can lead to illegal acts and scandals. Allegations trigger customer defections, leading to depressed revenues. Employees doubt the company's future, and injured parties file lawsuits. Investors demand higher returns, credit ratings are downgraded, funding costs rise, and the financial pressure is felt throughout the organization. Politicians and lawmakers call for more investigations and hearings, which exacerbate the deterioration.

Rewarding Principles

Avoiding high-profile scandal, however, is not a compelling case for values. What about the low-grade misdoings, such as betrayals of confidence, neglected promises, and evasion of responsibility?

Principles that rule out these behaviors lead to many cost advantages. Workers who are truthful, reliable and conscientious reduce the cost of expensive oversight and monitoring. A high level of trust can lower contracting costs for agreements with prospective customers and suppliers.

Trustworthy companies usually have an easier time dealing with non-corrupt politicians and regulatory agencies. They are more likely to be believed when making an argument. Self-imposed commitments can also reduce compliance costs by reducing the need for restrictive laws and regulations.

Commitments to truth, reliability, fairness and respect enhance management and efficiency. Without them unnecessary time and money go toward evaluating proposals, resolving disputes and mobilizing teams, because nothing can be taken at face value.

Reputation is key. A good reputation attracts customers, employees and investors, which leads to increased revenue, market share, access to talent, and premium prices for the company's goods or for the company itself.

Though the links between values and economic value can be difficult to track, because they are often indirect or remote in time, they are numerous. ■

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Reality Check

Despite all the positive arguments for ethics, it is unrealistic to ignore the tensions that inevitably arise between profits and values. Moral indifference has rewards too.

Very often it is advantageous for companies to break the law or be dishonest. Using child labor, exploiting the morally lax desires of consumers, and offering bribes in an industry where all competitors do so are situations where the relationship between ethics and economics falls apart.

When economic concerns trump ethical choices, "ethics pays" proponents often point out the long-term perspective. Decisions made ethically can show immediate economic losses, but long-term gains. Decisions based on poor values, such as cutting corners or altering books, can show short-term gains, but later discovery of the deception can obviate the gains overnight.

However, how long is the long term? Is it right to do what is good for the long term if it makes staying competitive in the short term impossible?

The relationship between ethics and economics is dependent on the values in question.

Values, Reward and Penalties

The chart above right shows the difference between the basic standards of values dealing with justice and humanity and full commitment to these values.

The financial case for values is generally accepted in the lower-left quadrant and is usually backed up by law. Companies that do not respect these values can easily lose customers, incur fines, and lose their reputations. In the lower-right and upper-left quadrants, financial gains depend more on the extent of the rewards from adherence to those values — or the penalties from breaching them.

In the upper-right quadrant, the financial benefits become tenuous. These diffuse values are not easily measurable and do not help anyone in particular, therefore neglecting them illicits few complaints or specific negative consequences. In addition, these values have no limit, and chasing them endlessly would lead to bankruptcy. The gains in this quadrant are more in terms of employee commitment and reputation gains, which indirectly lead to financial gains.

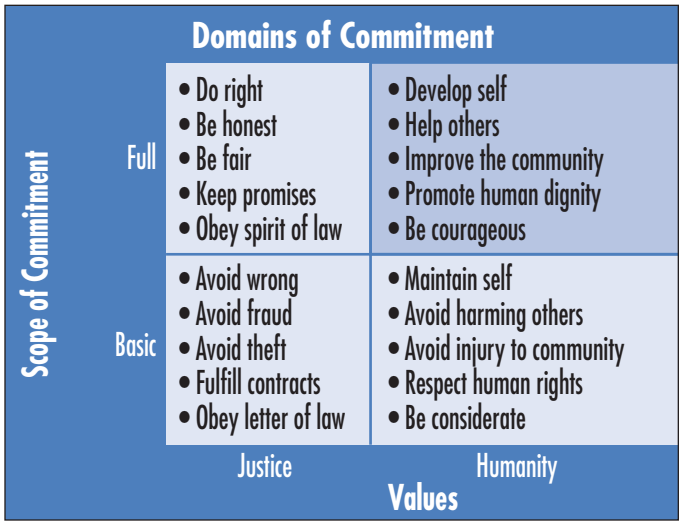
The Ladder of Commitment

This view of commitment to values leads to a "ladder of commitment."

First level: Based on adherence to a minimum set of standards. Cost and risk driven.

Second level: More far-reaching commitments including consideration and positive mutuality. Based on a combination of penalties, rewards and risk management.

Third level: Striving toward leadership and self-improvement, even contributing to community problems you did not create. Driven mainly by rewards.



Context is key to the idea that "ethics pays." Economic gains described in this matrix assume economic and political freedom, free-flowing information, an educated population, and a functioning legal system. The absence of these conditions make injustice and fraud quite profitable, and the economic benefic of values disappears. ■

The Corporation's Evolving Personality

The recent value shift in international companies needs more explanation than financial benefits. It also comes from subtle developments in the "personality" of the corporation that affect how companies are perceived, what is expected of them, and how they are evaluated.

From Fictional Entities to Moral Personalities

For centuries, companies were fictional, soulless entities that were not expected to act as moral agents.

In the mid-19th century, corporations became umbrellas for shareholders, and as corporate capital and influence grew in the early 20th century, academics began to view them as real entities. As the role of the shareholders diminished and the corporation developed a legal personality — it could sue, be sued, and was responsible for its own debts — it became harder to think of the corporation as a fiction.

By mid-century the corporation became an institution rather than a private business device. This implied the corporation had responsibilities beyond its shareholders — a moral personality.

Society's Dominant Institution

Managers deal with moral decisions every day, and

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The Corporation's Evolving Personality

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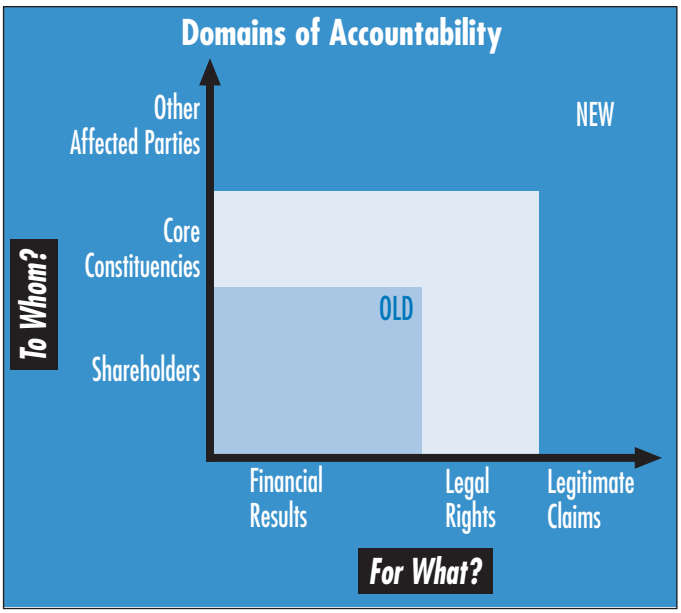
corporations are routinely dealt with, discussed, and judged as moral agents. When people protest a company's environmental policies, boycott an unethical company, or employees feel gratitude to a corporation for treating them fairly, they assume that companies are objects of moral assessment and concern. Even the business media covers stories of moral controversies, misconduct and safety concerns with as much zeal as it reports profits, economics and corporate mergers. Some economists still feel it is absurd to ask corporations and their managers to behave in a morally defensible manner, but practice has outpaced theory.

Every day people work for corporations, invest in them, buy from them, provide services for them, and regulate them. Corporations provide most of our food, transportation, utilities and entertainment. They guide our behavior through marketing, employee policies and campaign donations. Of 1997's $18 trillion in U.S. business revenue, 88% when to corporations. In 1998 approximately half of Americans owned stock. Corporations are society's dominant institution, and if we granted them exemption from morality, we would exempt morality from 80-90% of our lives.

In the last 30 years, discussing company values, commitments, and responsibilities — attributes of moral actors — has become commonplace, and recent legal findings and decisions have encouraged and even required more moral behavior. The growing acceptance of this turn to corporate morality is the key to understanding the recent turn to values. ■

A Higher Standard

Companies are being evaluated as if they were responsible human beings. A new yardstick is emerging for assessing corporate performance that holds them to both moral and financial standards. A high-performance company that competes unfairly, mistreats employees, or neglects its civic role is becoming an oxymoron. This is reflected in the growing number of "most admired" and "most respected" company surveys.



Whether people are deciding where to work, buy, or invest or what companies they want in their communities, they are including moral considerations with financial ones.

Employee Perspectives: Employees want to be respected, treated fairly, and recognized for their contributions. They appreciate honesty in colleagues and managers, consideration for their health and safety, and opportunities for learning as well as making a positive difference in the world.

Customer Perspectives: Customers want to deal with companies that are reliable and treat them fairly. They want products that provide quality and performance, but they are also interested in the health, safety and environmental risks of what they buy.

Community Perspectives: Communities want companies to clean up their messes, minimize negative impacts of their activities, obey local laws, protect the environment, and help solve community problems.

Investor Perspectives: Shareholders want transparency, timely information, reliable forecasting, fair treatment, and opportunities to be heard.

An expanded sphere of accountability is hard for managers to accept when previously they were only accountable for financial results.

Though it seems more demanding, the higher standard only asks companies to do the same as all moral actors — respect the legitimate claims of others as they conduct their business. ■

Moral Questions at Shell and Nike

Questions about nonfinancial issues affected both Shell and Nike in the 1990s. Their environmental and human rights decisions had serious effects on their financial performance, but also caused both companies to focus on these issues. Shell not only had lower sales after the Brent Spar and Nigeria controversies, but their employees and shareholders wanted clarification on the company's stance. After Nike was attacked for the poor labor practices of its suppliers abroad and the decline of its market share and share price, the company did an about face and concentrated on improved worker conditions and social responsibility.

The New Value Proposition

After thoroughly examining the issue of "ethics pays," it is clear that the phrase "ethics counts" is more appropriate.

Using the *financial* argument for ethics has a dangerous underside. If you can make more money by lying, exploiting workers, or falsifying financial records, then ethics only pays when the risk of getting caught is too high. Using a purely financial argument for ethics undermines the idea that ethics have innate value, which is unwise in a world where companies are increasingly judged by a composite "ethico-nomic" yardstick. Superior companies must excel in both areas.

Measuring Moral Performance

There are myriad ways to assess financial performance, but measuring moral performance is inherently more difficult. Referring back to the "ladder of commitment" here are three levels of assessment (see chart).

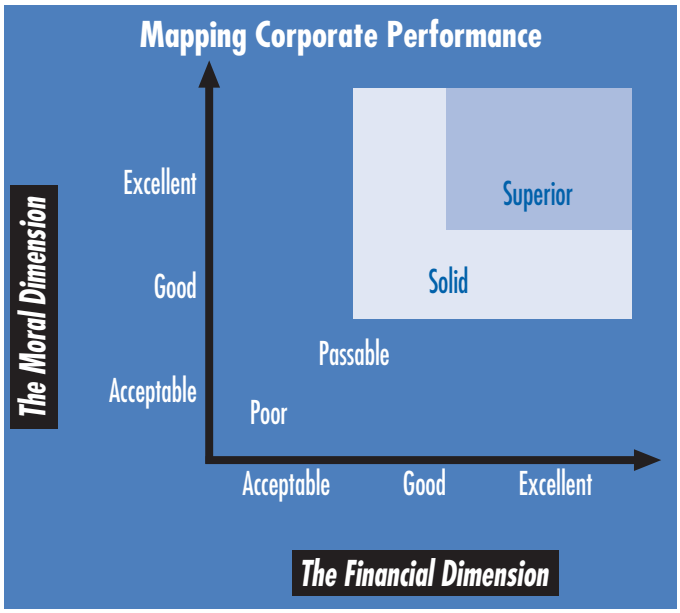
- **First level/Acceptable:** Companies adhere to the law and avoid gross wrongdoing and offenses against basic justice.
- **Second level/Good:** Companies comply with the law, observe norms of fairness and responsibility, seek mutual gain in dealings with others.
- **Third level/Excellent:** Companies comply with the law, observe norms of fairness, seek opportunities to make additional contributions. ■

Ethics Counts

It is difficult to match *values*-based measures with *financially* based measures. Responsibility, dignity, citizenship have no obvious correlation with revenues, costs and profits. After a helicopter crash in an airfield, an investor thinks of production loses, and a social service provider thinks of safety and security. Both are valid, but they cannot be collapsed into each other. Companies must find a way to engage both points of view and speak both languages fluently. The phrase "ethics pays" is inappropriate, because values are not a component of the ultimate goal of financial success. "Ethics counts" casts values as a full partner with economics in a quest for outstanding performance.

When moral and financial considerations have their own standing, conflict will inevitably arise. Though there is no standard way to choose between them, acknowledging the conflicts honestly will allow clearer trade-offs and creative solutions.

Ethics counts also has value-added in the truth, loyalty, gratitude and reciprocal respect it engenders among stakeholders. Though impossible to measure in monetary terms, this value-added that comes from the energy produced when values are respected is very important for companies. ■



For Additional Information on criticisms of corporate values, go to: http://my.summary.com

Performing at a Higher Level

Many companies believe "having values" means having a list of values, and "implementing values" is a discreet staff activity unrelated to line management. Companies create specialized programs in diversity, environmentalism and ethics as they receive external pressure to do so. In actuality, meeting the new performance standard is a more comprehensive and fundamental process.

In the early 1990s Sears attempted to increase its lagging performance by setting quotas for its car mechanics. The mechanics began lying to customers — exaggerating problems and the work done to fix them. The plan was to align the employees' financial interests with those of the shareholders, but Sears incorrectly assumed financial performance was the only component to superior performance. By 1992 the company was under investigation by 44 states for misconduct. Similar problems caused downfalls at Columbia/HCA, Sunbeam Corporation and Enron. The problem was not the concepts of alignment of performance-based incentive, but how the concepts were applied.

In addition to incentive and compensation systems, all other systems — hiring and development, planning and coordination work, measuring and reporting performance — must be aligned to allow the company as a whole to behave as a moral actor. There should be a fit

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Performing at a Higher Level

(continued from page 5)

or correspondence between a company's guidance systems and the expectations of the new performance standard. Additionally the company's organizational design must support the trust and information transfer that is necessary to meet the new standards. Rolling out a new values statement is not enough.

A Company That Made It Work

A prime example of a company that organized itself to be a moral actor from the beginning is the energy company AES. The founders, Roger Sant and Dennis Bakke aimed to create a new form of business that would be socially responsible and profitable. They believed power companies should do more to protect the environment, and that companies should approach social responsibility in an integrative way. In their company, all people would be treated as adults, defined as:

- **Thinking, creative and capable of making hard decisions.**
- **Willing and able to assume accountability and responsibility.**
- **Unique and deserving of special treatment.**
- **Positively disposed to work in groups.**
- **Eager to make a contribution or join a cause.**
- **Fallible, even intentionally so at times.**

An Organized Framework

Sant and Bakke recognized the importance of strong financials, but as a by-product of fulfilling a legitimate corporate purpose. They started AES in 1981 and crystallized their core beliefs as a way for their employees to carry out the company's purpose. The values were integrity, fairness, fun and social responsibility. When AES experienced financial difficulties in 2001, it had a framework in place to review its operations and identify ways to improve its economic performance, strengthen its values, and tighten accountability mechanisms.

Having an organizational framework in place worked better than the piecemeal approach used by so many companies that causes initiative-fatigue, confusion and cynicism. AES has no diversity initiative or empowerment program. These concerns are embedded in the company's basic management systems. When we accept that companies are moral actors, these values become an inherent part of management's job. It turns economic functions into economic responsibilities that management has to answer for and includes them in the same category as all of their other responsibilities. Ethics are part of the structure along with finances and not perceived as add-ons. ■

For Additional Information on how AES integrated values into its structure, go to: http://my.summary.com

A Moral Center

Values implementation is not a task that should be delegated. Executives define and shape values through everything they do, and at the same time everyone in a company does values implementation every day. The approach must be comprehensive, management-led and oriented toward a moral center that recognizes social and economic responsibilities. A moral center is defined by the answers to these questions:

- **Purpose:** What is the company's purpose? Besides creating wealth and using resources efficiently, what is the company's contributions to society? How do its products and services add value to people's lives?
- **Principles:** What are the company's guiding principles? What precepts guide the conduct of its people in carrying out its purpose? What are its nonnegotiable standards? Its ideals and aspirations?
- **People:** What is the company's concept of the person? Who counts as a member of its moral community? Whose interests are considered in its decision-making?
- **Power:** What is the scope of the company's power and authority? To whom and for what is the company accountable? How is decision-making authority to be allocated within the organization? ■

The Decision-Making Compass

No matter how well a company's organization and systems are set up to achieve the new performance standards, a company's success comes down to the quality of its decision making. Moral scrutiny from stakeholders will only increase as the pressure to perform financially increases as well. All employees will have to become more sensitive to the moral aspects of their dealings and more skilled at identifying ethical issues and making decisions that are morally and financially sound.

The Right Questions

Companies need a structured management decision process to identify and evaluate moral concerns. This book's framework exploits the power of asking questions, which is essential to many business processes including strategy formulation or evaluating an investment.

The core question in ethics is "How should we live?" It breaks down into subsidiary questions: "What should we aim for?" "How should we conduct ourselves?" "What do we owe others?" "What rights do we have?" Each of these questions suggests a mode of moral analysis that can be used for decision-making.

- **Purpose:** Will this action serve a worthwhile purpose?

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The Decision-Making Compass

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- **Principle:** Is this action consistent with relevant principles?
- **People:** Does this action respect the legitimate claims of the people likely to be affected?
- **Power:** Do we have the power to take this action?

Once an issue is identified, the four kinds of questions explicate different features of the situation so they can be inspected and compared with other features, and then evaluated and addressed.

Together the four lenses create a compass for the manager that helps to chart a reasonable course through conflicting demands. Hopefully in the end, the course of action will satisfy all four criteria.

Product Failure: A Case Study

In the early 1990s Lotus Development Corp. and Equifax Inc. combined their core competencies to develop Lotus Marketplace: Households, a database that included information on 80 million households, allowing small businesses and nonprofits to effectively target their mailings.

There was an enormous outcry when the companies announced their product. Concerns focused on whether people had consented to be included in the database, how people could have their names removed, and how the data would be secured from falling into the hands of criminal elements.

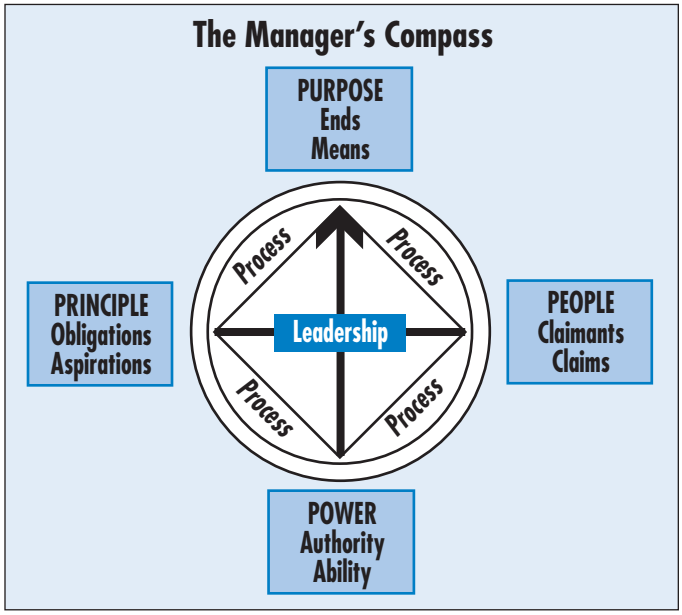
After a review by the Direct Marketing Association, it was determined that the new product needed an effective way to opt out and a strict screening mechanism for buyers. The makers would also need to educate the public, which erroneously believed the database included detailed records of actual purchases rather than general buying propensities.

The extra precautions and changes made the cost of continuing with production prohibitive, and Lotus and Equifax cancelled plans to ship the product.

How the Compass Would Have Helped

If Equifax and Lotus had used the manager's compass in the early stages of development, they could have avoided such great costs. Marketplace could have been designed or marketed differently, or perhaps not even pursued.

An analysis of principles would have shown that Equifax's own statement of fair information practices included at least two relevant principles about use of data and privacy. The DMA's ethics handbook advised that customers whose data might be rented, sold or exchanged for direct marketing purposes should be periodically informed of the potential. The U.S. Fair Credit Reporting Act laid out specific directives for the proper use of credit and other consumer information. Even generally accepted ethical principles would have raised many of the same issues.



Similarly, conducting a stakeholder analysis of the people involved would have directed the team's attention beyond the small business consumers for whom the product was designed. They would have considered the other parties with interests at stake, such the data subjects, government regulators and lawmakers, and even public advocacy groups such as the ACLU Project on Privacy and Technology, which eventually helped spearhead the campaign against Marketplace.

Correcting for Blind Spots

Without a systematic process of moral analysis to inject the moral point of view into deliberations, decision makers are vulnerable to the blind spots and biases in most frameworks.

Competitive analysis does not consider stakeholder impact, social contribution or conformity to legal and ethical norms. Cost-benefit analysis often necessitates assigning monetary value to things that cannot be measured in money, like human lives. Difficulties can also arise because it does not clarify what is a cost and a benefit and for whom.

Today's companies need a methodology for integrating the moral point of view into decision-making. Where companies are expected to create wealth while conducting themselves as moral actors, managers will need to practice "center-driven" decision-making, the target zone of acceptability in the overlap of values and economics. ■

The Center-Driven Company

As the corporation becomes moralized and the new performance standard sets in for the foreseeable future, companies will need leaders who can meld high moral standards with outstanding financial results.

To become center-driven, companies must make fundamental and comprehensive changes in their operating systems. Though there is no specific model for a center-driven company, Royal Dutch/Shell, which has been implementing their sustainability model since 1988, is a good example.

- **People are committed to both moral and financial excellence.**
- **Guidance systems are aligned with financial and nonfinancial accountabilities.**
- **People use decision frameworks that integrate social and financial considerations.**
- **People assess its performance along moral and financial dimensions.**
- **People engage each other and external parties as moral actors.**
- **Company as a whole displays the competencies expected of a moral actor.**

A center-driven company defies traditional methods of operation and develops creative innovations to satisfy both moral and financial obligations, as demonstrated by the two case studies below.

Workforce Restructuring at Telia

In 1995, Sweden's Telia Group, an Internet and communications company, found that it needed to lay off 5,000-7,000 employees because it was overstaffed, and the current employees did not have the skills for the rapidly growing industry. Instead of a traditional layoff, Telia's redeployment team worked with unions to provide training, vocational guidance, study grants, business support and job placement support to the employees. As a result, 2,800 employees were given new positions with their improved skills, and the rest moved to other jobs, started businesses, went back to school, or retired. Fewer than 1.5 percent were given notice. The program saved the government $135 million, the affected employees $85 million, and benefitted Telia by $310 million.

Irrational Managers?

Telia's efforts, as well as the efforts at Manville (see above right) were a foregone conclusion, though they seem no more than common sense. These innovative thinkers waged uphill battles against the status quo. Conventional wisdom said that these managers were thinking about the wrong things.

Minimizing negative effects of restructuring on Telia Groups' employees was considered the work of government, families and communities. Manville's Bill Sells was breaching his fiduciary obligation to shareholders by putting the interests of employees and customer ahead of shareholders when the law didn't require him to. From an orthodox perspective these managers acted irrationally, but from a center-driven outlook they were normal and rational.

As moral actors they discovered a practical path that enabled the company to remain competitive while respecting the rights of others and minimizing the collateral harm caused by their activities. They still satisfied the orthodox, even though traditional managers many never have envisioned the path or experience the concerns that led to it.

A Philosophy of Management

Center-driven management is not a technique or collection of best practices, but a philosophy of management grounded in assumptions about business that challenge key tenets of traditional management.

These assumptions include the premise of a corporate personality; that superior corporate performance consists of moral and financial excellence; that corporate accountability extends beyond shareholders; that corporate conduct consists of all actions taken by its members or representatives on its behalf; that human behavior is multifaceted and can express mixed motives and varied aspirations; that rationality means using reason to enhance life; and that progress is not inevitable and needs to be fought for continuously. Companies looking to achieve the new performance standards will need to cultivate leaders who understand these broader accountabilities. ■

Managing Safety at Manville

Bill Sells was head of Manville Corp.'s Fiber Glass Product Group in 1986 just four years after the company declared bankruptcy because of a liability disaster involving their asbestos production. A study came out announcing that fiberglass could cause cancer. Sells quickly mobilized his colleagues to have several weeks of discussion on what to do.

After discussing possibilities from doing nothing to exiting the fiberglass business, Sells' team decided on an aggressive communications and relabeling campaign to disclose the potential risk to employees, distributors and customers, and they agreed to indemnify their customers against cost incurred from end-user injury claims. Manville did not lose very much business, and ended up gaining goodwill from thankful customers.

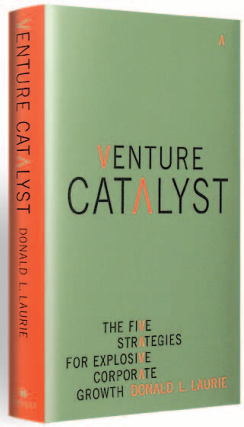
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Venture Catalyst

Donald L. Laurie

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Donald L. Laurie

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VENTURE CATALYST

THE SUMMARY IN BRIEF

Business leaders have two missions: first, meet or beat Wall Street expectations on a quarterly basis; second, roll out the new technologies and products that will ensure continuous double-digit growth (as measured by market capitalization and the creation of shareholder wealth) over the next three to five years. Internal organic growth or traditional acquisitions and mergers cannot yield the kind of double-digit growth now being sought by investors. According to author Donald L. Laurie, only those companies that include ventures as an integral part of their strategies can achieve exceptional and sustainable growth. By ventures, Laurie is referring specifically to "new business enterprises that entail a certain amount of risk." After extensive interviews with corporate leaders of both high-growth companies and venture capital firms, and drawing on his own experience as a high-level corporate advisor, Laurie identified the five key strategies for developing the next great business: invent, invest, venture, partner and integrate.

What You'll Learn In This Summary

✓ **Inventing New Businesses:** Close to 90 percent of Corning's revenues come from products invented within the past five years. You'll learn the step-by-step process that Corning uses to create these new products.

✓ **Investing in New Businesses:** Investing in new businesses offers a short-cut to new technologies and processes.

✓ **Building a Venture Division within Your Company:** You'll learn how to develop a strategy to use when working with venture capital firms.

✓ **Creating Partnerships to Build New Businesses:** Take your latest technology developments to an experienced "business builder" and you both can win.

✓ **Acquiring and Integrating New Businesses:** Pairing up with another company pursuing similar product developments will create powerful synergies.

✓ **Case Studies in Venturing.** Five case-study companies will illustrate the five venture strategies: invent, invest, venture, partner and integrate. The case studies cover business models, value-added activities and preconditions for success.

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Five Paths to Sustainable Corporate Growth

Explosive yet sustainable growth depends on a "venture" mentality — the desire to boldly build the next great business. Based on his research and experience, author Donald Laurie found five distinct routes to using ventures as a means of fueling corporate growth:

1. Invent the next great business. In this strategy, a new business is "born and grows under the corporate roof," according to Laurie.

2. Invest in the next great business. A number of companies are establishing in-house corporate venture groups that commit the company's money and resources to entrepreneurial ventures.

3. Venture the next great business. Companies that follow this path collaborate with venture capital firms on new businesses.

4. Partner the next great business. Independent and distinct companies can establish partnerships that create new businesses.

5. Acquire and integrate. Acquisitions can help companies integrate new capabilities, know-how and technology.

Critical Factors

In each of these five venture strategies, three factors are crucial.

First, the company must have a clear **business model** of how it will build a new business and how it will generate revenues.

Second, the company must have unique **value-added activities** that make its business model work.

Finally, each company must recognize that certain **preconditions for success** must be in place. For instance, every venture strategy requires capital and a forward-looking leader, as well as space for innovation and compensation that encourages risk-taking.

Each of the firms researched followed a well-developed, step-by-step process for creating growth.

The Rewards of Entrepreneurship

Through ventures, both large and mid-sized companies can develop the strategies needed to maintain a high level of innovation and growth. The process is daunting, since it requires adoption of an entrepreneurial spirit among all levels of management (see above). But the rewards are clear. Johnson & Johnson has seen its annual revenues increase from $11 billion in 1989 to almost $29 billion by 1999 since dedicating corporate resources to venture activity. ■

Laying the Groundwork

Large corporations who want to move from their traditional, cautious strategies to growth strategies built around ventures must be ready to:

- **Change their corporate mindset.**
- **Redefine their concept of organization.**
- **Alter their need for control.**
- **Expand their capacity for speed.**
- **Broaden their tolerance for mistakes.**
- **Modify their risk potential.**
- **Shift a portion of their investment capital from incremental R&D to internal and external ventures.**

By partnering with entrepreneurs, who have experience with quickly moving a product concept to market, a large corporation can leverage its distribution, marketing and research capabilities, for a synergistic effect that can lead to phenomenal success.

The author: Donald L. Laurie is founder and chairman of Laurie International and of Oyster International LLC. The author of *The Real Work of Leaders*, Laurie is an advisor to industry leaders and an investor in early-stage ventures.

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Invent the Next Great Business

Companies that know how to leverage their expertise in technology, marketing and manufacturing capabilities are the ones who can succeed at regularly inventing the "next new thing." For example, 84 percent of Corning's revenue comes from products that did not exist five years ago.

In this article, we will study Corning as an example of how to invent the next great business.

Corning's Business Model

Corning's corporate motto, "Discovering Beyond Imagination," captures the belief that the highest ROI on new products will result from those that directly address unmet, unserved customer needs. In focusing on this motto, Corning is not afraid to get rid of divisions that are no longer performing or have begun to decline, including its one-time flagship Corningware division.

Corning uses five steps in nurturing an idea into a product:

1. Building Knowledge. By participating in cross-functional "roadmap" teams of technicians and managers that meet regularly, employees develop a common view of trends, discontinuities and other events that are shaping the future. Each member relates these trends to customer needs, and identifies what each of their products brings in relation to those needs.

Road-mapping helps Corning identify the product specifications for next year's products — as well as the technologies it will need to build or acquire within the next five-year period in order to develop the products of the future.

2. Determining Feasibility. Once the idea and technology are selected, Corning involves its customers and in-house staff in experimenting with proposed applications that could evolve from the combination of the two.

At this stage of the venture process, Corning addresses these questions:

- Will the technology achieve the intended objective?
- Can the idea be developed into a product with significant market potential?
- Can we achieve proof of concept?
- Can we build a working prototype?

3. Testing Practicality. When this stage is reached, cross-functional teams in marketing and manufacturing, as well as research, test a prototype product to decide whether there is a substantial market, whether the price-to-value is acceptable to the customer, if it can be manufactured in volume — and ultimately, whether Corning should continue to pursue the development of the product.

Is Your Company Ready to Invent the Next Great Business?

If you want to invent the next great business, you must do the following:

- ✓ **Assess your company's history of innovation, its experience and its culture.**
- ✓ **Define the company's ambition for internal ventures.**
- ✓ **Rethink organization and control models.**
- ✓ **Commit capital and define the investment decision process.**
- ✓ **Create infrastructure and support.**
- ✓ **Understand the venture process.**
- ✓ **Let the entrepreneurial team members select themselves.**

4. Proving Profitability. Just because a new product idea is possible doesn't mean that Corning will develop it. Corning must first determine the profitability of the idea. For example, teams study whether the company will have any advantages in either technical competencies or cost leadership.

5. Commercializing. Almost as soon as a new product is launched, Corning takes it back to the drawing board. The product's manager takes responsibility for extending the line and looking for new breakthrough businesses.

Corning's Value-Added Activities

Corning's dedication to a culture of innovation and attracting and keeping top talent are central to its enviable track record of creating successful new products and businesses.

The company uses — and supports — the accumulated wisdom and experience of its highly talented work force. For example, it periodically holds informal "Growth Day" exhibitions. At these events, the company's entrepreneur-managers present their products and businesses. The goal is to support their efforts, not review them. Rather than scrutinizing their budgets, top management asks them what they need.

Corning also understands the value of keeping smart people; in addition to its state-of-the-art facilities and resources, it offers an attractive compensation plan.

Corning's Preconditions for Success

A top-down belief in creating conditions that allow its employees to be entrepreneurs is one of the preconditions for Corning's success in creating new products and spinning off new businesses. As well as its culture of

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Invent the Next Great Business

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innovation, Corning holds its employees accountable: Bonuses are tied to performance.

Another fact that cannot be overlooked is the relative health and growth of the telecommunications industry, the members of which make up a significant portion of Corning's customer base. ■

Invest in the Next Great Business

After inventing, the second strategy for explosive corporate growth is investing in the next great business.

Venture capital spending, in which companies commit capital and other resources to independent, external ventures, is experiencing rapid growth. In the period from 1996 to 1999, for instance, the number of companies investing in external ideas jumped from 30 to 330, as the amount corporations spent on these investments soared from $100 million to $17 billion annually.

There are strategic and financial advantages to taking this path — for both the corporate investor and the entrepreneurial companies. The corporation can gain new technologies and related applications, as well as exposure to new markets; the entrepreneurial company can gain status and acceptance by aligning itself with a larger company.

Case Study: GE Equity

GE Equity, one of 28 business units within GE Capital, invested almost $4 billion in 300 businesses in 2000, only five years after it was created. Forty percent of those 300 businesses grew out of opportunities within GE itself: Individual GE employees, or divisions, brought their ideas to GE Equity.

GE Equity's purpose is to help GE businesses grow, and to provide a buffer for GE should its earnings slip. If that happens, GE Equity would be able to liquidate selected holdings and "fill the gap."

GE's Business Model

As seen with Corning in its invention strategy, developing and adhering to a strict, step-by-step process is central to GE Equity's success in venture activity. Called the Business Management System, or BMS, GE Equity's process begins with a thorough due diligence procedure, which includes an investment overview (covering investment rationale and considerations), an industry and company overview, and a description of the target company's marketing strategy and value proposition. This thorough process reveals each investment prospect's top two or three risks, and evaluates its management team.

After the due diligence process is completed, the next step in the BMS is a portfolio management system to track the expectations and performance of each investment prospect.

Each prospect is coded according to performance level. Red is the most underperforming classification; companies that are coded red undergo more rigorous monthly reviews by the general manager, risk manager and investment manager.

At the same time, a financial management system is instituted so that management can allocate investments across industries and stages of investment. This financial team focuses on anticipating liquidity events so that GE Equity is able to deliver specific quarterly results.

GE Equity's Value-Added Activities

What are GE Equity's value-added activities that have made its investment strategy a success?

GE Equity's excellent analytical process is based on both decision and probability theories, and is applied systematically to its investment strategies and decisions. The company is committed to working with "the most knowledgeable people in the industry and the company — people who can provide their probability assessments on certain key variables," according to a company spokesperson.

And it parlays this analysis to managing investment portfolios as well.

GE Equity's Preconditions for Success

GE Equity's preconditions for success include an unambiguous commitment and genuine "fondness" for entrepreneurial ventures — from the top down. Furthermore, GE Equity does not dominate the companies in which it invests — instead, it supports and respects these smaller companies consistently. ■

Is Your Company Ready to Invest in External Ventures?

If you want to invest in external ventures as a strategy for corporate growth, you must do the following:

- ✓ **Assess your company's readiness and ambition for corporate venturing.**
- ✓ **Define your ambition and priorities.**
- ✓ **Determine the role of operating units in your investments.**
- ✓ **Develop management capabilities and systems.**
- ✓ **Be explicit about strategic benefits.**

Venture the Next Great Business

If your company is not prepared to become an investor, another approach is to build strategic partnerships with experienced venture capital firms.

There are two dominant routes to pursue. In the first, you become a passive investor and will either make or lose money as the fund is liquidated over its 7- to 10-year lifecycle. As a limited investor, the corporation has limited exposure to deal flow and does not participate in investment decisions.

In the second route, corporations can become limited partners in industry-specific ventures funds (i.e., health care, information technology). Using special rights agreements, some companies have been able to gain early access to venture capitalists' deal flow, which opens up opportunities to invest either independently or alongside the venture firm. The advantage with this second route is the ability to locate new emerging technologies sooner.

Many venture capitalists are the first to spot innovative, early-stage ventures that large corporations would otherwise rarely discover on their own. In addition, venture capital firms have expertise in matching deals with each corporation's strategic goals and have access to a continuous deal flow. Corporate scientists' deep understanding of technology and science is a good match with venture firms, who are well-versed in creating deals and building businesses with speed.

Nortel Networks invests with a select group of venture capitalists in the telecommunications industry, and is used here as an example of how to pursue this strategy to corporate growth.

Nortel's Business Model

Since it became independent of AT&T and Bell Canada in 1976, Nortel's core competency has been its ability to continuously seek out "discontinuities" in either markets or technologies. Because its executives realized that the most disruptive, cutting-edge technologies were at small start-ups and venture capital funds, it chose to target this type of firm. Additionally, Nortel was uniquely poised to reap immense benefits by matching its knowledge and know-how in data transmission with innovative ideas from telecom start-ups.

Nortel's strategy involves seeking companies that it can eventually acquire, partner with or develop as customers or original equipment manufacturers (OEMs).

Nortel's Relationship Network

To maximize its venturing strategy, the company formed a two-person team to create a systemized method for approaching investments.

Is Your Company Ready to Invest with Venture Capital Firms?

If your venture strategy includes investing through venture capital firms, you must do the following:

- ✓ **Clarify your investment strategy and your purpose in investing.**
- ✓ **Determine the level of capital and the venture leader in whom you are willing to invest over the next five years.**
- ✓ **Define the characteristics of attractive venture partners and your value added.**
- ✓ **Leverage your learning.**

The team first devised a filtering method to gain access to the greatest number of deals through the least number of venture capital firms.

Starting with the 100 or so venture capital firms in the telecommunications field, the team identified the venture capital keiretsus, loosely formed groups that invest together. It then narrowed the 20 top venture capital firms in its industry down to less than 10 firms that appeared most able to match Nortel's goals. Each of these was a leading venture capital firm in its keiretsu. Today, these firms are the basis for the company's "relationship network" that allows it access to close to 95 percent of the innovations in its industry.

From this initial strategy the company has formalized its venture investment policy, naming 11 directors of business development to work with the venture capitalists. In a four-page letter of agreement with each firm, Nortel's expectations are clearly defined, including any preferential treatment the company requires, the services the VC firm will get in return, and the information in the VC firm's deal flow that Nortel will be able to access.

Nortel's Value-Added Activities

Nortel's side-by-side collaboration — through its relationship management, screening and selection process and its emphasis on acquiring entrepreneurial firms — are the back up to its business plan. Its business unit directors, with specialized skills in both technical and financial areas, offer a good balance to the VC's ability to take risks.

Nortel's Preconditions for Success

Nortel shares its know-how in technology. The VC firms, in turn, act as the eyes and ears for any companies that might make a strategic match for Nortel. In addition, Nortel allows any of its VCs 30 days exclusive consideration for any company that Nortel spins out from its internal venture program. ■

Partner the Next Great Business

Because of the need to manage current operations and budgets, many executives often overlook the vast potential of their companies' intellectual property and technology. As a result of this oversight, exacerbated by an unwillingness to share proprietary information with other companies, company leaders miss opportunities to use partnerships to create new, disruptive businesses — either profitable spin-off businesses or businesses in their competency — that have the potential for explosive growth.

By partnering technology or know-how with experienced business builders, companies can stake a claim in next-generation platforms, products, systems and services.

For example, a consumer products company with cleaning technology contributed its knowledge and capital to a start-up that was managed by experienced business builders, who received a 20 percent of the new business as well as a business-building fee.

To illustrate how partnering can help achieve corporate growth, this article will look at XL Vision, Inc.

XL Vision: Creating an Enterprise Factory

Within four years of its founding, XL Vision had created $3 billion in new wealth and five companies, two of which had gone public. Unlike most "incubator" models, XL Vision considers itself a long-term holder in the companies it creates. Its business model is based on the relationships it creates with Fortune 100 companies, and on its ability to leverage technology from these large global companies.

Like the other companies detailed in this summary, XL Vision has developed a systematic approach to building new businesses. There are six "imperatives" to XL Vision's business model:

1. **Bat 100 percent in business creation.** Unlike VC firms, which factor in a 30 to 40 percent failure rate, XL Vision's thorough screening process and due diligence is driven by the goal of hitting 10 out of 10.
2. **Imbue each new company with a long-term growth strategy based on a solution to a subtle or not-yet-identified customer need.**
3. **Go for an IPO within three years.**
4. **Produce at least one new public company every year.**
5. **Create one new company every year.** Keep the pipeline full; every time one company goes public, start a new one.
6. **Achieve a $1 billion market capitalization for each new company within a year of its IPO.** The founders of XL Vision are convinced that it takes just as much effort to build a company with a $50 million market cap as it does to create one with a $500 million cap, so they believe in aiming high, building products or companies that will fit within large and growing markets.

Is Your Company Ready to Partner the Next Great Business?

If you want to partner the next great business, you must do the following:

- ✓ **Make sure that the business idea is unique and disruptive.**
- ✓ **Explore the advantages and disadvantages of going it alone and maintaining total control versus partnering with experienced venture managers.**
- ✓ **Understand what you do well and where you need help.**
- ✓ **Agree on principles and terms that will govern the business relationship.**

XL Vision's Business Model

XL Vision's business model consists of four building blocks: Discovery, Down Select, Strategic Positioning, and Execution of the Plan.

Discovery. XL Vision's expertise is in electro-optics and electro-optical devices for different industries. When a company approaches XL Vision with a need for a new product that XL has the technology to create, they build the product and then turn over all the "discoveries" made in the process of developing the product (i.e., the technologies, intellectual property) to the outside company. XL Vision retains the rights to the intellectual property for other, noncompeting applications. Because it is in constant close contact with customers, XL Vision is able to anticipate unmet service needs that its technology can be used to meet.

Down Select. Because XL selects only one project each year, most projects are rejected. The founders admit it took some time getting used to throwing out so many ideas, but they have come to believe that this is what's necessary to achieve their 100 percent hit rate.

Over the years they have developed the capacity to spot winners by focusing on market size, market growth rate, competition and strength of intellectual property. They also examine not-so-obvious criteria, including technical experiments, alpha product test reports, customer focus groups, partner focus groups and distribution channel analysis studies.

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Partner the Next Great Business

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XL Vision's founders have come up with a 3-to-1 rule. Basically, entrepreneurs must be able to prove to them that the product or service they are proposing will either save three dollars or add three dollars to the bottom line, and that it will only cost one dollar to do so.

Strategic Positioning. An internal start-up team at XL Vision is assigned to the "incubie" while it is still undergoing experimentation with its technology and market position. The team stays with the project for an average of 18 months, during which time it is planning strategy and meeting with customers, and then adapting the product and reframing the strategy as needed.

Execution of the Plan. Now XL Vision names a new director, or "CEO" for the project and the start-up team passes on the project to this person. Different skills are needed for this stage of the process: someone who is focused, driven and execution-oriented.

At the same time, ownership of the new company is being transferred to shareholders via a process that allows for tax-efficiency as well as setting the stage for a long-term relationship. By selling the shares as cheaply as possible, XL Vision provides a very low-risk option with a high-gain potential to the shareholders. By allowing its corporate partners to buy a share of the venture, it is motivated to continue with other productive business relationships.

XL Vision's Value-Added Activities

Being market-oriented has allowed XL Vision's founders to continually leverage their technology to create new products that fill unmet needs. That, and a disciplined process for integrating the skills of technologists and entrepreneurs, is unique to XL Vision.

XL Vision's Preconditions for Success

A combination of process, analysis and entrepreneurial talent, as well as constant cultivation of its business relationships and its own internal culture, has given XL Vision an edge in building new businesses. Part of building its own internal culture includes monthly meetings of its three-person Innovation Council. At these meetings, members evaluate the company's processes and its results to see if any adjustments need to be made, and implement any that are needed. Attitude and personal drive have also contributed to XL Vision's success. As founder John Scott often says, the company's only competition "is the old way of doing things." ■

For another short example of a partnership venture, go to: http://my.summary.com

Acquire and Integrate the Next Great Business

It is important to distinguish between standard mergers and acquisitions — in which acquirers buy a customer base and established product lines — and the acquisition of cutting-edge ventures to build growth.

Cisco Systems, Inc., recognized early on the benefit of acquiring ventures that could give its own internal research and product development teams a mach-force jump start and yield continual growth for the firm. Almost as an aside, the company's rapid rate of acquisitions also enabled it to find a steady source of talent to support its expansion.

Cisco's Business Model

To achieve its goals of becoming the one-stop shopping source for network connections for the telecommunications industry, as well as becoming the builders of the Internet infrastructure, Cisco looks for companies with engineering talent that is working on cutting-edge solutions. It can then combine the acquired innovation with its impressive sales network.

Cisco clearly defines three overlapping market segments that it targets, and hones in on companies that are offering unique innovative solutions to these markets. The targeted market segments are: large corporations, educational institutions, government agencies and utilities with complex networking needs involving multiple locations and different computer systems; small- and mid-sized companies that need their own intranet data networks, connections to the Internet, and secure data links with business partners; and information service companies (such as telecommunications carriers, Internet service providers, cable companies, and wireless communication providers).

Cisco's Value-Added Activities

Cisco employs its sales force to be its eyes and ears for new opportunities. Internally, it is constantly rewriting software that eases integration of acquired products into the Cisco Systems portfolio, a capability for which it is well known. Attitude also plays an important role in the company's acquisition strategy. Besides believing that it is simply cheaper, quicker and easier to acquire companies that are further along in the research chain with new solutions, Cisco has developed a highly structured procedure for integrating its acquisitions.

Cisco's Preconditions for Success

"Shared chemistry" between Cisco and its acquired company is essential, and a simple exercise for determining a fit is carried out early in the negotiations

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Is Your Company Ready to Acquire and Integrate?

If you want to acquire and integrate the next great business, you must do the following:

- ✓ **Develop technology and product maps.**
- ✓ **Assess the quality, focus and payback of research and product development.**
- ✓ **Define your venture acquisition strategy.**
- ✓ **Build the team to acquire and integrate.**

Acquire and Integrate the Next Great Business

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process. Executives from both companies are asked to write down what they consider to be the three most important benefits that the other will receive from the proposed merger. Another basic premise is that both companies must have a business need that neither can meet on their own. ■

For a case study that applies all five venture strategies, go to: http://my.summary.com

Basic Steps in Venturing

There is, of course, no such thing as a fail-safe 10-step process for creating a successful venture. Any success will need the right mix of an attractive market, a committed entrepreneur, a unique idea and so on. However, it is possible to identify five fundamental phases that will occur in a typical, successful business-building process:

1. **Mining opportunities.**
2. **Refining and strengthening the business model.**
3. **Developing the product, platform and business.**
4. **Executing the business-building process.**
5. **Growth.**

Each of these five phases calls for different leaders, priorities, and goals and milestones.

Mining Opportunities

The first step in mining opportunities is to generate ideas. External ideas will come from a variety of sources, including entrepreneurs, investors and other venture capitalists. Internal ideas will come from a company's managers and employees, who can be on the lookout for venture opportunities around the world.

The next step is to screen and rigorously evaluate ideas. Be sure that you have clear criteria for your new ventures, for example the minimum size of a new market.

Refine and Strengthen the Business Model

Once you believe that you have an idea that might work, you need to refine and strengthen the business model of the new venture.

The first step is to clearly define the problem that the new venture will solve — in other words the strategic logic that underpins the business model.

The next step is to conduct a due diligence of the new venture's market, technology, competition and economics. To put it bluntly: Are you going to make money?

The third step is to look closely at the technology involved. How long, realistically, will it take to get a product ready for prototype and beta testing?

This phase requires a mix of people, including strategic thinkers, venture managers, technologists and people with market and manufacturing knowledge.

Developing the Product, Platform and Business

Early entrepreneurs can guide the initial strategic thinking, development, initial experimentation and beta-testing activities of a new venture. Now, however, is the time to bring in an execution CEO to begin the operations and implementation phases of the process.

The original processes designed to shape the business model and develop and test the initial product must now be replaced with brand, sales cycle, manufacturing and logistics management processes. Recruiting key management, developing the go-to-market strategy, establishing pre-production runs and securing operating capital are just some of the issues that need to be addressed at this stage.

Executing the Business-Building Process.

The business is now operating. Sales, marketing, engineering, manufacturing, finance and planning are in place and working. Sales and marketing people, for example, are getting feedback from the field. Engineering and product development are working with sales and marketing to refine the product based on this customer feedback.

Production people are applying product development and engineering modifications to the manufacturing process. Finally, the finance people should be tracking actual versus projected costs, revenues and return on investment.

Growth

In this phase, you will want to emphasize productivity, efficiency and improvement at all stages in the business cycle: manufacturing, logistics, sales and delivery. In addition to improving processes, leaders need to focus on serving strategic customers, building the brand, supporting acquisition efforts and expanding globally. ■

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We Are Smarter Than Me

March 2008

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Management: Strategies

We Are Smarter Than Me

How to Unleash the Power of Crowds in Your Business



by Barry Libert and Jon Spector and Thousands of Contributors

THE SUMMARY IN BRIEF

Five years ago, the notion that a group might be smarter than any of its members was a complete nonstarter. By definition, groupthink was the lowest common denominator; everyone knew that a camel was a horse designed by a committee. Today, thanks to several best-selling books, we know better.

But even now, although *crowdsourcing, wikinomics* and *open-source technology* have become buzzwords in the business world, there is no practical guide to translate those concepts into usable tools and techniques.

This summary fills that gap.

Many companies have benefited hugely from harnessing collective power, but not all have succeeded. There are many pitfalls to be avoided and obstacles to be overcome in tapping the wisdom of communities.

If you are willing to take on the challenge, you have a good chance of being handsomely rewarded. Communities can help companies invent new products and services, improve customer service, boost sales, turbocharge manufacturing, tap into new sources of financing, and make everyone a leader.

IN THIS SUMMARY, YOU WILL LEARN:

- Ways to make your company a more productive, more profitable and better place for the people who work there.
- How businesses of all kinds can make the wisdom of crowds work for them.
- How to tap into the power and talent of the online masses.
- How companies can profitably and cost-effectively make the most of the knowledge and resources held by communities of like-minded people.

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THE COMPLETE SUMMARY: **WE ARE SMARTER THAN ME**

by Barry Libert and Jon Spector and Thousands of Contributors

The authors: Barry Libert is currently the CEO of Mzinga, a provider of business social networks that help companies improve their performance by leveraging the power of "community." He is also the co-founder of the "We" project with Jon Spector, vice dean of the Wharton School at the University of Pennsylvania and current CEO of The Conference Board. Through the use of wikis, more than 4,000 contributors representing the top B-schools and organizations were able to contribute their expertise to the writing of the book.

We Are Smarter Than Me by Barry Libert and Jon Spector and Thousands of Contributors. Copyright © 2008 by Pearson Education, Inc. Summarized with permission of the publisher, Wharton School Publishing. 156 pages, $21.99, ISBN 0-13-224479-4.

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Look What We Can Do

At the ripe old age of 15, the Web has already changed human society so profoundly that historians have begun comparing the Internet Age with the Renaissance and the Industrial Revolution. The Web has connected nearly a billion people. With that many brains as its motivating force, the transformation forged by the Internet has morphed from quantitative to qualitative: The power of the collective "we" is nearly unfathomable.

Each of those brains has some 10 billion neurons linked to one another through about 10,000 synapses. Now all that individual brainpower is tied together and amplified by the power of technology: The new and potent "we" is far smarter than any singular "me." For the first time, humans can act in mass collaboration, using the kind of collective intelligence once reserved for ants and bees — but now with human IQ driving the mix. The result is a quantum increase in the world's ability to conceive, create, compute and connect. We are only beginning to comprehend the consequences.

Web 2.0

Cyber watchers say the Internet has evolved in two distinct stages: Web 1.0 and Web 2.0. In both of them, the Net has been a hugely fertile market where people turn data into money. But Web 1.0 winners profited (mainly in the dot-com boom) by cornering data for themselves and riding the price up. Web 2.0 innovators do the opposite. They believe that information becomes more valuable as more people use it.

Instead of tightly controlling the code behind a new software program, for example, they let anyone alter or add to it, confident that the users will contribute their own ideas and improve the program for everyone. The miracle is that, by giving away access, the owners can actually reduce their own costs while winding up with a better product, certified as such by its volunteer creators — a product that can win more customers.

Crowdsourcing

As a business model, the process is called open sourcing or *crowdsourcing* — it turns over tasks traditionally performed by employees to the Internet multitude. And it has claimed some memorable successes, particularly on the product development front. Mozilla's Firefox open-source Web browser, for example, has been downloaded more than 300 million times and is used by an estimated 70 million to 80 million people.

Some 5 million users per month swear by Wikipedia, the free online encyclopedia created and updated by Internet volunteers to the tune of 2 million articles and counting. Any visitor can edit *most* of its articles, although some, such as the entry on George W. Bush, are protected by volunteer administrators. That's because ideologues and mischief-makers occasionally take liberties with the facts, but the process is self-correcting as other users and administrators set them straight.

'Innovation Jam'

By harnessing the power of crowds, more businesspeople can make — and are making — better decisions and bigger profits. In mid-2006, for example, IBM invited its entire community — employees, their family members and customers — to take part in a brainstorming session to identify potential areas for innovation. In the first session of the "innovation jam," fully 150,000

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online volunteers were given 72 hours to come up with ideas. They produced 46,000 suggestions, which the company's staffers sifted and evaluated; then, in September, the online conclave assembled again to vote on the ideas with the most potential.

IBM's CEO, Sam Palmisano, has promised to put as much as $100 million into developing the 10 winning ideas — and he will have a hand in the final choice. Though still in its infancy, crowdsourcing is already rewriting the rules of business, posing major challenges and opening up unprecedented opportunities.

Go From R&D to R&WE

For businesses large and small, it's no inconsequential decision to let customers dictate what is sold. New product development is among the most important activities any enterprise undertakes. A business lives or dies on the strength of what it offers, and it's understandable that leaders often resist losing control over the basic nature of the goods they sell.

But there's much to be said for tapping the collective wisdom of a community — customer or otherwise — for product ideas and improvements. In the case of customers, it gives them a vested interest in the results and all but guarantees that they will like — and buy — what they've created.

Many innovative organizations have pioneered product development by people not on their payroll. These businesses range from food giants to the inventors of a popular virtual world that has confounded skeptics who believed that only nerds would sign on. These organizations' commitment to the collaborative process ranges from cautious to total immersion.

Procter & Gamble

For generations, the research and development (R&D) team at Procter & Gamble — 9,000 strong — had been the stuff of business legend, cranking out dozens of high-profile, high-profit new products year after year. But in 2000, A.G. Lafley, the company's newly arrived chairman and CEO, stunned his prideful researchers. They were not, he announced, producing winners big enough or fast enough to significantly boost corporate revenues. His solution was drastic: By the end of the decade, half of all new P&G products and technologies would have to come from outside the company.

The object, Lafley insisted, was not to supplant the mighty in-house R&D effort, but to supplement it. That turned out to be a vastly difficult venture, though, and no wonder, given the company's size and complexity. For one thing, the internal communication systems had to be reinvented to make it possible for all parts of the company to exchange data and brainstorm. Then that information had to be made available to noncompany entities, including suppliers and distributors.

Another stumbling block was the resistance of many of P&G's key researchers. Some complained that the proposed changes in their way of doing things would stifle creativity. Others feared a loss of power and prestige if their information and work had to be shared.

Lafley persevered. His most drastic move was a giant step into crowdsourcing. P&G put together a global community made up of high-tech entrepreneurs and open networks such as NineSigma and included the retired scientists and engineers of YourEncore and the marketplace for intellectual property exchange called Yet2.com. P&G has also gone to InnoCentive, a network of 120,000 self-selected technical people from more than 175 countries who receive cash awards if their ideas prove out.

P&G is closing in on Lafley's goal. As of 2006, the company was deriving 35 percent of its ideas from outsiders. Meanwhile, R&D productivity has soared 60 percent. A whopping 80 percent of its product launches are successful, compared to 30 percent for the consumer-products industry as a whole. And it spends 3.1 percent, or about $2.1 billion, of its more than $68 billion in annual worldwide revenue on R&D, much more than others in the industry.

Virgin Mobile USA

Virgin Mobile USA, the cell phone company, used 2,000 carefully selected online customers — "Insiders," as Virgin called them — to keep it abreast of trends and promising opportunities. Virgin described the group as "a team of elite, young and active customers," and it rewarded them with free calling minutes and phone upgrades.

Pitfalls in Crowdsourcing

If collaboration isn't done right, it had best not be done at all. Gartner Research has predicted, with 80 percent certainty, that by 2010 more than 60 percent of Fortune 1,000 companies will have some form of online community that can be used in marketing — but with the same degree of confidence, Gartner says half of those will be so poorly managed that they will do more harm than good.

A joint venture of Richard Branson's Virgin Group and Sprint Nextel, the company went to its Insider community for help on everything from designing phones to coming up with names for service plans. As one officer of the company put it, "Ultimately, what we want to do is put young consumers backstage."

R&D Tips

Here are three tips to keep in mind when performing research and development:

- **The medium is not the message.** A company's goal is to convince us, as the necessary "we," to take part; the means of communication, although important, is secondary.
- **Know your neighbors.** Identify and understand them well.
- **Tread firmly but carefully.** Seeking the help of outsiders, even when they're part of some amorphous, unseen community, can be threatening to in-house staff. Make your intentions clear and stick to them. Do everything possible to accommodate the concerns of the resisters. ●

How May We Help We?

All sorts of businesses are transferring much of the service function onto the shoulders of the customers themselves. Traditionally, customers who had questions about a product — how to put it together, why it wasn't working properly, how to use it to the best advantage — would call the company's help line and talk with a customer service representative.

That's still possible, but it's not as easy as it used to be. Getting through to a service representative can take 30 minutes or more, and even then, customers are liable to get shifted from one level of expertise to another. Meanwhile, under pressure to reduce costs, many businesses have begun charging substantial fees for telephone support. After the warranty on Dell computers expires, for instance, the company collects $39 for each tech support call unless the customer has paid $189 for a one-year service contract. Apple iMac customers get to purchase a three-year version for $169.

Online Support

The alternative these companies offer is a visit to their online version of customer service. Typically, there is a FAQ (frequently asked questions) page and probably one or more forums where customers can pose a question and have it answered by others who volunteer their time and wisdom.

For companies that offer it, online support has been a double boon. They save money by freeing customer service personnel for other work, while also building a cohesive, loyal community of repeat customers who can be tapped for other purposes — say, to test new products.

Bill Rose, founder and executive director of the Service and Support Professionals Association, noted not long ago, "Most customers want to be seen as experts and recognized as gurus in their fields." A number of people in customer service communities simply enjoy interacting with other like-minded individuals and helping them solve their problems. ●

Customer, Sell Thyself

Procter & Gamble is in the business of turning out consumer products by the barrelful. As its Web site boasts, "Three billion times a day P&G brands touch the lives of people around the world." But the company has another, very different line of business as well. It offers up the services of hundreds of thousands of moms and teenagers as word-of-mouth marketers — for its own product divisions and those of other organizations as well.

Donna Wetherell, of Columbus, Ohio, is one of those "mom connectors," as they're called. She's employed at a customer service call center, where she's known as "the coupon lady." That's because she's always passing out P&G coupons and sharing news of new products with her 300 co-workers.

All of us like to chat about the goods we buy and use. Each week, the average person mentions specific brands 56 times in the course of 100 conversations. And studies have shown that today's customers rely far more on what their friends and colleagues have to say about a product than on the ads they see on television. That's why, whether in person, on the phone or online, the messages carried by Donna Wetherell and her connector colleagues are so often welcome. "We know," says Steve Knox, chief executive officer of Vocalpoint, "that the most powerful form of marketing is an advocacy message from a trusted friend."

Vocalpoint and Tremor

P&G's word-of-mouth operation has two distinct pieces: Vocalpoint and Tremor. The Vocalpoint unit focuses primarily on P&G products and boasts 500,000 mothers of children under 19. The Tremor unit focuses mainly on products from clients other than P&G and includes 250,000 teenagers. Proprietary research techniques enabled the company to find teens and moms

who are gregarious and rich in friends. The average teenager has 25 friends on her instant message buddy list, while teen connectors have 150 or so. Mom connectors talk to 25 or so people a day, versus five for the average mother.

When P&G set about introducing its new dishwashing detergent, Dawn Direct Foam, it hired Vocalpoint to organize a crowdsourcing campaign. This is how Steve Knox describes what happened next: "Our connector moms looked at this product and went, 'Wow! That's so cool. My kids would want to help.'" That reaction led Knox to establish the talking points for his word-of-mouth army. In discussions with friends and colleagues, they would offer some "helpful hints" on how to get kids to do more chores around the house.

After that, Knox explains, "Dawn became a natural part of the conversation." The results: "We nearly doubled Dawn's business in the test market."

Consumer as Marketer

What started at P&G as a means to better peddle its own products has now become a profit center with clients ranging from cereal maker Kashi to cable channel Animal Planet to lubricant manufacturer WD-40. P&G CEO A.G. Lafley likes to say, "The consumer has become the marketer."

Procter & Gamble's success with word-of-mouth sales is just one example of the role this revolutionary breed of crowdsourcing can play in a marketing program. Merchants have relied on their customers to "spread the word" about their goods at least since the earliest Egyptians bartered their grain for olive oil or honey in the markets of Memphis. It's just that mobilizing huge numbers of people to take on that risk, and paying them nothing or next to nothing to do so, puts a whole new, directed spin on an old spontaneous practice.

By far the majority of P&G's connectors are upbeat about its products, but of course, there are no controls on what they actually say. Some comfort can be found in studies that show that when Americans talk about brands, positive mentions outnumber negatives by a ratio of 6 to 1.

Basic Change

The growth and public popularity of customer reviews and other examples of crowdsource marketing speak directly to a basic change in the nature of the relationship between you and your customer. The old commercial model, in which you presented the products for sale and the customer simply chose among them, is fast eroding. Today the customer is increasingly calling the shots. She's telling the world whether she likes or hates particular products she's tried. If you invite her, she's also up for making a few suggestions on how you might improve a product. Tomorrow she will insist on your coming up with new products that precisely meet her taste, telling you how they should be marketed and distributed, and proclaiming how well you've handled those tasks.

You can try to hold back the tide, maintaining your old way of doing business. You can find out what the customer wants and provide it. Or, best of all, you can determine where she's headed and get there ahead of her. ●

If We Build It, We Will Come

With millions of people clicking away on their digital cameras, millions of images were sitting around on computers. Most of the photos weren't professional quality, but there were an awful lot of good shots just taking up space. So it wasn't long before microstock houses, as they're known, began to appear on the Internet to tap that huge supply of digital images. The newcomers charged customers as little as $1 for a royalty-free license.

The pioneer was Calgary-based iStockphoto, which giant Getty Images bought in 2006 for $50 million. The iStock library holds more than 1.7 million images from 36,000 members, and it has been blessed with Getty's advanced search and index technology, which makes it easier for customers around the world to find just what they're looking for. The photos might not be up to the

Tips for Encouraging Customers to Sell

Here are three tips that can help you move customers to sell your product:

- **Know your fans.** Do some extra research to spot customers you can inspire to become your new, auxiliary sales staff. Tap your marketing people to find customers who have called or written praising the product and those who have a long track record of purchasing it.
- **Make them happy.** Word-of-mouth volunteers like being able to get across their point of view to other customers and to companies' management as well. They enjoy being on the inside.
- **Tap the talent.** Any sizeable community has large numbers of talented people — writers, artists, photographers — who are eager to see their work on display.

quality you'll find at Getty Images itself, but they have been selected by the company's editors, so they're apt to be just fine if you're putting together an office newsletter or even a magazine spread. And the price will be right.

iStock introduced a payment system that has become the industry standard. The minimum purchase is $12, which gives you 10 credits; images cost between one and 15 credits per download. The prices rise with the image size and resolution. iStock photos are downloaded at the rate of one every 2.5 seconds.

One reason for the site's success has been its welcoming content from contributors. The images are accompanied by symbols indicating how many of their photos have been sold through iStock and whether the work has been chosen for special attention on the site. Articles on the site offer photographic and design advice, and forums enable contributors to exchange news and speak their minds. The royalties many receive are impressive — exclusive contributors earn, on average, $1,000 a month. Also, they're happy about having other people see their work.

The advantages over traditional business models are huge. At iStock, contributors not only create the product being sold, but they also deliver it in a market-ready format and list it in the appropriate keyword category. With little or no product inventory expense or traditional overhead, the company can price the product far below that of old-model competitors.

Many communities are willing — indeed, eager — to become involved in creating products. Year after year, there are improvements in the technology that allow the crowd to produce content. Year after year, new online entries take advantage of the power of community, limited only by desire and imagination. ●

Welcome to the World Bank of We

Suddenly, there are sites that provide financing for business ventures that might otherwise never get off the ground.

When Buddy, her cuddly Bichon Frise, hurt his paw, Lyn Townshend of Longmont, Colo., refused to accept the so-called Elizabethan collar, the uncomfortable plastic cone that makes a dog look as though its head is stuck in a lampshade. So she sewed an elastic strap onto a sock and put the sock on Buddy's paw and the strap around his body, effectively covering the wound and keeping the dog from licking and chewing the dressing. She called it a Strock, combining strap and sock, and it was much more comfortable for the dog — not to mention much less embarrassing for its owner.

Best Buddy Pet Products

In fact, it was such a success that Townshend decided she had the makings of a commercial venture. Early in 2006, she formed Best Buddy Pet Products and began turning out designer Strocks on her home sewing machine. The new version was waterproof, came in different sizes to accommodate cats and noncanine pets, and used adjustable Velcro straps. On just her third sales call, Townshend won the endorsement of a veterinary hospital that was part of a 600-strong chain. Suddenly, it looked as though she would have to be ready to produce Strocks by the hundreds — without receiving payment until she delivered the finished goods.

What Townshend needed was a loan. The problem was, she had no income and a record of credit card delinquencies. Not surprisingly, she was turned down by her local bank and by the Small Business Administration.

Prosper.com

What to do? Wikinomics! Turning to Prosper.com, she joined the community's Business Owners Cooperative, made up of past and would-be borrowers. She posted her loan request on her page at Prosper and would-be lenders bid on it, until finally she was funded by a total of 77 people. On May 21, 2006, she landed a loan of $9,500 at 12.75 percent interest — considerably less than she would have had to pay on a credit card. She used it to buy office equipment, arrange for mass production at a nearby factory and get her product trademarked.

Prosper.com is a leading example of the power of community as financier, but it is just the latest twist in the ancient practice of people-to-people lending. Seventeen hundred years ago, long before there were banks or an Internet, there were communities in China called *lun-hui* whose members helped each other borrow cash. For centuries in the Caribbean, Africa, Korea and Vietnam, there have been local money pools. Members contribute a set amount each week and take turns picking up the total at the month's end. Known as *susu* in the Caribbean, *kaes* in Korea and *hui* in Vietnam, these lending societies are common in immigrant communities across the United States. As it happens, that's exactly how Prosper.com came into being.

The Web site came online in February 2006. It works very much like eBay, except that what is being auctioned is a loan. Registration is free. Borrowers get a page on the site to list the size of the loan they want — the upper limit is $25,000 — and the interest rate they're willing to pay. They also present their reason for the loan and as much information about themselves as

they think will help attract lenders. Prosper.com runs credit checks on potential borrowers, assigning them one of eight scores. It also provides the borrower's debt-to-income ratio. The auction can last from three to seven days, at the borrower's discretion.

Successful borrowers pay Prosper.com a 1 to 2 percent fee when a loan comes through, while registered lenders pay a 0.5 to 1 percent annual servicing fee on their outstanding loans. Just over a year after its founding, the company had marked up 11,100 loans totaling more than $65 million. Approximately 2 percent of funded loans in dollar terms, or 3 percent (339 loans) of funded loans in unit terms, have defaulted.

Other examples of social lending communities include Zopa and CommonAngels. Approaches might vary, but in all cases, the focus is on finding ways to minimize the lender's risk by providing the maximum amount of relevant information. ●

Make Everyone a C-We-O

Can a community successfully determine the direction of a company, making strategic decisions about what products or services to pursue and how to create, market and distribute them?

The answer, to date, has been no — and not for lack of trying. Perhaps the most thorough and intensive effort so far was undertaken in June 2005 by Rob May, an engineer, entrepreneur and founder of Businesspundit.com. He established a project called TheBusinessExperiment.com (TBE), which quickly attracted more than 800 members, all of them eager to participate in what promised to be a historic, groundbreaking venture. Together members selected a product — another Web site — and it was eventually designed and launched. Sad to say, in March 2006, just nine months after its birth, TBE was voted out of existence.

Cambrian House

Cambrian House relies on a community of 30,000 individuals to come up with new ideas, try them out, suggest improvements and then connect with other interested members to build and commercialize them. Points toward a share of any eventual profit and cash up front are awarded to idea inventors and those who spend time adding or improving features.

As of spring 2007, all four of the company's underwritten crowdsourced products were proceeding on course, with more than 200 other ideas under development by the Cambrian House community without any interference from the company itself.

So here we have a successful example of a community taking on some managerial duties, although there needs to be an asterisk beside that sentence. In the TBE project, the attempt was made to enlist the community in actually developing a chosen product — an attempt that eventually failed. At Cambrian House, employees perform and manage some tasks (designing, manufacturing and the like) if the company invests in or works directly with a community member's project.

These two examples leave the door open to the possibility that communities will eventually be able to handle substantial management tasks. ●

Lead From the Rear

All through history, leaders have sought to persuade or compel communities to change their ways. The more drastic the change desired, the less likely the success.

Wikinomic communities can often perform real-world tasks faster, better and cheaper than individuals can. But building a successful community is no simple matter. Here, as in all aspects of business, from hiring to marketing, the price of great rewards is great risk. And that has never been so true as in the era of Web 2.0, when a seemingly minor mistake can snowball into a fatal disaster with lightning speed.

Guidelines

The following guidelines are intended to help companies avoid some of the pitfalls along the Web 2.0 road:

1. Lead from the rear. The whole point of crowdsourcing is to access the fresh, powerful ideas and instincts of the community. The company's role is to provide direction and then stand back: Interference with communal processes defeats the purpose. When overzealous managers interrupt and derail the conversation, valuable ideas are lost.

2. Know when to step in. Communities have built-in self-correcting capacities. Troublemakers get squelched or ignored; bad information gets corrected. When intruders hinder a community's operations and remain unchecked, the company should not hesitate to step in. If the misinformation being bandied about might cause someone to make a potentially harmful or costly mistake, managers owe it to the community — and to the company — to clarify ASAP. In all cases, such intrusions should be brief and hedged with explanations.

3. Form a club, a real community of like-minded people. Creating a vibrant community is all about creating a critical mass of good minds and spurring them to spark off each other. But the odds of success improve when the members share the same general outlook — it simply makes it easier for them to communicate and cooperate.

4. You can't hide, so don't even try. It's an inescapable truth of this transparent age that sooner or later — and mostly sooner — the errors a company commits will be exposed for everyone to see. When a mistake is made in working with a community, the best course is to admit it without delay, apologize and make sure it's not repeated.

5. Forget about perfection. Anything that gets members of a community talking is good. Anything that slows that conversation is bad. When a company communication is too flashy or too finely tuned, it can rapidly shut down discussion and make it impossible to get the valuable feedback the company seeks.

6. Stir things up. There's nothing quite so blah and unproductive as a homogeneous, complacent community Web site. Companies need to make sure that contrary opinions are encouraged, that members start challenging the revealed wisdoms of the group. It's in the play of argument and counterargument that fresh ideas rise to the surface.

7. Say thank you. Companies that sponsor communities need to remember that a transaction is taking place. The members of the communities are sharing themselves and their talents in ways that have value for the companies, and their contributions deserve to be acknowledged and rewarded.

8. This is not a one-night stand. Communities take time to develop. Attracting a cast of valuable characters who share common interests cannot be accomplished overnight, and establishing and strengthening the personal relationships so necessary to a productive environment is a long-term proposition. This should not be rushed.

Join the Crowd

The world as we've known it is changing all around us, and a big part of that change is in the nature of the connections among people and between people and their employers. Computers, cell phones, iPods and the Internet are making us more distinctly individual and independent. We spend more time away from the office, working and traveling, and a great deal more time online, accessing information for our work and communicating with colleagues, suppliers and customers.

Although the Internet has made workers more independent, it has also led them to create communities built upon collaboration. In other words, our degree of separation from our customary work life has increased, while, at the same time, we have never been so widely connected.

Altering the Nature of Work

Experts such as Gartner Inc., a Connecticut-based technology research and advisory company, expect that these developments will drastically alter the nature of work over the next decade. Freed from dependence upon the company for infrastructure and resources, employees will provide intangible services from their own personally customized workspaces. They will rely on networks of people, many of them unaffiliated with their employer, for advice, information and best practices.

Inevitably, their relationship to the company will be transformed. The expertise they have chosen and developed will allow them to move easily from one employer to another, erasing whatever vestiges of company loyalty remain. They will insist that collaboration, much of it remote, replace the traditional authoritarian interactions of manager and employee.

As Gartner put it in a recent report, the new relationship will be one of symbiosis. Indeed, the corporation as it now exists, with its armies of salaried workers in identical cubicles, will gradually disappear. Instead, there will be virtual communities that will be able to mobilize teams of specialists to take on necessary tasks for customers.

Collaboration

Companies still have plenty of time to prepare and meet these work changes. Leaders need to examine their management and support policies and adjust them to fit the more collaborative model their newly independent employees seek. A policy carved in stone simply doesn't suffice for the new-breed workers who thrive on challenge and are constantly seeking out-of-the-box assignments that will boost their expertise. At the same time, companies should become knowledgeable about the care and feeding of virtual networks and communities, which play such an important role in the work life of the newly independent worker.

RECOMMENDED READING LIST

If you liked *We Are Smarter Than Me*, you'll also like:

1. ***Wikinomics* by Don Tapscott and Anthony D. Williams.** Using the collaborative-software "wiki" concept as their theme, the authors address how the Internet's social network offers new, decentralized ways to produce content, goods, services and profit.
2. ***Outside Innovation* by Patricia B. Seybold.** Innovation is what keeps companies at the top of their fields, and Seybold shows that the best way for companies to do this is to involve passionate customers in every aspect of their product and service design.
3. ***Citizen Marketers* by Ben McConnell and Jackie Huba.** In homes, dorm rooms and planes around the world, millions of people are exercising their influence on what we buy, even though they have no official connection to those products and services. "Citizen marketers" are forming growing communities of enthusiasts and evangelists, getting the word out about what products they love or hate.

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Welcome to Management

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Welcome to Management

How to Grow from Top Performer to Excellent Leader



by **Ryan Hawk**

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THE SUMMARY IN BRIEF

Every year, millions of top performers are promoted to management-level jobs—only to discover that the tactics that got them promoted are not the tactics that will make them effective in their new role. In ***Welcome to Management***, Ryan Hawk provides practical, actionable advice and tools designed to ensure that transition is a successful one.

He presents a new three-part framework distilled from best practices drawn from in-depth interviews with over 300 of the most forward-thinking leaders around the world, as well as his own professional experience going from exceptional individual producer to new leader.

Offering valuable research and powerful, practical strategies, ***Welcome to Management*** will help high performers make the leap from individual contributor to manager with greater ease, grace, courage, and effectiveness. Welcome to management!

IN THIS SUMMARY, YOU WILL LEARN:

- The three key steps for becoming an effective manager.
- Why managers must first lead themselves before leading others.
- The importance of trust, vulnerability, and ownership in company culture.
- Why managers must lead, manage, and coach to be excellent and achieve results.

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Introduction

You've just been promoted and are in a new management position. Congratulations. You are now the subject of the dinner table conversations of every person who reports to you. You are now responsible for the careers of those who report to you. You are now "the boss."

Few first-time managers know what it really takes to lead, to earn the trust and respect of your team, to develop a culture that leads to high performance, or to communicate in a way that moves people. Being promoted up the ranks is exciting, but unfortunately, the typical organization does an underwhelming job of preparing its new managers for success.

As a result, moving from team member to team leader will be the toughest transition of them all. The following three sections, lead yourself, build your team, and lead your team, are designed to help you make the leap from individual contributor to manager.

PART I: LEAD YOURSELF

You can't lead anyone else successfully over the long term until you take ownership of leading yourself. This is why before we start looking at how to manage your new responsibilities as a leader, we must begin with focusing on you.

There are two foundational reasons why focusing on leading yourself well is the proper starting point to learning how to lead others:

Building skills. Having the qualifications necessary to get that new management job is not the same as having the skills to do the job of leading others. You are about to discover that issues you thought were obviously black and white as an employee are now shrouded in shades of gray as a manager, and the skills that made you an excellent performer in your previous role are quite different from those required for your new responsibility—getting others to be excellent performers.

In order to develop these skills, refine them, and keep them honed and relevant, you are going to have to embrace the mindset, attitudes, behaviors, and habits of a self-driven learner.

Earning credibility. Do not expect respect, buy-in, and attentiveness from your team as an automatic benefit of your new role and title as their boss. Compliance can be commanded, but commitment cannot. People reserve their full capacity for emotional commitment for leaders they find credible, and credibility must be earned. Whether on the field or in the office, the best way to go about earning the credibility that leads to commitment is by modeling the behaviors you want your team to exhibit.

Lead Yourself on the Inside

To lead yourself well, we must begin by taking a hard look at what is happening in your heart and mind. The real work of leadership begins inside your own head.

What are the commonalities of those who sustain excellence over an extended period of time? These six words: Build yourself into a learning machine. "Learning machine" efficiently captures two important concepts: thoughtfulness and intentionality.

A person who is a "learning machine" is intentionally and constantly seeking new information with the goal of becoming better. Machines are not organic; they don't spontaneously generate. They have to be built. The same is true for a person to become a learning machine. Consider the Cycle of Learning, which involves four steps.

Step One: Learn

The beginning of any learning cycle starts with the intake of information. Taking charge of this process means proactively seeking information from people you trust and from those who have been where you want to go. There is no substitute for reliable expertise and the wisdom of experience. Learning can be sourced from three categories: mentors, virtual mentors, and coaches.

Mentors are people who have done what you want to do or have attained the position that you want to attain. Mentors are usually able to look at where you are in your career and offer specific guidance about how to move forward. The best mentors are those with whom you can build a real relationship. This is critical because the most important role a mentor fills is that of being the source of direct, honest feedback to help you improve.

Virtual mentors are people you may never meet but who teach you from afar. Books are one of the greatest ways to learn from experts from all over the world. Thanks to the power of fiber optics, cellular communications, and ubiquitous Wi-Fi access, you can watch videos of your virtual mentors wherever you are. Wherever you get your information, it's important to be selective about the knowledge you take in.

Coaching isn't about competition; it is about skill develop-

Disciplined leaders seek out opportunities to test themselves by purposefully and aggressively seeking out discomfort.

ment. No matter the domain, if you are aiming to improve yourself by developing a skill, you need someone who understands that skill to be on your sideline, wearing the coach's hat.

Step Two: Test

It is only through the kinetic energy of putting ideas into use in your daily life that you can test your understanding of what you have learned and the value of that knowledge. But practice must be accompanied by a feedback mechanism involving an expert. Scholar Anders Ericsson outlines a four-step process for "deliberate practice":

1. Set a specific goal.
2. Cultivate intense focus.
3. Ask for immediate feedback.
4. Seek frequent discomfort.

Step Three: Reflect and Adjust

Once you have taken the action that puts the new information you've learned into practice, it is tempting to move on immediately to the next new thing you can learn. Doing this short-circuits the process and skips a vital step: thoughtful reflection on the action you just took. Turning your learning and growth into an iterative cycle requires a look-back period. After the implementation work is done, set aside time to analyze your implementation efforts and ask yourself, "Did the steps I took based on the new information work?" "If so, why?" or "If not, why not?"

Step Four: Teach

There is something unique about the power of teaching others that cements what you have learned. Think about any moment that you were asked to give a presentation. It could have been for an assignment back in school or a project given to you by your boss at work. Regardless of how well you ended up doing the actual presentation, the preparation you put in was a powerful engine for learning to take place.

According to the authors of a study published in the September 2018 issue of Educational Psychology Review, the tactic of self-explanation boosts learning and understanding more than other methods, such as note-taking, problem-solving work, and hearing the material explained to the learner.

All of this internal, mental effort is designed to do one thing: to get you out from behind the walls of a fixed mindset and put you into the swift currents of a growth mindset.

Lead Yourself on the Outside

People who have discipline are able to do hard things. Why? Self-discipline gives them the ability to control their feelings and overcome their weaknesses, the ability to pursue what they think is right despite a multitude of temptations to abandon it.

In the words of pioneering baseball mental skills coach Harvey Dorfman, it is through self-discipline that one "is a master of, rather than a slave to, his thoughts and emotions." Therein lies the secret to turning all the intellectual learning discussed above into real, tangible change in the physical world. This process starts with mastering what we do with our bodies, with our time, with our effort.

Disciplined leaders seek out opportunities to test themselves by purposefully and aggressively seeking out discomfort. You can't know how far you can go without regularly putting yourself in situations where you are stretched beyond the known and the comfortable.

Everyone will face adversity. Succeeding comes down to how you choose to respond in those moments of difficulty.

Your Presence Is Required

Great leaders know that being among the people they lead matters a great deal. Abraham Lincoln maintained a practice of hosting "ordinary people" in his office, where he would talk with them and listen to what was on their minds. Frustrated by the effects on his schedule, Lincoln's aides tried to cut the presidential face time sessions short: "Mr. President, you don't have time to keep talking with these ordinary people."

"You're wrong." Lincoln would respond. "I must never forget the popular assemblage from which I have come."

There's no better way to tell whether the river you have to cross is 20 feet deep or two feet deep than by wading into it yourself. Be in the territory. Show up. Your presence is needed to make better, more informed decisions. This will build credibility with the people you lead.

Is it hard to travel to all the locations of your team members? Yes, of course it is. Managing a team is not for everyone.

Managing Your Time

Knowing where your time goes and being strategic and intentional about what you spend your time doing represent a huge lever that turns efforts to lead yourself into successfully leading others. For Peter Drucker, that meant applying a simple, three-step process:

- **Recording time**. Much like tracking one's spending as a means of budgetary control, make an accounting of where you spend your time throughout the day.
- **Managing time**. Remove the unproductive tasks that take time but don't produce value.
- **Consolidating time**. Manage the scheduling of time so that "discretionary time" (when your presence or attention isn't required by someone else) occurs in the largest blocks of continuous time possible.

Preparation: The Greatest Medicine for Fear

As a manager, there are countless moments in which you will need to be excellent at your craft. Your willingness to prepare properly for these important moments is critical to sustaining excellence as a leader.

For example, most people are not excited about going to a meeting. How can you change that as a manager? How will you open the meeting? What is on the agenda? What story can you share with your team to evoke the emotion and spark the ideas necessary to succeed that day?

How will you prepare for your one-on-one meetings with each team member? Have you thought about the unique qualities and personalities of each person and how best to connect with them?

PART II: BUILD YOUR TEAM

All of that takes prep work. It takes intentional effort and thought. To do it excellently, a manager must put in the time to think and be ready for the moment.
The building phase is the work of earning the respect of current and future team members and constructing the type of culture in which people want to do excellent work. Cultures of excellence come from leading with vulnerability to create a place of psychological safety and empowering your team to have ownership over their work.

It starts with understanding what it means to build an excellent culture and how we, as leaders, work to do it and sustain it on a daily basis so that it lasts. That means creating a place where intellectual curiosity and creativity are encouraged, and understanding when tough decisions of change have to be made.

Cultivate the Culture

Culture is the combined essence of the people in the organization. It's the collective energy of the people on the team, in the organization, and within the business. The way we actually interact—the social system—results from the culture created by the people in it. And unsurprisingly, the leader is vital in setting the culture.

Hopefully, the work of building your culture is intentional, but guess what? Whether it is the product of thoughtful design or mindless inertia, your results will flow from the culture you build.

If you've done the work to earn the respect of your team, you will then be in a position to start building a culture you want to have. Respect is regarding someone with high esteem because he or she has been deemed worthy. Consider the following seven keys:

- **Demonstrate competence**. You possess the necessary and critical skills required to lead in your organizational context.
- **Exhibit conviction**. You display assurance that the chosen course of action will lead to positive results.
- **Set high standards**. You aim high, both for yourself and your team.
- **Listen to your team**. You listen to feedback and you incorporate that feedback appropriately.
- **Work hard**. You put in the time and effort necessary to get the job done.
- **Do the difficult**. You do the hard things, like holding people accountable, confronting bad behavior, and staying true to your values even when it hurts.
- **Be consistent**. Your words, actions, decisions, and

investments are in alignment.

There are undoubtedly many different components to building a healthy, performing culture. Three in particular are valuable: trust, vulnerability, and ownership.

Trust is the foundation for everything you will do with your team. Yes, you will have to earn it, but it doesn't stop there. Equally important and maybe even harder to do: You will have to learn to trust your team members. Regardless of your entry point, as the new manager you will have to build trust and overcome the skepticism that's resulted from previous bad experiences.

Vulnerability is about connection. People connect more with those who are open and willing to share where they're weak. As the leader, we must work to create a safe place for our team members to share truth. In order to gain trust, we must give trust, and the quickest way to build trust is to share your own vulnerabilities.

The key to making it OK to be vulnerable is establishing an environment of psychological safety. Dr. Amy Edmondson, a professor at Harvard Business School, defines psychological safety as "a climate in which people are comfortable being (and expressing) themselves."

The most successful teams are made of people who have **ownership** over their decisions and their actions. It's very simple: People don't feel ownership if you tell them what to do. According to Gallup, only three in 10 U.S. workers strongly agree that at work, their opinions seem to count.

Empowering your team means that you're able to give them responsibilities and let them run with them, and then help them learn and grow from the experience after.

If you're used to being an individual contributor, the idea of delegation may feel counterintuitive. Empowering someone else to do the work is difficult if you feel they won't do it as well as you can. And often, they can't—at least not initially.

However, your goal is to scale your team, your business, and your group beyond you. It won't ever scale beyond you if you never give your team the opportunity to rise to the challenge, to fail, and to learn.

Manage the Roster

The most important decisions you make as a manager are those about the makeup of your team. Surrounding yourself with excellent people will be the single greatest determining factor in your success or failure as a leader.

Building your team well requires accurately analyzing what you have, correctly identifying what you need, and developing a deep understanding of what you're looking for beyond the simple skills needed to do the task.

The key to making it OK to be vulnerable is establishing an environment of psychological safety.

Hiring: What Are You Looking For?

In order to build the right team, first, it is necessary to understand what you value in a person. The specificity of the role you must fill is obviously an important part of the equation. But, too often, hiring managers focus on those spec requirements as if they are the most important parts of the hiring decision.

Taking this approach is a huge mistake and results in a great hire only by sheer luck. Far more important than the tangible skills you can find in multiple candidates or deliver through effective training is the makeup of the person who will be a complete asset to your team. To get this right, you must be intentional.

Sit down with your personal board of advisers and create your list of "must-have" or "nonnegotiable" qualities. Avoid the temptation to enumerate generically desirable virtues. For this to be an effective guide for your hiring process, you need to tease out why each of these qualities is important to you and your business.

After defining what you value in a teammate, now comes the hard part: figuring out how to accurately assess if the candidates you are interviewing possess those skills. Simply asking straightforward questions like "Do you have humility?" is not likely to yield any real insights.

The interview is when candidates are on their very best behavior. If they're late for their interview, that is a big red flag that speaks volumes about their punctuality and what

you should expect from them as a member of your team.

Get them out of interview mode. Take the candidate to lunch or dinner. Walk around the office and speak casually. How do they behave when they are more relaxed and their guard isn't up because they're not sitting in an interview?

Dig deep. Most candidates prepare for the basic interview questions. The best interviewers focus on the follow-up questions. Do your homework. When making a decision for who you're bringing on your team, it's worth the time to speak with as many people who know the candidate as you can.

Firing: When Pruning Is Required

There will be times when the only path to sustaining excellence is telling someone that they will no longer be part of your team. Manage a team for any length of time, and you will have to do it, so it is necessary to understand how to do it well.

The first time an employee hears in person from you that her work is not meeting the standards expected of her cannot be during the meeting in which she is being let go over it. Such a scenario is grossly unfair to the employee involved, and despite being obviously so, it happens with alarming regularity. There are also legal implications at stake. Document and be clear with the employee from the instant things start going south.

Don't do this alone. Talk regularly with close mentors. Meet weekly with your human resources partner. Make sure that you are not missing any possible detail, either in the legal and policy requirements governing the termination of an employee but also the good faith effort to help a struggling employee avoid this fate.

Write a script. Stumbling on your words during a termination meeting can lead to bad consequences. It is not uncommon for employees to file wrongful termination lawsuits based on managers saying something they shouldn't have during the final meeting. Write your script, and share it with human resources, as well as your mentors. Once it's been deemed correct, stick to it.

PART III: LEAD YOUR TEAM

Now, it is time to lead your team. How well you are able to do that will hinge on how well you master the art of being an excellent communicator. That means understanding the power of story and how to really connect with your team. It is through communication that the work of influence happens.

Now is the most critical time to get to know your team and understand what makes them go, because making them go is now your job. How well others perform is now the measuring stick for your performance. You are now responsible for steering the ship without getting to put your hands on the wheel. It's quite a different problem to solve.

And it all comes down to the results. As the leader, you are ultimately responsible for the results that your team produces.

Spread the Message

Effective communication is the lifeblood of effective leadership. Your team must understand the big picture mission of the team, as well as their specific role that contributes to the accomplishment of that mission. They must know exactly what you expect of them at all times. Your team can't know and do these if you don't clearly communicate with them. If the team doesn't have vivid clarity, then it is you, the leader, who is responsible for the failure in communication.

How Much and How Often

How much you say can be as critical to having your message heard as how you say it. Brevity is important. It is the whetstone great communicators use to give their messages a honed, razor-sharp edge.

Great comedians, writers, speakers, and movie directors know how to cut unnecessary fluff. When you are watching a movie that is the work of a gifted director, everything you see onscreen is there for a specific reason. A lot of time, money, and effort went into producing scenes and clips that never made it out of the editing room because they proved not to be necessary to telling the story.

Just as important as how much you say is the frequency and cadence of your communication. When you're a new manager, it is best to err on the side of overcommunicating with your team. Frequent communication can allay fears and build confidence as your team gets to know what you're about.

They'll see that you want to hear from them and that you will do your best to keep the channel open in both directions.

When it comes to communication, it's important to always remember its purpose: connecting with other people. We communicate to build relationships, express feelings, share ideas, and work together to accomplish what we could not do on our own.

The key to connection is to avoid the (manager) monologue.

Great management is figuring out how to work within the current constraints of the system you are in.

Instead, the conversation is about helping the other person figure out the answer that will motivate them to move forward.

How

How you communicate with your team will depend in large part on the way your workplace is set up and the cultural expectations of the organization. However, regardless of those specifics, the best form of communication is done in person.

In their landmark management book ***In Search of Excellence***, Tom Peters and Robert Waterman coined a simple phrase to describe this most basic form of leading others. They called it "Management By Wandering Around," now often referred to simply as MBWA. The purpose of MBWA is to connect with your people through the serendipity of random interactions, to gain a qualitative understanding of what's happening on the front lines.

However, there is a fine distinction between successfully employing MBWA to better know your team and their work versus crossing over into the dreaded practice of micromanaging.

If you're communicating with your team via email, remember that economy of words is essential. Have a purpose for every single email you send. If you start forwarding a bunch of meaningless emails with a note saying, "See below," the chances that your team will read them will drop dramatically. If they sense your emails have no point most of the time, your people are going to delete them and miss the important messages that you do send.

Make the Grade

When you raise your hand and step into the role of the leader, you are making the choice (whether you are conscious of it or not) to be responsible for the results of the team. Yet there's a lot more to it than simply saying, "I'm responsible" and being the one who has to answer to others (a boss, a customer, a board, investors) for those results.

Being accountable for your team's performance is a part of team leadership, but so, too, is the accountability you owe *to your team* to do the things that will help them achieve those results. This side of leadership is much harder and far more complex, which is why it is done well so rarely.

To be excellent, you need to lead, manage, and coach.

Leading

The act of leading is about providing purpose, direction, and inspiration to the group. It presents a vision, sees the big picture, and devises a strategy to accomplish the mission at hand.

To lead well means to have what author Robert Greene calls "a third eye"—a way of guiding you toward the larger picture while avoiding getting trapped in the hell of tactics. A great leader has an overriding sense of where she is taking the team at the macro level.

Strategists think beyond a single battle or even a series of battles. They are focused on the playbook of the long game, in which they expect to survive multiple defeats and still push forward to victory.

To lead like a strategic visionary, you must start by thinking like one. That means thinking through a progression of lenses, from the most high-level and general to ground-level and specific: from mission to vision to strategy to tactics.

Managing

Great management is figuring out how to work within the current constraints of the system you are in. It is the administration and stewardship of resources. It is because those resources are always limited—always—that the act of managing is even necessary.

Resource constraints demand creativity. When you don't have the luxury of throwing more money or people at a problem, you must be able to step back, identify what it is you're trying to accomplish, and find a different way to do it.

Managing limited resources is only one arena that requires the manager's attention. Another ubiquitous but ever-true cliché vying for the manager's attention is "managing change." As your competitive business market never stops changing, so, too, will the ways your company conducts its affairs internally.

When done well, how you manage change can serve as the steady bow of your team's ship, helping it cut through the turbulent waves of change while still staying on your prescribed course.

The primary reason change is met with resistance is uncertainty. No one likes uncertainty. One way to help your team navigate change successfully is to help them focus on what *isn't* changing. To overcome your team's resistance, intentionally couple your messages about the coming change with reassuring reinforcements of continuity.

Coaching

If leading is about strategic vision and managing is about administrative stewardship, then coaching is about developmental teaching. To be a coach is to give instruction delivered not to educate or inform but to improve.

For the manager of a team, coaching in this manner falls into two types: coaching for professional development (performance) and coaching for personal development (growth).

The best coaching for performance happens in the moments closest to when the performance happens. These regular, immediate bursts of micro-coaching should happen daily. Helping your team make the minor tweaks that improve their skill level doesn't require huge chunks of time devoted to training efforts.

Coaching for the personal development of your employees involves more long-term thinking. In this mode of teaching, your goal is to help them grow as a person in ways beyond their job performance.

This requires having conversations about their career ambitions in a focused, one-on-one setting. Or sharing with them books, podcasts, or other tools for self-improvement aimed at their individual needs and strengths.

These development conversations are a critical tool for creating the type of culture where people want to do their best work. When people know their boss has their long-term interests at heart while also working on short-term ways to help them improve their work, the quality of their performance improves dramatically.

Leaders—the ones worth following—are those who see themselves, their team, and the challenges before them with unvarnished honesty. They are intentionally aware of the gaps, shortcomings, and blind spots. They see reality, but they don't accept it as destiny. Instead, they set to work to fill in those gaps, overcome those shortcomings, and illuminate the blind spots.

Leaders undertake these efforts in the belief that improvement of themselves and their team is not only possible but inevitable if one follows the process, embraces learning with humility, and inspires others to do the same.

IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- ***The Hidden Leader: Discover and Develop Greatness Within Your Company*** by Scott Edinger, Laurie Sain
- ***The Fearless Organization: Creating Psychological Safety in the Workplace for Learning, Innovation, and Growth*** by Amy Edmondson



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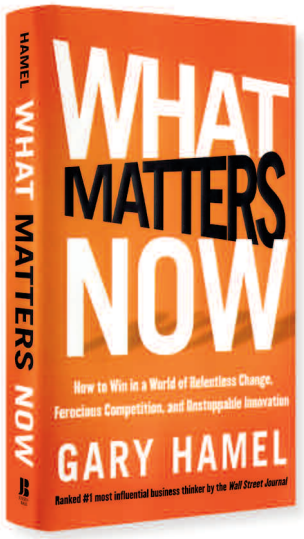
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What Matters Now

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What Matters Now

How to Win in a World of Relentless Change, Ferocious Competition and Unstoppable Innovation



by Gary Hamel

THE SUMMARY IN BRIEF

What Matters Now is Gary Hamel's impassioned plea to rethink the fundamental assumptions we have about management, the meaning of work and organizational life. He asks, "What are the fundamental, make-or-break issues that will determine whether your organization thrives or dives in the years ahead?" The answer is found in five paramount issues: values, innovation, adaptability, passion and ideology.

Values: With trust in large organizations at an all time low, there is an urgent need to rebuild the ethical foundations of capitalism.

Innovation: Innovation is the only defense against margin-crushing competition, and the only way to outgrow a dismal economy.

Adaptability: In a world of accelerating change, every company must build an evolutionary advantage. The forces of inertia must be vanquished. The ultimate prize: an organization that is as nimble as change itself.

Passion: In business as in life, the difference between "insipid" and "inspired" is passion. With mediocrity fast becoming a competitive liability, success depends on finding new ways to rouse the human spirit at work.

Ideology: Today, businesses need more than better practices; they need better principles. Bureaucracy and control have had their day. It's time for a new ideology based on freedom and self-determination.

IN THIS SUMMARY, YOU WILL LEARN:

- How social media is dramatically transforming the way human beings connect, learn and collaborate.
- How innovation is the responsibility of every single individual.
- How to defeat bureaucracy, astonish customers and outrun change.
- How to build a company that's truly fit for the future.

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THE COMPLETE SUMMARY: **WHAT MATTERS NOW**

by Gary Hamel

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Preface

Obviously, there are lots of things that matter now, including social media, "big data," emerging markets, virtual collaboration, risk management, open innovation and sustainability. But in a world of fractured certainties and battered trust, some things matter more than others. While the challenges facing organizations are limitless, leadership bandwidth isn't. That's why you have to be clear about what *really* matters now. So ask yourself: What are the fundamental, make-or-break challenges that will determine whether your organization thrives or dives in the years ahead? For me, five issues are paramount: values, innovation, adaptability, passion and ideology.

SECTION 1: VALUES MATTER NOW

Putting First Things First

If you are a leader at any level in any organization, you are a steward — of careers, capabilities, resources, the environment and organizational values. Unfortunately, not every manager is a wise steward. Some behave like mercenaries — by mortgaging the future to inflate short-term earnings, by putting career ahead of company, by exploiting vulnerable employees, by preying on customer ignorance or by manipulating the political system in ways that reduce competition. What matters now, more than ever, is that managers embrace the responsibilities of stewardship.

To my mind, stewardship implies five things:

1. *Fealty:* A propensity to view the talents and treasure at one's command as a trust rather than as the means for potential gain.
2. *Charity:* A willingness to put the interests of others ahead of one's own.
3. *Prudence:* A commitment to safeguard the future even as one takes advantage of the present.
4. *Accountability:* A sense of responsibility for the systemic consequences of one's actions.
5. *Equity:* A desire to ensure that rewards are distributed in a way that corresponds to contribution rather than power.

The critical point is this: Because the decisions of global actors are uniquely consequential, their ethical standards must be uniquely exemplary. It's easy to feel sorry for Mark Hurd, the former Hewlett-Packard(HP) CEO who was pushed from his perch over what seemed to be a relatively minor infraction of HP's ethics rules. I don't know whether justice was done in that case, but I do know it's a good thing when influential leaders are held to high standards.

As we struggle with the uniquely complex challenges of the 21st century, it is good to remind ourselves that what matters most now is what's always mattered: *our bedrock values*.

Learning from the Crucible of Crisis

In July 2007, just weeks before the debt bomb exploded, Chuck Price, Citigroup's chief executive, defended his bank's gung-ho risk-taking in an interview with the *Financial Times*: "When the music stops, in terms of liquidity, it will get complicated. But as long as

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Rebecca S. Clement, Publisher; **Sarah T. Dayton**, Editor in Chief; **Andrew Clancy**, Senior Editor; **Chris Lauer**, Contributing Editor; **Amanda Langen**, Graphic Designer

the music is playing, you have got to get up and dance. We're still dancing." The last time I heard an excuse that lame it came from a 13-year-old: "But Dad, everyone's doing it."

The freedom of every human being to pursue his or her self-interest is an essential prerequisite for an open economy, but it is not an adequate moral foundation for capitalism. In *The Wealth of Nations*, Adam Smith, the patron saint of capitalism, made a compelling, if slightly depressing, case for self-interest:

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages.

The Moral Superiority of Capitalism

The moral superiority of capitalism rests on the fact that in a free market the only way to do well is to do well for others. Critically, though, the grocer doesn't feed us because he is concerned about our hunger — he feeds us because there is a profit in doing so. Capitalism is animated by self-interest, but when it's not tamed by moral self-discipline, it can easily become mendacious. When that happens, the powerless get abused and the ignorant get duped, legislators get bought and safeguards get trampled. The "invisible hand" of the market is a wonderful thing, but when not guided by a deep sense of moral duty, it can wreak all sorts of havoc.

Though his acolytes seldom acknowledge it, Smith's philosophy was more nuanced than the previous quotation suggests. In *The Theory of Moral Sentiments*, Smith begins thusly:

How selfish soever man be supposed, there are evidently some principles in his nature which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.

To free market zealots, I would say the following: One doesn't have to disown an economic philosophy to recognize its shortcomings. So stop being so defensive!

All of us who have a stake in the future of capitalism have a nondelegable responsibility to make it better — and we must start by raising our own ethical standards and by challenging others to do the same. ●

Renouncing Capitalism's Dangerous Conceits

In 2010, Google formed a new social innovation unit that it describes as a think/do tank. Housed in the company's operational core rather than in its philanthropic foundation, Google Ideas is aimed at harnessing the company's innovation prowess and convening power in order to tackle some of society's most pressing problems — such as nuclear proliferation and failed states. One of the first efforts launched by Google Ideas was the Summit Against Violent Extremism (SAVE), held in the Dublin Convention Centre in June 2011. The event brought together jihadists, white supremacists and gang leaders, as well as some of their victims and a slew of academic experts. A representative participant, T.J. Leyden, was once a skinhead leader and is now executive director of Hate2Hope. Google hopes that forums such as this one will help to surface radical new approaches to seemingly intractable problems. Though it's too early to assess the success of the program, it is worth noting the principles upon which Google Ideas seems to be based:

1. In the long run, the interests of shareholders and society at large are convergent. Making the planet a "better" place serves the interests of business, and making businesses "better" serves the interests of every human being.
2. A company's social legitimacy can never be taken for granted — it can and will be challenged, so live with it.
3. Citizens and consumers expect companies to be not only socially accountable, but socially entrepreneurial.
4. Systemic problems can't be solved by a single institution or by people sitting around conference tables. Businesses are uniquely equipped to help mobilize relevant parties and get "boots on the ground." They need to be energetic partners of public institutions and NGOs.
5. "Don't be evil" (Google's famous mantra) is a *de minimus* standard. Today, a company needs a proactive strategy for buttressing its social balance sheet. Here, as everywhere else, the only option is to *lead*! ●

SECTION 2: INNOVATION MATTERS NOW

Defending Innovation

In recent years, left-brain types had the upper hand while starry-eyed innovators have struggled to get a hearing. Nevertheless, before innovation slips any further down the list of corporate priorities, we need to remind ourselves that we owe *everything* to innovation.

- **We owe our existence to innovation.** Our species exists thanks to 4 billion years of genetic

innovation. Since time immemorial, life has been experimenting with new genetic combinations, through sexual recombination and random mutations. As human beings, we are the genetic elite, the sentient, contemplating and innovative sum of countless genetic accidents and transcription errors.

- **We owe our prosperity to innovation.** Most of us do more than subsist. From the vantage point of our ancestors, we live lives of unimaginable ease. Between the years 1000 and 1820, global per capita income rose by a scant 50 percent. Over the next 12 decades, it grew by 800 percent. Put simply, innovation rescued humanity from privation.
- **We owe our happiness to innovation.** Humans are the only beings who create for the sheer pleasure of doing so. Forget the Renaissance, the Enlightenment and the Industrial Revolution — ours is the golden age of innovation, and we should take delight in that fact.
- **We owe our future to innovation.** Today, humanity's most pressing problems aren't merely technological; they're social, cultural, political, and global in scope. That's why, like Thomas Edison, we must innovate around innovation. Luckily, there are new meta-innovations (like idea markets, crowdsourcing and folksonomies) that can help us innovate across disciplines, borders, institutions and ideologies. This is the only way we'll solve the make-or-break challenges now facing our species. Our future, no less than our past, depends on innovation.

So don't give up. Innovation isn't a fad — it's the real deal, the only deal. Right now, not everyone believes that, but they will — even all those corporate cost-cutters with shriveled right hemispheres. ●

Deconstructing Apple

Over the past decade, Apple has produced a mind-boggling parade of accomplishments.

Having once been dismissed as a footnote in the personal computer industry, it is now the market leader in computers costing $1,000 or more. Apple's share of the industry's most profitable segment is estimated to be a whopping 90 percent.

Today Apple is the world's largest music retailer, a milestone reached just six years after the launch of its online music store in 2003. The 10 billionth song sold on iTunes was downloaded on Feb. 24, 2010.

Though it was a late entrant into the mobile phone business, Apple currently makes more money from its roughly 5 percent of the global handset market than Nokia makes with its 30-plus share.

Apple opened its first retail store in 2001. At the time, many retail analysts panned the strategy. Today, though, Apple's sparse, elegant shops generate four times the revenue per square foot of its big box competitors, and its Fifth Avenue store in New York is rumored to be the most profitable retail outlet in the world.

Since the launch of the company's App Store in 2008, Apple has become the world's largest software distributor.

The Most Valuable Company in the World

As I'm writing this, Apple's market value is $361 billion, making it the most valuable company in the world.

How in the world could one company accomplish all this? How in the heck do you build an organization that is capable of reinventing not just one industry, but five or six — including computing, music, retailing, mobile phones, software, and (just maybe) media and publishing as well? Most companies never reinvent one industry; no other company in history has reinvented a handful.

When you ask yourself, "What sort of values would a company have to venerate if it wanted to duplicate Apple's success?" the answers seem almost intuitive.

Be Passionate. Great success is the product of a great passion; it arises from the tireless and inventive pursuit of a noble ideal. And for Apple, that virtue is beauty. During his unveiling speech for the iPad, Steve Jobs remarked again and again, "It's just so amazing to hold."

Lead, Don't Follow. While Apple doesn't always pioneer a new product category — there were MP3 players before the iPod and smartphones before the iPhone — it always sets itself the challenge of radically redefining the status quo.

Aim to Surprise. As a company, Apple seems committed to exceeding expectations — to wringing little gasps of delight from even its most jaded customers. That's why I think the company's penchant for prelaunch secrecy is more than competitive paranoia; it's simply the way you produce the same sort of gee-whiz delight that a parent aims for on Christmas morning. Apple wants to bewitch us.

Be Unreasonable. Greatness doesn't come from compromise, from resigning oneself to the trade-offs others so blithely accept. It comes when trade-offs get transcended, when either/or gives way to both/and. Apple gets this, and frequently challenges itself to do the impossible — like producing products that are both gor-

geous and functional. Apple proves that a company doesn't have to choose between high value and low cost. Not only is it one of the world's most innovative companies, it's also one of the most efficient.

Innovate Incessantly and Pervasively. At Apple, innovation isn't a strategy or a department; instead it's the basic material that goes into everything the company does. From the wafer-thin MacBook Air to the App Store to the Genius Bar, innovation infuses everything Apple does. Apparently there are a lot of people at Apple who realize that innovation— in products, services and business models — is the only strategy for creating long-term value. If so, they must be relieved that innovation is still a sideshow in so many of their competitors.

Sweat the Details. Apple is justifiably celebrated for its sense of aesthetics — but great design isn't just about bold strokes, it's about getting all of the tiny things right that conspire together to make a product truly exceptional. In Apple's case, it's the magnetically-attached power cord on every laptop, it's the gorgeous packaging that surrounds every iPod, it's the single billet of aluminum that gives structural integrity to every MacBook — plus a lot more stuff you can't see.

Think Like an Engineer, Feel Like an Artist. A company can't produce beautiful products if bean counters win every argument.

Executives often wrongly equate "good value" with "low price," when what "good value" should mean is amazing value for the price. Historically, many of Apple's products carried a premium price tag, but customers anted up because they also delivered superior fun and functionality. Put simply, hyper-rational executives produce ultra-boring products.

The bottom line: Apple's unique success is a product of its unique values — which are uniquely innovation-friendly and customer-centric.

Apple may have patented a lot of things, but it hasn't patented the values that made it, for a time at least, the world's most successful company. Apple is proof positive that innovation matters now! ●

SECTION 3: ADAPTABILITY MATTERS NOW

Changing How We Change

The payoffs to investing in adaptability are many. First, a resilient organization should be able to avoid the sort of big earnings shocks that can slice a company's market value in half. Executives often complain that investors overreact to small earnings misses, but I'm not so sure. In recent years, investors have seen a lot of companies self-destruct when they missed a paradigm shift, underestimated a new competitor or simply stopped innovating. When a company's earnings disappoint, investors have to ask themselves: Was this a blip, the result of an easily corrected operating glitch or is this an early warning sign of a structural decline in the long-term profitability of this company's business model? Executives will always claim it's a blip, but investors have learned to be wary of glib assurances. The safest thing to do is dump the shares, and then buy them back later once the problems have been remedied.

Investors Like Predictability

Investors like predictability and will pay more for a less volatile earnings stream. Though short-term earnings can be manipulated with accounting tricks, adaptability is the only thing that can deliver a smooth, upward slope over the long run. An adaptable company rethinks its strategy without having to walk through the valley of the shadow of death; it reinvents itself before getting mugged by the future. As a result, it experiences fewer financial reversals and its share price commands a premium. This is reason enough to care about adaptability, but there's more.

An adaptable company is one that captures more than its fair share of new opportunities. It's always redefining its core business in ways that open up new avenues for growth. If it had been more adaptable, Best Buy might have seen the opportunity for delivering movies online and beat Netflix to the punch; Coca-Cola might have preempted Gatorade in the sports drinks business; and General Motors, rather than Toyota, might have developed the world's best-selling hybrid. An adaptable company is always reinventing itself, always pioneering new markets.

An enterprise that is constantly exploring new horizons is likely to have a competitive advantage in attracting and retaining talent. A dynamic company will have employees who are more engaged, more excited to show up to work every day and thus more productive.

Building organizations that are as resilient as they are efficient may be the most fundamental business challenge of our time. Adaptability *really* matters now. ●

Future-Proofing Your Company

Today our world is dominated by large-scale organizations. We rely on them as consumers, work for them as employees and depend on them as investors. And yet, these organizations often seem to fail us. As consumers, we are often the victims of their indifference, of rules

and policies that are efficiency-focused rather than service-focused. As employees, our voices are often ignored and our creative energies wasted. And then, when the inevitable crisis occurs, we are asked to bear a disproportionate share of the costs. As investors, we watch our portfolios shrink when once-great companies miss a turn in the road. All of us have a huge stake in our organizations, and we need them to be far more resilient than they are today.

Like those long ago management innovators, we can dream, too. We can dream of organizations that are forever looking forward and jump at every opportunity to better the human condition. We can dream of organizations where the enthusiasm for change is palpable and pervasive, where individuals, ennobled by a sense of mission and unencumbered by bureaucracy, rush out eagerly to meet the future. We can dream of organizations where the fearless renegades always trump the fearful reactionaries, where the constituency for the future always outguns the constituency for the past. We can dream of organizations where the drama of renewal occurs without the trauma of a turnaround. And, if we're daring and inventive and determined, we can build these organizations. That's what matters now. ●

SECTION 4: PASSION MATTERS NOW

Exposing Management's Dirty Little Secret

Consider the 2007-2008 Global Workforce Survey conducted by Towers Perrin (now Towers Watson). In an attempt to measure the extent of employee engagement around the world, the company polled more than 90,000 workers in 18 countries. The survey covered many of the key factors that determine workplace engagement, including the ability to participate in decision making, the encouragement given for innovative thinking, the availability of skill-enhancing job assignments and the interest shown by senior executives in employee well-being.

Here's what the researchers discovered. Barely one-fifth (21 percent) of the employees surveyed were truly engaged in their work, in the sense that they would "go the extra mile" for their employer. Nearly four out of 10 (38 percent) were mostly or entirely disengaged, while the rest were in the tepid middle. There's no way to sugarcoat it: This data represents a stinging indictment of management-as-usual.

Management Issues

Only 38 percent of employees believe that "senior management [is] sincerely interested in employee well-being." Fewer than four in 10 agree that "senior management communicates openly and honestly." A scant 40 percent believe that "senior management communicates [the] reasons for business decisions," and just 44 percent of employees believe that "senior management tries to be visible and accessible." Perhaps most damning of all, less than half of those polled believed that "senior management's decisions [were] consistent with our values."

My conclusion from all of this: If we're going to improve engagement we have to start by admitting that if employees aren't as enthusiastic, impassioned and excited as they could be, it's not because work sucks; it's because management blows. ●

Building Communities of Passion

First, if you're a formally appointed leader, and you want to turn sheep into shepherds, you have to take off your leadership mantle and say to people, "I don't have a plan, what's yours?" That's humbling, but it's the only way to release the latent talents within your organization.

Second, you have to let people find the work that best suits their interests. This is the key to building a community of passion. When you force people into slots, you get slot-shaped contributions; you don't get bold and aston-

Putting Individuals Ahead of Institutions

Building human-centered organizations doesn't imply a return to paternalistic, corporate welfare practices of the 19th century. Most of us don't want to be nannied. We understand we live in an uncertain world, where no one can guarantee our job security. We also understand that individual interests vary, and that no single organization can reconcile all our competing demands. Nevertheless, we expect our institutions to be our servants and not the reverse. This implies organizations that are built around some simple but important principles:

- Decentralize wherever possible.
- Emphasize community over hierarchy.
- Ensure transparency in decision making.
- Make leaders more accountable to the led.
- Align rewards with contribution, rather than with power and position.
- Substitute peer review for top-down review.
- Steadily enlarge the scope of self-determination.

ishing contributions. If you want the unexpected, you have to give people the freedom to *do* the unexpected.

Now, can you run an airline this way, or a semiconductor fab line? I don't know, but I bet you can run parts of the organization like this. One thing I'm sure about: If you want to take full advantage of the extraordinary talents that exist in your organization, you'll need to ask yourself each day, "What can I do to make this place feel less like a hierarchy and more like a community?" ●

Reinventing Management for the Facebook Generation

The experience of growing up online will profoundly shape the workplace expectations of Generation F. At a minimum, they'll expect the social environment of their worklife to reflect the social context of the Web, rather than a mid-20th-century bureaucracy.

With that in mind, I compiled a list of work-relevant characteristics of the social Web. Here are five of the post-bureaucratic realities that tomorrow's employees will use as yardsticks in determining whether your company is "with it" or "past it."

1. **All ideas compete on an equal footing.**
   On the Web, every idea has the chance to gain a following, or not. Ideas gain traction based on their perceived merits, rather than on the political power of their proponents.
2. **Contribution counts for more than credentials.**
   When you post a video to YouTube, no one asks you if you went to film school. When you write a blog, no one cares whether or not you have a journalism degree. On the Web, what counts is not your resume, but what you can contribute.
3. **Hierarchies are built bottom-up.**
   In any Web forum there are some individuals who command more respect and attention than others, and have more influence as a consequence. Critically though, these individuals haven't been appointed by some higher authority. Instead, their clout reflects the freely given approbation of their peers. On the Web, authority trickles up, not down.
4. **Leaders serve rather than preside.**
   On the Web, every leader is a servant leader; no one has the power to command or sanction.
5. **Tasks are chosen, not assigned.**
   The Web is an opt-in economy. Everyone is an independent contractor and everyone scratches his or her own itch. ●

Reversing the Ratchet of Control

Take a moment and ask yourself: How many policies in your company exist only to preserve the fiction that the higher-ups really are in control? How many rules enforce standardization at the expense of initiation and passion, while delivering few if any performance benefits? Better yet, post those questions on an internal wiki and invite your colleagues to join forces in reversing the ratchet of control.

SECTION 5: IDEOLOGY MATTERS NOW

Challenging the Ideology of Management

Here's a word that probably doesn't get much airtime in your organization: ideology. Do a search of your company's internal website and I'm willing to bet you won't find a single reference. That's a problem. As managers, it's our creedal beliefs that prevent our institutions from being more adaptable, more innovative, more inspiring and more noble-minded. We are limited by our management ideology.

A Viable Philosophical Rival to Freedom

Does control have a viable philosophical rival? Sure, *freedom*. People who are free to follow their interests, choose their allegiances and make their own commitments, *flourish*. And what we need now more than ever are organizations that allow human beings to do just that. An organization will never be fully capable unless it's fully human. The trick, of course, is getting beyond the rhetoric. We need an ideology that is radical *and* potent, one that emancipates employees, demolishes top-down hierarchy and still produces solid business results.

Can we find smarter ways of managing the tension between control and freedom? Yes. Can we overcome the systemic incompetencies of our control-besotted management structures? Yes. Two extraordinary companies have been built around the ideology of self-determination: W.L. Gore and Morning Star. These aren't poofy startups or flaky experiments. They are large, process-intensive businesses and they're industry leaders. What you won't find in either of these companies is a formal hierarchy, a trickle-down power structure or employees who feel like serfs. What you will find is a dynamic balance of yin *and* yang, of freedom *and* discipline, of accountability *and* autonomy.

Is it easy doing battle with bureaucracy? Nope. You can't empower the many without disempowering the few, and the few probably won't like that. Indeed, that's one of the reasons the bureaucratic model has been so sticky: It provides a powerful rationale for the organizational caste system. Like the rest of us, CEOs, VPs and department heads are jealous of their prerogatives. They would like to believe that it's impossible to manage without a management hierarchy, but it's not. ●

Escaping the Management Tax

Managers the world over have spent the last decade wringing inefficiencies out of their operating practices. Now they need to face the fact that management itself is a swamp of inefficiency. Some of these inefficiencies show up on the P&L, but it's the ones that don't, such as decision lags, hidden biases and disempowerment, that may be the most costly. In a global economy, there's no place for inefficiency to hide, so companies that don't find a way to reduce the management tax will ultimately find themselves at a profound disadvantage.

Whatever the uncertainties, two things seem certain. First, with a bit of imagination it's possible to transcend the seemingly intractable trade-offs (like freedom versus coordination) that have long bedeviled human organizations. And second, you don't have to be crazy to dream of organizations where managing is no longer the right of a vaunted few but the responsibility of all. ●

Aiming Higher

Solving the world's toughest problems or, more modestly, creating organizations that are deeply human will require more than scientific breakthroughs; it will require new ways of planning, organizing, collaborating, allocating, motivating and yes, controlling.

As managers, we're pragmatic doers, not starry-eyed dreamers. And yet, as human beings, we are ultimately defined by the causes we serve and the problems we struggle to solve. Though big problems don't yield big advances, small ones never do.

It was that thought that brought 36 management experts together in Half Moon Bay, Calif., in May 2008. Their mission: to create a roster of make-or-break management "moonshots" that would inspire innovators everywhere. Here are the top three:

Moonshot #1: Ensuring That Management Serves a Higher Purpose. Tomorrow's management practices must be focused on the achievement of socially significant and noble goals.

Moonshot #2: Embedding the Ethos of Community and Citizenship. In tomorrow's interdependent world, collaborative systems will outperform those characterized by adversarial, win-lose relationships.

Moonshot #3: Humanizing the Language and Practice of Business. Tomorrow's management pioneers must find ways of infusing mundane, commercial activities with deeper, soul-stirring ideals, such as honor, truth, love, justice and beauty.

Getting Started

Maybe you have an idea for how to make progress on one of the management moonshots. Perhaps you've come across an unconventional management practice that has redefined the boundaries of what's possible. Or maybe you're just curious about what other organizations are doing to escape the limits of management-as-usual. If so, visit www.hackmanagement.com, the world's first open innovation project aimed at reinventing management. There you'll find hundreds of case studies from the world's most progressive organizations, and a multitude of radical proposals for reinventing management as we know it, all of which are organized around the management moonshots.

The key takeaway is this: We have the chance to make a new beginning. We don't have to live with organizations that are ethically challenged, inflexible and inhuman. We can build organizations that are noble at their core, that honor every creative impulse, that change before they have to, that stir the heart and that are bureaucracy-free. Doing so won't be easy, but I hope now you have enough inspiration and instruction to make a start.

What matters now, more than ever, is that you question your assumptions, surrender your conceits, rethink your principles and raise your sights — and that you challenge others to do the same. We know broadly what must be done to create organizations that are fit for the future. The only question is, "Who's going to lead and who's going to follow?" How you answer *that* question matters most of all. ●

RECOMMENDED READING LIST

If you liked *What Matters Now*, you'll also like:

1. ***Good to Great* by Jim Collins.** Collins' follow-up to his bestseller *Built to Last* sheds light on virtually every area of management strategy and practice.
2. ***The Future of Management* by Gary Hamel.** Hamel describes the steps your company can take now to build your "management advantage."
3. ***Competing for the Future* by Gary Hamel and C.K. Prahalad.** The co-authors develop a coherent model for how today's executives can identify and accomplish no less than heroic goals in tomorrow's marketplace.

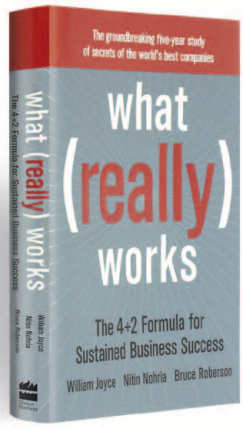
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What Really Works

William Joyce, Nitin Nohria, and Bruce Roberson

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By William Joyce, Nitin Nohria and Bruce Roberson

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The 4+2 Formula for Sustained Business Success

WHAT REALLY WORKS

THE SUMMARY IN BRIEF

Business is full of mysteries, but none greater than this: What really works? Today's managers realize all too painfully that many, many things matter in achieving business success, but few of them can tell you much more than what worked for them. They spend years guessing at what really matters in business, and guessing wrong — they pursue fads and follies without getting to the heart of the fundamental practices that create business success.

The authors of What Really Works *conducted a 10-year study that turned 50 academics and business consultants loose on dozens of companies, looking for the answer to that elusive mystery — What really works? From that study emerged the 4+2 Theory, which provides the correct combination of primary and secondary management practices that form the crucial practices that achieve lasting business success.*

What You'll Learn In This Summary

✓ **How to make your strategy clear and focused.** Managers must devise and maintain a clearly stated, focused strategy that is clearly communicated, and effectively understood by employees, customers, partners and investors.

✓ **How to execute your strategy flawlessly.** You must be efficient in your planning and perfect in your execution.

✓ **How to build a performance-based culture.** Performance makes the difference — the setting of performance standards and consistent achievement of those standards drive a company in the right direction, consistently.

✓ **How to make your organization fast and flat.** Cut through the layers and silos and create an open, communicative and effective organization.

✓ **How to make talent stick around and develop more.** Going outside the company for talent might occasionally be necessary, but you likely have a star or two in your organization right now, waiting for their chance to shine.

✓ **How to make industry-transforming innovations.** Keep your organization off life support by supporting research and development.

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Primary and Secondary Management Practices

There are eight management practices — four primary and four secondary — that directly correlate with superior corporate performance, as measured by total return to shareholders (TRS). Winning companies achieve excellence in all four of the primary practices, plus two of the secondary practices — hence, the 4+2 formula. All eight practices have features that are both intuitive and counterintuitive.

The Four Primary Management Practices

The four primary management practices are strategy, execution, culture and structure.

Strategy. Managers must devise and maintain a clearly stated, focused strategy. Whatever your strategy — whether it is low prices, innovative products, or some other initiative — it will work only if it is sharply defined, clearly communicated, and effectively understood by employees, customers, partners and investors.

Execution. Companies must develop and maintain flawless operational execution. You might not always delight your customers, but you must make sure you never disappoint them. Winners consistently meet the expectations of their customers by delivering on their value proposition, slashing operational costs, and increasing productivity consistently, year in and year out.

Culture. Organizations must develop and maintain a performance-oriented culture. It is the setting of performance standards and consistent achievement of those standards that make the difference. How one deals with poor performers is also a key factor.

Structure. Companies must build and maintain a fast, flexible and flat organization. Simpler and faster are the best goals for all reorganization efforts.

The Four Secondary Management Practices

Any combination of two secondary management practices (talent, leadership, innovation, mergers/partnerships), when combined with the four primary management practices, can make a company a winner. Each secondary practice, however, has its own surprises.

Talent. Companies must hold on to talented employees and work to find more. The most important indicator of the depth and quality of talent in your organization is whether you can grow your own stars from within, not whether you can buy or rent talented outsiders.

Leadership. Firms must keep leaders and directors committed to the business. Boards that choose great chief executives can see significant gains in performance. Good boards must possess at least two significant characteristics: They must truly understand the business, and be passionately committed to success.

Innovation. An agile company keeps turning out innovative products and services, and anticipates disruptive events, rather than constantly reacting to them.

Mergers/Partnerships. Internally generated growth is essential, but companies that can also master mergers and acquisitions are more likely to be winners. Companies that do two or three small deals each year, consistently, are more likely to be successful than organizations that do large deals only occasionally. ■

4+2 in the Real World

How does the 4+2 formula work in the real world? Take, for example, Dollar General Corp., a retailer that brings in $5 billion in annual sales by targeting customers making under $20,000 a year, placing its stores in small towns and low-income areas, selling half its

(continued on page 3)

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4+2 in the Real World

(continued from page 2)

wares for $1 each, and catering to customers who spend, on average, less than $8 on any given visit. Dollar General excels because it exemplifies the 4+2 formula in its across-the-board pursuit of all four primary practices, while also carrying through on two of the secondary factors.

Primary Practices

Strategy. Dollar General maintains a clear focus on its chosen market of low-income customers. The company's strategic purpose is to help its customers improve their standard of living by selling them high-quality goods at the lowest possible prices. The organization's customers are pursued by many companies, but almost as an afterthought; most go for more affluent clients and fatter profit margins. Dollar General, on the other hand, deliberately focuses on its "salt of the earth" customers.

Execution. The company consistently delivers on its promise to provide quality goods at everyday low prices; the stores are replete with bargains designed to astonish customers. Since its stock is basic consumer goods, Dollar General holds no special sales, nor does it rely on advertising to bring in new customers. The company passes on the savings of a "word of mouth" marketing strategy to customers.

The company's suppliers are also eager to do business with Dollar General, because it guarantees their products high volume and limited competition. Each store carries, on average, 3,500 items, or stock-keeping units (SKUs). Each year, the stores review their SKUs to ensure they are still delivering value; as a result, the store drops 150 to 200 items, replacing them with new ones.

Culture. Winners design their corporate cultures to support the highest possible levels of performance, fulfilling their strategies and satisfying the specific needs of their markets. In accordance with this focus, excellence in management at Dollar General starts with adherence to the fundamental value of hard work, the dignity of work, and the dignity of every person.

Dollar General's commitment to the overall well-being of its customers goes beyond providing affordable, quality goods. In its inner-city stores, where the company has invested heavily in community career development, it runs learning-center work programs, as well as programs that teach people to read, write and earn their high school equivalency diplomas.

Structure. Dollar General possesses a lean, quick organization that responds rapidly to market changes without wasting time or incurring unnecessary costs. Its corporate structure, no matter how big the company becomes, must always remain simple and productive.

Secondary Practices

Dollar General also excels in two particular secondary practices: talent and leadership.

Talent. The company watches out for its store employees, offering stock options and profit-sharing bonuses in an effort to make all employees feel like owners, operators and independent merchants. Employees at the company's headquarters are likewise treated very well, and can take advantage of an on-site day-care center, training center, fitness center, dry cleaner, ATMs, travel agent, and other first-class amenities.

While the corporate campus was intended to be a magnet for talent, in the end, it is Dollar General's strong corporate culture and values that attract and keep the most appropriate employees to achieve its goals.

Leadership. The dedication, intelligence, and personality of Dollar General's CEO Cal Turner, Jr., have played a major role in making the company a winner. Turner recognizes the talent and solid ideas of his employees, and is very quick to give and share credit. He also recognizes when things aren't working, such as in 1987, when he set a new leadership tone by replacing 200 of his top executives with more seasoned professionals. He did so in order to be able to gain truthful advice from his people, not simply to have a corral of "yes men" agreeing with everything he said or did. ■

Make Your Strategy Clear and Focused

One thing most managers can agree upon, at least in principle, is that growth of one's core business should be one's major strategic focus. In the heat of the moment, however, when too many entities within the organization demand too much support, too many leaders allow their resources to be nibbled away for lesser purposes, while their core business languishes. That doesn't happen in winning companies, where leadership observes five mandates of strategy management:

Build a strategy around a clear value proposition. A value proposition is not so much a statement of what you want to be, but of what you are. It connects a company's ability to deliver a product or service with the needs of a targeted market segment. Clear value propositions are essential; winners' value propositions are rooted in a deep, certain knowledge of their customers and a realistic appraisal of their own capacities.

Develop strategy from the outside in. Winners in every industry are guided by the words, actions and behaviors of their customers, partners and investors in creating their strategies. They don't (as many do) insist

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Make Your Strategy Clear and Focused

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on following their "instincts" in devising strategy. They don't prattle endlessly about their "feel" for the market. They don't write off failed product lines as victims of bad timing. They ask for feedback, and see that it is incorporated into strategy.

Remain alert and flexible to address changes in the marketplace. In a blizzard of ideas and innovation posted on the Internet and spread by cell phone, spotting the new developments that will have an impact on a particular business is tougher and more important than ever. Winners possess antennae sensitive enough to pick up early on marketplace trends and changes that count. Winners do not shrink from the challenge of keeping track of it all. They develop ways to anticipate change, and tools that help them take advantage immediately.

Clearly communicate your strategy. For strategy to be implemented properly, it must be presented and explained first and foremost to the people who will be bringing it to life — your managers and employees — and those who will benefit from it — your customers. By sharing strategy, a company paves the way for its products and sells itself to its customers. It also invites customers to become partners in the chain that leads from raw materials to finished products to sales.

Keep growing your core business. Company leaders like to talk about growth. The word itself quickens the pulse of many executives. It's a sign of progress, a proof that the organization is vital and alive. It is also one of the chief measures by which markets judge a company. True winners embrace growth, but in an intelligent manner. They grow within their core business or niche, building their growth businesses before the potential of their core is extinguished. This dynamic approach to growth is essential for long-term success. ■

For Additional Information on a company that developed strategy from the outside in, go to: http://my.summary.com

'Quantification Johnson' Turns Around Campbell Soup

When David Johnson arrived at Campbell Soup Co.'s headquarters in 1990 as CEO, he joined a company whose sales were flat, its profits in decline, its market share dwindling, and its stock price in the doldrums.

He immediately turned his attention to cutting costs and raising productivity. Within nine months, he had closed down or sold 20 plants, slashed the work force by 15 percent, sold unprofitable overseas businesses, and ditched dozens of unprofitable product lines. The plants that survived the ax were instructed to bid for business that had been handled by the deceased operations, forcing plant managers as never before to focus on cutting costs and improving productivity.

For his flawless execution in cutting costs and holding both executives and managers accountable for meeting bottom-line goals, the new CEO was given the name "Quantification Johnson." He was also witness to an annual growth of 18 percent for each of his first five years in charge.

Execute Flawlessly

Most of our days as businesspeople are spent making incremental decisions about small, everyday matters. Every so often, however, inspiration hits, and we find ourselves at a fork in the road, with one path leading to familiar ground, and the other leading into new territory, toward a future rich in promise and uncertainty. To fully embrace these opportunities, we must achieve superior execution, which can only be done through intense and continuing study and constant effort, along with a willingness to try something new. Flawless execution is also dependent on meeting three key mandates.

The first is to **deliver products and services that consistently meet customers' expectations.** Winning companies excel behind the scenes, developing the systems and processes that produce the products customers see and use, and that meet customer expectations. Winners consistently deliver the quality their customers expect. While perfection is not necessarily required, customers recognize poor quality, and their trust in a company evaporates when they see it.

Flawless execution also requires you to **empower front-line employees to respond to customer needs.** The moment when the customer interacts with an employee, your organization's chances for success are on the line. Winning companies understand that front-line people must be given the authority to make real-time decisions, along with the training that will help them make the right ones.

The final mandate is to **constantly strive to improve productivity and eliminate all forms of excess and waste.** The goal is to achieve perfect operational execution, constantly improving systems and processes, hiring better people, routing waste and inefficiency. Winners recognize there is no way they can be truly flawless in outperforming competitors at every turn. Instead, they determine which processes are most important to meeting customer needs, and focus resources on making those processes as efficient as possible. ■

Build a Performance-Based Culture

In some corners of the business world, culture is only now beginning to be taken as seriously as other aspects of management and business, such as operations. Winners become winners, though, because virtually everyone in the organization is performing at a high level — an effort brought about by a focus on culture.

Too often, companies fool themselves into believing they are doing well because they have better results than the previous year. While year-to-year improvement is indeed a positive measurement, it is also an insufficient one, because it does not take into account the performance of one's competition. A cutback in expenses of 2 percent in a given year is no cause for celebration if your rivals have cut back 3 percent.

A high-performance culture constantly raises the bar, aiming to surpass top-ranked companies in one's immediate industry, as well as those in other industries. When stretch goals turn out to be unreachable, a company often finds opportunities (such as outsourcing possibilities) it might have otherwise missed. Such a culture requires businesses to observe four key mandates.

Four Key Cultural Mandates

1. Inspire all to do their best. Winning companies seek to design and support a culture that promotes high levels of individual and team performance: one that holds both employees and managers responsible for corporate success. Along with that responsibility, employees and managers are empowered to make many more independent decisions, and are urged to find ways to improve company operations.

2. Reward achievement with praise and pay-for-performance, but keep raising the bar. People must earn a livelihood, and the greater our income, the greater our psychic satisfaction in a job well done. Winners recognize extra money in one's wallet provides at least a modicum of inspiration, so they use financial rewards to urge employees to higher levels of performance. They also develop programs to give productive employees public recognition of their achievements.

3. Create a work environment that is challenging, satisfying and fun. There is a fine line between a high-performance culture and a high-anxiety culture, and leaders cross that line at their peril. Winners maintain a pleasant, satisfying workplace, and reap the benefits in increased teamwork, trust and efficiency.

4. Establish and abide by clear company values. Good behavior promotes good business. Conversely, weak or nonexistent values will, in the end, destroy lives and ruin enterprises (as shown by Enron, WorldCom, and other recent examples). Winners abide by the mandate to establish and live by a strong value system, one that is well-considered and well-communicated. Implicitly or explicitly, such values should be part of every communication a company sends employees and every interaction between employees. ■

For Additional Information on a company's successful pay-for-performance strategy, go to: http://my.summary.com

Make Your Organization Fast and Flat

Some procedures and protocols are absolutely necessary to the smooth functioning of any large organization. But there is such a thing as having too much of a good thing. Superfluous bureaucracy is a tax on the value your employees create. It leads to impatience, which can devolve into an unhappy acceptance, which breeds indolence. Winners are dedicated to trimming away every possible vestige of unnecessary bureaucracy.

In every business, there is a natural drift toward complexity. The urge to add permanent new rules and procedures to existing processes reflects a desire to quick-freeze current results. It can also reflect a manager's desire to fix his or her control of the process in concrete. Winners are aware of this drift, and have established systems to prevent it. They also observe three essential rules of keeping organizations fast and flat.

First, they **eliminate redundant organizational layers and bureaucratic structures and behaviors.** Simplifying the structure of a company yields many benefits, not the least of which is the ability to make decisions quickly. Too often, promising ideas get hung up in bureaucratic traffic, slowly inching their way through the layers of approval that must be met before being put into action. Winners, on the other hand, consider ideas rapidly, setting reasonable limits to deliberations. They are able to do so because they have kept the layers of bureaucracy to a minimum. This means they can also turn on a dime and reverse course, if necessary.

The second essential rule for keeping organizations fast and flat is to **promote cooperation and the exchange of information across the whole company.** Even when a company is not held up unnecessarily by the silos of long-time privilege and resulting turf wars, it can suffer from boundary problems. Competition for resources can be fierce, with technical discoveries and best practices held close to the vest of people defending their own turf, teams or departments. Such impenetrable boundaries pose a danger to the performance of a company as a whole. Winners combat this by establishing programs to foster cross-functional cooperation, and by

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Make Your Organization Fast and Flat

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opening communication between departments.

Finally, winning companies **put their best people closest to the action and keep their front-line stars in place.** The futures of winning companies rest not on the brilliance of their executives, but on the dedication and inventiveness of their managers and employees. Winners tap into this well of creativity by cutting away layers of command, becoming more front-line driven. They also strive mightily to keep their best front-line people at the fore, working side-by-side with their star performers to keep operations moving ever forward. ■

Make Talent Stick Around And Develop More

Winners dedicate major human and financial resources to building an effective, innovative work force and management team. They also show a distinct preference for developing their own stars from inside the organization, and an ability to retain their top talent, in part because they recognize the value of this talent in creating a high-performance organization. The existence of a talent-rich environment also attracts people from outside a company. No organization can have too much talent, and winners pursue it outside and inside their ranks, even though new hires tend to be more expensive.

Winners demonstrate special skill in satisfying four mandates:

1. Fill mid- and high-level jobs with internal talent whenever possible. Winning companies devote major resources to preserving in-house talent and developing their own stars. It is much cheaper to do this than to go into the marketplace to buy stars who may be untested. Talented people under your roof are a known quantity.

2. Create and maintain top-of-the-line training and educational programs. Employees who have bonded with an organization are more likely to give their best efforts to their jobs. The company that helps employees rise through the ranks, supplying training and educational assistance, is well-positioned to create these bonds.

3. Design jobs that will intrigue and challenge your best performers. The late, great Washington Redskins football coach George Allen once said, "The achiever is the only person who is truly alive." There is an unstated assumption that bright, talented people want to be challenged, want to achieve greater and greater things. One way to keep them achieving is to give them assignments with incrementally greater responsibility attached.

4. Become personally involved in winning the war for talent. Winners focus on grooming talented in-house employees for higher-level jobs. Senior executives in winning companies are very much aware of the recruitment imperative, and involve themselves in helping their companies win the war for talent. ■

For Additional Information on a company that's winning the talent war, go to: http://my.summary.com

Valspar Makes Room For Employees to Move Up

One corporation that has a strong commitment to filling job openings from within is Valspar, a paint and coatings provider based in Minneapolis. The company has 6,500 employees in more than 80 locations around the world, and a 30 percent annual growth in return to shareholders.

When it makes an acquisition, Valspar merges more than just facilities and technology from the purchased company into the parent fold — it also integrates key people from the new company's management into Valspar's management. This policy raised a potential problem — how to handle talented parent company employees whose promotions might be held back by incoming managers from the newly acquired business.

Valspar responded to the situation by combining its acquisition efforts with a major program to achieve internal growth. As company president Bob Pajors once noted, "People will not be satisfied without internal growth. Employees have to know that there's a place for them to move up, too."

Make Your Leaders Committed to Your Business

There are few events of greater significance to an organization than the selection of a chief executive. The best CEOs are able to communicate their vision so convincingly that others will adopt that vision as part of their own personal agenda. They also have unquestioned integrity, in word and deed. When the company is confronted by a moral dilemma — a product defect, for instance — there is no hesitation: The company will do the right thing, quickly. The CEO walks the talk.

When leaders demonstrate their true and firm commitment to their beliefs, they reinforce their leadership roles. Employees see that the chief executives live by their words and can be trusted, and that trust is precious, particularly when times are hard. No one wants to hear bad news, but it goes down better when it comes from a trustworthy leader.

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Make Your Leaders Committed to Your Business

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Winners that excel at leadership management practice a shared dedication to several key precepts.

First, they **inspire management to strengthen its relationships with people at all levels of the company.** Winning companies believe in fostering strong relationships between management and employees. They understand that such relationships are the key to building a positive attitude in the ranks toward a company and its goals. When CEOs present themselves as flesh-and-blood people — as fellow employees, rather than as masters — they can foster positive attitudes that translate into improved company-wide performance.

They also **inspire management to hone its capacity to spot opportunities and problems early.** Chief executives and their top aides, in general, know how to deal with the immediate problems of their organizations. Winning companies that excel in leadership place a major emphasis on improving management's ability to anticipate change and its potential impact on the organization. They want to make certain that the organization isn't blindsided by new regulations or trends, and that they are alerted to forthcoming business opportunities.

The third key leadership management practice is to **appoint a board of directors whose members have a substantial financial stake in the company's success.** Boards of directors play a significant role in the fate of their companies. The best way to inspire directors to take a truly informed and active role is to make sure they have a major financial interest in the company: Their personal money should be at risk. When it is, directors select and support superior chief executives.

Finally, winning companies **loosely link the pay of the leadership team to their performance.** Members of top management need to be rewarded for their achievements in dollars, as well as in shares of company stock. However, the executives' remuneration should reflect their performance against a set of corporate goals. In most winning companies, these goals are defined in terms of profits or stock price — if the targets are missed, bonuses are not forthcoming. ■

Nucor: 'We All Run the Place'

The giant steel maker Nucor expected its management to connect with all levels of its organization. CEO Ken Iverson demanded it of all his executives, and led the way by example, making regular tours of the company's plants and making himself available to workers for question-and-answer sessions.

Iverson's focus on improving relationships extended to every individual Nucor plant. At the Crawfordsville mill, smack in the middle of Indiana cornfields, the general manager, Larry Roos, explained the importance of such communication.

"I think it's very important for everyone to know that [managers] are accessible and can talk about everything," Roos noted. "I get lots of feedback from the managers, but I know a lot more about what's going on by being out there talking or listening to everybody. You break down some of the idea that there is a big difference between management and people — we all run the place."

Make Industry-Transforming Innovations

What passes for technical achievement in most companies — marginal, incremental improvements to products — would never pass muster at organizations that excel in innovation management. Their eye is on the main chance, a breakthrough that will transform their industry. At such companies, this goal drives every aspect of the organization. If they fail to continue innovating, the company itself will stagnate and die. The very premise on which many organizations exist is to stave off this mortality, to create breakthrough innovations, one after another.

Innovation isn't limited to product lines. The application of new technologies to the internal workings of a company can yield savings so great as to give it a huge edge, and transform its industry in a different way.

Winners that show expertise in innovation tend to fulfill three key mandates:

- **They introduce disruptive technologies and business models.** Great ideas move mountains. The garden-variety idea is a staple of personal and corporate life — a better way to do something basic or an incremental improvement. Innovations that improve on old products or yield modest but profitable new ones represent the vast majority of successful business ideas. But for most companies satisfied with nothing less than double-digit increases in growth and earnings, modest improvements do not suffice. Their focus is more on the blockbuster innovation — one that will set the competition back on its heels.

- **They exploit new and old technologies to design products and enhance operations.** There is a natural tendency to emphasize the innovations and technologies that directly affect the products and services that companies rely on for their sales and profits. The impact of innovation on the internal operations of a business can

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Make Industry-Transforming Innovations

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be quite important to the bottom line. Winning companies that shine in the innovation practice found ways to use technical breakthroughs to advance both internal and external goals.

● **They don't hesitate to cannibalize existing products.** One of the oldest accepted practices in business is that a company will not bring out a new product that competes with existing products until the existing products are long past their prime earning days. Winning companies, however, believe in cannibalization. Given the ever-shorter shelf life of so many products, a head start is essential to get the most from an innovation before competitors rip it off and commoditize it. ■

For Additional Information on a company that cannibalizes its customer base, go to: http://my.summary.com

Polaroid Loses Its Innovative Edge

Polaroid was a company built on a disruptive technology, the instant camera. In its first decades, the company dedicated itself to finding more such breakthroughs, funding its research and development (R&D) entity at an enormous level. Eventually, as the instant camera became less and less of a player in the consumer photography market, Polaroid sunk deeper and deeper into debt, as few of its new inventions attracted customer interest.

In 1995, Gary Dicamillo came aboard as CEO, and immediately called for a refocusing on the "neglected" instant photo business. He presided over the introduction of the I-Zone instant camera, a minor hit with teenagers, but could not lead Polaroid into a leading position in the burgeoning digital camera market. By spring of 2001, the company's share price was $3, down from $45 in 1995, when Dicamillo took over. With over $1 billion in debt and no new innovations on the horizon, Polaroid filed for Chapter 11 bankruptcy protection in October 2001. The once great company had lost its ability to create breakthrough, innovative products, and had suffered the ultimate consequence.

Make Growth Happen With Mergers and Partnerships

Diversification is good — sometimes. Mergers in the last century have mainly been driven by the desire to broaden a company's portfolio of offerings as a hedge against the downside of its industry's economic cycle. Indeed, in the 1960s and 1970s, many corporations merged in an effort to achieve "synergy" — the additional value to be realized by a company as the result of its purchase of another. Many of these synergies never materialized, and the companies involved in these mergers were simply weighed down with debt. Companies in the United States still merge for these same reasons, many of them with the same negative results.

Among winners that excel in merger management, diversification is not a mandated goal. These companies pursue acquisitions as a route to growth, but only when the move leverages the buyer's or seller's existing customer relationships, or the two companies complement each other's existing strengths.

How to Grow Through Mergers and Acquisitions

Since it is difficult for any company to find enough internal sources of growth to keep up with the need for expansion, growth by mergers is a secondary practice that many winning companies pursue. To grow through mergers and acquisitions, keep the following in mind:

1. Acquire new businesses that leverage existing customer relationships. If growth is the target, then one's immediate goal should be to expand the customer base. One of the easiest ways to accomplish this is to acquire companies whose customers will purchase your goods and whose goods will be attractive to your customers. This is an expensive route, particularly in the short term.

2. Enter new businesses that complement your company's existing strengths. Diversification for the simple sake of diversification is generally a losing proposition. For acquisitions to work, make sure they match up well with your company's own profile.

3. With a partner, move into new businesses that can use the partnership's talents. Partnerships are to mergers what dating is to marriage — companies and individuals that merge must adjust to (or suffer with) each other's strengths and weaknesses in a permanent arrangement with no guarantees of a satisfactory conclusion. Partnerships or alliances do not demand that partners change to accommodate all of each other's idiosyncrasies. While they both benefit if the business venture is successful, they remain separate entities.

4. Develop a systematic capability to identify, screen and close deals. If you're entering into a merger or partnership, devote substantial resources to developing an efficient, ongoing process that covers the various aspects of deal-making. Mergers and partnerships are too important to be left to ad-hoc decisions. Form a team of people who have the requisite investigative, financial and business skills to make the relationship work. ■

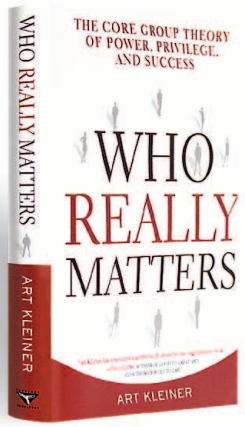
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Who Really Matters

Art Kleiner

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Art Kleiner

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WHO REALLY MATTERS

THE SUMMARY IN BRIEF

Recent events in Corporate America have taught us that when an organization claims to make decisions for its customers or shareholders, it is not necessarily speaking the truth. In reality, there is another group within each company whose needs and desires are the real drivers of most decisions — a Core Group of people "who really matter."

While Enron, Tyco and others have given the concept of the Core Group a bad name, bestselling author Art Kleiner explains in Who Really Matters *that companies need Core Groups to supply the energy and direction they require to be successful. By observing the Core Group's members' day-to-day activities, communications and management decisions, Kleiner argues that the astute employee can recognize decisions before they are made, and can be ready to react to change. Eventually, if that person is able to navigate to a position of influence, he or she can join the Core Group.*

What You'll Learn In This Summary

✓ **The Core Group Comes First.** In most companies, customers are further down the list of priorities than you might think.

✓ **The Core Group Influences Decisions.** Core Groups help people focus their decision-making process on the needs and requirements of a specific few.

✓ **How to Spot Common Core Groups.** Find out how you can determine which kind of Core Group is the true driving force in your organization.

✓ **How to Determine Power and Legitimacy.** What is the difference between "positional" power and legitimate power? The answer may help shed some light on your company's internal politics.

✓ **Knowing Your Boundaries.** If you are not in the Core Group, you are a transactional employee, or an employee of mutual consent, and your entire relationship with your organization is based around this positional issue.

✓ **How to Manage the Core Group.** Find out why senior executives cannot make decisions without considering the goals of the Core Group.

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The Core Group Comes First

One of the great lies of corporate culture is, "The customer comes first." In every company, agency, institution and enterprise, there are people who *really* come first, a Core Group of people who *really* matter. The makeup of the group differs from one company to the next, but each activity the organization undertakes — from creating wealth to meeting customer needs to training its people — is done with the goal of fulfilling the perceived needs and priorities of this group.

Core Group dynamics explain why some companies act frugally for years to turn a profit, then squander it all on ill-advised mergers, disproportionate pay for senior executives, or impropriety in their business dealings. It is because of Core Group dynamics that businesses evolve into corporations with one primary purpose — to extract wealth from all constituents (including employees, customers and neighbors as well) and give it to senior executives.

We Need Core Groups

Yet, a Core Group is not inherently bad or dysfunctional; indeed, it serves as an organization's source of energy, drive and direction. Without an energetic and effective Core Group, all efforts to spark creativity and enthusiasm sputter out. Startups need entrepreneurial Core Groups that put themselves at risk for the company's future. Large, well-run companies need a Core Group of senior leaders who can permanently merge their identities with that of the organization. Even the most hierarchically strict organizations — military units, for example — depend on their Core Groups to maintain, among other things, the level of mutual respect that soldiers need to operate above and beyond the limits of their orders.

There is always an implicit, almost unconscious bargain of mutual commitment in organizations — the people of the organization agree to make decisions on behalf of their Core Group, and the Core Group members agree to dedicate themselves as leaders to the organization's ultimate best interests. The organization goes wherever its people perceive that the Core Group needs and wants it to go; if you want to know what a company stands for, explore the characteristics and principles of its Core Group. ■

'The Customer Comes Eighth'

Back in the early 1980s, Exxon Oil Co. held an employee conference to announce its new "core values." Number one on the list was the simple statement, "The Customer Comes First."

That evening, division executives discussed the values statement over dinner. One brash young rising star, a fellow named Monty, proposed a toast. "I just want you to know," he began, "that the customer does not come first." Monty pointed at the president of the division. "*He* comes first." He named the European president. "*He* comes second." He named the North American president. "*He* comes third." Monty rattled off four more senior executives of the division, all of whom were in the room. "The customer," he concluded, "comes eighth."

A stunned silence overtook the room before one of the executives smiled, and the gathered group burst out into hysterical laughter.

It was the first truth spoken all day.

The Effect of the Core Group On Decision-Making

The basic building block of organizational action is not the job, the team, the project or even the dollar — it's the decision. Organizations are essentially the sum

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The author: Art Kleiner is director of research at the consulting firm Dialogos, a faculty member at New York University's Interactive Telecommunications Program, and a columnist for *strategy+business* magazine.

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The Effect of the Core Group On Decision-Making

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of all the decisions made in them over time. Some decisions, made at the top of the hierarchy, have immense pull on the direction of the whole system; the decision to close a plant, for example, affects many other decisions at other levels. But even the decision to change an order of paper clips from a chain store to a local distributor may help chart the course of the organization's future in some small but significant way. And there are many, many decisions like that made every day, by many people, interdependent of one another, yet cumulatively affecting the direction of the company in a significant manner.

Hence, the importance of Core Groups. Every critical decision in an organization is made amid a maelstrom of conflicting priorities, constraints, competitors and constituents. It must be shrunk down to a manageable size in our minds, or we couldn't function.

When faced with a complex decision, you might ask yourself, "How comfortable would so-and-so be with this decision?" There is probably a range of "so-and-sos" — your boss, executive team, unions, customers and so forth. Even if you don't go through such a litany when you make a decision, your colleagues and fellow employees do, and that's what sets the direction of the organization. The influence of these key people trumps all other concerns, simply due to the cumulative effect of the decisions made throughout the organization.

Imagine that you could make a list of all the so-and-sos in everyone's mind, in aggregate — all the people who influence all the decisions made through the course of a year. Some names would stand out as significant, but only to certain members of the organization. Other names would stand out as important to the whole organization. There would also be some classes of people ("stockholders" or "key customers," for example) that take on significance for the entire organization. Each of these individuals or groups represents not only itself, but an image of the direction of the organization — a view of where it may go. These are the members of the Core Group. ■

The 'Hive Mind' Dictates Direction

The term "hive mind" was coined by writer Kevin Kelly, who associates it with a form of mid-1980s computer game called Cinematrix, which gives an entire audience shared control of a cursor on a large screen. Each audience member is given a joystick, and an on-screen "paddle" moves according to the aggregate pull of everyone connected to those joysticks. If you moved your joystick, you would see your team's paddle move accordingly, but only if enough people moved it in the same direction along with you. If people moved the paddle in different directions, their efforts canceled each other out.

Eventually, in the course of a game, a kind of two-way feedback manifested itself. The crowd didn't just move the paddle; the paddle also moved the crowd. Individuals found themselves becoming attuned to the paddle's direction, and they acted accordingly. If they felt contrary, they could move their joystick against the crowd's general direction and be ignored; they could anticipate where the paddle needed to be and be the first to move it in that direction, causing the hive mind to take shape behind their own mind.

Organizational decision-making is like that game, in that thousands of decisions are made by many, many people each day, for a variety of motives. All these decisions add up, without any coordination, to an overall purpose — a collective imperative for the organization's every move. When one becomes attuned to those moves, one can guess with reasonable certainty in which direction the hive mind is traveling.

Common Core Groups And Their Membership

The size of the Core Group can be large or small, depending on the organization. For example, quite a few e-business companies in the 1990s perished because they tried to use Core Group status (in the form of stock options) to attract employees. They distributed so many stock options and other perquisites that they created an enormous de facto Core Group that was unsustainable.

There are, however, a number of different kinds of Core Groups, in companies both large and small, public and private. Among them are the following:

- **The Deceptively Subservient Bureaucracy.** A long-standing Core Group remains in place forever while putative bosses come and go. The goal of the enterprise is to protect the position and status of its established bureaucracy, regardless of how bloated it might be.
- **The Organization That Is Almost Too Nice for a Core Group.** Some organizations are just so idealistic that no one wants to overtly admit he or she has any power or influence over anyone else. The net result of this situation is that everyone senses (however unspoken) that someone else has control over the situation, and resentment builds up under the surface. Sometimes, the resulting Core Group can explicitly be established;

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Common Core Groups and Their Membership

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otherwise, one or two people will tend to influence decision-making through manipulation, while maintaining the fiction that everyone is equal.

- **The Indigestible Acquisition.** AOL buys Time-Warner; AT&T buys NCR; anyone buys anyone, and there turns out to be significant groups of old-heritage people who simply cannot be brought into the new company. The acquired Core Group remains in place, refusing to be dissolved, and still influencing the people in the acquired part of the business.
- **The Hidden Cabal.** Every large organization has an administrative assistant or secretary who is assumed to "run the place" — he or she is privy to top-secret information and acts as a gatekeeper, managing access to the top of the hierarchy. Actually, in most cases, the administrative assistant is only aware of everything that happens, but is unable to influence it. Meanwhile, behind the scenes, there probably are some quiet influencers — members of informal professional networks — who know how to shift the direction of people's decision-making and covertly do it.
- **The Charismatic Random Star.** This pattern generally centers around one or two mercurial, rainmaking Core Group members who have license to be indulged, with the rest of the organization scurrying to keep up, tying up loose ends and complaining about the lack of stability. They continually collude, of course, in the same randomness that they complain about.
- **Silos, Stovepipes and Chimneys.** When Core Group members continually avoid conflict by avoiding each other, the people who report to them and watch them for signals often do the same. The resulting rivalry becomes more intense the more the functions of each respective group duplicate each other; the legitimacy of each is dependent on how it can show up the cluelessness and intransigence of the others.

Of course, all of these categories are gross oversimplifications. Real-world Core Group dynamics are immutable and indistinct, so very much a matter of perception and interrelationship. To determine a Core Group's true characteristics, one would have to tap into the mindset of the organization's people to determine whose interests they consider when they make a decision.

Are You in the Core Group?

Where do you stand in relation to the Core Group at your company? Are you in the "Group Loop" or standing outside it? Ask yourself the following questions:

- Are you visible to the organization? Do you feel the company sees and values you?
- If you say something significant, do you hear it repeated until it makes its way back to you?
- Are you given raises, credits, promotions and perks before asking for them?
- Do you receive such gestures when being courted for a job, only to have them drop away when the organization is able to take you for granted?
- Do you have a basic sense of well-being about where the organization is going, and why? Is your ideal job situation similar (or equal) to where you work currently?
- Do you get hints from people throughout the organization that they would like to know what you think, but few people actually ask you?
- Does your organization love you? Do you love it in return?

A Special Kind of Love

Membership in the Core Group is like a passionate love affair between the corporation and the object of its affection. There are so many stories about organizations laying the world at their lovers' feet, stories that offer glimpses of fairy tale-like perks and privileges:

In 1989, ITT's chief executive, Rand Araskog, published a book that, some months later, was about to be remaindered (sold at low costs to inexpensive outlets). A partner at a media purchasing supply firm received a call from an ITT public relations manager, expressing the fact that he didn't want Araskog or anyone else to see the book on some one-dollar table. The media firm purchased all remaining 25,000 copies for a dollar apiece, stored them briefly, and then dumped them.

When McCaw Communications introduced its cellular telephone technology in the United States, those who knew the industry could always tell where the service would be introduced next — by looking at founder Craig McCaw's vacation plans. Places where he was traveling soon had excellent service. Even today, the best way to guarantee you'll have great cell-phone service is to buy a home near a phone company executive.

Relocated Corporations and Their CEOs' Homes

In the 1970s, author William H. Whyte studied corporations that had moved their headquarters from New York City to its suburbs. He and his research staff plotted the location of 38 relocated corporations vis-à-vis the homes of their senior executives; the average distance from the CEO's home was eight miles.

These are not business stories. These are love stories about organizations trying to make individuals feel special. The perks are simply the most visible symptoms of the companies' infatuated state. ■

For Additional Information on the Core Group, go to: http://my.summary.com

Power and Legitimacy

As employees, we cannot vote our bosses into the Core Group — this is not a democracy. We do, however, vote in another sense: with the quality and commitment of our decisions. We depend on the boss for direction, and he or she depends on us for legitimacy. If we enlist wholeheartedly in an individual's cause and make our decisions accordingly, then we have delegated a much stronger kind of power to him or her.

On the other hand, if we comply grudgingly with commands from our boss, we tend to produce an atmosphere of resentment and tedium. People notice this; they also notice the meager results that typically emanate from such a lack of commitment. All of this makes an impression, and our boss' status in the Core Group grows weaker.

'Positional' Power Versus Legitimacy

The boss has "positional" power based on his or her spot in the organization's hierarchy, which boils down to his or her ability to compel people to follow orders. Bosses without much legitimacy can use incentives, threats, discipline, bullying and so forth, to get people to do things. None of these, in the long run, is as effective as legitimacy. It is legitimate leaders (particularly in times of crisis) who make the most difference; positional leaders simply lack the standing to do much.

If legitimacy seems like a thin, momentary kind of power, compared to the power of authority, it is in part due to long-standing attitudes about the way power should work — there was always someone in royalty, or even some Higher Being, who demanded (and, in most cases, received) total obedience. In today's world (at least in democratic societies), authority is relative — we carry our bosses around in our heads.

Why, then, do we simply go along with the status quo, or legitimize our bosses who do not deserve legitimacy, simply because they are bosses? There are two reasons — first, we tend to do what we think we're supposed to do, because we do not think we have a choice. Second, we legitimize the status quo because to do otherwise taxes our capability; it is quite difficult to make every possible decision in a matter. It is simply more possible to act in favor of those who have legitimacy in our minds, even if our relationship with them is antagonistic. It is easier to think about what the boss would like to do, rather than having to figure it out from scratch each time. ■

Know Your Boundaries

If you want your dignity intact, and you're working at a modern job, you must know what organizations are good for and what they are not good for. They are innately set up to fall in love with the Core Group — that's what they're good for. However, just because you are among the 95 percent of people in your company who are *not* part of the Core Group does not mean the organization is not good for you. Indeed, in many ways, you may be better off having a non-Core Group position, especially if you are not ready to commit your life to any particular organization.

It's Business, Not Personal

First, however, you must recognize your situation for what it is, and not be distracted by an illusory Core Group status that you do not actually share. You may have strong and satisfying relationships with people in the organization (including people in the Core Group), complete with certain perks and benefits, but you cannot count on the organization to operate on your behalf if it doesn't have to. Indeed, the organization might not see you as an individual, only as the results you produce and the demands you make on it. The organization will not notice if you leave; it will simply fill the space left by your absence. It's business, not personal.

If you are not in the Core Group, you are a transactional employee, or an employee of mutual consent. Your job is defined by an implicit or explicit contract between you and your employer, in which you might be

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The Brand Called 'You'

In 1997, in the midst of the dot-com boom's super-healthy job market, Tom Peters (author of *In Search of Excellence*) announced a new strategy for employees of mutual consent — the "Brand Called 'You.'" Good riddance to company loyalty, he said — it had always been a kind of indentured servitude left over from the days of hidebound bureaucracies. He exhorted audiences to package on-the-job personae for themselves — to find those attributes that, with a little refinement, could comprise their own unique selling position. They could then accentuate those qualities into a continuous presence that people wanted to buy — a personal brand.

Unfortunately, the strategy doesn't work for most of us — maintaining a personal brand is all-consuming. It means applying the same rigorous discipline to your life that companies like Coke, Starbucks, Disney and other companies apply to their products and services. That works fine for companies, but in people, it's typically called "shameless self-promotion." It's what makes such "brand-called-me" personalities as Oprah Winfrey, Martha Stewart, Geraldo Rivera and Donald Trump (even Tom Peters himself) morph so easily into caricatures.

Know Your Boundaries

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asked to provide a level of commitment and interest aside from simply showing up. The organization has the right to promote, demote, deploy and discard you. Either side can break off this relationship at any time (subject to the terms of your agreement).

Core Group members, likewise, have contracts, but theirs are formalities, secondary to the organization's willingness to please them. Even if your company is essentially good-hearted, you cannot expect it to watch out for you. Most of its members don't have the space or time to pay much attention to you, except on an individual basis: They are too busy watching the Core Group. A clear, coherent transaction turns out to be a much more solid foundation for a working, mutually beneficial relationship than an illusory Core Group relationship. ■

For Additional Information on the brand called Welch, go to:
http://my.summary.com

Leading the Core Group

If you're a senior executive, you have the broad power to give commands (to promote people, for example, or to set targets or authorize decisions). Those commands are, however, constrained by guesswork — you cannot specify how people interpret your commands, or how they interpret information. Nor can you specify how people will lead individual projects. Your greatest formal power comes from the fact that you represent the last line of authority in your organization.

As CEO, you are also constrained by Core Group priorities. There are other Core Group members besides yourself, often with conflicting goals — key constituents, labor unions, regulators, major customers, etc. You have influence over these Core Group members, but not total control. In the end, you might have good reason to override the needs and priorities of other Core Group members, but you must do so in a manner that does not have undesirable, long-lasting consequences.

The CEO's Choices

Executive leverage lies in sending signals and establishing constraints; setting an environment and context out of which a Core Group can emerge. Among the things you can affect are the following:

- **The paths by which people are recruited, promoted, trained, rewarded and laid off — and, most important, the assumptions about employees of mutual consent that underlie those paths.**
- **The visible ways in which senior executives pay attention, and some of the channels through which that attention is made obvious.** Employees take careful heed when Core Group members listen — from that, they learn what things are most relevant to the Core Group, and, thus, the organization.
- **The patterns of information and communication flow**. When communication from the Core Group is well-conceived, deliberate and consistent, the entire enterprise can be educated, over time.
- **The support given for entrepreneurialism and error.** People who are trying new things need the freedom to say no to trivial requests, and the freedom to experiment without fear of vulnerability. These things will only happen if the Core Group supports them.
- **The quality of your own leadership.** The Core Group members must recognize their privileged place within the organization and the commitment that it requires.

Believe it or not, there exist organizations where nearly everyone is in the Core Group — where decision-

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SRC's Expanded Core Group Pitches In

Springfield Remanufacturing Corp. (SRC), a Missouri-based industrial equipment and business-service company, is known for its "open-book management" — executives deliberately educate their employees in all the financial numbers of the company's business. Staff members "huddle" weekly to discuss financials and to discuss strategies. They take the company's growth and prosperity personally, in part because, due to employee stock-ownership, nearly all shares of the company are theirs.

Once, in the early days of the company — when outside investment was hard to come by — the organization took a hit when it lost one of its key customers, whose revenues had been an integral, irreplaceable part of its business plan. Burdened with an extraordinary 89:1 debt-to-equity ratio, an enormous cash crunch even if it were profitable, and an unforgiving creditor, CEO Jack Stack felt he had no choice but to let everyone in the company's plant know exactly how bad things were.

SRC's people appreciated his honesty and the opportunity to learn and to proactively take part in saving their jobs. Indeed, each employee felt a sense of "ownership" of the organization's problems, pulled together, and watched his or her spending. All this became even more apparent in 1988, when the staff at the plant voted to defer a bonus and chose to build up the company's long-term strength instead.

Leading the Core Group

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makers take into account all of the members of the organization whenever a decision is made, and everyone works on behalf of everyone else. These organizations have expanded their Core Groups without gargantuan salaries or extravagance, by establishing a design that makes it clear where people stand, and by following through on the idea that everyone's welfare and development is an organization-wide priority.

There are structural elements that enable the organization to pursue this path, among them employee stock-ownership plans, nonhierarchical decision-making, and in-depth training. None of these, however, are panaceas in themselves, but when they are combined together in a comprehensive and consistent design, the result is often an "Expanded Core Group" organization. In this type of organization, it is easy for everyone, from the CEO on down, to take the needs and priorities of everyone into account when he or she makes a decision.

Such workplaces require careful attention on one hand to reporting procedures and financial controls, and on the other hand to the way in which people learn and grow personally. In the process, they automatically foster a Core Group-style attitude about the business among people throughout the organization, and they encourage people to make decisions on behalf of all employees.

Handling Diversity

Regardless of whether you lead an Expanded Core Group organization or one in which the Core Group is much more exclusive, diversity is a Core Group issue. If conversations about diversity in an organization bypass the Core Group, the organization has, in effect, not dealt with diversity at all, regardless of how many lawsuits have been filed or workshops conducted.

But a million workshops will not address the Core Group diversity issue unless the Core Group leads the way. Only Core Group members can break a "glass ceiling" in the organization that prevents certain types of people from entering the Core Group no matter how valuable or worthy they might be. Regardless of the particulars of the group or groups it excludes, the Core Group sends a message that it's mandatory to treat some people as innately worth more than others. Over the course of time working for organizations, people tend to internalize this attitude; they treat others as worth less than themselves because of lower rank. This attitude is often unconscious, eventually pervading organizational life.

Why should we care if an organization's leadership is closed off from a significant portion of its members? Consider the question from two perspectives:

First, suppose that you are a member of the Core Group. Your strength comes, at least in part, from your insularity and cohesion. You talk easily together, and you look for people to join you who will also be able to talk easily. Regardless of whether they approve of that insularity, people in the organization see the ways in which you as a group depend on it. Yet, how do you know you aren't missing something important as a result of that insularity? If others in the organization are aware of this, how do they get both the permission and the wherewithal to bring it to your attention?

Glass Ceilings

Second, consider the perspective of the people who are systematically excluded from the Core Group and blocked by glass ceilings in your organization. They want to be promoted, but not at the expense of changing the way they think, talk and act. And what if they change all that, and still don't fit in?

No one but the Core Group members can decide how inclusive your Core Group can be, but consider this — a Core Group needs to understand the lives of its organization's constituents, which means being willing and able to engage them and learn from them. ■

For Additional Information on a glass ceiling story, go to: http://my.summary.com

Building a Portfolio of Equity

In order to be effective in any company, you must build up organizational equity — the kind of equity that you can create yourself, which increases your influence in your organization, and helps you fulfill your own dreams. You might ordinarily think of equity as the assets, transformed into stock, that shareholders own, but this definition is far too narrow.

Equity is any share of accumulated wealth, including such intangible forms of "social capital" as relationships and reputation. Equity gives you leverage in an organization (and in life, in general); it also accrues exponentially, with the same emotional dynamics as a savings account. There are dozens of types of equity that an individual can accumulate, including the following:

- **Fungible financial equity.** Have you amassed sufficient funds to enable you to walk away from an organization if you find the Core Group untenable?
- **Rainmaking equity.** Do you have the ability, the contacts or the approach necessary to raise money or business?
- **Credential equity.** Are you at the level or position in your field that will enable you to make satisfactory career moves, even if they are linear?

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Building a Portfolio of Equity

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- **Reputation equity.** Do others honor your ideas?
- **Relationship equity.** Do you know the right people — the people who can help you challenge the top without fear of losing your job?
- **Capability equity.** Are you able to gain new capabilities and skills?

Building different forms of equity helps cement loyalty to an organization, aligning you with the purpose of the enterprise, thereby building the strength of the whole system. In the absence of that help, you can at least build equity for yourself, and lead a rich, rewarding life in the workplace, regardless of your relationship with the Core Group. ■

For Additional Information on your own portfolio of equity, go to: http://my.summary.com

The Shadow Core Group

In most organizations, open conversation about the Core Group is frowned upon, because it triggers deeply emotional feelings about privilege, power and rank. Yet, it's difficult to not talk about the Core Group, particularly when one realizes its impact on the organization. People seriously trying to influence a company can only be effective if they understand the priorities of the Core Group, as opposed to people's perceptions of those priorities. That means raising awareness of "who really matters" dispassionately, without triggering a backlash, either from Core Group members or on their behalf.

There are ways to accomplish this, primarily by establishing your proficiency as a deliberate intervenor. Intervention in a complex system is an art form in itself — the art of crafting legitimacy for a set of new ideas. The best way to begin to do this is to convene an informal team of compatriots who feel the same way you do — a "shadow" Core Group that goes everywhere the real Core Group goes, one step behind. This helps prepare you all for the time when your ideas become more formally adopted (if they ever do), for the time when you enter the Core Group, or for the dealings that you may ultimately have with the organization in a more authoritative role.

Raise Consciousness

The purpose of your shadow Core Group is to raise consciousness — to build new awareness of the purpose and potential of the organization among Core Group members, decision makers throughout the organization, and yourself. Your group can do this in a number of different ways:

- **By moving deliberately to widen the shadow Core Group to embrace and include real Core Group members.** "Conversations that don't include the Core Group are *about* change," says Peter Garrett of Dialogue Associates. "Conversations that include the Core Group *are* change."
- **By understanding how the Core Group defines success and framing your project as a method or milestone for accomplishing their success.** Ask a Core Group member what, in his or her opinion, would constitute success in a particular endeavor. If you do this well, three things will happen: 1) You will learn some things from what he or she says; 2) he or she will have the chance to become intrigued, amplifying your ideas through sharing them with others, and gaining you allies you don't even know you have; and 3) you will warm them up for the time when you move another step in the endeavor.
- **By waiting for the right moment before asking for certification.** There is a time when you need a budget approved, a check written, or a contract signed. Don't rush that moment; rather, do as much as you can before that moment to demonstrate your own capability.
- **By learning how to hold high-quality conversations.** Conversations that touch on Core Group issues require "space" — the thoughtfulness and presence you bring to the interaction, and the time and cadence of the conversation — to keep your conversation partner relaxed and more likely to trust you.
- **By getting the whole system in the room.** All members of the Core Group — and there are probably more than you realize — have something to tell you that will be critically important, and if you overlook it, you might be setting yourself up for conflict later.

Amplify Positive Defiance

- **By amplifying positive defiance.** Some people, in an effort to "speak truth to power," tick off the Core Group by telling the Core Group's members what they've done wrong. Instead, you'll want to find people who deviate from the norm by doing the kinds of things you think are significant moves in the right direction, then draw attention to them.
- **By articulating misperceptions.** Show people the difference between what the Core Group truly wants and needs and what people perceive the Core Group to want and need.
- **By practicing.** Set up places where you can try to intervene without inordinate risk, then determine what worked, what didn't, and what you can do differently next time. ■

For Additional Information on what not to do with a shadow Core Group, go to: http://my.summary.com

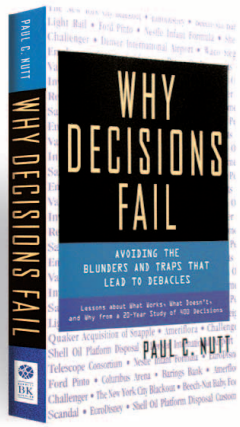
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Why Decisions Fail

Paul C. Nutt

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Paul C. Nutt

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WHY DECISIONS FAIL

THE SUMMARY IN BRIEF

For more than 20 years, Ohio State University Professor Paul C. Nutt has studied how decisions are made and has written extensively about what works, what doesn't and why. His key finding in all this work is startling—decisions fail half of the time. Organizations spend vast sums of money and commit significant amounts of resources without realizing any benefits. Failures can be traced to three blunders and seven traps that ensnare decision makers; avoiding these blunders and the traps they set will cut one's failure rate significantly.

What You'll Learn In This Summary

In this summary, you will learn how to do the following:

✓ **Navigate around potential blunders.** Learn how using failure-prone practices, making premature commitments and engaging in unwise investments can derail your decision-making process, and why these blunders are so easy to make.

✓ **Identify ensuing traps.** If you are unable to avoid making a decision blunder, you will likely be ensnared in one of seven traps that lead to failure. Whether you fail to manage opposing forces, provide ambiguous directions, choose only evaluation data that supports your point, or fall into any of the other ensuing traps, the decisions you make will be compromised, usually at great cost. Getting around these traps is imperative.

✓ **Learn from others' mistakes.** Nutt provides many examples of individuals and companies that fell into traps that turned their decisions into debacles — from stalwart organizations like Disney and Ford, to lesser-known businesses and people. These case studies provide a bevy of lessons for you and your organization.

✓ **Make the right decisions.** Nutt does more than show you what others did wrong; he also gives instructions on how to avoid each blunder and trap, providing tips and techniques on consistently using the right tools and procedures to make the right decisions, every time.

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Blunders to Debacles

Why is there so much failure in corporate decision-making processes? Can companies take corrective action to prevent future failures? The answers can be found in three blunders: failure-prone decision-making practices, rush to judgment and poor allocation. The chain of events that leads to failure begins with one of these blunders, which leads decision makers toward traps that ambush them.

Failure-Prone Practices

Two of every three decisions use **failure-prone practices**. Decision makers seem oblivious to the poor track record of these practices. Without help in determining what does and does not work, the widespread use of these practices will continue, for a number of reasons:

Decision-making practices with a good track record are commonly known, but uncommonly practiced. Nearly everyone knows participation prompts acceptance, but participation is rarely encouraged.

Managers often play the "blame game." For example, bad but low-cost practices are pushed to avoid blame for increased costs.

Failure is often placed at the doorstep of things beyond the manager's control. Government regulations or unexpected budget cuts offer convenient excuses to not pursuing better practices.

Premature Commitments

Decision makers often jump on the first idea that comes along, make **premature commitments**, then spend years trying to follow through on those commitments and make the idea work. Decision makers, like most people, fear the unknown and seek self-gratification, two circumstances that run counter to the sometimes lonely endeavor of making difficult decisions. When answers are not readily available, grabbing on to the first thing that seems to offer relief is a natural impulse.

Wrong-Headed Investments

Blunders are made when decision makers make **wrong-headed investments** of their organizations' time and money for costly evaluations and little else. To make matters worse, these evaluations are often defensive — carried out to support an idea someone is wedded to, trying to show it will work. Such decisions often breed suspicion from those who suspect a hidden agenda at work, a circumstance that results in even more evaluation expenditures, which increase as more justification is demanded. Little time or money is spent to investigate claims, set objectives, measure benefits and risk, or manage the forces that can derail a decision. Decision makers blunder when they fail to see any of these things as a worthy undertaking. ■

DECISION-MAKING TRAPS

Debacles follow a chain of events that unfolds as blunders create traps and traps bring about failure. The blunders of using poor decision-making practices, rushing to judgment, or misusing available resources point unsuspecting managers toward seven traps that can ensnare them:

- *Failure to Reconcile Claims*
- *Failure to Manage Forces Stirred Up by a Decision*
- *Ambiguous Directions*
- *Limited Search and No Innovation*
- *Misuse of Evaluation*
- *Ignoring Ethical Questions*
- *Failure to Learn*

When caught in any of these traps, managers are apt to make a bad call that can become a debacle. ■

Failure to Reconcile Claims

Imagine that a board member is alarmed by a loss in market share, because it matches with the amount that a competitor's share has grown in the same time period. The board member issues a call for action, such as improving the quality of the company's products. The

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Failure to Reconcile Claims

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call for improved quality is a "claim" and points to an "arena of action," product quality.

Decision makers get trapped when they buy into such a claim without looking further. In this case, before making a decision, the decision makers must ask themselves, "Is product quality the real reason for loss of market share?" The relationship of the original concern — the falling market share — and the subsequent claim — low product quality — is dubious. In many cases, however, the original concern is not made clear, so that a claim is accepted without question.

The Waco siege shows the disastrous results that can occur when claims are not carefully investigated.

Debacle at Waco

In 1993, a rumor surfaced that the Branch Davidians, a religious sect led by David Koresh, were building an arsenal in their Mount Carmel compound, just outside Waco, Texas. When the Bureau of Alcohol, Tobacco and Firearms (ATF) attempted to serve a search warrant, a shootout ensued, leaving four agents and two Branch Davidians dead and 20 agents wounded. The bungled warrant attempt prompted Attorney General Janet Reno to call in an expert team of FBI negotiators and behavioral experts, who initiated talks with the Branch Davidians, as SWAT teams and the FBI's elite Hostage Rescue Team (HRT) surrounded the compound.

The standoff ended when the SWAT and HRT units stormed the compound. Fires of unknown origin swept the wooden structures, killing 87 people.

During the standoff, unresolved disagreements created one trap after another that ensnared Reno and her agents. Motives were never questioned. Conflicting or unsubstantiated concerns, motivations and claims (from the desire for revenge for the agent deaths to the claim that Koresh had molested children) were never sorted out. Rather than trying to reconcile these claims, Reno chose to pick the one that seemed most compelling.

Avoiding the Trap

In order to avoid this trap, decision makers need to uncover the concerns — in many cases there are hidden or conflicting concerns among stakeholders — that motivated the claim. To avoid making decisions based on unsupported or misleading claims, decision makers should:

- Seek out stakeholders with different points of view and ask each to provide a list of his or her claims and the concerns and considerations that prompt them, before selecting an arena of action.
- Reconcile contradictions in the claims being offered by exploring the concerns and considerations supporting each. Refashion a claim that embraces the crucial concerns and important considerations.
- Find common themes in conflicting claims to make a diagnosis. ■

How Blunders Prompt Traps

Traps	Failure-Prone Practice Blunders	Premature Commitment Blunders	Misuse of Resources Blunders
Failing to take charge by reconciling claims	Support for claims and its arena of action assumed by the decision maker	First claim (or claimant) that seems important is accepted	Failure to look for hidden concerns or considerations and the more pressing claims that they suggest
Ignoring barriers to action	Power and persuasion used to implement decisions	Action taken before social and political forces are understood	Interests and commitments of stakeholders go unexplored
Providing ambiguous direction	Direction assumed and never clarified	Unwilling to acknowledge a concern without offering a remedy	Little time spent to identify desired results
Limiting search	A quick fix or what others are doing is adopted	Pressure for answers makes the conspicuous solution seem timely and pragmatic	Little spent on a search for ideas or for innovation
Misusing evaluation	Evaluation used to measure costs, ignoring benefits	Defensive evaluation used to justify the conspicuous solution	Money spent defending ideas and not in exploring their risk
Overlooking ethical questions	Values behind ethical questions are overlooked	All decisions are seen as ethically neutral	No time or money spent uncovering values
Failing to learn	Fail to see how perverse incentives operate to cover up outcomes	Expectations demand good outcomes	Few resources used to learn or to do so without removing perverse incentives

For more on stakeholders, go to: http://my.summary.com

Failure to Manage Forces Stirred Up by a Decision

If a decision is perceived as jeopardizing one's turf and the needs for achievement, self-esteem, recognition, security, social relationships, values practices, and the like, people become aroused.

However, the reasons for opposing a decision are not widely shared, so they are lost on the decision maker. Opposition takes shape in subtle ways through delay,

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Failure to Manage Forces Stirred Up By a Decision

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token compliance and attempts at negotiation to hold up a decision or limit its use. If opponents are powerful enough, there may be a pitched battle to block a decision.

The savvy decision maker heads off both types of resistance by shaping the decision to practices, resources and relationships valued by people.

Failure and Success Tactics

When a decision maker encounters resistance, he or she can use one of many tactics to make the decision a reality. Two basic tactics are commonly seen in debacles and failed decisions:

Persuasion calls on the decision maker to collect arguments that support a preferred course of action and to garner endorsements of experts, then combine them with salesmanship to achieve the desired effect. When the best available arguments are unable to sway people, however, failure is likely.

An **edict** issues a directive without the decision maker consulting the people who have a stake in the changes the decision would bring.

Decision makers in more successful implementation efforts employ one of two more positive tactics than persuasion and edict:

Intervention is the least employed tactic and the most successful. To carry out an intervention, you must demonstrate the imperative to act to the problematic stakeholder and others with interests not yet managed. To do this, you must do the following:

Benchmark current performance against norms, to demonstrate the inadequacy of that performance.

Offer illustrations of how business practices can be improved. Committees are sometimes used as a sounding board for ideas.

After a decision has been installed, show how the actions overcame the performance deficiencies.

Decision makers use **participation** by delegating aspects of the decision to others, such as a task force. Participation can range from comprehensive participation — when the decision is completely delegated to a fully representative task force — to token participation. ■

For more on the different types of participation , go to: http://my.summary.com

Burn Care: Intervention at Work

Convincing hospital stakeholders to accept a burn care center demonstrates how intervention can overcome resistance.

Hospital trustees are wary of offering high-cost services like burn care because third-party payers (Medicaid, HMOs, etc.) do not insure the full cost of treatment. To overcome this objection, a hospital CEO must show how the cost for burn care could be covered by a variety of sources — endowments, reimbursements, cheap resident manpower, etc. The CEO must present trustees with a demonstration of financial feasibility and a description of how other hospitals have enhanced their image (and, thus, their endowments) with this service. A candidate for the burn care director position must then demonstrate to trustees treatment procedures and staffing, showing how resident recruitment has been enhanced at other facilities that have added such a service, stressing that future recruitment might be compromised if burn care is not offered.

If the trustees buy in sufficiently to warrant a pilot test, the hospital CEO must, at the conclusion of the pilot, report back to trustees. His or her report must provide data on image, resident recruitment and costs, resulting from the pilot test of the unit.

Ambiguous Directions

Decision makers must have a clear direction set for the decision. Where is this decision going? What is it meant to accomplish — in other words, what are the expected results? A joint venture between The Ohio State University and the University of Arizona illustrates the importance of clear directions.

From Dream to Boondoggle

When The Ohio State University (OSU) and the University of Arizona entered into a partnership to build a new telescope, it seemed like a match made in the heavens. The two universities would share the cost of building the telescope in Arizona, providing the schools' astronomy departments with valuable "viewing time" and national prominence. Over the span of three years, however, the project grew to include an international partner and another college. The size of the proposed telescope grew as well, and the cost of building it doubled.

In a short time, due to other circumstances, OSU found itself in a budget crisis, which saw the resignations of both the university president and the chair of the astronomy department, the two main champions of the project at the university. State legislators stepped in to head off a "boondoggle" that was draining tax money from Ohio to build a telescope in another state. Eventually, the new university president canceled the telescope, leaving OSU with payments due its partner, the University of Arizona, and lots of planning costs.

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Ambiguous Directions

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What Happened?

A direction can liberate, limit or conceal. It liberates when it opens up possibilities. It limits when it sets boundaries. It conceals opportunities when expectations are ambiguous.

What was the purpose of the telescope? Each of the OSU champions had different claims. The university president wanted the project to enhance the university's reputation. The chairman of the astronomy department was looking for a better astronomy facility.

Had "national reputation" been clearly defined as the direction of this decision, decision-makers would have been faced with a broader set of options when considering their decision. Was an expensive telescope the more cost-effective — and effective — way of enhancing the university's reputation?

One problem is that the Ohio State University decision makers focused on an idea (a new telescope) instead of an objective (enhancing the university's reputation). An objective identifies specific, quantifiable desired results. It works as a direction because it focuses a search on those expected results, thereby giving everyone involved freedom to look at any solution that can realize those intended results. ■

Limited Search and No Innovation

"Keep your options open" is sage advice. When making a big-ticket expenditure, such as buying a car or a house, we identify several options before settling on one. Yet, many decision makers making weighty decisions drastically limit their search for different options. Others embrace the idea found in a claim and avoid search altogether. Opportunistic behavior drives our search when the pull of a quick fix or the push of a pet idea — such as John Wolf's pet idea of a flower show to commemorate a historical event (see box at right) — take precedence over the objective search for the right solution.

Avoiding the Trap

Decision makers must take the time to search for different options and solutions before deciding on a plan for action. The best searches include:

● **Integrated benchmarking.** Benchmarking becomes difficult when there are difficulties fitting a benchmarked idea to the borrowing organization's situation. It is better to look for ideas in several organizations, seeking best practices to be amalgamated into a plan.

● **Repeated Solicitations.** In a multi-cycle solicitation, decision makers set out to learn about possibilities and apply this knowledge to fashion a series of more sophisticated searches; each search incorporates what is learned from previous searches. A repeated solicitation calls upon you to engage in a process of reflection in which possibilities are carefully studied as understanding about possibilities grows, offering opportunities for learning. Repeated solicitation produces superior results, but, as a tactic, it is rarely used.

● **Innovation.** Decision makers look for a new idea without references to ready-made plans, practices of others, or the ideas of vendors. The prospects of this approach having success improve considerably when an objective is used to guide the design effort, and when multiple options are developed.

None of these were considered in the case of AmeriFlora. The agendas of John Wolf and his fellow organizers and their predetermined solutions stifled any kind of broad search or innovation, resulting in a costly, embarrassing disaster for the city of Columbus. ■

For an example of integrated benchmarking, go to: http://my.summary.com

Why AmeriFlora Never Happened

Columbus, Ohio, set out to celebrate the 500th anniversary of the "discovery" of America by Christopher Columbus with the largest Quincentennial in the U.S. John Wolf, a local businessman and community power broker, had the idea to create a celebration against the backdrop of an international garden exposition, which came to be known as AmeriFlora. The show was seen by local politicians as an attention grabber that would enhance the city's image, and by Wolf as an opportunity to cement his position as a community leader.

Controversy and spiraling costs plagued AmeriFlora almost immediately. Organizers were secretive and controlling, making a shared vision impossible to realize. New infrastructure that the public would be able to use after the event (for example, a monorail) never materialized. Local residents opposed the event for traffic and other inconvenience reasons. Event commissioners went on lavish junkets to Europe.

AmeriFlora never happened, for a number of reasons. Artificial deadlines and group think cajoled commissioners into buying into the event without giving it much thought. The event's aims were never clear (the commemorative element of the event was lost as soon as Wolf began pushing the floral expo). Dealings with neighbors (who were also stakeholders) were adversarial and bullying.

Misuse of Evaluation

Decision makers who set out to support a preferred idea get drawn into defensive evaluation. Vast sums invariably are spent to find evidence that validates what a decision maker wants to do or must support. Little, if anything, is spent on claim investigation, implementation, direction setting, or searching for new ideas.

These kinds of evaluations ignore possible risks, painting a rosy picture in order to support a presupposed conclusion. For example, AmeriFlora's proponents made favorable assumptions about ticket sales to conceal the project's risk from those who funded it. Disney's analysis of its EuroDisney deal — a notorious debacle in recent decision making — drew top management away from questions about its risk.

Evaluation tactics used by decision makers differ in the type of information collected and how an inference is made. Two tactics that tend to work best are analytic and bargaining evaluation. Each provides convincing information to support a proposed choice, which is more apt to lead to success.

In an analytical evaluation, data is gathered from various sources (archives, pilot tests and the like) and inferences are made from the data using analytical tools. Archival information gleaned from records can be manipulated to estimate benefits of options. Pilot tests enable decision makers to try out an idea in a field setting to estimate a benefit.

Bargaining tactics in evaluation bring stakeholders to agreement about the choice to be made by following a course of action that all can support. Ranking or voting follows a period of negotiation and information sharing. When using this tactic, it is imperative to give all involved parties a voice. Users and stakeholders in a position to block a decision will be less inclined to do so if asked about their preferences before a decision is made. ■

Ford's Pinto Fiasco

Defensive evaluations that lack a clear direction produce argumentative and misleading conclusions. In 1970, Ford had a problem with the gas tank in their Pinto model; the tank was located in the back of the car, six inches from a flimsy rear bumper, which made it susceptible to devastating fires when impacted from the rear. When a Federal investigation revealed dozens of deaths and injuries as a result of the tank's location, Ford was pressured to fix the Pinto, or recall it — two courses of action that ran counter to CEO Lee Iacocca's vision of providing "a 2,000 pound car for $2,000."

Instead, the company conducted a cost-benefit study, placing monetary values on lost lives, injuries and damaged cars. The study deemed that paying "benefits" to injured parties or families of deceased drivers was cheaper than fixing the cars, so they opted to not fix the cars.

Ford officials focused on the cost of a recall, indicating that this was all that mattered. Critics contended that more should have been spent on measuring the consequences of not fixing the defective gas tank. The company's defensive evaluation had perilous consequences, for the company, its customers and the American auto industry in general.

Ignoring Ethical Questions

A person's ethical stance is rooted in his or her standards of fairness and justice. What one believes to be fair and just is imposed on a decision and how the decision is made. Decision makers apply standards of fairness and justice to what they see, which may or may not capture what actually takes place. Both the appearance and the reality of an ethical lapse can spell trouble.

Ethical issues can erupt at any point in the decision-making effort. Claims can seem wrong-headed and provoke opposition. Decision makers feeling pressure to act may barge ahead and run over people whose interests could have been served or preserved. Adopting an idea that pops up outside of a formal search may seem to be a clever way to take decisive action. To others, the idea may raise questions about your vested interests — even if there are none. Whose interests are being served and whose are neglected will always pose an ethical issue.

Failure to apply personal standards when making decisions at work sets an ethical trap. People who suspend personal ethics and substitute the ethic to serve the organization are driven by four things:

- **Self-indulgence.** The lust for power and the lure of greed corrupts both public officials sworn to a higher standard of conduct and private sector managers expected to act in the best interests of their company. John Wolf's actions in the AmeriFlora debacle — from the idea of the flower expo to the selection of managers and location — were based around the self-indulgent motivation to cement his influence in the community.
- **Self-protection.** People in organizations get caught up in doing what is asked. "Going along to get along" persuades people to support choices they would otherwise oppose out of fear that opposition would be costly to their careers. They fudge data in order to support an idea; they line up to tell higher-ups what they want to hear.
- **Self-righteousness.** The "rightness" of a cause seduces zealots, and organizations have lots of people with causes. Together, they fashion a cache of solutions, with a champion who will do whatever it takes to secure

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Ignoring Ethical Questions

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the adoption of an idea he or she believes to be right or needed. Disney officials acted as if any means available to realize the concept of EuroDisney was justified, regardless of the facts of culture and economics.

● **Self-deception.** People slide into the posture of advocate through many small endorsements over the years, eventually easing into the firm belief that the superior's agenda merits their steadfast support. While being loyal to the boss seems reasonable and expected, this requires that subordinates treat every situation as requiring them to do whatever it takes to support higher-ups. ■

Failure to Learn

Decisions produce outcomes with consequences. Learning requires an assessment of these consequences and the actions taken to realize them. The ideas extracted from such assessments codify best practices and how issues were resolved.

Hoping to deflect blame and protect prerogatives, some decision makers maneuver to keep their decisions from receiving a post-mortem. There is also a natural reluctance to reveal information that could expose mistakes and errors. Perverse incentives, misleading outcomes and a "hindsight bias" also coax people to conceal information, forging a climate in which one tells others as little as possible.

Perverse Incentives

Perverse incentives coax subordinates to do things higher-ups insist they do not want. A perverse incentive can be implicit or explicit — explicit perverse incentives reward the wrong things, while implicit perverse incentives lurk in the climate in which decisions are made.

Misreading Outcomes

Windfall successes and bad luck failures also set a trap. A windfall outcome can hide bad practices, but many find it difficult to separate outcomes from the decision-making practices applied to generate those outcomes. Bad practices can be present in decisions that turn out well due to good luck; conversely, good practices can be present in decisions that turn out poorly due to bad luck. You must distinguish between them in order to make any assessment meaningful.

When practices are appropriate and outcomes are good, assessment is directed to context — the time, topic, urgency and other aspects in which the good results were realized. Failing to appreciate context can lead you to export a good practice to a situation for which it is ill suited.

Better forecasts are needed when decision-making practices are good and the outcome is bad. Learning stems from uncovering assumptions buried in the forecasts to detect risk. Both decision-making practices and forecasts can be faulty. Addressing one without the other leads to incomplete learning. Begin by assessing the forecast and its assumptions, then select tactics with a good track record that fit your circumstances.

Hindsight Bias

Once a decision and its results fall far below expectations, observers sometimes blame the decision maker for ignoring warning signals that might or might not have been apparent at the time the decision was made. If, for instance, a parole board releases a prisoner with an exceptional behavior record and that person commits a crime shortly thereafter, critics may accuse the parole board of overlooking key evidence that might have prevented the prisoner from being released.

Decisions must be reviewed with all of their ambiguities and uncertainties to set aside the biases in hindsight. To conduct an impartial review of a decision, first you must disguise the outcome, since people are remarkably adept at gathering facts consistent with a known outcome. Give a reviewer access to the same information originally provided to the decision maker, under the same conditions; this will help you avoid the bias that hindsight typically engenders. ■

The Challenger Disaster

Another example of hindsight bias occurred in the aftermath of the Challenger space shuttle disaster of 1986. There was a known risk in low-temperature launches — the O-rings in the rocket booster did not seal properly in temperatures below 50 degrees Fahrenheit. Engineers in several reports documented these concerns, and NASA decision makers were aware of the reports. NASA administrators, however, contended that nothing would ever get launched if they listened to the advice that comes pouring in from all quarters during a countdown.

From the vantage point of hindsight, the shuttle disaster seems preventable — a prior prediction was made and verified, but ignored. Before you buy into this explanation, though, consider how creeping determinism emerged from the hearings investigating the disaster. Once critics listened to testimony, the risk of O-ring failure became far more certain than it was at the time of the launch. This determinism makes the explosion seem preordained, the failure to heed warnings the sole cause of the disaster, instead of one of many contributing factors.

For another example of hindsight bias, go to:
http://my.summary.com

AVOIDING THE BLUNDERS AND TRAPS

Decision debacles follow from being caught by one or more of the seven traps set by making one of the three blunders. When you are able to avoid the blunders and sidestep the traps, your chance of success increases by 50 percent. There are three essential moves you can make to avoid blunders: stay issue-centered, use resources wisely and adhere to best practices through each stage of the decision-making effort. ■

Stay Issue-Centered

In debacles, decision makers often make premature commitments by grabbing onto the first idea that pops up, an idea that often is, at best, misguided and, at worst, wrong-headed. Even when decision makers try to contemplate possibilities before taking action, the pressure for rapid action can become intense. To deal with this pressure, decision makers must stay "issue-centered" by maintaining an exploratory mindset and pausing to reflect.

The urge to "fix" something is out of sync with the needs of decision-making. Making the decision calls for an exploratory mindset, an appreciative inquiry, in which skillful questioning is used to get to the bottom of things. Discover what gives life to the issue being contemplated. Get various points of view in meetings and other forums, and challenge those listening to reflect and make sense of what is heard.

The urge to "fix" something is out of sync with the needs of decision-making.

Pausing to reflect when one is pressured to act can be difficult to begin and harder to sustain. When challenged to "get on with it," remind people of the alternative. Ask them to recall the last time people in the organization rapidly "got on with" fixing a problem, and how much follow-up work was required to fix the fix. Ask the critic to visualize the chaos, the squandered energy and the smoldering resentment. Ask if spending some time to pause and reflect today is a good investment to avoid all this tomorrow. ■

Use Resources Wisely

In debacles, little time or money was spent on anything but defending the quick fix with a defensive evaluation. Evaluations become tainted and suspicions arise when observers see a preoccupation with what the decision maker wants to do or must do to satisfy others. The cycle of suspicions provoking defensive evaluations grows until huge sums of money have been spent on evaluation and little on anything else. This pulls funds away from other decision-making activities, such as investigating claims and reconciling different views.

A key message to take away from the debacles discussed here is to make your decision-making investments wisely; to do so, make most of your investments early on. Spend time and money to stay issue-centered by uncovering and exploring claims and the concerns and considerations that prompt them. Use groups or network with people who can block the decision to find out their interests and ways to manage them. This introduces you to political realities early on, so political rationality can be incorporated into your actions. ■

Adhere to Best Practices

Debacles are riddled with failure-prone decision-making practices. Best practice calls for a discovery process that emphasizes process stages found to have the greatest impact on success. Use the following sequence of tasks called for by the discovery process:

Manage forces that can block action. Implementation brings social and political issues to the forefront by uncovering the interests of people who can block action. Opposition can be expected when these interests are threatened.

Set a direction. The direction indicates the results wanted, guiding the search for ideas with an outcome in mind.

Search widely for ideas. If claim, implementation and direction have been attended to, the remaining steps are much easier to carry out, and there will be far less controversy in doing so.

Evaluate options. Evaluation is straightforward in a development process. The direction specifies what is wanted, such as lower cost, making a cost criterion an appropriate and reasonable way to measure benefit. It takes away the political overtones of using evaluation to defend a course of action, replacing it with an evaluation that documents benefits and the likely risk in realizing them.

Confront ethical questions. Decisions often pose ethical issues for people; a decision that seems ethically neutral to a beneficiary may have a very different look to others. These ethical issues can be neutralized by finding actions that embrace the values stakeholders believe are crucial.

Learn about missed opportunities. Learning helps you find out what worked, what didn't and why. Various obstacles complicate learning by hiding the information required to make such assessments. Learn to get around these obstacles. ■

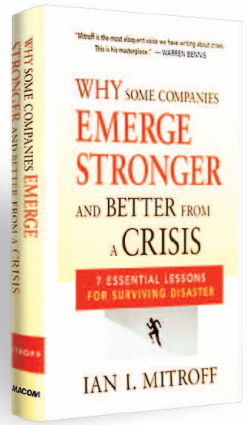
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Why Some Companies Emerge Stronger and Better From A Crisis

Ian I. Mitroff

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Ian I. Mitroff

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Seven Essential Lessons for Surviving Disaster

WHY SOME COMPANIES EMERGE STRONGER AND BETTER FROM A CRISIS

THE SUMMARY IN BRIEF

We've all seen companies that go through disasters, companies such as Tylenol, Enron, WorldCom, Firestone, Union Carbide and others. Some companies emerge stronger from such disasters and others fade away into oblivion. Was there something about their approaches to the problem that allowed them to survive or perish?

Why Some Companies Emerge Stronger and Better From a Crisis *illustrates how to survive a crisis and grow.*

In this summary, you will discover seven essential competencies that companies need to learn in order to survive a major crisis. Many of those answers are counterintuitive. For example, if you act in the public's best interest, you'll not only feel better, but it's more profitable in the long run. According to crisis management expert Ian I. Mitroff, the modern global enterprise has to be reorganized around crisis management.

What You'll Learn In This Summary

✓ How crises can arise with unprecedented frequency, complexity and destructive power.

✓ How to face seven essential challenges for surviving disaster.

✓ How to equip your people to stay strong and focused in the face of a crisis.

✓ How the need for careful planning did not originate on Sept. 11, 2001.

✓ How crisis management is a systemic process of thinking about a range of potential crises, how they can happen and how one crisis can trigger another.

✓ How to assemble a crisis tool kit.

✓ Why every company should have a chief crisis officer and departments for crisis learning and early warning-signal detection.

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WHY SOME COMPANIES EMERGE STRONGER AND BETTER FROM A CRISIS

by Ian I. Mitroff

— THE *COMPLETE* SUMMARY

Overcoming the Challenges of Crisis Management

America's organizations and institutions are in dire trouble on every conceivable front: physically, intellectually, morally and spiritually. First, their operations, plants and infrastructure have been the objects of direct terrorist attacks and other criminal threats. Second, the fundamental assumptions upon which their crisis plans and procedures are based have been seriously undermined, if not proven false, by recent events. Third, a series of unprecedented corporate scandals involving WorldCom, Enron and others has eroded their moral compasses. Fourth, they have been dismissive and destructive with regard to the spiritual needs of their employees and customers. In short, America's organizations and institutions are in crisis, big time.

Before 9/11, corporate America was basically unprepared for a wide variety of crises, including terrorism. Four years after the tragedy, the situation really hasn't changed that much. A crisis for an organization is an extreme event that literally threatens its very existence. At the very least, it causes substantial injuries, deaths and financial costs, as well as serious damage to its corporate reputation.

Surviving Today's Threats

Most executives and organizations, unfortunately, are prepared for only a small number of worst-case scenarios. There are seven potential challenges that all organizations need to face and overcome if they are to survive today's threats.

Learning the following lessons can help every organization to anticipate, plan for and survive the crises that are an inevitable part of life:

1. Right heart. Crises extract tremendous emotional costs. As a result, crises demand exceptional emotional capabilities, or emotional IQ. Effective crisis management demands high emotional capacity and sensitivity, and emotional resiliency.

2. Right thinking. Crises demand that we are capable of exercising on-the-spot creative thinking. They demand that we are capable of thinking "*outside of the box that contains the box!*" Effective crisis management demands high creative IQ.

3. Right soul. Effective crisis management requires a special type of inner spiritual growth, or spiritual IQ. Without this, our world is rendered meaningless by a major crisis. Nothing devastates the soul as much as a crisis.

4. Right social and political skills. Effective crisis management requires a special type of political and social IQ. This is needed to get the leaders of an organization to buy into crisis management.

5. Right technical skills. Crises demand that we know different things and that we do things differently. This is technical IQ. For example, to outwit terrorists, we have to learn to think like a controlled paranoid without becoming a terrorist, a paranoid or a psychopath.

6. Right integration. Effective crisis management requires that we integrate previous forms of IQ; thus, integrative IQ is required.

7. Right transfer. New skills are needed in the new global economy. Without integrative IQ, more and more white-collar and professional jobs will be lost and the United States will become a jobless economy. New knowledge and new forms of IQ, such as aesthetic IQ, are needed because they allow us to see the world anew.

Proper Attitudes

Crisis leadership is not just good for business, it is also

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The author: Ian I. Mitroff is often called the father of modern crisis management. He is a professor in both the Marshall School of Business and the Annenberg School for Communications at the University of Southern California. He is the author of many books, including *Managing Crises Before They Happen* and *The Essential Guide to Managing Corporate Crises*.

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Overcoming the Challenges of Crisis Management

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necessary for the existential, emotional and spiritual bottom line. No person, business, organization, institution or society can survive for very long without crisis leadership. ■

The Crisis Society: The Rise of the Abnormal

Mary Douglas is the CEO of Rural Books, a company she established 10 years ago. Rural Books produces field books and guides for identifying and cooking wild fruit, nuts, berries and the like. In the 10 years of the publisher's existence, no one had ever suffered any illness from following its books' recommendations.

One morning, Douglas woke to the news that the media had linked one of the company's books to the deaths of a family of four, as well as the serious illness of many others.

On hearing the news and pondering the possibilities, she exclaimed, "Oh my God. What am I going to do? I don't have the foggiest clue as to where to begin."

Because Douglas and her top management team had never received the proper training in crisis management, they were unable to think outside the box. As a result, they were unable to imagine and anticipate the types of product tampering that applied to their business.

If Douglas and her top team had received proper training, they would have been prepared for the strong and often overwhelming emotions that are a critical part of every major crisis. If she and her team had faced the challenges and learned the lessons that successful crisis leaders have to teach, they would have been able to respond faster and better, substantially lowering both the economic and the emotional costs of the crisis or crises they were facing. Douglas and her team would have recovered sooner and with far fewer costs.

The first thing that Douglas and her company should have done is understand what is fundamentally different about today's world — that crises are literally built into the fabric of modern societies.

The Failure of Conventional Ways of Thinking

America's organizations and institutions have become breeding grounds for crises of all kinds. Conventional management is of little help in the face of major crises such as Enron, WorldCom, space shuttle explosions and mad cow disease — just to name a few. Conventional thinking simply can't anticipate and cope with "abnormal states of mind."

There is a difference between normal and abnormal accidents. Normal accidents are unintentional failures of complex systems, where abnormal accidents result from intentional sabotage which is intended to destroy or severely disrupt the company. Leading-edge organizations have found a way to reduce — but not eliminate entirely, for that isn't possible — the potential for major crises, both abnormal and normal. This means that the business has to act like a controlled paranoid in order to anticipate the worst that can happen to it. ■

Right Heart: Emotional IQ

To understand why Mary Douglas and her top executives were unprepared for the crisis that occurred, it helps to look back to the year before the crisis happened.

Douglas was chairing the regular monthly meeting of her top executive team. In addition, Head of Risk Management and Security Bob Hunt, who was not a permanent member of the executive team, was there as a special guest. Hunt was invited to deliver a special report that he had prepared on the major risks facing Rural Books. His report showed that the most probable and costly risks facing the company were fire and water damage due to spring floods. With little fanfare, the Rural Books executive committee immediately approved an expenditure of $250,000 to protect and upgrade the company's facilities.

The second part of Hunt's report was not as well received. He had recently attended a three-day seminar on crisis management. Hunt explained that crisis management took a much broader view of risks than traditional risk management. Citing the example of 9/11, Hunt suggested that Rural Books ought to brainstorm how other types of crises — for instance, product tampering — might apply to their business. Unfortunately, because Hunt could not suggest any specific examples of product tampering that might apply to Rural Books, his proposal fell on deaf ears.

Normal Vs. Abnormal Business

To understand why Rural Books' executive team was not prepared for the crisis that struck the company, one must understand that the qualities that make for success in running a business in normal times are not the same qualities that make for success in managing a major crisis, certainly not in abnormal times. Crises demand that we confront and overcome feelings of denial, fear, betrayal and the exposure to severely traumatic situations. To manage these kinds of feelings and emotions, one needs to develop a capacity for resilience. This requires Douglas and Rural Books' top executive team to undergo a rigorous and systematic program of pre-crisis psychological training. They need to take both a personal and an organizational audit of their psychologi-

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Right Heart: Emotional IQ

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cal capacities to confront and to survive major crises.

Denial and Trauma

Denial was the first defense mechanism that was at work in Douglas' response to Hunt. She denied outright that terrorism and product tampering were even remote possibilities. Unconsciously she diminished the potential size and the importance of a particular set of crises.

Denial involves denying unpleasant feelings associated with potentially traumatic events *before* they occur. In contrast, trauma involves the denial of feelings *after* a traumatic event has occurred. In either case, the feelings, fears and emotions surrounding a potential or already experienced crisis are too painful for the conscious mind to accept.

Betrayal

One of the most striking features of crises is that they are experienced as major acts of betrayal. In all likelihood, the leaders at Rural Books will be viewed as villains — as having betrayed their employees, their surrounding community and their customers — because they had not thought about the particular crisis that the company experienced and for which they were not adequately prepared. They will be vilified even though there may have been very little, if anything, that they could have done to prevent the crisis.

Crises are generally experienced as major acts of betrayal because people need to have someone to blame for a crisis. Blaming is one of the principal ways in which we cope with the strong emotions that crises stir up.

Betrayal is the failure of a person, organization or a society to act and behave in accordance with ways that they have promised. Most acts of betrayal are unintentional. However, in the case of Enron, there are strong reasons to believe that the company exhibited the characteristics of a sociopathic organization.

Recovering From Crises

We demonize those who have betrayed us. This is true whether the betrayer is an individual, organization, society or even a civilization. Someone or something is always demonized as a result of a major crisis.

To recover from a major crisis, one has to go back, to rebuild and to readjust the perceptions of those that one feels are responsible for causing the crisis in the first place. One has to "re-humanize" the dehumanization that has taken place with regard to one's betrayer. Even in the case where the betrayer, villain or guilty party has accepted responsibility for his or her actions, has admitted it openly and has even tried to make amends, it is still very difficult to accomplish this change in perception.

Train in the Psychological Impacts of a Crisis

It would be eminently desirable if Douglas and her top management team had been aware of all these forces and factors before the crisis, and trained in the psychological impacts of crises. Without such training, they merely react, and in most cases, poorly, to highly emotional, stressful and traumatic situations. The emotional crisis will be compounded by all of the powerful feelings that will be unleashed in Rural Books' leaders and stakeholders. They will most likely be blamed for the crisis, for their not having done more to foresee it, even if they couldn't have prevented it. This is why pre-crisis trauma and psychological training is essential.

Every organization should hire consultants who are experts in trauma and the psychological effects of crises. Such experts are invaluable in creating realistic simulations that will give people a feel for the strong emotions that they will experience as the result of a crisis. If an individual or organization is not prepared for a crisis, it will lose valuable time and energy in treating its own psychological wounds instead of responding to the wounds of others. The psychological factors are among the most important factors in how an individual, organization or society responds to a major crisis. To de-emphasize and to neglect them is merely another form of denial.

Crisis leaders learn one of the most valuable lessons of all: *the fact that one is aware of one's own denial does not mean that everyone else in the organization is aware of theirs.* They have also learned: *do not become paralyzed by your fears and those of others.* Give people time and space to vent and to work through their fears and anxieties. And never dismiss them: This only makes the fears and anxieties worse. ■

Right Thinking and Right Social and Political Skills

One of the most troubling aspects of major crises is that they "unravel the knitting." Crises are crises precisely because they don't abide by narrow and artificial boundaries. The "key principles" that are suitable for running an ordinary business are not the same principles that will get you through a major crisis.

In today's world, all businesses are in all other businesses all of the time. In addition, all crises are in all other crises all of the time. Therefore, we need to "unbound" the assumptions we have about an organization.

For example, Rural Books is potentially in a large number of businesses, many of which are related only indirectly to the book publishing industry. It is also involved in a number of ancillary businesses that facilitate the conduct of its primary business. For example,

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Right Thinking and Right Social and Political Skills

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Rural Books is involved in finance, quality control, education, manufacturing, environmental and wilderness preservation, television and video, travel, retail, entertainment, health and publicity, and other businesses.

We need to unbound the pictures we have created. This is precisely what responsible troublemakers do very carefully, in stages, over time. For instance, in order to accomplish this "unbounding" for Rural Books, Bob Hunt would have to understand the company better than the organization's top leaders do. He would have to develop a plausible scenario of how each kind of crisis could happen to the full range of businesses that Rural Books is in. He would have to sell *both* broad views of Rural Books *and* detailed crisis scenarios. He would have to develop scenarios over time as he learned more about the Rural Books system and as some crises developed. He would have to meet with other crisis managers in parallel organizations to learn from them what they had done to sell crisis management successfully to their respective organizations.

Gather Information From Multiple Channels

Hunt would also have to gather information simultaneously from multiple channels regarding the desirability and necessity of a broader crisis management program. Executives of other organizations would have to get together periodically to share information on the crises that they have faced and why other members of the industry should consider preparing for them. Hunt would have to convene an internal Rural Books stakeholder conference. He would also have to interview people in all of the company's businesses to discover the "ticking time bombs" that they see in their respective parts of the organization.

Taking on this daunting series of tasks is precisely what differentiates those organizations that are in the "Crisis Prepared Zone," or are constantly striving to be in the zone, from those that are not. Taking an unduly narrow view of the risks to which you are subject can lead to failure in a crisis. A narrow view of risks is insufficient for a company to be protected. ■

Right Integration: Integrative IQ

William James, founder of that distinct brand of American philosophy known as pragmatism, developed a unique theory of truth. His is a theory of problem solving for complex problems. It is a theory of critical thinking and of how to formulate complex problems from multiple points of view. For James, a single perspective of any problem is automatically wrong. A single perspective cannot hope to capture all of the subtleties and complexities that are characteristic of real problems.

Universities Are Complex Systems

Perhaps more than any other modern institution, the university illustrates how complex the world is today. Although education and research are the primary businesses of the modern university, the number of additional businesses that universities operate in order to accomplish their main mission is very large.

For example, most major universities are in the hotel business, serve thousands of meals daily, and have to service hundreds of rooms, both on and off campus. Therefore, safety and security are primary concerns. Most universities have their own police, safety and security forces. Thousands of meals are served daily. In recent years, selling clothing with the university logo has been a huge business and includes hats, sweat shirts, license plates and so on.

Universities are also in the entertainment and special events businesses. Sports are big business. Universities also host all kinds of visitors, from speakers to concerts, celebrity shows, traveling Broadway companies and the like. They are also in the facilities and property management business. In most major cities, a university is the city's largest private employer. In fact, many major universities are on the order of billion-dollar-a-year businesses.

Truth

Truth is a thoroughly human creation. People create it through their actions in an attempt to achieve desired ends. For James, truth is not an abstract concept that is independent of human purposes and ends. Truth is not something that is "just out there." Truth is in fact the management of ways and styles of knowing. Knowledge cannot be decoupled from knowers — that is, from the processes by which humans know things. Truth is thus the management of several different types of knowers. This is precisely what makes James so powerful and his ideas so relevant to crisis management.

Real problems are by their very nature ill-structured or ill-defined. At least in the very beginning, when problems first present themselves, they are not already or automatically well-defined or well-structured. Only for well-structured problems do we know all of the available courses of action, their outcomes, their consequences, and their benefits versus costs associated with them. In contrast, an ill-structured problem is precisely a problem for which the full set of means is not known, let alone their consequences.

All of us are problem solvers *and* problem managers. Whatever structure or definition a problem possesses is due to our efforts. Problems become defined and structured through our efforts — that is, through the process of our working on them.

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Right Integration: Integrative IQ

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The problems of the world are not normally the captive of a single academic discipline or corporate function, such as finance. Most real-world issues are complex mixtures of different disciplines and functions — they are interdisciplinary and cross functional. They are transdisciplinary because they are beyond any of the known disciplines.

The same is true of crisis management. Crisis management is inherently transdisciplinary. Different stakeholders do not see the same courses of action or the same outcomes of the "same" crisis. For instance, Rural Books' crisis is not a single problem or a single crisis. Instead, it is a whole system of problems and crises that are highly interdependent and interactive. One cannot even begin to define the company's crisis, let alone pretend to manage it, independently of all the other problems and crises to which it is connected and to which it gives rise.

Ill-Structured Problems

The basic problem with ill-structured problems is the presence of strong conflict over the definition as to the nature of the problem. The steps of problem formulation and problem representation are thus central to facing ill-structured problems. No two stakeholders or crisis management experts will have the same definition of a crisis or a minor problem. Indeed, intense disagreement is one of the major features of ill-structured problems.

A mess is the *product* of the interactions among all of the various problems that constitute the mess. Thus, *a crisis is an ill-structured mess*, a highly interactive set of problems each of which is ill-structured in itself.

Crisis management is essentially a theory of complex problems. Even more basic, it is a theory of critical thinking. This appreciation is absolutely essential to the management of fuzziness, for fuzziness is an inherent property of real-world problems.

There are no checklists for crisis management. Crisis management is open-ended, unbounded problem formulation. Everything connected with crisis management is inherently fuzzy. To put it mildly, crises are slippery. If every business is now in every other business, then every business has the potential to experience the crises of every kind of business. Crises demand that we take an expansive view of the world. This means confronting and mastering underlying emotions, fears and anxieties with regard to crises. ■

Right Technical Skills: Technical IQ

The tenets of crisis management that have been developed for treating normal accidents are no longer sufficient. What is needed is the ability to think comprehensively about normal *and* abnormal accidents. Many companies develop and refine plans to improve the ways in which they handle emergencies of the kind they have confronted in the past. But they now face bigger threats from calamities they have never faced before. As a result, they are fighting new wars with old strategies.

All organizations need to develop special skills to come to grips with abnormal accidents and change their frames of reference. The key lays not so much in drafting manuals as in developing learning processes that give executives the mental capabilities, confidence and flexibility to envisage abnormal crises. Here are some tools to help them prepare for crises:

A Crisis Tool Kit

- **Wheel of Crises.** Some companies prepare effectively for abnormal crises by thinking of them randomly. One tool that can be used to help top-level executives think randomly is a giant wheel of crises. On the wheel, like the spinner on a child's game, is a list of all the families of crises that a company can face. Executives take turns spinning the wheel, and when the pin stops, participants discuss all of the normal and abnormal crises of that particular kind that they can imagine.
- **Internal Assassins.** People who know the organization best can also develop abnormal situations for which they should be prepared. Special techniques such as role-playing can get them to temporarily think like villains, internal assassins or terrorists. They must suspend their rational thinking and use their intimate knowledge of the company's products, procedures and systems to cook up ways to destroy it. Their scenarios can expose weaknesses in the system.
- **Mixed Metaphors.** Most crisis-prepared companies regularly send executives to crisis forums, where companies from diverse industries discuss crisis planning. They also rigorously apply the metaphors of other industries to examine themselves from unusual perspectives, and they learn from the scenarios for which other companies have prepared. For example, banks may be equipped to handle cyberattacks because computer crime is easy to imagine in the context of the industry. But they might be less likely to think about explosions, for which chemical companies must always be prepared.
- **Spy Games.** Proactive companies don't hesitate to bring in outsiders to test their vulnerability to abnormal crises. Smart companies hire journalists, lawyers and consumer affairs experts to stage hypothetical attacks on them. During a security check at one U.S. company, a reporter discovered that there were a number of confidential files that had been dumped in a basement where anybody could access them.

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Internal Assassins in the Insurance Business

The "internal assassin" technique can change an organization's attitude toward crises. A $1 billion U.S. medical insurance company used the exercise to determine if financial fraud could force it into bankruptcy. The company created three fake terror teams made up of senior executives. Their jobs were to arrange swindles and schemes done by both crooked employees and crooked outsiders. The company was surprised and embarrassed by how many schemes could be performed without being detected by the company. Afterward, the company formed a number of counter-assassin teams to prevent and detect swindles. Several months later, the groups concluded that the company was most vulnerable to one fundamental situation and fixed the problem. By looking at its vulnerabilities systematically, the company was able to close the door on an entire category of threats.

Right Technical Skills: Technical IQ

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The criminal mind-set is so different from most people's that executives can figure it out only by bringing it inside the organization. Banks hire former robbers to test security procedures. Casinos use professional gamblers to detect gambling fraud. Many companies use former hackers to identify weaknesses in their computer networks.

Think Like a Controlled Paranoid

There is a framework for thinking like a paranoid without being or becoming one. This framework is based upon the known types of paranoia. These pertain to a person's body, a person's immediate family and organizations, the culture of an organization or society, and the mind of a single individual.

Thinking like a controlled paranoid is merely one way of managing fear. On the one hand, too little fear leads to denial. On the other hand, too much leads to paralysis. Thus, one of the prime purposes of emotional or psychological preparation for crises is the ability to confront fear directly without being overwhelmed by it.

Here is one of the principal ways of thinking like a controlled paranoid: *Take every proposed action, or agent, that you can use to protect yourself from a major threat, and then flip its properties on its head.* For example, you might use Cipro to treat anthrax, but what if the Cipro supply itself has been sabotaged?

The purpose of thinking like a controlled paranoid is to help prepare the mind before horrendous acts occur by understanding how paranoids and terrorists think. The more horrific the act, the more this kind of thinking is absolutely necessary. The more preparation that one has in thinking about the possibility of horrendous acts, the better one is able to cope with them. ■

For additional information on four reasons to have the right technical skills, go to: http://my.summary.com

Right Transfer: Aesthetic IQ

American corporations have been built on two powerful but faulty assumptions:

1. An organization is nothing more than the sum of separate, self-standing and isolated silos.

2. As new problems and issues arise, new departments, functions and silos can be added to the basic design without disturbing it in any essential way.

Both of these assumptions are dead wrong.

Today's crises have the potential of wreaking extreme financial havoc and, in some cases, destroying the corporation. As recent history showed with the demise of Arthur Andersen, it is possible for large organizations to go out of existence as the result of a major crisis.

Too many executives believe that adding an infrastructure for crisis leadership is tantamount to adding another layer of corporate bureaucracy. This is not the case. All structures are not the same: Enabling structures are not the same as bureaucratic ones. The integration of appropriate structures allows global corporations to give proper autonomy to local operating units. This is because local units know local markets better than bureaucrats ensconced at headquarters. Yet, global corporations must have the machinery for responding to crises that affect the whole organization. A crisis in one locale can swiftly escalate to become a crisis for an entire organization. Therefore, both globally integrated and locally responsible structures are needed.

The Chief Crisis Officer

If today's organizations are to respond effectively to the crises they face, they will need a chief crisis officer. There is no longer any excuse for every organization's *not* having a full-time, senior executive in charge of the crisis capabilities of his or her organization. Organizations need world-class crisis learning and signal detection centers to monitor early warning signals for potential crises. A major function of crisis learning centers is to study the patterns associated with past crises, to distill critical lessons from these patterns, and to ensure that the organization puts these lessons into practice so that the potential for crises is lowered considerably. Although all crises cannot be prevented, being prepared for *any* crisis speeds up recovery time.

A crisis center conducts regular audits and training exercises, installs mechanisms to contain crises, and develops programs to help executives communicate with

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Right Transfer: Aesthetic IQ

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internal and external stakeholders during a crisis. It also identifies or sets up alternative work sites in case the company's plants or offices are destroyed. ■

Right Soul: Spiritual IQ

One of the reasons so many organizations are prone to major crises is that they emphasize the so-called rational aspects of the human mind to the exclusion of the so-called emotional aspects, or vice versa. For instance, if one emphasizes the supposedly rational aspects of a crisis to the detriment of its emotional aspects, then one will tend to prepare only for those crises that have a high probability of occurring *and* a high consequence associated with their occurrence. That is, one will not only use risk management but will believe also that risk management is the basis of crisis management. As a result, one will ignore not only certain types of crises, such as terrorism, which is extremely unpleasant to contemplate emotionally, but also the emotional and existential aspects of all other crises. The emotional and existential are integral parts of spirituality.

The Constant Search for Meaning

In order to understand how crises perturb our basic sense of meaning, purpose and justice in the universe, it is first necessary to have a deep understanding of spirituality. In the context of crisis management, being spiritual requires one to practice a systemic, integrative form of crisis management. If one practices spirituality primarily for financial or instrumental gain, then neither spirituality nor financial gain will result.

Dealing with emotions — indeed, even acknowledging them in the first place — is one of the most important struggles that takes place in every person's life. If we do not deal with emotions, we and our organizations remain underdeveloped. Spirituality deals with the whole person within the context of the whole organization. Here is an example:

How Benetton-Turkey Dealt With a Major Crisis

A crisis began when Italy refused to extradite a Kurdish leader back to Turkey. This particular rebel leader had been accused of being behind the deaths of over 30,000 Turks. As a result, Turks threatened to boycott and possibly attack Italian brands like Ferrari, Perelli and Benetton. The Turkish people felt as if they were betrayed by the Italians.

Most companies took a narrow, purely rational approach. The typical company response was to take out ads, for example, stressing that customers should not confuse the company's position with that of the official government of Italy. These were cognitive reasons that the ordinary people of Turkey dismissed as silly.

Benetton-Turkey, faced with the destruction of its stores and its brand, did the unthinkable and responded with an emotional response that sided with the Turks. Its ads proclaimed, "First and foremost, we are Turks too! Our first allegiance and loyalty is to Turkey! We feel the same way that you do about the Italians!" Yet it went further. The company removed the United Colors of Benetton from its ads and it placed black wreaths of protest on the fronts of all its stores as a show of protest — from a multinational corporation. And before that it lowered financial quotas during these difficult times — garnering trust with its employees — and consulted local store heads about the new policies. As a result, there was a general outpouring of support for Benetton-Turkey by the Turks.

Benetton-Turkey came up with this novel strategy by thinking creatively and emotionally. Other companies, without Benetton-Turkey's imagination, were tone deaf emotionally, and painted themselves as the victims. They simply lacked the emotional intelligence to weigh, judge and appropriately respond to the feelings of the Turkish people.

In the end, it is the split between cognitive IQ and emotional, ethical and spiritual IQ that is responsible for most of the major crises we have experienced. There is no doubt that the people running Enron were intellectually smart, but they were woefully lacking in ethical smarts.

Proactive organizations restore meaning through their actions before, during and after a major crisis. For instance, they allow people to grieve over the loss of their basic assumptions about the world, about themselves and about the organization itself. In this way, they allow new assumptions to emerge. ■

When a Whole Society Is in Crisis, All of the Challenges Apply

Recent crises, but 9/11 in particular, have revealed the serious inadequacy of the myths — the critical stories that we tell ourselves over and over to reassure and reaffirm ourselves — that serve the American people. In effect, these myths are grand assumptions masquerading as myths about the nature of the world.

The 9/11 attack was terrible not only because of the horrible physical destruction that it wrought, but because it demolished some of our most sacred assumptions about the nature of America and the world. The destruction of these assumptions has exacted a terrible blow on the American psyche. Worse still, there is no prospect for replacing them with others that are better suited for a complex world. ■

For additional information on a tale of two companies, go to: http://my.summary.com

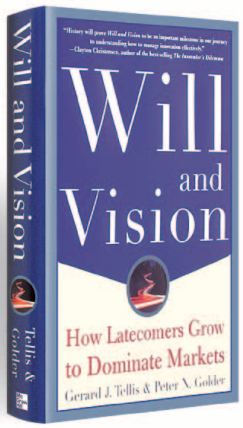
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Will and Vision

Gerard J. Tellis and Peter N. Golder

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



How Latecomers Grow to Dominate Markets

WILL AND VISION

By Gerard J. Tellis and Peter N. Golder

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THE SUMMARY IN BRIEF

*For years, organizations have clung to the belief that the firm that pioneers a new market will become the market leader. Contrary to this widely held belief, the authors write that being first to market guarantees nothing — not name recognition, not market share, and not long-term market leadership. The examples are numerous: P&G did not pioneer the disposable diaper, Federal Express was not the first to offer a priority airfreight service, and Microsoft did not invent the first Web browser. In this summary you will learn what five key principles **do** drive market leadership and how to apply them to your company's efforts to dominate mass markets.*

What You'll Learn In This Summary

✓ **Why vision of the mass market is crucial.** Market leaders are firms that can envision the mass market for innovations and can assemble resources and inspire people to realize that vision.

✓ **Why persistence is the key.** Market leaders are those who persist despite technological blocks, legal constraints, consumer resistance and competitive threats. The road to success is rarely easy.

✓ **Why commitment is necessary.** The mass market cannot be tapped cheaply. Many innovations hinge on new technologies that require costly research and development. Others require large-scale production to achieve economies of scale. Market leaders are firms that commit their resources to a vision when sales are a trickle but costs loom large.

✓ **Why relentless innovation is essential.** Markets, consumers, competitors and technology change constantly. Stagnation can erode market leadership quickly, letting a later entrant take over. Market leadership belongs to firms that innovate relentlessly even at the risk of cannibalizing their own products.

✓ **How assets can be leveraged.** Leaders who dominate an industry must use their resources to enter new and related markets. Market leaders are firms that nurture strengths, like name recognition and product leadership, and extend their resources' influence into related fields.

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Are Pioneers Really Blessed?

Gillette. Coke. Tide. These brands have dominated their categories for decades. Once brands capture leadership, they can hold it for decades. In one study, researchers discovered that 19 out of 25 market leaders had held that position for over 60 years. Enduring market leadership is a common phenomenon.

Managers understand the importance of that leadership. First, enduring brands are attractive to consumers, and their owners can charge premium prices without incurring heavy marketing costs. Second, economies of scale mean that market leaders can operate at efficient volume and earn higher profits than a niche product. Third, market leaders can extend their brand recognition into related products and dominate there, too. On the other hand, thousands of products and brands are introduced every year, and most vanish from the market.

Why is it that some brands remain strong and others wither away and are quickly forgotten? The conventional wisdom has been that a firm's probability of surviving and its share of the market depend on the order in which it enters the market. The firm that pioneers or enters a market first is believed to have enormous advantage. This theory is the pioneering or first mover advantage. So many managers believe it to be true that companies everywhere scramble to be the first to market, whether the product or service is ready or not.

The Problem With 'Empirical Studies'

Several studies have provided what appears to be empirical data to support the accepted wisdom that being first to market is the key to success. For example, at least six studies show that pioneers have large market shares and are leaders in their markets. These studies report no pioneers that failed and support the idea that the first immutable law of marketing is that "it's better to be first than it is to be better."

Unfortunately, all the casual observations about pioneers and most of the formal data suffer from three serious problems. These problems are: *the exclusion of failures, the self-anointing of pioneers*, and *the self-serving definitions of the market*. All three problems work to enhance the perceived rewards of being first.

Exclusion of Failures

Humans have a tendency to forget failures. When researchers exclude those who failed from their analysis, and include only pioneering winners, they exaggerate the rewards of being a pioneer. Economists refer to this as *survival bias*. In addition, they may run the risk of rejecting a competing hypothesis to the first mover

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The Six Tenets of First Mover Advantage and Their Theories

Those who believe that the first mover retains a long-term competitive advantage believe that:

- ✓ **Pioneers rarely if ever fail.**
- ✓ **Pioneers lose share slowly as new firms enter the market.**
- ✓ **Pioneers retain a high steady-state market share of about 30 percent.**
- ✓ **Pioneers are market leaders.**
- ✓ **Pioneer market leadership is very stable.**
- ✓ **Firms should rush to market to get the first mover advantage. It's better to be first with an inferior product than late with a superior one.**

Their beliefs are based on the theory that: pioneers shape consumer tastes; consumers hate to switch brands; patents protect technological innovation; pioneers have low costs; and pioneers mobilize the best supplies, suppliers, and distributors, and target the best customers.

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Are Pioneers Really Blessed?

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theory — that pioneers fail. Research that relies on survey data that only covers successful pioneers suffers from the real danger of being circular: stating a hypothesis, excluding conditions that could disprove the hypothesis, and then confirming the hypothesis because the data that would disprove it isn't even considered.

Take, for example, the Gillette Company, which is believed by many to be the pioneer of the safety razor market. Indeed, the company has been around for over one hundred years and dominates the market. But Gillette did not invent the safety razor. In fact, several companies marketed safety razors long before Gillette, and were the real pioneers. They failed.

Self-Appointed Pioneers

Another problem with the study of pioneers is the tendency to survey only current firms in the market. The managers then self-report information. Sociologists have long recognized that those who self-report tend to claim to possess qualities they think the public considers desirable. Many self-report that their companies were the pioneers, when in fact the real pioneers may have failed.

For example, consider Proctor & Gamble and the disposable diaper market. In 1991, P&G celebrated the thirtieth anniversary of its entry into the disposable diaper market. The company claimed at the time that it "literally created the disposable diaper business in the U.S." Based on this pioneering self-report, many reporters credited the company with inventing the disposable diaper. In fact, there were many versions already on the market, but all of them failed. It wasn't P&G's position as a pioneer that assured its success (it wasn't the pioneer), but something else.

Self-Serving Market Definitions

The third problem with pioneer studies is their tendency to narrowly define the relevant market. By defining a market narrowly, a company's market share automatically looks larger. For example, if Motorola defines its market as microprocessors for Apple computers, its market share is 100 percent since it is Apple's only supplier of chips. If it defines its market as microprocessors for all personal computers, its share falls to under 10 percent of the chip market.

Since the performance of managers is often evaluated on the market share of the brands or company they manage, they tend to define that share narrowly. The problem, of course, is that narrowing the market this way may blind the company to real competition coming at it from the margins. For example, for a period of time Wang dominated the narrow "dedicated word processing machine" market. When software companies began producing software that ran on personal computers, Wang still looked like the leader in its market. Soon, its machines were obsolete. The company was blinded to the underlying consumer need (a way to type documents) and focused on the current technology for meeting that need (a dedicated word processing machine). Had it defined the market as document preparation, it might have seen the changes in consumer needs coming.

A narrowly defined market prompts a firm to think of itself as the leader. This can blind a company to competitors in the broader market who may enter with superior technology and win its customers.

In addition, many researchers define pioneers too broadly, as "one of the early entrants" or a "firm that entered in the early years." This, too, skews the results. A better definition of pioneer is "the firm that first commercialized a product." By properly defining the terms, researchers can avoid the bias that has led to the conclusion that a company must be first to market to dominate that market in the long-term. ■

Learning From History

As you can see, asking managers of surviving firms to identify and evaluate pioneers has many problems. What is needed is an alternative approach. This approach is the historical or archival method. The historical method consists of reconstructing the evolution of markets by evaluating multiple market reports, written as close in time as possible to the actual events.

Using contemporaneous reports is the most important feature of the historical method. Contemporaneous

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Apple Shows Why Using Contemporaneous Reports Is Crucial

Today, Apple Computers is widely reported as having been the pioneer in the personal computer market. Yet, before Apple, there was the Altair. In 1975, Micro Instrumentation and Telemetry Systems (MITS) introduced the first personal computer, the Altair. The Altair established the notion of a stand-alone personal computer that consumers could own. MITS, the pioneer, failed and has been forgotten. Apple, a later entry into the market, succeeded. Apple is now remembered (incorrectly) as the company that first introduced the personal computer. Studying only Apple won't reveal any truths about being a pioneer, since it wasn't one.

Learning From History

(continued from page 3)

reports use the definitions of the market that were in place at the time, not those currently in use. Contemporaneous reports also allow researchers to see who really entered the market first. The second important feature of the historical method is that it strives to obtain a neutral perspective on market evolution. The third important feature is that the historical method uncovers rich details. A fourth feature is that the method allows the comparison of similar firms at the same stage of market evolution.

What sources can be used to determine if a historical source should be used in the analysis? The following four are the most important:

Competence. Is the informant able to report correct information?

Objectivity. Is the informant willing to report correct information?

Reliability. Is the informant a trusted source of accurate information.

Corroboration. Is there confirmatory evidence from other trusted sources?

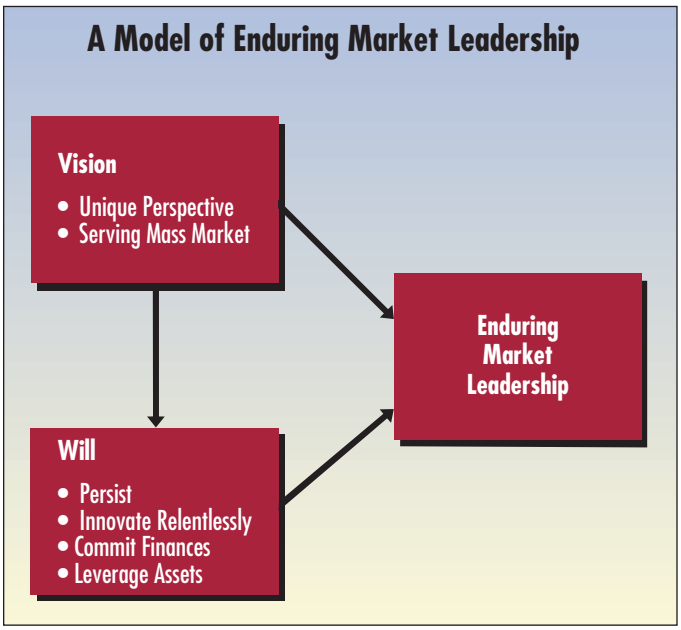
To understand why and how a company comes to dominate a market, researchers need to look at the market as it existed when the product was introduced, and then at the behavior of the firm that ended up as the market winner, as well as the others who didn't. Take, for example, the Internet browser wars. The first entry into the market was CERN (now the European Laboratory for Particle Physics). The second entry was the National Center for Supercomputing Applications at the University of Illinois. Then came Netscape, followed by Microsoft. Each, in turn, was in control of the market and the technology. Yet today, Microsoft, the last entry, is the market leader. Why? That question is what we will explore in the rest of this summary.

Definitions are crucial for valid analysis. Loose definitions can lead to erroneous conclusions. Clear definitions are necessary for accuracy. Pioneer is defined as the "first firm to commercialize the product in a new market." Market is defined as "a competitive environment in which firms attempt to satisfy some distinct but enduring consumer need." ■

Pioneers and Real Causes Of Enduring Leadership

After extensive research, the answer is clear. Pioneers don't become long-term leaders.

Market pioneers rarely endure as leaders. Most of them have low market share or fail completely. Market pioneering is neither necessary nor sufficient for enduring success.



What does it take to become a market leader? The real characteristics of enduring market leadership are vision and will. Enduring market leaders have a revolutionary and inspiring vision of the mass market, and they exhibit an indomitable will to realize that vision. They persist through adversity, innovate relentlessly, commit financial resources, and leverage assets to realize their vision.

Will manifests itself through *persistence, relentless innovation, financial commitment,* and *asset leverage*.

Vision is the starting point. It motivates and directs will. Firms endure as market leaders because they have all or most of these attributes. Market pioneers often fail because they lack one or more of these factors. ■

Defining Will and Vision

What is **will** and what is **vision**? **Will** includes persistence, innovation, commitment, and asset leverage. These four factors all have to do with determination, and therefore define will.

Vision, as the term is used in this summary, is a company's unique perspective of serving the mass market. It isn't the broad statement designed for a press release. For example, when Microsoft founders Bill Gates and Paul Allen saw falling prices and improved technology, they concluded that there would be a huge market for personal computers. The vision of a computer "on every desk and in every home" fired their zeal to develop the software that would run those computers.

Envisioning the Mass Market

Focus on the mass market is an essential component of vision. Ray Kroc had a vision of an international mass market for cheap fast food. Bill Gates saw a mass market for personal computers. Yet, the mass market is something that marketers tend to shun. Strategists stress segmentation and differentiation instead. The result is that in a market of mature products, there are many brands. Each claims unique benefits for ever-smaller groups of consumers.

Marketers assume that mass marketing means cut-throat competition, low margins and low profits. This is far from true, especially when a product is new.

To reach out to the mass market, you must set a price that will appeal to the group you are targeting, and plan the entire research and production effort around achieving that price point. Remember that tapping the mass market allows economies of scale that lead to low unit costs. Low costs enable a firm to earn a positive margin on each unit. When multiplied over mass market sales, this strategy yields far greater profits than a higher margin in a niche market. Mass marketing has often propelled a late entrant to market leadership ahead of the pioneer that focused on a niche.

Also, the large-scale operation that goes into serving a mass market can easily support a big research effort, which can rapidly lead to price reductions and quality improvements. The scale and profits from tapping the mass market allow a later entrant to spring ahead of the pioneer with an early technological lead.

Exploiting the Economies of the Mass Market

Microprocessor sales reveal the dynamics of mass markets. Even at a low margin, a mass market can generate huge profits that can be invested to lower costs, improve quality, and further expand the market. Wisely exploiting these dynamics can give an organization a tremendous advantage over competitors and catapult it into market leadership.

Microprocessors are the brain of the personal computer. The wonder of the microprocessor lies in what it does and what it costs. It can perform millions of computations per second and it can be mass produced at relatively low cost. Intel developed the microprocessor in 1971. At the time, the company lived in the shadow of semiconductor giants IBM and Fairchild. How did Intel come to revolutionize technology? It did so because it saw mass market potential while its competition did not.

At the time, IBM concentrated on large, mainframe computers and wasn't interested in developing either personal computers or microprocessors for the mass market. To do so was seen as cannibalizing its highly lucrative niche business. Intel took up the challenge and developed a generic computer chip that could be used in countless applications from calculators to watches to personal computers. ■

How to Unleash Mass Market Potential

The lowly disposable diaper is a good example of vision. Disposable diapers were available to consumers in the 1950s, but weren't popular. The main reason was expense. They cost about 8.6 cents per change, compared to 1.5 cents per change for home-washed cloth diapers. Although consumers loved the convenience, the high cost meant they were used sparingly, primarily when traveling. Although 80 percent of diapering households used them, disposables only accounted for 1 percent of sales.

Proctor & Gamble realized the potential for mass market sales. They designed a better disposable diaper than was available at the time, and reduced the cost per change to 6 cents. It took five years to design the diaper and another five years to improve the design and reduce the cost enough to justify a national mass market roll out. In 1966, Pampers were launched with a cost of 5.5 cents per diaper. Demand was so high the company could barely keep up.

What happened to the pioneering competitor who was selling disposables ten years earlier? Chux diapers, produced by Johnson & Johnson, couldn't compete, and by 1981 had withdrawn from the market. The pioneer who had produced a successful high margin niche product (disposable diapers for traveling) yielded to newcomer Pampers after having dominated the market for 35 years.

For another example of the futility of concentrating on a niche market, go to: http://my.summary.com

Uniqueness of Vision

Consider McDonald's, Gillette and Federal Express. Contrary to popular belief, they were not pioneers of their markets. In fact, they entered established markets. At least two were given no chance of success. Yet, they endured and grew into great companies. Each had a unique vision and a novel idea for serving the mass market.

In the case of McDonald's, it was low-priced, fast food in a clean restaurant. For Gillette, it was a safe, convenient and disposable razor. For Federal Express, it was fast, reliable deliveries for consumers with urgent shipments. At the time, each vision was seen as radical,

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Uniqueness of Vision

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infeasible, and even foolish. The seeds of their vision were already present in products that were available at the time they formulated their vision. Other firms didn't leap at the opportunities because they were so immersed in their own narrow world view that they failed to realize the potential even when presented with the ideas.

Consider Federal Express. The founder, Fred Smith, formulated his idea for priority airfreight service as a term paper for a course at Yale in 1965. He earned a C on the paper, but turned his vision into a billion dollar success. By the time he started the business in 1971, his biggest competitor, Emery Air Freight, had been in the business for 25 years. Emery was a freight forwarder that picked up and delivered parcels, and shipped them via passenger planes. Smith's vision included flying the freight.

At the core of his vision was the belief that there was a huge market for priority mail — mail that was of high value and time sensitive, such as medicine, documents and electronics. The passenger plane system in use at the time was inefficient: Packages could take days to arrive as they were bounced around the country on available flights. His vision was of a hub and spoke system whereby mail would be flown from cities to a hub, sorted, and sent out on the same planes to their destinations.

Vision most often lies with individuals. By its very nature, vision is a perspective that is not held by a majority. Corporations tend to suppress individuality and encourage group thinking, which makes it much harder for visionaries to thrive and succeed. A corporation's ability to endure depends on its ability to attract, support and retain visionaries. ■

Persisting Against All Odds

Market leaders rarely achieve success through luck or sudden breakthroughs. Managers must have the will to persist through obstacles. The road to success is long, hard and trying. Luck has very little to do with it. Unfortunately, conventional business wisdom supports the theory that luck and accidental breakthroughs are the way to success. These beliefs may lead to unrealistic expectations and premature project terminations.

Persistence is the key to becoming a market leader. Consider this example: the advent of Beta and VHS video recorders. Although we often think of video recorders as a dramatic technological breakthrough, the truth is that we owe the ability to record television shows and view movies at home to persistence. As long ago as 1958, Sony started research. It took Sony four years to develop a two-head recorder, which it introduced to the market in 1962. Though it was a technological wonder, it wasn't advanced enough or affordable enough for either the business market or the mass market. By 1965, Sony had a model that was priced below $1,000, which was adopted in some schools, hospitals and businesses. By the 1970s, Sony was working on the Betamax. It first hit the market in 1975, nearly twenty years after work on it began.

As you can see, companies that persisted in following their vision have sometimes become market leaders. But how long should you persist before giving up? When should you enter or quit a market? The answer depends on good judgment and three factors. These factors are: vision, product takeoff and the dynamics of technological change. First, the vision has to be believed in passionately.

For a radical new product, three factors influence the likelihood that the product will take off. These are: the price, market penetration, and time since introduction. For example, most new product introductions will see low sales at first. This is because the new product is probably quite expensive when compared to the established product the consumer currently uses to satisfy the need the new product fills. But, as the product improves, the price usually begins to fall. When quality overtakes the older product, sales usually soar, and the product rapidly penetrates the market. As time goes on, the market matures and the cycle begins again. ■

For more examples of persistence, go to:
http://my.summary.com

Why and How Companies Must Innovate

Technology and consumer tastes are constantly changing, leaving markets in a state of constant flux. Old markets die out, new markets emerge, and multiple markets merge into a new one. Therefore, long-term leadership requires constant innovation. Firms must have the will to change their products, their attitudes, and their marketing to maintain leadership. Innovation remains important as competitors try to take market share from a company that dominates its category.

Market leaders must also avoid the fear that by innovating they risk cannibalizing existing products. Firms must be willing to innovate relentlessly. Constant innovation not only keeps competitors at bay, but generates profits for further innovation. This is the road to success taken by Intel and the microprocessor. Each time Intel introduced a new chip generation, sales of the older

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Why and How Companies Must Innovate

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generation level off and then decline. Each generation cannibalizes the last. Why would it do this? The success of each new product spurs competitors, and a firm must cannibalize its own products if it wants to maintain its leadership role. With each chip innovation, Intel creates a new market for updated computers, as those running earlier generations of the chips become obsolete.

Bureaucracy can be a formidable barrier to innovation; autonomy is the antidote. Companies can create small, independent units with their own mission, goals and budgets. These units should be populated with fresh talent, and they must be rewarded when they come up with innovations.

Unfortunately, many companies become bureaucratic entities that stifle innovation. They may not see the value of a breakthrough, especially if it offers competition to existing successful products. Without autonomy to pursue new ideas, no innovation will be exploited. Without talented individuals who are free to create, there will be no innovation. Both are crucial to reaching and retaining market leadership. ■

Xerox's Palo Alto Research Center Highlights Innovation

Xerox's Palo Alto Research Center (PARC) demonstrates the bureaucratic mold that hinders innovation and the organizational design that can break it. By the late 1960s, Xerox's success with copiers had transformed the firm into a giant, highly profitable corporation with a near monopoly in the copier industry. Having seen how the company's technology had rendered carbon copying obsolete, Xerox CEO Joseph Wilson feared that another technology, for example the new digital technology, could do the same for the company's copiers.

The company's bureaucracy did not share his fear but President Peter McColough did. Xerox thus established PARC as a research center to develop digital technologies and other leading edge technologies for the computer age. PARC produced an impressive range of innovative ideas, including the mouse, the laser printer, computer networks, color graphics, and the graphical user interface for personal computers. PARC was able to do this for four reasons: it located near top engineering schools to allow it to tap emerging talent; it was geographically removed from other Xerox labs, allowing it to develop its own culture; it had a generous research budget; and it had a policy of hiring the best talent in the country.

Raising and Committing Financial Resources

Financial commitment is critical if you want to refine new product ideas, create interest with consumers, and dominate a new market. You need both access to financial resources and willingness to use those resources. Without both, you will fail. Developing a great new venture almost always requires tremendous financial resources.

Adequate capital is essential if you are entering a market late because you will have to fund an attempt to gain a foothold against existing competition. If your aim is to target the mass market, you need money to produce your product on a mass scale. If you can't, you won't be taking advantage of economies of scale to lower the per unit cost. Marketing and distribution costs will also loom large. As a late entrant, you may find that it takes months or even years for products to generate enough revenues to cover costs. This, too, requires willingness to commit resources for the long haul.

Where do you find the necessary resources? Large established firms might have the money for a venture, but may be unwilling to spend it. Entrepreneurs starting out might be willing to commit all available resources, but that may not be enough. The organization with the clear vision of its place in the market has an advantage. If you can articulate that vision to those who have the resources, you will be able to finance the endeavor.

The influence of vision on financing is nowhere more apparent than in the Federal Express success story. You may recall that Fred Smith got a C from Yale on his business plan for package delivery services. After graduating, Smith enlisted in the Marines and fought in Vietnam, an experience that sharpened his will and turned him into an aggressive competitor. After his discharge, he used inherited money to start a business buying and selling corporate jets. When he experienced trouble getting shipments, he began thinking seriously about the Yale business plan.

Smith put up $250,000 of his own money and persuaded the board of the family's holding company to contribute a like amount. They agreed, and also guaranteed a $3.6 million loan to buy two jets. He then commissioned two studies on the feasibility of his idea and used the results to try to convince investors to fund the rest of the start-up costs. He also bought an option for more jets. The early years were rough, with Smith ending up pledging most of his personal wealth to keep the enterprise going. From 1973, when the company launched, until July 1975, when the company turned its first profit, only Smith's vision and relentless search for funding kept the company alive. ■

For another example of the quest for financing, go to: http://my.summary.com

Leveraging Assets Despite Uncertainty

Firms that dominate in one category can often become leaders in a related market, even if they enter late. For example, IBM's dominance in the mainframe computer market allowed it to quickly enter and lead the PC market, even if it entered late. Microsoft's dominance in operating systems let it capture large segments of the browser market, even as it entered late. In each case, once the late entrant entered, the pioneering brand lost its position.

Established latecomers can dominate because they have assets already accumulated from their established positions. These assets fall into two categories: generalized and specialized. A firm can easily transfer generalized assets from one category to another. These include brand name, reputation, customer base, and talent. Specialized assets may not transfer easily to another category, such as technology and manufacturing facilities.

If you want to dominate a new category, you must be willing to cannibalize specialized assets. If you don't, you may miss the opportunity in the new market. There are four major hindrances to leveraging assets. They are:

- **The new category appears to threaten the old category.** For example, does the new sale of computer printers threaten the old sale of copiers? The greater the threat, the harder it is for a firm to reallocate resources.
- **The company is focused too strictly on costs.** Market entry always involves risk, and that risk may seem greater for a firm that holds a dominant position in an established market since some of the assets it used to gain dominance may be sacrificed to enter the new market. Companies will need to focus on the expected future costs and benefits rather than just current costs.
- **The company has a myopic view of markets and is constrained by focus on current products and customers at the expense of new opportunities.**
- **The firm has a rigid bureaucracy in place.** Such a firm may be slow, cautious and indecisive.

How Microsoft Leveraged Operating System Dominance Into Browser Dominance

Overcoming resistance to leveraging assets is possible. Microsoft did it when it sought to leverage the assets developed in becoming the dominant operating system provider to take leadership in the browser wars. Microsoft adopted a strategy that involved leveraging the company's name, technology and distribution assets to take on early entrants into the Web browser market.

Microsoft was the clear leader in both the operating system market and the software market when it realized late in the game that the Internet would be the next revolution in personal computing. Microsoft became concerned chiefly because it saw the possibility that Internet technology could render software sold to individual computer users useless. By 1996, Netscape had captured 85 percent of the browser market. Microsoft's Bill Gates saw the writing on the wall, and told his people to embrace the Internet. Gates leveraged his assets with these four important moves:

- He sacrificed a new product, Microsoft Network, for the benefit of Internet Explorer. Microsoft Network would have taken on Internet service providers like America Online. Then the company offered America Online the opportunity to have its icon on the desktop of every computer with Windows in exchange for making Internet Explorer the company's exclusive browser.
- As soon as it decided it would concentrate on developing Internet Explorer, Microsoft invested people and money in the idea. Other projects were cancelled or modified to support the new vision of a future in which the Internet plays a larger and larger role.
- Microsoft freely distributed the browser and the server software needed by Web designers.
- Microsoft leveraged its most valuable asset, Windows 95 by bundling Internet Explorer with it. Because every new PC had Internet Explorer installed, it became much more likely that computer owners would use it rather than purchase a copy of Netscape.

The end result was that one year after announcing its strategy, Internet Explorer's market share had risen from 4 to 24 percent and Netscape's share had declined to 70 percent from 87 percent. ■

To Pioneer or Not to Pioneer

Casual observation of markets leads many people to conclude that the first firm to enter a market is the enduring market leader. But, later entrants often become the market leaders, and pioneers commonly fail.

What does this mean for managers today? In general, firms should not enter late simply for the sake of entering late. They should, however, think twice before claiming a pioneering or first-mover advantage and recognize the very real possibility that any advantage gained by that position could be challenged. Instead, companies should concentrate on the five factors identified as critical to achieving enduring leadership, regardless of when they entered the market.

The starting point is vision, which then drives the willingness to persist against great odds, the willingness to commit financial resources, to innovate relentlessly, and to leverage current assets. These qualities let a firm become a market leader whether it enters a market first or last. ■

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Winning

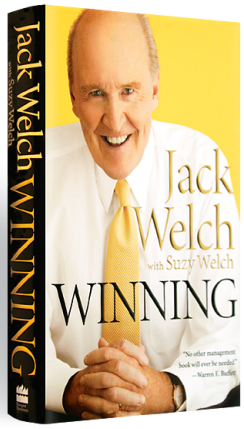
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WINNING

THE SUMMARY IN BRIEF

What does it take to win? According to Jack Welch, winning in business is great because when companies win, people thrive and grow. There are more jobs and more opportunities everywhere and for everyone.

People feel upbeat about the future, and winning affords them the opportunity to give back to society in hugely important ways beyond just paying more taxes — they can donate time and money to charities and mentor in inner-city schools, to name just two.

Winning companies and the people who work for them are the engine of a healthy economy, and, in providing the revenues for government, they are the foundation of a free and democratic society. Winning lifts everyone it touches — it makes the world a better place.

However, it goes without saying that you have to win the right way — cleanly and by the rules. That's a given. Companies and people that don't compete fairly don't deserve to win, and, thanks to well-honed internal company processes and government regulatory agencies, the bad guys are usually found and kicked out of the game.

Winning, however, isn't only important for top executives but for everyone — from the boardroom to the mailroom — who wants to get ahead and help his or her organization. The two are intertwined. For an individual, winning is personal. In the business world, winning is multidimensional. The successful salesperson, for example, helps not only himself but also his company and everyone connected with it.

Even the most talented businessperson with the best intentions will get nowhere unless he or she knows how to win in today's complex business world. Business is a game, and winning that game is a total blast!

In this summary you will learn:

- ✓ ***The importance of a mission statement and values for a company.***
- ✓ ***How a lack of candor is bad for business.***
- ✓ ***Differentiation isn't cruel and Darwinian, but fair and effective.***
- ✓ ***How to manage crises under the guidance of a plan of action.***
- ✓ ***The art of hiring winners, managing people and parting ways when the time comes.***
- ✓ ***How to find a job that you will love, get a promotion and manage a work-life balance.***

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WINNING

By Jack Welch with Suzy Welch

— THE *COMPLETE* SPECIAL EDITION SUMMARY

PART 1-UNDERNEATH IT ALL

Mission and Values

Mission and values are two terms that are among the most abstract, overused and misunderstood words in business. By contrast, a good mission statement and a good set of values are real and concrete. The mission announces exactly where you are going, and the values describe the behaviors that will get you there.

First: About That Mission

An effective mission statement basically answers one question: *How do we intend to win in this business?* It requires companies to make choices about people, investments and other resources and prevents companies from falling into the common mission trap of asserting they will be all things to all people at all times.

Effective mission statements balance the possible and the impossible. They give people a clear sense of the direction to profitability and the inspiration to feel they are part of something big and important. You can get input from anywhere. However, a mission cannot, and must not, be delegated to anyone except the people ultimately held accountable for it.

... And Now About Those Values

In contrast to the creation of a mission, everyone in a company should have something to say about values. You can use company-wide meetings, training sessions and the like for immediate feedback and the intranet for broader input. The executive team has to go out of their way to be sure they've created an atmosphere where people feel it is their obligation to contribute.

It's in the Nitty Gritty Details

Act in a boundaryless fashion: Always search for and apply the best ideas regardless of their source; be tolerant of the bureaucracy; and see change for the growth opportunity that it brings.

Take the value "We treat customers the way we would want to be treated." That's pretty tangible, but Bank One had identified a number of behaviors that made that value come to life.

For a company's mission and values to truly work together as a winning proposition, they have to be mutually reinforcing. Examples of disconnections may appear minor or temporary, but, when left unattended, they can really hurt a company. In the worst-case scenario, they can literally destroy a business.

In its prior life, Enron was a simple, rather mundane pipeline and energy company. Then the company

(continued on page 3)

Bank One's Values

✓ Never let profit-center conflicts get in the way of doing what is right for the customer.

✓ Give customers a good, fair deal. Great customer relationships take time. Do not try to maximize short-term profits at the expense of building those enduring relationships.

✓ Always look for ways to make it easier to do business with us.

✓ Communicate daily with your customers. If they are talking to you, they can't be talking to a competitor.

✓ Don't forget to say thank you.

The authors: Jack Welch joined GE in 1960, and by 1981 he became the company's eighth chairman and CEO. Welch left GE in 2001, and is currently the head of Jack Welch LLC, where he is an advisor to Fortune 500 CEOs and holds public speaking engagements. He is also the author of *Jack: Straight from the Gut*, a *New York Times*' best seller.

Suzy Welch, Jack's wife, is the former editor of the *Harvard Business Review*, as well as an author of a number of articles on creativity, change, leadership and organizational behavior.

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Mission and Values

(continued from page 2)

changed missions. Someone got the idea to turn Enron into a trading company. The goal was faster growth. It was in that context — of no context — that Enron's collapse occurred.

Your company will not reach anywhere near its full potential if all that is guiding it is a list of pleasant platitudes hanging on the lobby wall. ■

Candor: The Biggest Dirty Little Secret in Business

Lack of candor blocks smart ideas, fast action and good people contributing all the stuff they've got. It's a killer. When you've got candor, everything just operates faster and better.

The Candor Effect

First, candor gets more people in the conversation. Second, candor generates speed. Third, candor cuts costs. Given the advantages of candor, you have to wonder why we don't have more of it in business.

The make-or-break importance of candor in U.S. business is relatively new. Up until the early 1980s, big companies like GE and thousands of others operated largely without it. They had virtually no global competition.

Even though candor is vital to winning, it is hard and time-consuming to instill in any group, no matter what size. But it can be done. To get candor, you reward it, praise it and talk about it. You make public heroes out of people who demonstrate it. Most of all, you yourself demonstrate it in an exuberant and even exaggerated way — even when you're not the boss. ■

Differentiation: Cruel and Darwinian?

Companies win when their managers make a clear and meaningful distinction between top- and bottom-performing businesses and people. Companies suffer when every business and person is treated equally.

Differentiation is the most efficient and most effective way to run your company, and also happens to be the fairest and the kindest. Ultimately, it makes winners out of everyone. However, differentiation cannot — and must not — be implemented quickly. At GE, it took about a decade to install the kind of candor and trust that makes differentiation possible.

Every company has strong businesses or product lines and weak ones and some in between. Differentiation requires managers to know which is which and to invest accordingly. At GE, "strong" meant a business was No. 1 or No. 2 in its market. If it wasn't, the managers had to fix it, sell it or, as a last resort, close it.

Differentiation among your businesses or product lines requires a transparent framework that everyone in the company understands.

Differentiation and People

This process requires managers to assess their employees and separate them into three categories in terms of performance: top 20 percent, middle 70, and bottom 10. Then — and this is key — it requires managers to act on that distinction.

When people differentiation is real, the top 20 percent of employees are showered with bonuses, stock options, praise and a variety of rewards to their pocketbooks and souls.

The middle 70 percent are managed differently. This group is enormously valuable to any company; you simply cannot function without their skills, energy and commitment. After all, they are the majority of your employees. And that's the major challenge and risk in 20-70-10 — keeping the middle 70 engaged and motivated.

Managing the middle 70 is not about keeping people out of the bottom 10. It is not about saving poor performers. Rather, differentiation is about managers looking at the middle 70, identifying people with potential to move up and cultivating them.

As for the bottom 10 percent in differentiation, they have to go. If you have a candid organization with clear performance expectations and a performance evaluation process, then people in the bottom 10 percent generally know who they are. When you tell them, they usually leave before you ask them to. ■

Voice and Dignity

Every person in the world wants voice and dignity, and every person deserves them. When you run a unit or division, you rarely think that people aren't speaking up or that they're not respected. It feels like the people around you certainly are, and your days are filled with visits, calls and notes from people with strong opinions. But the majority of people in most organizations don't say anything because they feel they can't — and because they haven't been asked.

In an effort to create an environment where people could feel comfortable expressing opinions and asking questions, the Work-Out process was born and held at GE sites around the world. Patterned after New England town meetings, groups of 30 to 100 employees would come together with an outside facilitator to discuss better ways of doing things and how to eliminate some of the bureaucracy and roadblocks that were hindering

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Voice and Dignity

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them. The boss would be present at the beginning of each session, laying out the rationale for the Work-Out. He or she would also commit to two things: to give an on-the-spot yes or no to 75 percent of the recommendations that came out of the session and to resolve the remaining 25 percent within 30 days.

The boss would then disappear until the end of the session, so as not to stifle open discussion and return only at the end of the Work-Out to make good on his or her promise.

Tens of thousands of these sessions took place over several years, until they became a way of life in the company. They are no longer big events but part of how GE goes about solving problems. ■

PART TWO: YOUR COMPANY

Leadership: It's Not Just About You

When you become a leader, success is all about growing others. Without question, there are a variety of ways to be a leader.

What Leaders Do

1. Leaders relentlessly upgrade their team, using every encounter as an opportunity to evaluate, coach and build self-confidence. You need to invest the vast majority of your time and energy as a leader in three activities: evaluating, coaching and building the team's self-confidence. Too often, managers think that people development occurs once a year in performance reviews.

2. Leaders make sure people not only see the vision, they live and breathe it. As a leader, you have to make the vision come alive. Goals cannot sound noble yet be vague. One of the most common problems in organizations is that leaders communicate the vision to their closest colleagues and its implications never filter down to people in frontline positions.

3. Leaders get into everyone's skin, exuding positive energy and optimism. An upbeat manager ends up running a team or organization filled with upbeat people. A pessimistic sourpuss somehow ends up with an unhappy tribe all his own

4. Leaders establish trust with candor, transparency and credit. Trust happens when leaders are transparent, candid and keep their word.

5. Leaders have the courage to make unpopular decisions and gut calls. Some people long to be loved by everyone. Those behaviors can get you in the soup if you are a leader because there are times you have to make hard decisions — let people go, cut funding to a project or close a plant. A lot has been written about the mystery of gut, but it's really just pattern recognition. Leaders are faced with gut calls all the time, and sometimes the hardest gut calls involve hiring people. However, if you're left with that uh-oh feeling in your stomach, don't hire the guy.

6. Leaders probe and push with a curiosity that borders on skepticism, making sure their questions are answered with action. When you're a leader, your job is to have all the questions. You have to be incredibly comfortable looking like the dumbest person in the room.

7. Leaders inspire risk-taking and learning by setting the example. Winning companies embrace risk-taking and learning. But in reality, these two concepts often get little else than lip service. If you want your people to experiment and expand their minds, set the example yourself. Consider risk-taking.

8. Leaders celebrate. There is not enough celebrating at work — anywhere. Celebrating makes people feel like winners and creates an atmosphere of recognition and positive energy. ■

Hiring: What Winners Are Made Of

Hiring good people is hard. Hiring great people is brutally hard. Nothing matters more in winning than getting the right people on the field. However, before you think about assessing people for a job, they have to pass through three screens. The first test is for integrity. People with integrity tell the truth, and they keep their word. They take responsibility for past actions, admit mistakes and fix them.

The second test is for intelligence. The candidate has a strong dose of intellectual curiosity, with a breadth of knowledge to work with or lead other smart people in today's complex world.

The third ticket to the game is maturity. Mature individuals can withstand heat, handle stress and setbacks and alternatively — when those moments arise — enjoy success with equal parts of joy and humility. ■

People Management

Once you have the right players for the field, they need to be managed. People management comes down to six fundamental practices:

1. Elevate HR to a position of power and primacy in the organization and make sure HR people have

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People Management

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the special qualities to help managers build leaders and career.

2. Use a rigorous, nonbureaucratic evaluation system and intensely monitor its integrity.

3. Create effective mechanisms — such as money, recognition and training — to motivate and retain.

4. Face straight into charged relationships with unions, stars, sliders and disrupters. You can fight about issues, but your fighting will be more productive if you are always clear about what issues are negotiable and which are untouchable.

5. Fight gravity. Instead of taking the middle 70 percent for granted, treat them like the heart and soul of the organization.

6. Design the organizational chart to be as flat as possible, with clear reporting relationships and responsibilities. If you want to manage people effectively, help your people by making sure the organizational chart leaves as little as possible to the imagination. The trick is to have fewer rungs. Make your company 50 percent flatter than you'd normally feel comfortable with; managers should have 10 direct reports at the minimum, and 30 to 50 percent more if they're experienced. ■

Parting Ways

Sometimes people have to be let go due to integrity violations, layoffs due to economic downturns and firings for nonperformance. For integrity violations, you don't need to hesitate. Just do it and make sure the organization knows why, so the consequences of breaking the rules are not lost on anyone.

Layoffs due to the economy are more complicated. Every employee should know how the company is doing. That way, if layoffs occur, at least people will have some level of preparation.

The most complex and delicate firing is when an individual has to be let go because of poor performance. Usually, firings for nonperformance aren't black and white. Because of that, there are three main ways that managers get firing wrong — moving too fast, not using enough candor and taking too long.

How can you get it right? First, no surprises. A good performance evaluation process informs and prepares people in a fair and open way. Second, minimize humiliation; build up a person's self-confidence. Let the individual know there is a good job for him or her out there. Your goal for the fired employee is a soft landing wherever he or she goes. ■

Change: Mountains Do Move

Change is a critical part of business. You need to change, preferably before you have to. Most people hate it; they love familiarity and patterns and cling to them. But attributing a behavior to human nature doesn't mean you have to be controlled by it. Instead, it comes down to embracing four practices:

1. **Attach every change initiative to a clear purpose or goal. Change for change's sake is stupid and enervating.**
2. **Hire and promote only true believers and get-on-with-it types.**
3. **Remove the resisters, even if their performance is satisfactory.**
4. **Look at car wrecks.**

Most companies capitalize on obvious opportunities. But to be a real change organization, you also need the guts to look at bolder, scarier, more unpredictable events and to make the most of the opportunities. Bankruptcies, for example, are a calamity that provide all kinds of opportunities.

Most companies take advantage of obvious opportunities. But some also have the ability to make the most of regrettable circumstances — those "car wrecks" — and they should. These companies will benefit from realizing that change means seizing opportunity, even the ones wrought by adversity. ■

Crisis Management

As long as companies are made up of human beings, there will be mistakes, controversies and blowups. The cold truth is that some degree of unwanted and unacceptable behavior is inevitable. Crises demand from leaders a daunting balancing act. On one hand, you've got to throw everything you've got into understanding and solving the crisis. At the same time, you have to put that activity into a compartment and carry on as if nothing is actually wrong. That's what leaders usually neglect — to their regret.

You can be proactive in preventing some crises in three main ways. First, tight controls, such as disciplined financial and accounting systems with tough internal and external auditing processes, should be used; an organization's line managers should be required to review and act on every audit's findings.

Second, try to prevent crises with good internal processes, such as rigorous hiring procedures, candid performance reviews and comprehensive training programs, that make the company's policies crystal clear. Third, have a culture of integrity, meaning a culture of honesty, transparency, fairness and strict adherence to rules.

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Crisis Management

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Most of the time, crises blindside you because they don't detonate like bombs — they emerge in fits and starts.

Plan of Action

The following assumptions aren't a formula for managing a crisis, but hopefully they'll provide directional guidance while dealing with a crisis:

- **Assume the problem is worse than it appears.** Few crises start small and stay that way, so adjust your mind-set early on.
- **Assume there are no secrets in the world, and everyone will eventually find out everything.** The more openly you speak about the problem, the more trust you earn from everyone watching.
- **Assume you and your organization's handling of the crisis will be portrayed in the worst possible light.** Reporters are not in the business of telling your side of the story. Along with disclosing the full extent of your problem, you've got to stand up and define your position before someone else does.
- **Assume there will be changes in processes and people.** Crises require change. Sometimes a process fix is enough. That's because the people affected by the crisis — or sometimes those watching it — demand that someone be held responsible.
- **Assume the organization will survive, ultimately stronger for what happened.** After a crisis is over, there is always the tendency to want to put it away in a drawer. Don't — teach its lessons every chance you get. In doing so, you'll spread the immunity. ■

PART THREE: YOUR COMPETITION

Strategy: It's All in the Sauce

In real life, strategy is actually very straightforward. You pick a general direction and implement like hell.

The steps are:

- First, come up with a big idea for your business — a smart, realistic, relatively fast way to gain sustainable competitive advantage.
- Second, put the right people in the right jobs to drive the big idea forward.
- Third, relentlessly seek out the best practices to achieve your big idea, whether inside or out, adapt them and continually improve them.

Strategy means making clear-cut choices about how to compete. You cannot be everything to everybody. Corner stores have learned that survival depends on finding a strategic position where no one can beat them. Big companies have the same challenge. ■

Welch's Questions to Making Strategy Real

1. **What does the playing field looks like now?**
   - ✓ Who are the competitors?
   - ✓ Who has what share in each market?
2. **What has the competition been up to?**
   - ✓ What has each competitor done in the past year to change the playing field?
   - ✓ Are there any new entrants, and what have they been up to in the past year?
3. **What have you been up to?**
   - ✓ Have you bought another company, introduced a new product, stolen a competitor's key salesperson or licensed a new technology from a start-up?
   - ✓ Have you lost any competitive advantages that you once had — a great salesperson, special product, a proprietary technology?
4. **What's around the corner?**
   - ✓ What scares you the most in the year ahead?
   - ✓ What new products or technologies could your competitors launch that might change the game?
5. **What's your winning move?**
   - ✓ What can you do to change the playing field?
   - ✓ What can you do to make customers stick to you more than ever before and more than to anyone else?

Budgeting

The budgeting process at most companies has to be the most ineffective practice in management. It sucks the energy, time, fun and big dreams out of an organization. It also brings out the most unproductive behaviors in an organization, from sandbagging to settling for mediocrity.

In all their assumptions, the people in the field are operating with one simple goal, albeit unstated: to minimize their risk and maximize their bonus.

Senior managers are also preparing for the big budget meeting. Their agenda is the opposite of the field. They're rewarded for increased earnings, and so what they want from the budget review at every business is significant growth in sales and profits.

A Better Way

The problem is that companies often deliver only a fraction of what they could, and they take all the fun out of setting financial goals.

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Budgeting

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Imagine a budgeting system where both the field and headquarters have a shared goal: to use the budgeting process to ferret out every possible opportunity for growth, identify real obstacles in the environment and come up with a plan for stretching dreams to the sky. That system is linked to the strategic planning process in that it is focused on two questions:

- How can we beat last year's performance?
- What is our competition doing and how can we beat them?

If you focus on these two questions, the budgeting process becomes a wide-ranging, anything-goes dialogue between the field and headquarters about opportunities and obstacles in the real world.

Through these discussions, both sides of the table jointly come up with a growth scenario that is not negotiated or imposed and cannot really be called a budget at all. It is an operating plan for the next year, filled with aspiration, primarily directional and containing numbers that are mutually understood to be targets, or numbers that could be called "best efforts." ■

Organic Growth

Starting something new from within an established company requires managers to act against many of their reasonable instincts. But to give any new venture a fighting chance to succeed, you have to set it free and spend more money on it.

Managing a $50,000 new product line in its first year is harder than managing a $500 million business in its 20th year. That's why they need special treatment. Too often they don't get it.

There are three common mistakes companies make in launching something. First, they don't flood start-up ventures with adequate resources, especially on the people front. Second, they make too little fanfare about the promise and importance of the new venture. Instead of cheering about its potential, they tend to hide it under a bushel. Third, they limit the new venture's autonomy. ■

Mergers and Acquisitions: Deal Heat and Other Deadly Sins

Mergers and acquisitions give you a faster route to profitable growth. They quickly add geographical and technological scope and bring on board new products and customers.

Merging right is ultimately about avoiding seven pitfalls, meaning mistakes or errors in judgment. These are:

- **Believing** that a merger of equals can actually occur.
- **Focusing** so intently on strategic fit that you fail to assess cultural fit, which is just as important to a merger's success.
- **Entering into a "reverse hostage situation,"** in which the acquirer ends up making so many concessions during negotiations that the acquired ends up calling all the shots afterward.
- **Integrating too timidly.** With good leadership, a merger should be complete within 90 days.
- **The conqueror syndrome,** in which the acquiring company marches in and installs its own managers everywhere, undermining one of the reasons for any merger.
- **Paying too much** — so much that the premium can never be recouped in the integration.
- **Resistance.** In a merger, new owners will always select people with buy-in over resisters with brains. If you want to survive, get over your angst and learn to love the deal as much as they do. ■

Six Sigma: Better than a Trip to the Dentist

Nothing compares to the effectiveness of Six Sigma when it comes to improving a company's operational efficiency, raising its productivity and lowering its costs. It improves design processes, gets products to the market faster with fewer defects and builds customer loyalty. Perhaps the biggest benefit of Six Sigma is its capacity to develop a cadre of leaders.

Simple, Complex or Not at All

Six Sigma has two primary applications. First, it can be used to remove the variation in routine, relatively simple, repetitive tasks. And second, it can be used to make sure large, complex projects go right the first time.

For the first application, the level of training and education is certainly manageable. In order to discover the root causes of inconsistencies, people need to know what kind of information to gather and how to analyze it. The rigor of this type of training has a terrific side effect. It builds critical thinking and discipline. The second application involves a sophisticated level of training and statistical analysis.

Six Sigma is meant for and has its most meaningful impact on repetitive internal processes and complex product designs. Once you understand the simple maxim "variation is evil," you're 60 percent of the way to becoming an expert. The other 40 percent is getting the evil out. ■

PART FOUR: YOUR CAREER

The Right Job

How do you find the right job? You take one job, discover what you like and don't like about it and what you're good and bad at, and then you change jobs to get something closer to the right fit.

If you join a company where your sensibilities don't fit in, you'll find yourself putting on a persona just to get along. What a career killer — to fake who you are every day. You need to find "your people," and the earlier in your career you can do this the better. Even if a job seems ideal in every other way, without the presence of shared sensibilities, it's not ideal for you. In the best job scenario, you love the work. Sometimes it is the sheer challenge of the job that turns your crank. If a job doesn't excite you on some level, don't settle. Never be afraid to ask, "Just give me a chance." Someone will. ■

Getting Promoted

Basically, getting promoted takes one "do" and one "don't." Do deliver sensational performance and at every opportunity expand your job beyond its official boundaries. Don't make your boss use political capital in order to champion you.

An even more effective way to get promoted is to expand your job's horizons to include bold and unexpected activities. Come up with a new concept or process that doesn't improve just your results, but your unit's results and the company's overall performance.

Change your job in a way that makes the people around you work better and your boss look smarter. Don't just do the predictable. To get ahead, you have to want to get ahead. ■

Hard Spots: The Boss

Bad bosses come in every variety but, in any business situation, seeing yourself as a victim is completely self-defeating. And when it comes to your career, it's an attitude that kills all your options.

If your boss is being negative to you — and mainly you — you can feel pretty confident that he has his version of events, and his version concerns your attitude or performance.

You've got to find out what's going on. Start with a self-assessment. Then move on to a meeting with your boss. You have to talk. There is no way around it. Just remember, before you go into that meeting, be prepared and have options in the event that you come out of it unemployed. ■

Work-Life Balance

Without question, work-life balance as a concept has grown and expanded. It isn't just about how mothers can make time for all the demands in their lives. It's about how all of us manage our lives and allocate our time — it's about priorities and values.

But no matter what balance you choose, you'll have to make trade-offs. To make the choices and take the actions that ultimately make sense for you, you need to understand that:

1. Your boss's top priority is competitiveness.

2. Most bosses are willing to accommodate work-life balance challenges if you have earned it with performance.

3. Bosses know that the work-life policies in the company brochure are mainly for recruiting purposes and that real work-life arrangements are negotiated one-on-one.

4. People who publicly struggle with work-life balance problems and continually turn to the company for help get pigeonholed as ambivalent, entitled, uncommitted or incompetent — or all of the above.

5. Even the most accommodating bosses believe that work-life balance is your problem to solve.

Along the way you can help yourself with the following work-life balance techniques:

Best Practice 1: Be focused on where you are and whom you are with. No one wins when you routinely run your family's carpool logistics from your office phone or e-mail customers from the soccer field.

Best Practice 2: Have the mettle to say no to requests and demands outside your chosen work-life balance plan.

Best Practice 3: Make sure your work-life balance plan doesn't leave you out. Outside of work, clarify what you want from life. At work, clarify what your boss wants, and understand that, if you want to get ahead, what he or she wants comes first. ■

Recommended Reading List

If you liked *Winning*, you'll also like:

1. ***The One Thing You Need to Know*** **by Marcus Buckingham.** According to Buckingham, there is one key concept that is necessary for managing, leading and individual performance.
2. ***Jack: Straight from the Gut*** **by Jack Welch with John Byrne.** Welch's successful career with GE and his management style that led the company to greatness are recounted in this business profile.
3. ***The Five Dysfunctions of a Team*** **by Patrick Lencioni.** This fictional tale unambiguously but painlessly delivers some hard truths about critical business procedures.
4. ***Execution*** **by Larry Bossidy and Ram Charan.** Learn how "making it happen" is one of the most important aspects of a leader's job.
5. ***How Full is Your Bucket?*** **by Tom Rath and Donald O. Clifton.** According to Rath and Clifton, we all have a bucket within us that needs to be filled with positive experiences, such as recognition or praise.

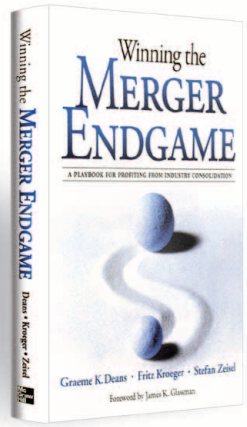
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Winning the Merger Endgame

Graeme K. Deans, Fritz Kroeger, and Stefan Zeisel

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



A Playbook for Profiting from Industry Consolidation

WINNING THE MERGER ENDGAME

By Graeme K. Deans, Fritz Kroeger and Stefan Zeisel

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THE SUMMARY IN BRIEF

There is a new way of looking at business. After studying mergers in many industries through the 1990s, the authors of Winning the Merger Endgame *have discovered that all industries move through four stages of what they call the "Endgames Curve" toward inevitable consolidation.*

The path up the curve starts with the Opening *Stage where industries begin and companies proliferate. In the* Scale *Stage companies acquire other companies as they realize that organic growth will not push them to success. As industries move into the* Focus *Stage, mega-mergers become the norm. The industry consolidates and smaller companies disappear or are acquired. In the final* Balance and Alliance *Stage companies must find a way to reinvent themselves or die.*

How can companies succeed at each stage and move on to the next? And what are the short- and long-term implications of the Endgames curve for top management and investors? These are the questions answered in this summary.

What You'll Learn In This Summary

✓ **The rules that govern the Endgames Curve** and how they affect your business.

✓ **The qualities and hallmarks of each stage of the Curve and the skills and strategies to move through them successfully.**

✓ **Implications of the Endgames Curve for the CEO and Board of Directors.**

✓ **How investors can used the Endgames Curve** to make sound decisions and maximize returns.

✓ **The effect of the Endgames Curve on the future of the market** and how you can use it to predict the coming corporate landscape in your industry.

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WINNING THE MERGER ENDGAME

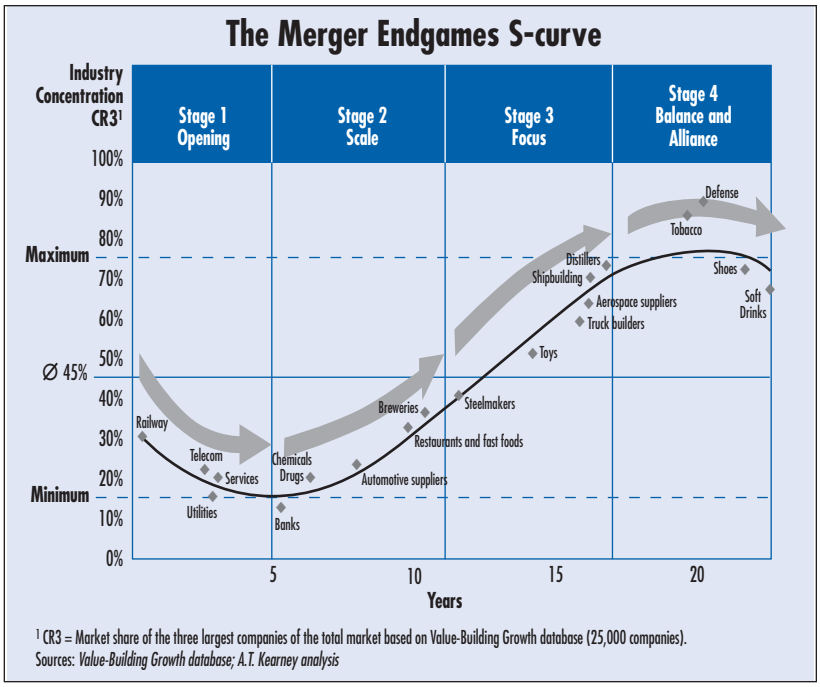
by Graeme K. Deans, Fritz Kroeger and Stefan Zeisel

— THE *COMPLETE* SUMMARY

The Consolidation Landscape

Mergers and acquisitions activity has increased significantly over the last few decades, but it is a messy landscape strewn with successful conglomerates alongside contentious cultures and unrealized synergies. There are lessons to be learned, and this is a practical guide for managers and investors seeking success in the marketplace. The authors of *Winning the Merger Endgame* are executives from A.T. Kearney, who have tracked a natural history of mergers and acquisitions.

They studied 1,345 mergers of publicly traded companies that occurred from 1990 to 2000. To ensure a global context, all the mergers had transaction values greater than $500 million. They combined the information they gathered with information from A.T. Kearney's own Value-Building Growth database — companies that can maintain a specific balance between growth and profit to achieve long-term added shareholder value. They discovered certain business patterns emerged over time. By plotting major industries based on degree and speed of concentration, they built an S-curve along which every industry moves over an average of 25 years each. The authors found that mergers determine profitability, market share, and stock prices. Far from being a sideshow in business, they are the main event, "the Endgame."



[1] CR3 = Market share of the three largest companies of the total market based on Value-Building Growth database (25,000 companies).
Sources: *Value-Building Growth database; A.T. Kearney analysis*

Five Maxims of Endgames

- **All industries consolidate and follow a similar course.** Merger competence is the core competence of winners.
- **Merger actions and consolidation trends are predictable.** Industry consolidations will correlate nearly 80% with the rise in global stock markets.
- **The Endgames curve is a tool to strengthen consolidation strategies and facilitate merger integration.** All companies must keep the curve in mind from the beginning because all industries continue riding to the top no matter what.
- **Every major strategic and operational move should be evaluated with regard to its Endgames impact.** The value of a merger lies in the increased competitiveness of the combined entity, the resulting increase in shareholder value, and the move up the curve.
- **Endgames position offers a guide for portfolio optimization.** Companies should optimize their portfolio of subsidiaries and business units across different Endgames stages. ■

The author: Graeme K. Deans is vice president of A.T. Kearney and chairman of A.T. Kearney Canada. Fritz Kroeger is vice president of A.T. Kearney Germany. Stefan Zeisel is an A.T. Kearney consultant based in Germany.

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For Additional Information on the authors, go to: http://my.summary.com

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Rules and Logic of the Endgame

More important than the clear and logical order to the process of industry consolidation is that it can be a predictive tool. These fundamental truths set the foundation for an in-depth look at the individual stages.

Five Fundamental Endgame Truths

1. Consolidation is inevitable, unavoidable, and inescapable. In the past it took 40 to 60 years for an industry to consolidate. Now it takes 25 years, and in the future the time will shorten, but all industries will still go through these stages.

2. All industries are global. All companies are treated equally and in a global context the only optimal size is bigger. Acquire or be acquired.

3. Revenue is stable, but profitability changes in accordance with the stage. New industries have high profits, but as they begin to consolidate profitability decreases as the competitive climate leads to cost cutting. Once industries are established and settled they can set their own prices for healthy profits.

4. Long-term success depends on riding up the Endgames curve. There are no niche positions to hide in or avoid the curve. Slower companies will be acquired or disappear.

5. The future belongs to the maestros of external growth. Organic growth alone does not have enough force to propel a company up the curve, so mastering acquisitions quickly is key. ■

The Opening Stage

The Opening Stage is the frontier of industry consolidation. At the beginning of the stage, there are very few companies and even fewer with substantial revenue. Entry barriers are low, so no single company owns a measurable percentage of market share.

Competition becomes fierce in this stage as too many companies chase the same finite market share. Competition can only continue in one of two ways. The more efficient operators can drive less efficient rivals out of the market or acquire their competitors. The incentives for merging include the synergies achieved when the whole is greater than the sum of the parts; the increase in revenues, profits, and market share from the combination; and the lower combined cost of doing business.

The Industries of Stage 1

Examples of Stage 1 industries include new industries, such as biotechnology and online retailers; spin-off sub-industries, such as bottled water, which spun off of the Stage 4 soft-drink industry; and previously state-owned or state-regulated monopolies, such as energy, water and gas companies.

TMP Worldwide — Winning in Stage 1

TMP Worldwide started as a Yellow Pages advertising agency in 1967. In the early 1990s the company found that it owned an Internet-based resume posting board that was part of a recent acquisition. TMP relaunched it as Monster.com. In the middle of the Internet boom they realized they would need rapid acquisition, and they acquired and integrated 70 companies globally. The foresight to make the Internet an important part of its future business model, allowing TMP to avoid being an "also ran" in an industry that consolidated from 10 major players to three top-tier players — TMP, CareerBuilder, and Yahoo! — in two years. Now those three companies control 66% of online recruitment.

Strategic Lessons

Even as Stage 1 companies form in a new industry, their managers should be thinking ahead to the coming stages. They should:

- **Build entry barriers and defend territory at all costs.** Protect first-mover advantage.
- **Focus on growing revenue and market share instead of profit.**
- **Monitor the external political environment** to profit quickly from legal changes and capture mind share by being the first to adapt to the changing environment.
- **If you cannot dominate the entire industry, focus on the industry segment where your company has the ability to dominate.**
- **Master, and then accelerate, the acquisition process** to capture volume and increase chances for market leadership.
- **Form an open, integrated culture** to become the backbone for future growth
- **In a deregulating industry, look outside your borders for best practices** and clues to be prepared for anything. ■

If you cannot dominate the entire industry, focus on the industry segment where your company has the ability to dominate.

The Scale Stage

Having laid claim to as much territory as they can, it is time for companies to build scale. They must devise new strategies to grow, capture market share, and protect their turf so they can continue their climb up the Endgames curve. The industry leaders change frequently as the race for position and market share heats up. Increases in scale improve production, spread fixed costs, and earn profits — though the profits remain slim due to competitive pricing.

Companies must grow, but being careful not to take on more than they can handle, lest they become strained for working capital. Another danger is that excessive borrowing costs can become onerous if the acquisitions are not as valuable as hoped. Remember, size and scale do not automatically confer industry-leading market capitalization. You must make smart decisions.

The Industries of Stage 2

Examples of industries in Stage 2 include software, automotive parts, healthcare products, and brewing. Mergers have begun, but there is still no clear leader.

For example, the customer relationship management (CRM) market is part of the software industry, a high-growth industry where the successful companies have typically consolidated early gains by gobbling up the fingerlings to acquiring market share.

In 2001 CRM sales stood at $11.8 billion, and in 2002 they were projected to be $14.2 billion. Siebel, Peregrine, Oracle have 44% of the market share, while PeopleSoft, SAP, Trilogy, and Epiphany have another 12%. Seven companies hold 56% of the market share in the industry, and the rest is divided among struggling smaller players that make the market ripe for takeovers. The clear leader is currently Siebel with 28% market share, but battles will erupt in such a fast-growing area. Oracle and Peregrine have products serving other markets, and it is still possible that a new competitor, such as IBM, could diversify into the attractive market, scoop up several small players, and shift the entire landscape.

Healthy Growth

More than anything Stage 2 is about healthy growth, and the basics for that growth are immutable:

Mergers. Mergers do not always live up to expectations. To do so they need two kinds of benefits. There must be substantial rationalization and consolidation of economies. There must also be a well-conceived ability to capitalize on scale, size, and scope of the new, larger company. Consider carefully the competitive advantage that will be the base of the consolidated company's long-term profitability.

Globalization. A critical means of growing is to go global, particularly to the global triad of the Americas, Europe, and Asia Pacific. However, the complexities of conducting business abroad can be overwhelming, given cultural and economic differences. Acquiring foreign companies with resident knowledge is important.

Brand Consolidation. Frequently, companies in the Opening Stage become "roll-ups" as a series of acquisitions in a fragmented industry. In the Scale Stage branding is an important strategic tool to bind the various groups and position them for growth.

Market Extension. Companies with strategic vision anticipate when their industry will reach the saturation point and branch out or develop a new business model.

Strategic Lessons

To succeed in Stage 2 without being destroyed or acquired, consider the following strategies:

- **Reinforce core strengths,** such as culture and employees, as new acquisitions are brought into the fold.
- **Build momentum** by growing with maximum speed to consolidate the industry through acquisitions, not organic growth.
- **Become a consolidation leader** by building a merger integration model that clearly documents a proven methodology.

By the end of the Scale Stage, the major players have formed their empires and acquisition choices are limited. Much of the final Endgame blueprint has been drawn. Companies that have fallen behind or have not been acquired may have to choose niches as temporary hiding places until they can become attractive acquisition targets. ■

IT Platform as Linchpin

One of the most critical elements of the Scale Stage for an acquiring company is having an IT platform/system capable of serving the combined companies. A company cannot be successful with separate, incompatible systems. Depending on the business, the IT platform must include an enterprise resource planning (ERP) base system to handle all core transactions; and the acquired company must convert immediately. This will put accounting and financial controls in place, reveal process incompatibilities to be fixed, and define who is in control.

Underestimating the importance of physical integration with the parallel integration of information and systems can be fatal. Putting together two companies is hard enough. Doing it in the dark or speaking different systems languages is disastrous.

For Additional Information about integration strategy, go to:
http://my.summary.com

The Focus Stage

In the Focus Stage the strategic emphasis changes from speed to finesse. This stage is characterized by mega-deals and large-scale consolidation plays with the goal of emerging as one of the small number of global industry powerhouses. Now future Endgames winners acquire competitors with an eye toward economic return rather than market share. After integrating mega-mergers made in late Stage 2 and early Stage 3, companies turn their attention to maximizing shareholder value and satisfying equity markets. Unfortunately this means they often spend less time focusing on customers. The rules of the game have been established and the most important competitive levers that come into play are economies of scale, size and global reach, and cost position.

The Industries of Stage 3

Typical industries that are currently in this stage include steel producers, glass manufacturers, magazine publishers, and distillers.

Stumbling Blocks

There are some specific parts of the business to be aware of to avoid stumbling when navigating through the Focus Stage:

Harness People Power. The strain on all employees is enormous in the Focus Stage. They have been through many mergers, so they are tired. But the CEO must still focus them on important strategic, customer, supplier and internal goals.

Maintain Unwavering Focus. Focus on building the advantages of size, scale, scope, brands, organization, and information. Focusing resources on selected competitors allows the Stage 3 company to win without the pain of a full frontal assault. Recognize start-up competitors early and decide whether to crush, acquire or emulate them.

Beware Disruptive Technologies. Disruptive technologies can change the dynamics and economics of a Focus Stage industry quickly and result in an overhaul of the competitive landscape.

Constantly Redevelop Competitive Strategy. When companies are so big that mergers and acquisitions are no longer the most viable strategic option, use "blocking and tackling" as a primary growth strategy. Maximize the effectiveness of people and capital investments rather than directly encroaching on competitor's markets.

Strategies for Stage 3

- **Retool your competitive strategy** to define true strengths and either agree to ceasefire or avoid full frontal assaults with other major players.
- **Focus on financial affairs** by ridding your portfolio of low-growth or marginally profitable segments and keeping resources lean and fit, in part by employing fewer and better people.
- **Sharpen the marketing message** by unifying the brand identity that may be diffused in the eyes of customers after so many mergers. ■

Dramatic Turns in Retailing

The Focus Stage is characterized by harsh competition and dramatic maneuvers. The retailing industry is a prime example. The mega-retailers of the past such as Sears, Montgomery Ward, and J.C. Penney have been squeezed from all sides by a new breed of discount retailers and superstores that are choosing to do things differently. Meanwhile retailers such as Wal-Mart, Walgreen's, and Price Club came up with new ideas like eschewing expensive mall properties, cutting the frills to sell at deeply discounted prices, and specializing in one kind of merchandise. They took the old stalwarts by surprise. Ward filed for Chapter 11 in 2001, Sears is on its second "turn-around CEO" and hoping for a boost from buying Lands' End, and Penney is facing a full frontal attack from Kohl's. Size and scale do not insulate a company from the pressures of the Endgames curve.

Now that the industry is moving out of Stage 3, the two big winners, Wal-Mart and Target, are "choosing sides" by garnering the best suppliers, deals, merchandisers, and talent. Kmart, which is in Chapter 11, and the few regional niche competitors risk being too unattractive to play the game.

The Balance and Alliance Stage

The heavy-hitters are at the top of the Endgames Curve in the Balance and Alliance Stage. These are the few companies that are the winners, the unquestioned leaders in their field. Depending on how they protect their positions, they can be successful in this stage for a long time. Big mergers are no longer an option, so companies spend time maximizing cash flow, protecting market position, and reacting and adapting to changes in the industry, including market penetration and governmental scrutiny.

One of the biggest challenges for Stage 4 companies is how to spend the cash they generate. They can return profits to shareholders, break into pieces and redefine their market scope, or diversify into new or industries and new Endgames paths. The one option a Stage 4 company does not want to take is to maintain a business-as-usual mindset. This will lead to disaster in the

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The Balance and Alliance Stage

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face of breakthrough technologies from competitors and completely new industries.

Industries of Stage 4

Some industries in this stage at the moment are tobacco, aerospace and defense, shoe manufacturing and soft drinks. These leaders have shattered corporate boundaries, set new records and created global empires.

Strategies for Stage 4

Industries do not move through Stage 4 as they do with other stages. For this reason they must learn to remain and flourish. All Stage 4 companies "hit the wall" in one way or another and handling these five critical challenges is what separates the successful companies:

Manage growth. Find new ways to grow the core business internally, but also redefine your market externally. Expand your market scope by looking at "next door" markets. Zoom out until current market share is under 25% and opportunities for growth will materialize.

Address potential regulation. Be alert to governments, consumers, or competitors perceiving industry leaders as oligarchic or monopolistic and address these potential areas of concern or action.

Spin off businesses. Identify pockets of opportunity or niches to add value to the business. Create new industries or compete against new players in earlier Endgames stages.

Fight complacency. The biggest threat to Stage 4 companies is complacency, causing them to be blindsided by competitors or to wither away. The right reward and compensation systems, promotion and succession planning process, recruiting systems, and people development will encourage innovation and risk-taking, even in a Stage 4 behemoth.

Set a good example. Stage 4 companies are always in the spotlight, so they must hold themselves to higher standards. Trust in these companies is long and slow to build, but easy to lose. ■

Nike Settles into Stage 4

Financial success has been fleeting for many in the athletic shoe industry. With most products produced in low-wage labor markets in Asia, winning market share requires strong marketing, styling, endorsements, and brand management. The faddish popularity of LA Gear, the global empire of Fila, and the styling of Reebok have not led to long-term success.

Nike is at the head of the pack, but it will need to shift its strategy to stay successful long-term. While the company is strong in endorsements, it is weak in acquisitions.

Its best bet is to acquire companies in the Opening Stage that are poised for superior growth. Nike has made too few good acquisitions — Cole-Haan in business-casual shoes and Canstar in skates — and given up too many good opportunities, such as North Face for outdoor gear and Converse for mid-priced shoes. Strategic acquisitions like these could balance potential declining sales and market share.

CEO Strategies

CEOs and boards of directors must realize and accept the inevitability of the Endgames consolidation. Once they understand that every company in every industry will go through the four stages or disappear, they need to develop a vision to move through the stages. Different skills are necessary to lead a company through different parts of the Endgames curve.

Stages 1 through 2

CEOs in Stages 1 and 2 must drive aggressive growth and lead their industry in consolidation. Brute force, bold leadership, and vision are key success factors.

Develop an Endgames vision. In many industries like steel and chemicals the necessity of consolidation is apparent. In others, CEOs must have a rare talent to gain first-mover advantage by spotting an Endgames play before any other competitor.

Create a merger integration engine. Once a company's Board of Directors embraces an acquisition strategy and the first wave of deals is complete, the company's key differentiating success factor will be its ability to successfully integrate the high volume of acquisitions.

Prepare for Endgames Stages 3 and 4. Companies must undergo a major strategic transition when their industries move from Stage 2 to 3. The transition can wreak havoc with a company's business strategy and management processes.

Signs signaling the end of Stage 2 and the need for a new strategy:

- Mergers become the focal point of corporate strategy.
- Managers are overburdened with integration and neglect the core business.
- Company becomes "too big to manage."
- CEO achieves a certain degree of fame or notoriety and a significant bonus.
- CEO evolves into a "one-trick wonder."
- CEO makes one deal too many, or too big…or both.

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CEO Strategies

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Stages 3 through 4

Unlike the dealmaker skills and bold leadership traits required in Stages 1 and 2, the prototypical Stage 3 and 4 CEOs are shrewd chess players and portfolio managers. They must be able to navigate discreet issues such as Johnson & Johnson's strategy of focused acquisitions over time and PepsiCo's decision to pay a significant premium to acquire Gatorade for access into the sports drink market. There are few winners and many losers through Stages 3 and 4.

Implications for Endgame Survival

To lead a successful Endgames strategy, a CEO should look at three key implications of the tools and strategies available to him or her to manage in the Endgames environment.

1. Take a global view and adjust strategy to reflect the company's position on the Endgames curve. Endgames consolidation is a global phenomenon and ignoring that fact leaves you vulnerable to being surpassed or acquired.

2. Capitalize on cross-industry opportunities. All industries consolidate, so look beyond your own industry to see what you can learn.

3. Leverage the Board of Directors as a source for acquisition contacts, assessing the CEO's management of an Endgames Stage, and appropriately rewarding a CEO in each Endgames Stage.

The Board and the CEO must take ownership for the successful execution of an Endgames strategy through detailed, hands-on deliberation and decision-making. ■

For Additional Information on how CEOs can achieve successful mergers, go to: http://my.summary.com

McColl's Endgames Vision

In the early 1980s Hugh McColl became CEO of NCNB, a small North Carolina bank. Interstate banking was not yet legal in the United States, so the banking industry was clearly in the Opening Stage. McColl wanted to create a regional, multi-state bank, so he exploited a regulatory loophole and acquired a Florida bank. After lobbying regulators to change the laws in the southern U.S., he was able to acquire banks in South Carolina and Georgia as well, achieving a sizable lead over his competition.

In 1992, NCNB merged with C&S/Sovran to become NationsBank, the fourth-largest bank in the country. After completing more than 40 acquisitions, McColl grew the bank's assets to $120 billion. With a new federal interstate banking law, McColl was able to complete the biggest deal ever — the $60 billion merger with BankAmerica to create Bank of America. Due to a powerfully-developed Endgames vision, McColl turned a single state bank with less than $20 billion in assets into the largest depository bank in the United States, with $570 billion in assets, $10 billion in earnings, and operations in 22 states.

The Stock Market Connection

There is a connection between the Endgames curve and the performance of equities markets worldwide. First, companies can use it to build their strategies and find opportunities to outgrow their competitors.

Second, they can use it to predict what will happen in their industry as far as 20 years into the future. Though current merger activity is slow, as the economy recovers and consolidation resumes, there is a significant potential for stock prices to climb due to merger premiums and superior returns offered by successful implementation of the Endgames strategy.

Third, the Endgames analysis implicitly predicts and forecasts industrial deregulation in Stage 1, trade liberalization from Stage 1 to 2 or 3, and increased corporate governance. Companies will have new opportunities to increase profits and lead industries; the size and number of mergers will increase; and macroeconomic and regulatory factors will be more conducive to growth, leading to a rising stock market. If this trend stays intact long term, the entire global market capitalization in 2010 could be between $60 trillion and $80 trillion. Investors can profit at every stage. Identifying best practices of companies in each stage can lead to superior investments.

The key to using the Endgames analysis as an investment tool is the ability to identify companies that apply Endgames principles particularly well, and thus have the highest probability of becoming the ultimate winners. In each industry, regardless of position on the Endgames curve there are leaders and laggards. Identify the top performers on the basis of revenue growth and value creation growth. Companies that exhibit both of these are a starting point for good Endgames-based investments. Then consider the company with respect to the specific dynamics of each stage:

- **Opening Stage** — Choose companies with solid financial backing and a sound business model.
- **Scale and Focus Stages** — Look for potential mergers of near equals as the pace of consolidation increases. Also seek companies that stick to their core competencies.
- **Balance and Alliance Stage** — Look for compa-

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Index and Merger Correlation

From 1989 to 2001 there was a 93 percent correlation between the Dow Jones Index and acquisition activity in North America. To a certain degree rising stock prices form a currency for making M&A transactions possible. During the same period the Euro Stoxx index and merger activity were 80 percent correlated.

The same situation did not occur in Japan, where merger activity was flat during the Nikkei's dive in the early and mid-1990s. But as the Asian crisis continued in 1998, mergers skyrocketed. This was due to several Endgames-related factors. Some Stage 2 industries such as financial services and real estate had fallen so far that investors felt they were a good deal, and foreign banks swooped in to buy them as part of their global Endgames strategy. The Japanese government also encouraged several financial services institutions to merge as it began to deregulate the industry. And the market opened up and globalized, primarily in Japan's Stage 2 and 3 industries.

The Stock Market Connection

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nies that reinvent themselves and spin off new businesses into earlier Endgames stages.

Of course a solid Endgames Strategy depends on having the right information; there is no substitute for the due diligence companies must go through to get it. When researching an investment, research the regulatory environment, examine the company's merger success rate, anticipate future trends to discover future opportunities and strategic industry shifts, and follow the cycles of merger activity. ■

Endgame Visions of 2010

In mid-2002 the Dow stood at 10,000. Over the next decade the authors foresee it increasing fourfold. The companies in the Dow Index are in leading industry positions and are poised to finish among the winners in Stage 4. With Endgames consolidation trending to higher velocity and greater scale into the future, by 2010 the first $1 trillion merger will become a reality. The Dow increased about 3 percent per year from 1896 through the Depression. Since the 1950s it has risen by about 8 percent, and over the past 10 years about 12 percent, despite recent setbacks. Therefore a projection of 15 percent to 20 percent growth for the next several years doesn't seem so utopian. The authors' long-term perspective of stock valuation is that it will be driven by Endgames, as the value of merger and acquisitions transactions increases steadily in the future. The authors have other predictions for the next decade:

- In the mid- to late-1990s the spotlight shone on the Opening Stage with the technology industries. Companies that grew rapidly in the 1980s and 1990s will find consolidation as the best growth method, and **Stages 3 & 4 will be the battlegrounds for the next decade. Merger size will be unprecedented**.
- The exponential rise in stocks will affect the whole economy through speeding technology innovation, market roll-ups, and mergers. Industry insiders say the **Endgames cycle will no longer take 20 to 25 years to run its course, but may cycle at 16 or 17 years in the near future**.
- GE has the largest market capitalization, which recently stood at $332 billion. By 2005 we will certainly see **at least a dozen global companies with market capitalization of more than $1 trillion** as volume and scale barriers collapse, and by 2010 there may be hundreds of global industry leaders.
- Companies will face more cultural challenges with all of the mergers, complacency, the need to listen to customers and connect their employees. **Endgames masters will develop a truly global culture to integrate nations, races, and skill sets** to gain maximum productivity from stakeholders.
- **New industries for outsourcing and financial scorekeeping will proliferate and CEO strategy will change** to cope with managing these companies day-to-day and long-term. ■

For Additional Information on an overall Endgames strategy, go to: http://my.summary.com

National Economies and Endgames

Political leaders must provide the appropriate environmental and political infrastructure to nurture industries within their economies. They should:

1. Create a growth-oriented regulatory environment.
2. Establish an infrastructure that is positive for the local economy, industries, and companies.
3. Create an educational system that stimulates people to exploit their growth potential and induce younger industries to settle in the region to boost the economy.
4. Understand the importance of scale and size of companies that can compete at the global level.

A quick look at some countries reveal the following:

✓ France and Japan are strong in old industries and underrepresented in the Opening Stage.

✓ North America is equally balanced across all stages and well equipped for the future.

✓ Singapore and India are front-loaded which puts them in a strong position if their companies are strong enough to move up the Endgames curve.

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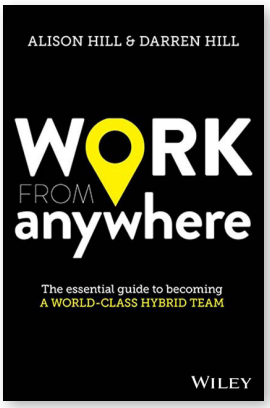
Work From Anywhere

Alison Hill and Darren Hill

soundview
Executive Book Summaries®

Work From Anywhere

The Essential Guide to Becoming a World-Class Hybrid Team



by **Alison Hill and Darren Hill**

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THE SUMMARY IN BRIEF

The global pandemic ushered in a new reality of remote work—a trend that's likely here to stay. ***Work From Anywhere*** delivers practical strategies on developing a high-performing team and business in a remote, distributed environment. Accomplished authors, behavioral experts, and fast-growth business leaders Alison Hill and Darren Hill show you how to create these strategies to bring out the best in your hybrid and remote team members, by focusing on both performance and people.

You'll learn the unique psychology, methodology, and technology that make hybrid teams excel, and how to foster high performance across your team, no matter where they're located.

Working from anywhere is no longer just an HR conversation; it's an executive conversation. Perfect for business leaders working with hybrid teams, ***Work from Anywhere*** is also ideal for organizational development executives, cultural transition leaders, business leaders, and entrepreneurs who are responsible for ensuring that employees consistently perform at their best, regardless of location.

IN THIS SUMMARY, YOU WILL LEARN:

- Why working from anywhere (WFA) is not just necessary but desirable.
- The three pillars of performance, culture, and autonomy as the key to mastering WFA.
- Great strategies to change the way your team thinks, connects, and works.

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Introduction

Having teams operate in a distributed or work from anywhere (WFA) fashion is not new, nor was it solely born from the global pandemic. A few rare companies with valuations now in the billions have been distributed for decades, or at least since the advent of the internet.

Yet, the sheer impact of COVID-19 and the overnight call to remote and distributed work practices reshaped workplace behaviour and standards so significantly that, in time, we may speak historically about the events of 2020 as being as disruptive for workforces as the invention of the printing press and the personal computer.

Jack Dorsey, CEO of Twitter and Square, announced in May 2020 a permanent remote work policy that allows individual employees to make the choice about where they work and how. Shopify CEO, Tobi Lütke, also announced in May 2020 they would embrace a remote workforce, claiming they were now "digital by default."

Put simply, the requirement of organisations to offer and adapt to WFA practices as a regular option is now here forever. Recent research suggests that to be competitive in the talent marketplace, you need to have options available beyond the co-located team.

Chief financial officers around the world have celebrated the shift to WFA more than anyone, because of their connection to the numbers that drive the business. The reduced costs are varied, but the two big reductions are reduced commercial rent and reduced travel and accommodation expenses.

The Best Way to Work?

But what if WFA is actually the best way to work? How comfortable has that question left you? What was your first intuitive response?

Embracing a WFA approach for your team could enrich the lives of your people and their work. You can lead and thrive as a team working from anywhere, whether in a distributed form or as a hybrid team. The gifts from this are not just a flexible work environment but also a deeply autonomous one, built on the kind of performance standards and cultural togetherness that create the work engagement we've quested for.

When we explore a new model and methodology, the very things we've been craving from work become possible.

The alternative is pretty ordinary; if your belief is that WFA is the poor cousin of the office-bound team, you'll likely create a self-fulfilling prophecy. Your energy will be reflected and radiated throughout your team, and you'll see problems instead of opportunities.

Let's not do that. Let's dare to create something special.

The World Has Shifted (shifting our world)

Making the shift to a WFA approach requires new tools and new processes. Change is possible, but it requires a change in perspective and a change in belief first.

Shifting Beliefs About Work

The following are the three key beliefs that will underpin your first step into exploring a WFA approach:

- **WFA is possible**. Sure, it's going to take work, and you'll learn many things along the way and turn corners only to realise that approach doesn't work. All of these are okay as long as you have the underlying belief that it is possible to WFA as a team.
- **We can do this**. The second key belief you'll need to embrace is that you can do this as a collective. Believing you will find a way with the people and the resources you have is critical to your long-term success.
- **It's worth it**. Finally, leaders who believe not only that it's possible but also that it's worth it are the leaders who'll find a way in the world of WFA.

Building Your WFA Philosophy

Let's face it. The new world of not being a co-located team is a radical change, and it requires some radical thinking. So rather than putting your efforts into a plan to build a hybrid or distributed team, sink your effort into creating a philosophy.

Start by asking the big questions: "What is our approach to working together?" "What is our approach towards finding success?"

For a long time, organisations have said, "It's culture first." The truth is that hybrid teams, without the data that comes with non-verbals in conversations, can create some real risks to the longer term success of the business unless they first focus heavily on performance. Performance can then strengthen culture and allow for autonomy.

In times of deep uncertainty, cultures need to focus on performance more than anything.

The three pillars of performance, culture, and autonomy provide a philosophy and framework that lays the foundation for a successful move to WFA.

In times of deep uncertainty, cultures need to focus on performance more than anything. You can have what would be perceived as an awesome culture, but your business (and its culture) can be one step away from falling over if there's not a care of, and measurement against, performance.

Performance provides a platform for culture within teams.

Culture and Autonomy

Shifting your team to WFA requires a different conversation about culture. It's a conversation about what you and your team value, and why you value it. What do you care about, and how can you care about that same thing in a different way?

With clarity around performance, and a drive towards a dynamic and evolving culture, successful organisations are those that believe work can be an extraordinary experience for the individual.

Autonomy is the ability to have a choice about how the work will be done. The expression of self within the role is key. Within workplaces, this means shifting away from a process-style of management and encouraging and supporting an output-style of direction. As a leader, you provide your team with the desired result and allow them to choose how to get there.

The expression of autonomy is dialled up in a WFA approach. Everything can truly come to life when the groundwork of clarity around performance is expressed (you're clear on what is of value) and this is connected to a culture that aligns (through the continual expression of values), allowing autonomy and personal growth to be developed (becoming valuable in the role).

Performance, culture, and autonomy are equally important. This WFA philosophy provides the framework for strong, important conversations inside your team and organisation. You can have conversations around what matters to you and your team, the key things you'll be measuring, how your people can belong and behave, and where the opportunities are for individualistic expression, growth, and mastery in the role.

The Call to Adventure

Let's unpack some of the early considerations and tools to get started on the pathway to WFA.

New ventures create energy—energy that is harnessed into motivation. Figuring out the new lay of the land can be engaging and intoxicating. Through increased action, we shift into the adrenaline phase of motivation. We see the results of our actions take effect, communication and feedback generally increase over this time as individuals are figuring out what they are doing, and we are open to innovating on the run.

Motivation can start to drop after this initial novelty and adrenaline period—and the higher the peak, the steeper the drop. As novelty and adrenaline drop, motivation starts to wane.

For leaders, it's important to recognise this phase and not see it as a sign that the shift to WFA is not working. Instead, this is the "bedding down" phase, providing an opportunity to redesign how work and connection are achieved.

Have normalising conversations with your people around how they are feeling and coping. Then double down on progress. Ask, "What are the things that we can make gains on today or this week that will move us forward?"

Navigating the Communication Quagmire

Working from anywhere requires different communication tools. Consider four tools you need to navigate this minefield and effectively engage a WFA workforce. The tools create a simple framework that can be applied to any organisation and help to bring structure and clarity to your hybrid and remote communications.

Say hello to your new favourite acronym: SOCS.

Social. Now more than ever, our people need social inter-

action and connection with their teammates to build rapport and strengthen their sense of belonging. Create time to engage not only with your own team but also cross-functionally with other teams. The preference here is to utilise a video conferencing tool (whichever is your software of choice) because it creates an opportunity to see people visually and pick up non-verbal cues.

Operational. The starting blocks for world-class WFA teams is to have a platform that can be easily accessed for operational communication and visual progress. Given the nature of hybrid work, this is most often a digital tool that is agnostic to location for accessibility. Consider how individuals, teams, and cross-functional teams can engage in these platforms, connect, help each other out if needed, and celebrate the wins along the way.

Conversational. Having a designated place where your team can have casual conversations back-and-forth, similar to how they would if they were all in the office together, is important. This includes team-centric conversations, company-wide conversations, one-to-one interactions, and everything from the quick business update, to the water-cooler chats, to recommendations about the latest Netflix series to binge on.

Speed. How do you cut through the noise when something urgent or important needs to be shared? Which platform do you use to get quick attention (knowing you don't want to use this platform all the time because it will be habitualised)? This is where the speed element of this framework swoops in to save the day. For many organisations, the best option for this is a quick text message.

Charting the Course

Any journey is founded in a combination of both embarking on a planned direction and the serendipity of stumbling across the unplanned along the way. When the unplanned happens and the unknown path is trodden, you have a chance to check back in and reorientate the pathway forward. Are you and your team way off base? Or is the new direction where you want to be? How do you reconnect with a sense of progress rather than meandering?

To keep progressing, you need a charted course of direction or a map to come back to. It is this touchstone that becomes a shared reference point for intrepid travellers to gather around, share stories, and plan for the next move.

Five Levels of Distributed Work

Matt Mullenweg, CEO of web-publishing and commerce firm Automattic, has a model, the five levels of remote work, which allows a team and organisation to plot where they sit on the continuum of remote or distributed work.

Level one: Non-deliberate action. At this stage, remote work is seen as a temporary fix or "holding pattern," and very few things have been done to improve or optimise the remote working experience. In this setting, employees may be putting off completing certain tasks out of necessity—essentially, until they're able to get back to the office.

Level two: Recreating the office. At this stage, they've made the commitment to work remotely but are still doing what they can to recreate the office environment and office routine in a remote setting. They'll (over) use tools such as Zoom or Microsoft Teams to gather as a team virtually, but there is still an expectation (assumed or otherwise) that emails and messages will be responded to as soon as possible.

Level three: Adapting to the medium. At the third level of remote work, you're likely to start seeing more of the benefits come to light. As employees have accepted that remote work is here to stay, they're much more likely to begin upgrading their space to accommodate their new working environment.

At this stage, asynchronous communication also becomes more common. Documentation and written communication will become more important at this stage, so that those who are unable to attend live are able to access critical information on their own timeline.

Level four: Asynchronous communication. Work no longer needs to happen at the same time for everyone. Instead, the work considers not only the tasks to be done but also how to hand over the baton to others who may arrive at the task at a different time. Employees have more control over how they structure their day, and your organisation will begin to focus performance expectations on outcomes and what is produced, rather than how or when work is produced.

Trust is heightened as employees gain more autonomy, and a new level of psychological safety is achieved.

Level five: Nirvana. This level should be considered "the dream" of all remote working organisations. At this stage, your organisation is able to consistently perform better than any co-located team. Everything is running

smoothly, and communication levels are high across the organisation. Everyone in the company has time for wellness and mental health.

Being strategic about where you are and where you are heading is the goal. And regardless of where you're aiming for in terms of your placement on these levels or on the distributed to co-located continuum, the question "Could this be done a different way?" is worth pondering.

Tackling the Toolbox

Work from anywhere is no longer a people policy touted by the rising technology companies or the early adopters; it is a permanent strategy and conversation inside organisations regardless of industry. This is indeed a new frontier, a new adventure, which requires new skills and new tools.

Research has uncovered three areas that individuals and leaders need to shift. As a leader, you need to

- Change the way your team thinks (psychology);
- Change the way your team connects (methodology);
- Change the way your team works (technology).

And you need to do this across two focus areas: performance and people.

For example, let's talk about psychology. If we start with the psychology of performance, the two areas to focus on are managing expectations and setting standards.

Managing expectations. For distributed and hybrid teams to work effectively, a conversation around expectations needs to happen. This includes setting expectations around response times, having a generosity of assumption, and recommitting to regular feedback. Through managing expectations, we provide our teams with the clarity, focus, and framework required to create psychological safety.

Consider the following ground rules: Leave nothing unanswered, tighten the feedback loop, and be a brag (encourage team members to share their successes).

Setting standards. To effectively create behaviour change and see a high adoption rate of the desired behaviours, you'll need to both set the standards and consistently role-model them as a virtual leader. This includes setting boundaries between "work" and "home" and encouraging others in your team to set and uphold their boundaries.

When stepping into the psychology of people, the two areas to focus on are managing people's mindsets and navigating roadblocks.

> With change being your only constant in the current environment, you need to adopt and encourage a growth mindset . . .

Mindset management. The mindset you hold drives the results you and your team are able to achieve. With change being your only constant in the current environment, you need to adopt and encourage a growth mindset within your team and organisation to see long-lasting success.

You can look to leverage many different tools and strategies to help manage mindset. A powerful example is cognitive reframing, which is the act of choosing to look at someone or something differently (the ole classic "Is there another way to look at this?").

Navigating roadblocks. Roadblocks are going to happen. It's inevitable, even more so when you are treading a path that is not well worn. You can divide any roadblock you encounter at work into two categories: external roadblocks or internal roadblocks.

For example, perfectionism. Do you find it a battle to let go of work until you feel it's been polished to the highest possible sheen? If this is you, try using cognitive reframing and shifting your language to coach yourself into realising that sometimes speed is more important than dotting every I and crossing every T.

Confronting the Challenges

Becoming a world-class work from anywhere team brings with it challenges—challenges that you won't have faced before on this new frontier; and when you overcome the initial challenges, others will be waiting around the corner.

Heroes confront the challenges that lie on their path. They

learn from the falls, strengthen their purpose and resolve, and navigate their way to the ultimate battles. It's through confronting the challenges that true mastery is achieved.

The Challenge of Losing Spontaneous Data

For example, how does leading a hybrid or distributed team differ from leading in a traditional office environment? The single biggest difference is the loss of spontaneous data through body language and non-verbal communication.

Research has indicated that approximately 70 percent of communication is picked up not from what we say but from how we say it—from body language.

When you're having distant conversations with your team, because you lack visual symbols and auditory cues, summarising throughout is often very helpful. This means, during distant conversations, webinars, or Skype calls, you summarise with each other what you think the other person's just said, and you do this far more regularly than you would during a face-to-face conversation.

This allows you to capture the value or the key concept that's just been shared and make sure that you're both actually in agreement that that's, in fact, what you're talking about. Invite people to share back what they've just taken from what you've just said, rather than just assuming that what they've taken is what you meant.

The Challenge of Performance Feedback

If performance is the bedrock of success in our WFA philosophy, world-class hybrid teams need to have the skills to be able to provide feedback around performance on a regular basis.

As we move further into a WFA dynamic, many leaders and team members are having to confront the challenge of facilitating an underperformance conversation within a virtual team setting. When approaching an underperformance conversation with a member of your team, keep the following in mind:

Start a conversation as soon as possible. The best place to start is to have the conversation rather than avoid it—the longer you leave it, the more assumptions can run amok and stories can grow.

Make the conversation visual. In order to effectively depersonalise the tough conversation, you need to make the conversation visual. It's useful to share your screen so that your points of discussion are clear, and misunderstandings can be talked through.

Sources of Strength

Let's explore some of the greatest sources of strength that can arise from the commitment to a hybrid, work from anywhere approach.

Rhythms and rituals have always been culturally significant, and in a WFA team they don't become less significant; in fact, you and your team's rhythms and rituals become a critical component in the long-term survival of team culture. They become the sources of strength on which WFA is built.

Working from anywhere is a shift in habits and behaviours. It can be a shift that increases energy and increases connection to work but only if you find the rhythms that work for you and your team.

Individual Rituals for Work

Despite the autonomy that comes with working from anywhere, having structure in your workday is still worthwhile for peak performance. Start with a set of WFA rituals that you can use to prepare for and wind down from your workday.

Different zones for different work. Given that our environment drives our behaviour, it could be worthwhile considering whether on different days, or for different portions of your day, you can work from a different location (such as the local park, a different local café, or even just a different room) in order to achieve an energetic shift.

Still have "work clothes." Wearing the same clothes all day can mean you find it more difficult to not only "switch on" for work but, potentially even worse, wind down from work at the end of the day. So even if your WFA clothes look nothing like your old office attire, separating what you'll wear when at work versus when you're not may be worthwhile.

Team Rituals for Work

When teams are distributed or hybrid, rhythms and rituals take on a new form. They shift from being unconscious (because we've done the in-office ones for a while) to becoming more conscious. They take greater cognitive load and planning although can be just as effective (if not more inclusive) than the office-only rituals.

Win the morning. The way your team starts their day inevitably has a flow-on effect to how energetic everyone feels throughout the rest of the day. Workers at Pragmatic Thinking often share what wins they've had during their daily kickstarter video meetings, with the beauty of this ritual coming to light in the variety of approaches they hear about.

While collaborating isn't a hard thing to do in theory, it's the habit and structures that surround collaboration that need to change in a WFA context.

Seize the midday. To perform at your best consistently, you've got to make space in your day for recovery rituals. Seize the midday is a daily reminder to get up from the desk and do something to reinvigorate our minds and reset for the afternoon sprint.

You can seize the midday by getting outside in the sunshine—at the beach, at a local park, or even by going out for a rollerskate. This daily exposure to sunlight (even on a cloudy day!) and a bit of aerobic exercise are important for many reasons, including the release of serotonin in the brain. Serotonin is a powerful neurochemical associated with a boost in mood and a sense of calm.

Slaying the Beasts

When it comes to a WFA or hybrid workforce, there are four big battles that you and your team will need to overcome:

- Collaboration (lack of);
- Stagnation (as opposed to ideation);
- Disconnection;
- Miscommunication.

Let's talk about the first of these.

Collaboration (lack of). Collaboration is the backbone of high performance. Collaboration starts with connection, but how do we achieve this genuinely in a WFA setting? The challenge for hybrid teams is that collaboration can diminish quickly, and this lack is like a famine.

While collaborating isn't a hard thing to do in theory, it's the habit and structures that surround collaboration that need to change in a WFA context. The true barriers to collaboration aren't the lack of walls and whiteboards; they're trust and ego.

Strategies to Slay the Beast

Here are the weapons to overcome those barriers and build true WFA collaboration:

Care about collaboration: Sounds simple, but it's an important first step. Your team's culture is about getting clear on the things that you care about. When you consciously care about collaborating with others, when you truly believe that the best outcomes are achieved through the input of experts and experience, you will find a way to successfully collaborate.

Review the resources and platforms you are using to collaborate: When it comes to collaboration, you risk a particular platform, tool or system becoming overused. One of the benefits of collaboration for WFA teams is that it reduces the pressure of having to think on the go. Instead, collaboration can be considered, allowing people to jump into the desired platforms pre-prepared. Get clear on when you use what platform, and allow space for people to find or use their own.

Create space to share and learn about other people's passions: Do you know the skill sets of your people and what lights them up? What about your team? Do they know that of others? Oh, yes, this is a doozy—but when you and your team get acquainted with the skill sets of others, you can cross-skill and learn from others, too.

Extend trust first: Lack of collaboration comes with a lack of trust and a growth of ego. ("What do they know? I've got this.") One of the ways to grow trust and reap the benefits of collaboration is to extend trust first. It will cost time, effort, and energy. Trust others to be able to comprehend what you are trying to achieve, trust others to provide their support, and trust others to ask if they don't know. When you make this investment of time, it can repay you and your team tenfold.

The Adventures That Await

If you've achieved a victory over any of these beasts, make sure you take the time to recognise the effort and courage required to succeed. A few quick tips for celebrating this with your team: Find a wider audience. Talk to your internal comms department, create a good news story, put in for

an award, or simply write an email to the CEO, cc'ing in your team, highlighting their victory.

Break bread. Whether the "feast" is face to face or virtual, you have the chance to tap into a well-worn ceremony of celebrating victory via a meal shared.

Level Up to the Next Adventures

Now that your dragons have been not only slain but also celebrated with gusto (or perhaps just a little fist pump), it's time to lift your gaze once again to what vistas sit before you in the new world of work. Four areas offer opportunity and exploration for any WFA or hybrid team to level up. These four areas are energetic state, gatherings, continuous productivity, and access for all. Let's discuss the last of these, access for all.

Building a work experience to WFA is one thing; but if you want to play a really big game, build a work experience to WFA for all, including people who would otherwise find access difficult because of pre-existing conditions.

Blind or visually impaired team members. When using visual technology, ask your team to support those who are blind or visually impaired by

- Communicating naturally and using ordinary language—using words such as "see," "sight," and "look" is okay;
- Being aware that gestures and facial expressions, such as nodding, pointing, and waving, may not be seen;
- Using precise words and instructions, such as right, left, forward, back;
- Giving directions from the person's perspective rather than your own—don't point or say "over there."
- Describing diagrams and pictures verbally.

The deaf or hard of hearing. When using visual technology, ask your team to support those who are deaf or hard of hearing by

- Utilising captions;
- Finding out the communication preferences of the individual;
- Ensuring background noise doesn't interfere with the conversation;
- Having someone available for the individual to reach out to at any point for help;
- Keeping the camera at a good angle to give lip-readers a good view of your face;
- Slowing down your talking speed to help improve the accuracy of devices being used.

If stepping into the adventure of becoming a world-class hybrid team is your pathway, be fairly warned: It's not for the faint-hearted. Diving into the beautiful questions around what it actually takes to deliver exceptional work, create a culture worth raving about, and carving out space for individual expression and growth is one heck of an adventure.

But you've got this. Truly you do.





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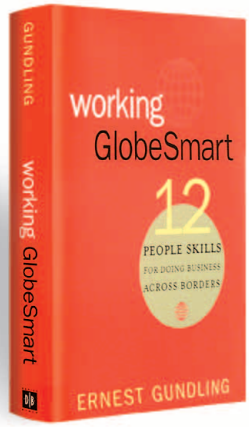
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Working GlobeSmart

Ernest Gundling

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FILE: LEADERSHIP



By Ernest Gundling

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12 People Skills for Doing Business Across Borders

WORKING GLOBESMART

THE SUMMARY IN BRIEF

Global business is increasing dramatically and along with it, the cross-border friction that emerges when there are misunderstood or ignored cultural differences. Though every destination provides new hazards for mistakes, the challenges you will encounter are relatively predictable and easily anticipated.

The single greatest cause of difficulties in global business transactions is lack of appropriate people skills for relating to counterparts from other countries and cultures. In Working GlobeSmart, *Ernest Gundling, an expert in strategic global approaches to leadership development, organizational change and innovation, outlines the 12 fundamental skills managers need if they intend to move across borders and succeed. Not simply a list of culturally specific customs and behaviors, this summary presents a general set of behaviors spanning interpersonal, group and organizational skills.*

Managers, especially American managers, who can understand why these skills are important and incorporate them into their business dealings — whether in South America, Europe, or Asia — will find that partners across the globe are more likely to respond and work together to achieve mutually beneficial results.

What You'll Learn In This Summary

✓ Why people skills are the most frequently overlooked issue in cross-border business.

✓ How to interact with people from cultures that are more relationship-oriented, indirect, or hierarchical than the culture in the United States.

✓ How to listen to, look for, and understand what is not being said.

✓ How assumptions about the supremacy or "correctness" of our own culture holds us back.

✓ How to interact one-on-one with foreign partners as well as in team and group environments.

✓ How to implement your global strategy and vision on the ground, where it truly matters.

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Global People Skills

Managers frequently underestimate the importance of global people skills to business. The model in this book includes 12 competencies that include interpersonal, group, and organizational skills. They must be well integrated throughout your organizational culture because the value of your products, either at home or abroad, will decrease without the people skills to back them up.

Failures in global business are more insidious than acute. They seem small, but as they build up, they become lethal. Expecting others to speak one's own language; assuming everyone is eager to adopt your ways; and not taking the time to establish effective relationships abroad can all undercut plans that have been carefully strategized at home.

Generalizations about a national culture can be helpful in anticipating how people will act in unfamiliar settings, but it is improper to apply stereotypes to an entire nationality that is most likely as varied culturally and ethnically as your own. By inquiring about another culture, identifying its contribution, learning its core values and attendant behavior, and understanding the gaps between you and the average profile of the other culture, you can predict areas of potential conflict both with business partners and your own personal limits. ■

Interpersonal Skills

Global skills are built on a foundation of strong personal relationships, but these relationships can take time and have many facets. Establishing credibility, handling feedback, obtaining information, and evaluating people are all critical interpersonal skills that international managers must develop when they work in another culture.

#1 Establishing Credibility

Experienced managers tend to take their own credibility for granted in the United States and they are more eager to get down to business. In other cultures there are vastly different codes for establishing the value of new clients and partners. They may find you boastful or arrogant as you rattle off your accomplishments. Instead, take local perspectives into account. In hierarchical cultures like Taiwan, Singapore and Malaysia modesty in top leaders is interpreted as confidence and sophistication. There is no need to blow your own horn because others will do it for you. It is more appropriate to demonstrate that you are receptive and aware of the appropriate behavior.

#2 Giving and Receiving Feedback

Giving feedback can be a great source of misunderstanding among different cultures. Those that favor direct and verbal forms of communication may misinterpret or miss entirely more inexplicit and nonverbal forms of feedback. Meanwhile very direct messages can easily cause unintended offense.

In parts of Europe and the United States, feedback is usually verbal, immediate and directed at a particular person. Consider different types of feedback when working abroad, such as nonverbal feedback, periodic feedback, feedback given in a different place, or offered to a group even if the target is a particular individual. By being aware of different styles, you can give feedback in a culturally appropriate manner and recognize it when you are on the receiving end.

Here are three ways to give indirect feedback:

Maintain frequent informal communication — It is easier to interject criticism in the ebb and flow of conversation instead of pointing out specific "areas for improvement."

Ask third parties to convey information — A trusted third party can open up a mutually acceptable solution that would have been impossible if both parties had

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Interpersonal Skills

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burned bridges through more direct forms of feedback.

Anticipate problem areas and provide specific models — "Feedforward" by anticipating how local employees may make mistakes for which you will criticize them, and walk them through the process.

#3 Obtaining Information

Though gaining information can help managers understand organizational capabilities, project management issues, or market opportunities, its most important goal is to understand what employees have to contribute. Often issues such as status, motivation and previous experience with the United States or Americans colors whether or not an employee is willing to share information.

For instance in India, where people are taught to respect persons of age and authority and to keep a polite distance between people on different organizational levels, it is often difficult for subordinates to know how to bridge a status gap. If a U.S. manager asks an Indian subordinate for opinions or critiques on a specific project during a meeting or conference call that includes clients, it will be difficult for the subordinate to disagree with a superior in such a public forum.

Problems sharing information directly are more pronounced in hierarchical, group-oriented cultures where long-term relationships are a key asset. Putting your relationship with a senior member of the hierarchy in jeopardy can be too much of a risk.

Other obstacles to obtaining information that Americans may not consider are legacies of repressive political regimes that make people cautious about sharing information; an active mafia that preys on a country's business enterprises; equating subjective perceptions with objective "facts" when making decisions; or even poorly collected and organized information that is difficult to access.

Recommendations for obtaining information:

- **Ask via a third party**
- **Change the setting**
- **Explain background and context**
- **Show genuine interest**
- **Show precedent**
- **Probe politely but persistently**
- **Rephrase the request**
- **Clarify and confirm**

#4 Evaluating People

Navigating the pitfalls of evaluation in other parts of the organization without offending employees and causing significant rifts requires tact and understanding.

The Speech

A U.S. executive newly assigned to an Asian-Pacific sales operation made this speech based on his individualistic, direct, and task-focused background:

I'm very pleased to work with you in our Asian organization. I've worked with Asian companies before, and it is exciting to be part of the sales force with you. While I was director of Sales for the Western region in the U.S., we made a strong contribution to earnings. We now have a great opportunity to build a strong and profitable business together in Asia that will yield outstanding returns for the parent company and our shareholders. My wife and I look forward to living out here and getting to know you better.

The audience may be thinking the following things:

"He sounds very proud of his accomplishments."

"He doesn't seem to recognize all of the efforts we have been making here."

"Why is he talking about profit on a formal occasion like this?"

"He makes it sound like we are only concerned about stockholders."

"Does he think that Asia is one place?"

"Why did he mention his wife?

A more appropriate speech, playing to the audience's preferences for a team-based, indirect and relationship-oriented approach might have been:

It's a pleasure to meet with you today and have the chance to work together with you over the next several years. As you all know so well, this is an exciting and competitive part of the world, and we have many opportunities to become an even more vital contributor to our worldwide organization. There is much that I need to learn about doing business here and about each country and culture in the region. I look forward to getting to know each of you and the people in your sales organization much better.

Managers who do not speak the host-country language are vulnerable to receiving limited or distorted information about individual performance from people in key roles. When managers introduce the concept of accountability but still do not realize the unexpected effects of market circumstances, poor business results can be attributed to the wrong causes. Employees may feel divided motivation between evaluation criteria set by the foreign manager and that set by local managers. In addition, junior employees at immature subsidiary organiza-

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An Incorrect Evaluation

Ernest Gundling describes an incident that occurred a number of years ago when an Indian scientist joined his work group. Gundling was uncomfortable with the scientist from the start. The scientist wore expensive clothes and kept his carefully oiled hair tidy; Gundling preferred a natural look. The scientist was talkative and gregarious and would debate at great length on all topics; Gundling stayed quiet unless he had something important to say. The scientist spent hours in the cafeteria talking to acquaintances; Gundling spent his time in his cubicle working on his action items.

Eventually Gundling told an American colleague that he didn't feel the Indian scientist was adding value to the group. The American colleague told him he was wrong. The Indian scientist had made important contributions in generating new ideas and building support in the organization for the next implementation steps. The Indian scientist himself heard about Gundling's remarks, and told the author that there were many ways of getting things done. "I was embarrassed both for evaluating him incorrectly and for passing on that mistaken view without verifying it," Gundling writes.

Interpersonal Skills

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tions do not have the benefit of middle management mentors, or the middle managers may not have the skills or inclination to train and develop them.

Often those with good people skills at home make the wrong choices abroad. The most common trap is to evaluate people positively on the basis of language skills when they are deficient in managing subordinates or working with customers. Learn local standards so that you can discern when conduct that signals competence in your own environment has a different significance. ■

For Additional Information on comparative cultural orientations, go to: http://my.summary.com

Group Skills

Beyond working one-on-one, so much of business relies on team work. The problems of culture become magnified with each new person or culture that is added to the group. Working on global teams, training and development, selling and negotiating all need to be approached differently than they would be at home.

#5 Working on a Global Team

Teams play an increasingly vital role in accomplishing corporate business objectives, and teamwork is not easy for a diverse group whose members bring very different viewpoints. Globally dispersed teams that rely heavily on virtual forms of communication are common. This becomes difficult because of individual personalities; whether the team members trust each other; different communication styles; the tendency to defend national interests; and basic assumptions regarding the role of the team leader or meeting styles.

The more diverse a team the more information and perspectives it has to work with, but the diversity also makes it more difficult to work toward shared goals. Develop positive team chemistry by creating a shared context and building relationships of trust and rapport. Because the ability to contribute ideas or offer constructive criticism is influenced by cultural background, meeting facilitation techniques become important for drawing out opinions. For a team to work cohesively, it must decide on mutually acceptable styles for decision-making, a common team vision, problem solving methods, roles and responsibilities, and a set of core intercultural values that bind team members together.

The amount of "context" available through different types of interactions should be considered depending on the importance of the meeting. Person-to-person meetings afford a large number of contextual cues through informal contacts, direct physical exchanges, nonverbal messages. Each step on the way from personal meetings to e-mail involves a significant loss of context.

One caveat is that though humor is a key ingredient to building good intercultural teamwork, inappropriate humor can be offensive and can reflect poorly on the humorist. A safe form of humor in an intercultural context is directing it at one's own shortcomings.

#6 Training and Development

Training and development objectives are relatively universal despite the radical changes in recent decades. Training still remains a primary vehicle for enabling employees to meet corporate objectives. But learning styles and instruction methods, like everything else, are deeply influenced by culture. Trainers going abroad can make the mistake of presenting materials at a level that is either too advanced or simple for their foreign audience or has a lack of content fit, such as corporate mandated U.S.-based diversity training in India where the relevant diversity issues center on Muslims.

Overseas trainers should reconsider their attitudes and expectation in certain areas:

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Group Skills

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- **Credentials** — What credentials are important to the trainees and how will they probe for them?
- **Level of formality** — What level of formality do the trainees expect from the trainer?
- **Agenda** — How closely is the trainer expected to follow the agenda?
- **Discussion or debate** — Will audiences grill a presenter on factual claims? Is the presenter prepared to defend these claims with rigorous observations?
- **Small groups** — Are the trainees more comfortable discussing questions and concepts in small groups than in front of the whole audience?
- **Tests** — Do the trainees expect and want to be tested to prove the rigor of the training?

Cultural issues are equally important in employee development, whether it is formal or not. Western managers' approach to employee development involves setting parameters of a task and giving an employee room to complete it, assuming he or she will consult the manager if necessary, but only after trying to solve the problem first. Other cultures can view this hands-off style as "delegate and disappear." When dealing with subordinates who do not understand the Western style, managers should anticipate developmental needs of the employee; establish standards through personal example; expect employees to bring you problems; and expect to be approached about personal as well as business matters.

With respect to managing performance, it is important to work hard to integrate any new performance management systems into the foreign country's culture and make sure that everyone understands that judgments are going to be based objectively on performance rather than relationships. You will need comprehensive training for managers and employees; recognition for contributions to a team so employees do not see top performers as selfish and unjustly singled out for praise; clear quantitative measurements; frequent informal feedback; and a culture of openness where people can discuss how to improve their performance.

#7 Selling

Selling is likely the most resistant occupation to globalization, because buyers everywhere are literally and figuratively more comfortable with sellers who speaks their own language.

Initial Contacts — The task-focused methods of initiating contacts, such as cold calling, e-mail and ads, are less effective in foreign markets where an introduction from a mutually respected third party is far preferred.

Discovery — Keep culture in mind when learning about the organizational and transactional background. Develop effective responses to potentially incomprehensible behavior such as customers more interested in how you can fix the past than the future; customers who react better to personal questions than business questions; or those who expect to be treated like royalty instead of partners.

Relationship Selling — Relationships do not end with the sale in many cultures. They continue to grow over time and develop a web of mutual obligation. The progression from vendor to outsourcing solution to strategic partner is similar to the progression from acquaintance to friend to family, and each step comes with more serious obligations than you typically expect of business partners.

Handling Customer Concerns — The deepest objections and concerns held by customers may not be expressed directly, since broaching awkward subjects with foreign "guests" is uncomfortable. Learn to recognize the meaning behind common probes and give answers that respond to the underlying issues.

Persuasion — Western salespeople sell to an individual customer with a particular personality, but that is difficult when the buyer is a complex group that has dramatically different behaviors depending on the situation. While you may believe persuasion is a matter of verbal agility, elsewhere it may also involve nonverbal and contextual clues as well as lobbying through third parties

(continued on page 6)

Making Contacts in Italy

Dave Wong has spent the past few weeks meeting with Mr. Adamo from an Italian company that would help the expansion of his business in southern Europe. The meetings are friendly and open, if a little long, but the overall tone is positive and Adamo is interested in the leadership and reputation of Dave's company and its experience with other Italian customers.

Dave asks an Italian manager how to cement Adamo's interest, and the manager advises face-to-face meetings between Dave, Adamo, and selected contact people from other Italian customers. Their feedback and endorsement will show Adamo the company is well respected and connected in Italy. Dave thinks the request will be an imposition on his customers, but finds to his surprise and pleasure that they are happy to do it.

In the Italian relationship-oriented culture business people feel more comfortable dealing with people they know well, so this sales approach is appropriate. But a reciprocal obligation comes along with the privilege of making this kind of arrangement. The customers who have so cheerfully agreed to cooperate may soon ask Dave Wong to return the favor.

Group Skills

(continued from page 5)

and associating with high-status people or institutions.

Closing the Sale — Salespeople tend to misread signals from foreign buyers about when and how to "close." The classic mistake is believing you have an agreement when the mild "yes" from your host is nothing more than polite interest or a signature means little in the local legal environment. The close expands to stages such as listening to and incorporating customer ideas, not rushing the buyer when you want to close, and completing small projects in hope of getting larger ones later.

#8 Negotiating

With so many stakeholders and potentially conflicting interests, it is difficult for cross-border negotiators to overcome cultural and national differences. Because their consumer economies are based on fixed prices, businesspeople from the U.S. and Northern Europe are at a distinct disadvantage in countries where consumer prices are negotiated. Never be overconfident when negotiating abroad. It is extremely difficulty to outwit a foreign negotiating team when it is part of their heritage. For example, compare some elements of the Chinese negotiating style to your own expectations:

In China any knowledge is power and there is **no expectation that confidential negotiations will be kept secret.** The people you negotiate with today already know what price you agreed to with your previous customer.

The Chinese are charming and skilled at coaxing additional concessions in the spirit of friendship and mutual cooperation, especially from **starry-eyed companies intoxicated by the prospect of 1.2 billion new customers.** Be certain of and firm about your bottom line, and never give a concession without receiving one of equal or greater value in return.

Chinese negotiation **teams have a leader who consistently speaks on behalf of everyone.** If individual members of American teams express different opinions in the name of creative brainstorming, the other team will pick up on who is more sympathetic to them, develop a special friendship, and eventually call in their chips.

Relationship-based cultures with long histories are less hurried than their counterparts and are **unlikely to yield concessions because of time constraints.** Once they know your departure date or internal operating deadlines they will use that as leverage.

Unresolved issues from the day will often reappear during the course of a banquet or after-hours socializing. **Stay alert because lengthy toasts often signal negotiating demands,** and you will be at a disadvantage if half-drunk and unprepared to respond with your own toast.

In China the **contract signing is a symbolic mutual acceptance of a new relationship.** When unexpected problems arise people turn to the flexibility of the new relationship to solve the problems. What Americans see as postcontract negotiations in bad faith, the Chinese see a natural problem-solving method. ■

Organizational Skills

Once you have internalized these people skills and developed an awareness of the differences between your national culture and that of your overseas partners, you must determine how to adjust and accommodate your *corporate* culture to the business arena abroad as well.

#9 Strategic Planning

The most critical strategic act in a cross-border contest is "frame shifting" or moving from a plan of action that makes sense in one environment to another plan that makes more sense elsewhere. The key skills for strategic thinkers in the global environment are questioning assumptions and anticipating future global market changes.

Strategic planning involves examining the external business environment and internal capabilities of your organization, then formulating goals and an action plan to achieve your organization's vision. In your home country you may know how to do this, but abroad your success will depend on **what** information is examined, **who** is involved in creating strategy, and **how** the process is structured. Obviously international employees should be involved as much as possible.

Because relationships are so important abroad, create a deliberate relationship strategy linked to your business strategy. Relationships may be the best available source for gaining access to key customers, collecting market intelligence, protecting intellectual property, or winning government support. Cultivating and sharing personal networks is critical in grasping indigenous frames of reference and making the adjustments to develop a successful strategic plan.

You will also need to develop global leaders to regenerate strategic success. High potential employees must learn cross-border strategic planning, as well as combine the analytical skills and personal qualities needed to direct and engage with employees around the world. To create these new leaders, begin a deliberate global development plan involving varied job experience, international business travel, multicultural teamwork, contact with executive role models, and global business responsibility.

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Organizational Skills

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#10 Transferring Knowledge

Transferring knowledge smoothly and efficiently across borders has become an important competitive differentiator. A key skill required is creating "pull" or a demand for the knowledge that is to be transmitted. Some of the major drivers of global knowledge transfer are global product development strategies, relocation of production facilities to lower-cost labor sites, host government demands for a policy of proactive technology transfer, and the high cost of expatriate packages.

Gather the knowledge — Much knowledge is tacit rather than explicit. You must gain the trust and cooperation of the people who hold the accumulated experience and intuition.

Convey the knowledge — Look for ways to create a pull factor and ensure that information is shared horizontally and vertically.

Get the knowledge to stick — Expect problems in individual accountability, and look for ways to strengthen and reinforce accountability through personal relationships and concrete systems for data collection, evaluation and rewards.

Generate new knowledge — Cultivate local leaders who fully buy into the new practices. Accommodate cultural differences but do not allow them to be used as a smokescreen to conceal poor performance.

Knowledge transfer can be affected by all sorts of other issues, including:

- **Organizational vision and strategy** and the commitment to boundaryless knowledge sharing.
- **Politics and community relations** between the organization and host country.
- **Definitions of knowledge** by people with different backgrounds.
- **Subsidiary capacity** to acquire new knowledge given education and experience level of local employees.
- **Personal trust and relationships** between parent company managers and subsidiary employees.
- **Information technology systems** and whether they are designed to enhance personal interaction or replace it.
- **Performance evaluation and reward systems** that are structured to support knowledge transfer.
- **Protecting intellectual property** from misuse and guarding against overly enthusiastic or illicit pull.

#11 Innovation

To succeed at innovation, managers and employees must generate ideas, turn them into substantive products and services, and implement them. When relying on sources from across the world, company leaders have an added challenge. The corporate strategy may espouse innovation, but a more traditional set of hierarchical values remain in place in subsidiaries. Without systems that provide incentives and minimize disincentives, employees will not push for promising but untested ideas.

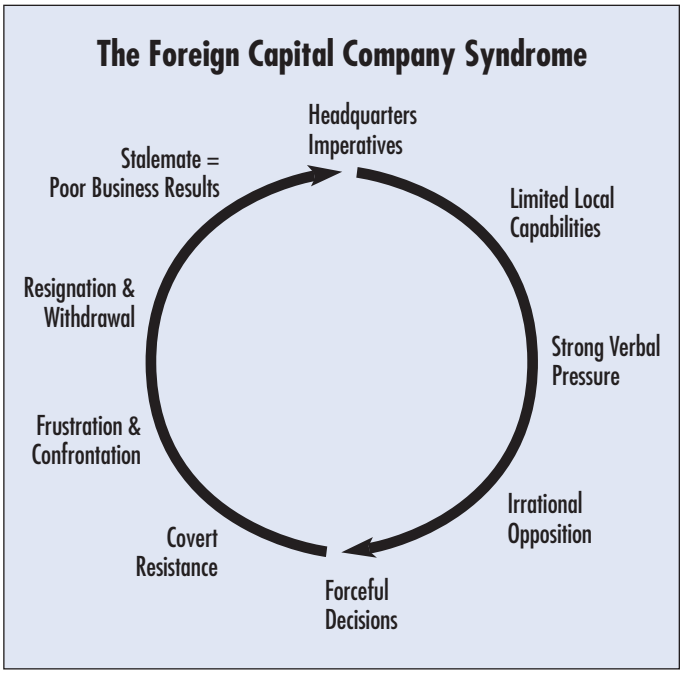
All areas of an organization including individual behaviors, teamwork, management practices, organizational systems and culture should be aligned to foster innovation and then convey the delicate balance to other environments. Improved communication throughout the company will help spread ideas as well as commitment to innovation. Focusing subsidiary energy to suit their competencies, such as invention, product development or commercialization, is another way to spread innovation.

State of the art innovation leverages globalization to make further innovation possible. The complete package for achieving global competitive advantage is to provide attractive products or service in the world's most profitable markets at the lowest possible cost in a socially responsible way.

#12 Managing Change

Even at home, tremendous momentum is required to move new changes forward in an organization, but to do it across borders you need a shared repertoire of global change management skills and a positive track record of past transformations to engender goodwill. This means building partnerships, but often change initiated by corporate headquarters meets with stiff local resistance abroad. Because subsidiaries are so far away, it is easy for them to ignore directives from the corporation or make their own changes.

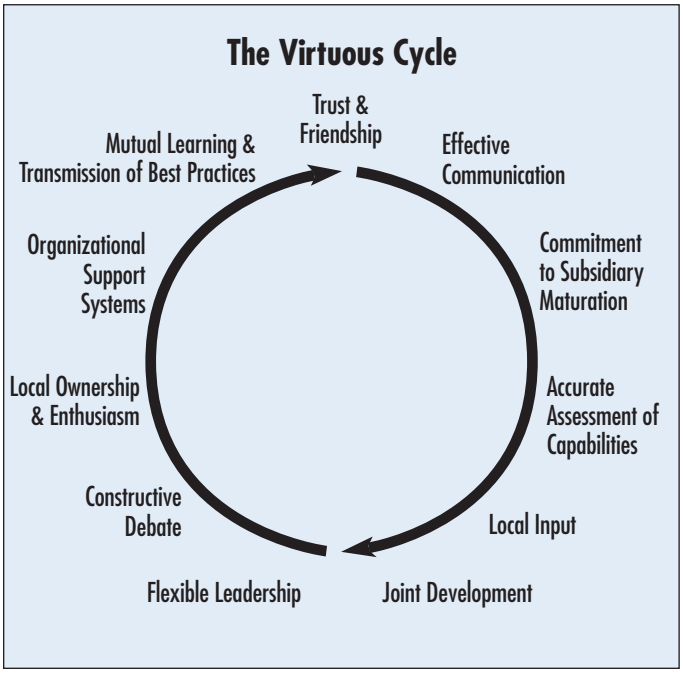
Organizations often get trapped in the "Foreign



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Organizational Skills

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Capital Company Syndrome," a negative cycle of misunderstanding and misguided efforts (see chart on page 7). This negative spiral leads from fruitless discussion to imposed change to covert resistance and, finally, to poor business results.

Some of the most spectacular failures of cross-border change efforts can be traced to the failure of would-be change agents to establish credibility, obtain accurate information from distant locations, select the right people to drive the project, or lay the proper foundations for productive team interactions.

A better idea is to emulate the Virtuous Cycle, which generates positive momentum (see illustration above). In this case, effective communication, accurate assessment of capabilities, local input, joint development and other positive approaches leads to local ownership and enthusiasm, mutual learning and transmission of best practices and other positive results.

Often there is the desire to merge two cultures and their separate systems to create a "happy hybrid," but trying to make everybody happy is foolish. There is a broad menu of options beyond superficial hybrid solutions for those in charge of corporate makeovers. Systems can be standardized, selected, adapted, combined, integrated or adopted to come up with new ways of doing business. Think carefully about which approach or combination of approaches is most appropriate for every situation. ■

For Additional Information on western assumptions and possible alternative perspectives, go to: http://my.summary.com

Global Citizenship

As international managers head out to become global citizens they must consider how they will be changing the world. Does the foreign country want the changes you bring? Should it have them? As values around the world change, the best place to initiate change is where local customers and employees desire it or are open to it. Rather than national international managers, the world needs global citizens who can easily move from one culture to another. They encompass the core items of trust, respect and listening covered in these 12 skills, but also participating in meaningful work, profit, integrity, social justice, environmental sustainability, mutual learning and personal and professional growth. Global citizens transcend the dichotomies of parent and subsidiary and home and host country. As the ratio of overseas to domestic revenue shifts dramatically, companies will need employees who can recognize local customer needs, weight them against the organization's strategic priorities, and invest valuable resources in the best interest of the company. ■

For Additional Information comparing International Managers to true Global Citizens, go to: http://my.summary.com

Innovating by Globalizing

Infosys, headquartered in Bangalore, India, describes itself as an innovator in "solution definition and engagement delivery." It has prospered by finding innovative ways to enter and thrive in the global marketplace, thereby laying the foundation for further innovation. Its most compelling innovation is to package an irresistible business proposition for overseas customers:

- ✓ Well-trained English-speaking software talent
- ✓ The ability to manage large-scale software projects
- ✓ Supportive government policies
- ✓ Round-the-clock service provided by operations in different time zones
- ✓ Costs that are a fraction of those of in-house services or outsourcing operations based in the U.S. or Europe.

Infosys has been a pioneer in the outsourcing revolution that is changing the economy of Bangalore and India. Built on globalization, 70 percent of the company's business is from U.S.-based clients. The company has managed to convince the West it can provide high-quality reliable services and at the same time demonstrate to local residents that it is not just exploiting cheap labor.

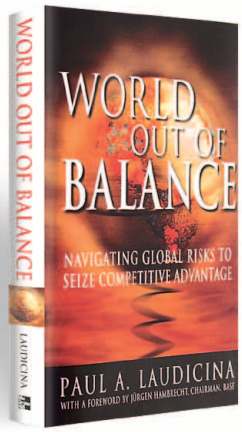
· Book 304 of 304 ·

World Out of Balance

Paul A. Laudicina

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Paul A. Laudicina

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WORLD OUT OF BALANCE

THE SUMMARY IN BRIEF

World Out of Balance *is a call to action to the corporate community to understand the external world in order to engage it. It explains why companies should develop their own structured, dynamic processes for reading the signs of change in a complex and often perplexing world, with at least one eye firmly directed toward the future. The objective is to sort false signals from meaningful developments so business leaders can anticipate and prepare for changes with the greatest potential impact on business operations down the road.*

In World Out of Balance*, Paul A. Laudicina, the managing director of A.T. Kearney's prestigious Business Policy Council, provides a practical framework for making sense of changes in the external environment and offers straightforward scenarios of how the future global business environment might evolve. His framework is based on what he has identified as five primary drivers of change — globalization, demographics, the new consumer, natural resources and the environment, and regulation and activism. Laudicina argues that today's earth-shattering events are fundamentally different from those of previous eras of history, as technologies are collapsing distance and spawning unprecedented global interdependence. Only a disciplined strategy will embolden corporate management to engage the world and seize the many opportunities it presents.*

What You'll Learn In This Summary

✓ How you and your company can stay ahead in a world of constant change.
✓ How you can prepare for the opportunities and threats that come along with burgeoning populations in unfamiliar markets.
✓ How changing demographic trends offer opportunities to businesses that can anticipate positive developments that affect populations of people.
✓ How five main drivers are shaping the ever-changing business world.
✓ How to better prepare for your company's future and realize the potential of new global realities.

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WORLD OUT OF BALANCE

by Paul A. Laudicina

— THE *COMPLETE* SUMMARY

A Call to Action

Not long ago, most leading companies had possessed strong in-house capabilities for monitoring changes in the external environment. Companies like Royal Dutch/Shell pioneered increasingly sophisticated risk management and strategic planning functions to balance the considerable opportunities they saw overseas with the enhanced vulnerability to social and political unrest, economic upheaval, and natural disasters to which global expansion exposed them.

Rounds of cost cutting and corporate restructuring took their toll on strategic planning departments in the 1980s, and a decade of "benign globalization" in the 1990s shaped an exuberant worldview among a new generation of business leaders. Many believed that careful planning against external exigencies was largely unnecessary for success in global markets. As a result, most companies today lack the means to identify and manage external risks and find themselves without bearings in this increasingly complex world.

External Uncertainties and Shocks

Business leaders do not need to be paralyzed. Companies can — and should — undertake expansion strategies even when external uncertainties and shocks can have as much impact as traditional industry dynamics. With the most promising opportunities located outside home markets, hiding from risks is not an option. Instead, companies must bring insights about the external environment into the planning process in order to spot and act on new opportunities and avoid emerging threats. The key to this approach is plotting the five drivers that are most likely to shape the global business environment. The five drivers — globalization, demographics, consumer needs, natural resources and environment, and regulation and activism — are interdependent but not always mutually reinforcing.

The Gas Pedal: Technology

What makes this era of globalization truly unique is how inexpensive and powerful technology has become. New technologies create new opportunities, but if governments continue to fail to implement universal standards, corporations might find themselves confronted with an increasingly complex patchwork quilt of regional and national regulations. This complexity will curtail organizations' ability to expand markets and operations abroad, and limit the opportunities technologies offer to underserved populations. ■

Globalization: Two Steps Forward, One Step Back

The first modern multinational companies were born in the 19th century. The Singer Manufacturing Co. expanded the production of its sewing machines abroad in the 1860s. In 1863, a Singer sewing machine was presented as a gift to the King of Siam, whose acceptance helped establish the brand locally and provided the company with a successful model of celebrity endorsement and mass marketing that it would replicate across the globe. Before long, the company had a substantial presence in both Europe and Czarist Russia, and ultimately established a global market share of some 80 percent, with annual worldwide sales of 1.35 million machines in 1903.

For the most part, early multinationals remained companies with dispersed production and decentralized management. Long-distance shipping was difficult and communication was costly, so local managers enjoyed considerable autonomy in manufacturing and marketing products.

Modern Globalization

By contrast, contemporary globalization is a very different breed. Rapid transport, sophisticated logistics, and instantaneous communication have allowed for increasingly complex, dense forms of interaction. Executives can easily meet face to face. They can send sales and production data anywhere and at any time. Companies are able to disaggregate their production around the world, relying on just-in-time deliveries to keep manufacturing facilities running. By the end of the 20th century, nearly 63,000 multinational corporations were operating worldwide.

Deepening integration among financial markets further

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Globalization: Two Steps Forward, One Step Back

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complicates how companies act internationally. As the Asian financial crisis revealed, malaise in one market can quickly evolve into a contagion that infects others. Even in relatively stable times, unexpected currency fluctuations can take a big bite out of corporate profits. German automaker Volkswagen reported losses of $1.5 billion as a result of the volatile dollar-euro exchange rate in 2003 alone.

Three Possibilities of Globalization's Evolution

The future path of globalization is uncertain. On one hand, countries may decide that the threats are too great and retreat to a more isolated position. On the other hand, globalization has proven itself time and again to be an adaptive phenomenon that takes more steps forward than back. The following three scenarios sketch different possibilities of how globalization may evolve between now and 2015:

Scenario 1. The Rise of Localization. Mounting security threats and economic uncertainty start to unravel the threads of globalization. Protectionism and nationalism proliferate. New security regulations restrict the cross-boarder movements of potentially harmful cargo, people and money. Consequently, international trade and investment slow substantially. Income inequality both between and among nations rises sharply. Caught in a cycle of worsening economic conditions, even traditionally free-market governments respond to intense public pressure to safeguard jobs.

Individuals are increasingly disdainful of global culture, global brands, and global norms, and seek refuge in the sanctuary of national identity. The antiglobalization movement, once the domain of nongovernmental organizations (NGOs) and street activists, finds growing resonance in white-collar suburbs. Unfettered global integration is believed to cause more harm than good. Confronted with these fears, the representative democracies of the industrialized world increasingly favor stability over efficiency.

Scenario 2. Bilateral Half-Measures. Countries take incremental and modest steps toward globalization, but the pace is more cautious than during the heady 1990s. As countries seek to maintain their competitive advantage in the global marketplace, it becomes increasingly tricky to paper over differences such as levels of agricultural subsidies and the scope of intellectual property laws. Multilateral trade and investment agreements are supplanted by regional treaties among nations whose interests most closely converge.

With no coherent global standards on issues such as the environment and biotechnology, companies that seek to expand globally must navigate a complex regulatory obstacle course. As a result, all but the largest corporations limit their expansion to a specific region, opting to dominate in one local standard while competing in other parts of the world on a more limited basis.

Scenario 3. Homo Economicus. The world returns to the path of ever-deepening global integration that began in the 1990s. Global trade is on a rebound. Offshoring and other capital flows continue, and their powerful development impact on Asia generates positive returns for Europe and the United States in the form of increased purchasing power abroad. All major economies are members of the World Trade Organization (WTO), which has eliminated the most onerous barriers to international trade. Still, in some areas, free trade negotiations have reached an impasse and governments find it difficult to reach consensus on several thorny issues. Trade in services is booming, and secure digital connections allow far-flung, global production and distribution networks to emerge.

Antiglobalization activists remain a small, but influential, group and focus their efforts on helping the least developed countries. Transnational problems, such as infectious diseases, computer crimes, terrorism, and financial instability, often foster international cooperation among governments and institutions, since no country can reasonably hope to completely isolate itself from such threats. Finally, although "global culture" remains a popular buzzword, it is countered by the increased exposure to an ever more diverse set of people — and all the creativity, ideas and perspectives they bring to the table. This return to benign globalization does not offer limitless opportunities — but they are vast, and they penetrate many levels of society. ■

How Preparation Saved Nokia

Mobile telephone maker Ericsson learned the hard way about the consequences of not being prepared after lightning struck a critical supplier's plant in New Mexico, starting a small fire. The Swedish company did not learn about disruptions in its supply chain for weeks, but its competitor Nokia, which also depended on the same supplier, had contingency plans in place within days. By the end of the year, Nokia had improved its market share, while Ericsson posted a $1.7 billion loss and outsourced its handset manufacturing to another firm.

For additional information on the global impact of computer viruses, go to http://my.summary.com

Demographics: An Age of Extremes

The global community stands on the brink of new demographic challenges that come from the rapid aging of the world population. For most of human history, only 2 to 3 percent of the global population lived long enough to

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Demographics: An Age of Extremes

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become senior citizens. The World Bank now predicts that 16 percent of the global population — more than 1 billion people — will be over 60 years old by 2030.

As a result, the future of many countries may well resemble Florida, where pensioners and retirees represent nearly one-fifth of the population. The "Floridaization" of the world will be most acute in wealthy, industrialized countries, which will pass this same demographic benchmark in a matter of years: Germany in 2006, France and Britain in 2016, the United States in 2021, and Canada in 2023.

Unique Opportunities

Changing demographic trends offer unique opportunities to businesses that can anticipate positive developments that affect the population. For example, lower fertility rates and smaller families translate into more disposable income for women. While rapid urbanization will challenge developing countries, sprawling megacities offer a prepackaged infrastructure for marketing and selling products and services to those living at the bottom of the income pyramid.

Corporations that capitalize on the ebb and flow of the demographic tide will find themselves ahead of the game as they compete for human capital and consumers worldwide. The following three possible scenarios could play out between now and 2015:

Scenario 1. Restless Masses. The global population surges, mostly in developing countries. Government promises on improved social insurance programs fail to fully materialize. Fertility rates climb as families insure themselves against economic uncertainties by relying on additional children to bring in extra income and to care for parents and grandparents in their old age. In developed countries, pension and health care programs are under serious strain: Older workers exit the work force en masse as the costs of social programs skyrocket and retirement funds underperform.

Scenario 2. Immigration Queue. World population growth continues along a similar trajectory as today. In advanced economies, such as Italy and Japan, the economic burden of supporting the elderly falls heavily on an ever-shrinking pool of workers. Governments of advanced economies may open national borders to more immigrants to offset their shrinking work forces.

Scenario 3. Global Talent Flow. Population growth slows globally. As economic conditions improve and family planning programs become more widespread, fertility rates decline rapidly in developing countries. As the ratio of workers to retirees continues to shrink, countries increasingly utilize previously untapped demographic groups, such as women and younger people, to enter the work force. ■

What Causes Global Aging?

What explains the phenomenon of global aging? The first factor is rising longevity, thanks to improvements in health care and better standards of living. Since WWII, average world life expectancy at birth has jumped from 45 years to 65 years — a higher gain in the last half century than in the previous 5,000 years.

The second cause of global aging is declining birthrates. Instead of a population boom, there is actually a "baby bust" in countries and territories that today account for 44 percent of the world's population. Global birthrates have declined steadily since the early 1950s, when each woman had an average of five children. Today, the global fertility rate is 2.7. In developed countries, the average number of births per woman has fallen to 1.7 — far below the rate of 2.1 children per woman that maintains stable population size.

The New Consumer: Forging Bonds in a Fragmented World

Consumption patterns are greatly influenced by purchasing power, which has risen globally, but most acutely in emerging markets. Future global economic growth will significantly influence the levels of wealth and purchasing power among consumers in different countries, as well as the continued spread of technological use among consumers. Here are three possible scenarios for the consumption patterns of the new consumer between now and 2015:

Scenario 1. Rice and Beans. The first possibility would be weak economic growth worldwide — or worse yet, a prolonged global recession or a global economy disrupted by unpredictable events. Such a scenario would restrain the rise of the global middle class in emerging markets and elsewhere. Consumers in developing countries would be empowered and demanding, but possibly unable to afford the quality products they want.

If this scenario materializes, companies must find innovative ways to price quality goods at very low prices for mass consumption in order to get a piece of the shrinking consumer pie. Domestic companies in developing countries may be more agile and capable of supplying such products, and may also be viewed as less culturally intrusive. Global companies entering these markets may find themselves targets of a serious backlash, as they may be viewed as exploitative of poor consumers. Under this scenario, global corporations may increase their likelihood of survival by scaling back intrusive marketing efforts; toning down their brands; and operating as smaller, regionalized companies that partner with domestic brands.

Scenario 2. World Bazaar. If the global economy main-

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The New Consumer: Forging Bonds in a Fragmented World

(continued from page 4)

tains moderate and stable growth, allowing consumption patterns to remain similar to those today, consumer demand will continue to span a wide spectrum from customized, quality goods to subsistence basics. Increased fragmentation of consumer groups could confer a competitive advantage upon global companies that have already established themselves in emerging markets, as they can more easily command loyalty among existing customer groups.

Companies that wish to enter these markets must strive to quickly win the hearts of fragmented consumers and repackage products to reach masses of lower income customers. Companies that manage to be all things to all people through multiple, differentiated product lines that offer high-end to low-end merchandise may be more uniquely capable of reaching a broad consumer base.

Scenario 3. Hey, Big Spenders. The third scenario envisions savvy, technologically sophisticated, and affluent consumers worldwide, with new concentrations of middle-income consumers in developing countries. Global economic growth continues to surge, spreading wealth across different income groups in both advanced and emerging markets. As personal income levels continue rising, affluent consumers dominate consumer markets. Demand for premium products swells across the globe, with virtually all consumer segments seeking higher quality, more upscale products that they are now able to afford.

Global corporations must take the cue from their empowered consumers. Companies may find themselves fending off negative media and risking vandalism if they are too aggressive or intrusive in their marketing efforts. But they will watch market share slip away if they treat themselves as mere providers of goods and fail to tap into new demands and growing markets. ■

Natural Resources and the Environment: Stretching Limits

Fresh, drinkable water comprises only 2.5 percent of our total supply of water, and nearly 80 percent of that drinkable water is locked away in the polar ice caps and glaciers. Groundwater represents another 20 percent, which means that only 1 percent of fresh water is easily accessible.

Today, the majority of the world's population, approximately 90 percent, enjoys relative water sufficiency, as defined as an adequate amount of fresh water per person for all purposes. Five percent of the world experiences water scarcity, meaning there is insufficient water to satisfy normal requirements. Another 5 percent of the world is suffering from "water stress," a situation in which water supply problems are chronic and widespread, and there is mounting competition among water's various users. Among the countries expected to experience water stress or scarcity in the coming decades are India, Turkey, Nigeria, Poland, the United Kingdom, parts of China, and the western United States.

The New Energy Crisis

An estimated 1.6 billion people, or 25 percent of the global population, do not have access to electricity or gasoline. They depend on energy generated inefficiently by burning fuel, wood, and plant and animal wastes. A lack of energy perpetuates the cycle of poverty, while access to energy drives economic growth. Looking ahead to 2030, the International Energy Agency predicts that the global demand for energy will grow by two-thirds. This surge in demand will require an investment of up to $16 trillion.

When we consider all the variables that determine the availability of natural resources — political, technological, economic and regulatory — these three possible future scenarios emerge:

Scenario 1. Constrained Energy. This scenario envisions a world where there is little in the way of international cooperation and countries rely on their own unique assets. The world becomes increasingly polarized between those who have, or can afford, access to natural resources and those who cannot. Oil prices rise sharply due to increased demand, inadequate development of alternative energy sources, and an OPEC monopoly with renewed strength.

The United States and Europe reluctantly pay higher prices, but turn increasingly inward to protect their own economies. The United States seeks to safeguard its supply by providing significant military assistance to the resource-rich countries in the Middle East. The European Union imports oil and natural gas from neighboring Russia and cultivates relations with "rogue states" such as Iran. As Asia struggles to meet its energy needs, economic development slows throughout the region.

Despite warnings from scientists about rising greenhouse gas emissions, Western corporations successfully roll back environmental regulations, claiming they need to keep a lid on rising prices. At the same time, the higher oil prices lead to technological breakthroughs in alternate energy sources, including some clean energy solutions such as solar power and hydrogen fuel cells. The net effect on the environment, however, is still overwhelmingly negative.

Scenario 2. Necessary Invention. Countries strive to lessen their dependence on foreign energy. The oil and natural gas markets remain volatile, and when prices swing sharply upward, governments and companies seek alternate energy sources. The United States and Canada exploit oil reserves in the Arctic, construct a new generation of coal-fired power plants, and introduce legislation requiring more energy-efficient vehicles. European countries share declining

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Natural Resources and the Environment: Stretching Limits

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reserves of the North Sea and Scandinavian oil more efficiently, but they also develop more expansive, environmentally friendly renewable sources of energy.

As fossil fuels serve as the world's primary source of energy, global greenhouse gas emissions continue to rise. Water quality and availability worsen. Growing public concerns about environmental degradation — particularly in crowded urban centers — create a strong market niche for "green" products. Fuel cells emerge as a cost-effective option for large-scale applications, such as stationary power generators, but are still not able to compete with lower-cost hybrid systems in automobiles.

Scenario 3. Fuel for Growth. Surging economic expansion has made countries in emerging markets and industrialized countries more dependent on foreign supplies of oil and natural gas than ever before. Industrialized nations and key emerging markets form strategic alliances with resource-rich nations to meet their soaring energy needs.

As surging industrial growth takes its toll on the environment, water supplies deteriorate further. Governments provide incentives for corporations to reduce greenhouse gas emissions and conserve water. Companies recognize that protecting the environment means protecting their bottom line; they develop innovative ways to harness technology to ensure ample water resources, and reduce environmental damage. ■

Regulation and Activism: A New Breed of Challenges

"Government" may be among the most improved brands of the decade. Between 1994 and 2002, the share of Americans who said they trust government "most of the time" or "just about always" increased from 21 percent to 56 percent. Europeans place more confidence in the European Union (EU) and the United Nations than in their own national governments.

Growing security concerns have raised faith in governing institutions and given them a free hand to deal with national security issues. The United States and Europe have spent billions to implement new national counterterrorism measures, including enhanced airport security, passport control, and response teams for biological and chemical attacks. European nations have moved to create uniform banking standards and enhanced judicial cooperation within the EU.

The information technology industry has become an inviting target for new rounds of regulation. E-mail communication, electronic commerce, and digitized information have become so central to daily life that they need new "rules of the road," even if standards were not terribly important when the industry was still carving out its niche. With questions about privacy, intellectual property rights, and tax liabilities clamoring for answers, the authorities are likely to step in as traffic cops.

Frontiers of Science and Technology

Government intervention is being felt throughout the economy, from basic manufacturing to the most sophisticated telecommunications services. Nowhere is the effect stronger than at the frontiers of science and technology, where a host of new discoveries and developments is confounding existing regulations and rendering old ways of doing business irrelevant.

Perhaps the most intense ongoing debate surrounds the growing sophistication of biotechnology, where the ability of scientists to splice and manipulate genes has moved much faster than public acceptance for genetically modified (GM) organisms and "designer foods." Similarly, stem cell research and human cloning promise huge health advantages, but have also been subject to scrutiny from governments and citizens.

Against a backdrop of corporate scandals and declining faith in the private sector, corporate leaders face another kind of pressure: increasingly powerful activists bent on highlighting alleged abuses by multinational firms. These activists are part of a growing movement of people frustrated by the invasion of foreign influences and the perception that outside forces have taken control of their economic destinies and damaged the fabric of their societies.

New Dynamics of Regulation and Activism

How regulatory patterns unfold in the future will be determined by how corporations respond to the new dynamics of regulation and activism emerging today. Value-building companies that find creative ways to address broad social concerns and cooperate with interest groups may be better positioned for future success than those with a single-mind-

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The International Price of Spam

The United Nations Conference on Trade and Development estimated that, since the end of 2003, spam constituted 50 percent of all e-mail messages in circulation and cost as much as $20.5 billion in wasted technical resources. Even typically trustworthy corporations are under pressure to limit their use of e-mail to contact potential customers. Even a series of two e-mail newsletters from IBM asking subscribers to forward offers to their friends in exchange for free software was perceived as unwelcome spam by many recipients. As a result, governments worldwide are implementing an increasing amount of antispam legislation.

Regulation and Activism: A New Breed of Challenges

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ed pursuit of the bottom line. Business leaders must prepare for a wide range of possible scenarios, including:

Scenario 1. Big Brother Is Watching. This scenario envisions a hardening of the trend toward empowered governments and strident anticorporate activists around the world. Thousands of people see jobs disappear as their companies suffer market setbacks, and stockholders watch as their investments shrink. Governments expand their oversight and impose increasingly tight restrictions over the private sector, at the same time that taxes and fiscal spending are on the rise.

Compliance costs for most companies rise dramatically, and companies that survive find they are in a cost-cutting race to the bottom. Firms face intense pressure from regulators and activists, and only those that are able to cut back and make their organizations "lean and mean" survive.

Scenario 2. Partial Restraint. This scenario offers a more hospitable environment in which corporations, governments and activists find a middle ground. Occasional threats to national security continue to bubble up around the world, reinforcing the need for government oversight, while at the same time revealing its limitations. Tight budgets and a limited pool of talent help check government power, and most regulation remains moderate and rational. Large global companies become more attuned to volatile public opinion and do a better job of reacting to activist pressure, by strategically choosing times to fight and times to concede.

Scenario 3. Chicago Boys II. This scenario imagines a future in which global corporations experience a new boom and largely unfettered markets abound. As notions of corporate social responsibility spread throughout the ranks of business, corporations overcome the cynicism greeting them at the turn of the century. Big companies project increasingly transparent, responsible images, convincing larger segments of society that the private sector is aware of important issues and is ready to act responsibly. Having overreached in the past, once-powerful government regulatory agencies are cutting back. Activists remain powerful, but they more often work in partnership with corporations, who look to third parties to validate their sound business practices, adherence to emerging social and environmental norms, and socially responsible community initiatives.

Interacting Factors

Each of these outcomes depends upon multiple, interacting factors. Strict regulations and a reversal in globalization, for instance, could create an inhospitable climate for global business. Alternately, regulatory flexibility and strong consumer confidence could create powerful conditions for global business to reach new consumers in far-flung markets. ■

Activists and Technology

The infamous "Battle in Seattle," when antiglobalization activists effectively shut down a pivotal World Trade Organization summit, is widely acknowledged as the movement's coming-out party. Protests against national governments and multilateral institutions continue, but activists are increasingly focusing on corporations. International nongovernmental organizations (NGOs), whose numbers quadrupled in the 1990s from 6,000 to more than 26,000, have made important advancements in coordination. They are technologically savvy, using the Internet to transform local campaigns into international social movements with incredible speed. At the corporate level, firms are trumpeting their particular commitments to corporate social responsibility in an effort to pre-empt NGO wrath and appeal to consumers on an emotional level.

Visions of the Future

The scenarios that follow are designed to illustrate the kinds of global business environments that might emerge from a more complete scenario-planning assessment, and are based on the five drivers outlined in this summary. These three speculative scenarios are based on a certain combination of subscenarios that offer a view of the global business environment in the year 2015:

- **Scenario One: Patchwork World.** The state of the world and the business environment is characterized by a muddle-through mentality: Few governments show much leadership or vision, or even have enough high-quality talent to try to do so. The corporate sector responds in kind, seeking growth and profits by working their relationships and seeking advantage wherever they can find it in a fairly chaotic and turbulent world. Large patches of the globe are mired in poverty and violence, although the good news for North America, Europe and Australasia is that much of the trouble is localized and does not spill over excessively into the zones of affluence, though they would be getting even more affluent if global growth rates were higher.
- **Scenario Two: Castles and Moats.** This is not where the international community expected to end up. Security and survival preoccupy not only the world's poor, but also advanced countries, which have taken every possible means to insulate themselves from a world largely embroiled in vicious cycles of war, crime, terrorism, resource competition and disease. Citizens in affluent countries have willingly given up certain civil liberties and privacy in favor of broad and technically sophisticated defensive measures. This is a time of splitting the existing economic "pie" rather than expanding it, and companies operate as creatively as they can given the constrained access to markets, the risks that

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Visions of the Future

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abound, and a general mood of pessimism that prevails even among those still enjoying a good standard of living.

● **Scenario Three: Open Boarders, Lingering Fears.** The United States and China are the dominant economic, political and demographic players in the world — with large, robust markets that are highly intertwined, and muscular roles in the world that sometimes collide. Policy-making often moves in a different direction than it did in the late 20th century and isn't always in sync with business interests.

Governments are less concerned about directly supporting corporations and opening new markets than they are about ensuring security, responding to populist impulses, and providing a stronger regulatory counterweight to unfettered market forces. This is a time of intense business activity and technology innovation, and the rising tide of affluence continues to lift living standards in countries open to the global economy, even as further trade liberalization remains gradual. In the richest markets, companies tap into new consumption patterns emphasizing high-end, lifestyle-enhancing products and services.

Parsing Out the Implications

These three scenarios reflect measured judgments based on the best available insights at a given point in time. Circumstances and conditions undoubtedly will change, and with them the projected outcomes. For corporations operating in the real world, the process of discerning and calibrating these changes must be a continuous and dynamic one that allows corporate executives to seize the opportunities presented by change while understanding and managing the risks that accompany it. ■

Navigating Risks In Turbulent Times

Driven by an intensely competitive business environment, corporations have become increasingly dependent on global markets. Whether the drivers are revenue growth, cost reduction, or access to new knowledge, many of the most successful corporations already operate on a global basis. Even domestically focused companies are finding competitive pressures are increasingly forcing them to expand beyond their borders. The cost advantages of production in key developing markets combined with higher growth rates and demographic shifts moving greater consumer power to developing nations will compel corporations to move more and more of their value chain offshore. While offering new opportunities, such shifts will also present a new set of challenges.

As increasingly frequent, disruptive events have made painfully clear, companies are more vulnerable than ever to economic crises, security threats, supply chain disruption, and consumer backlash. The very innovations that have helped improve business efficiency and profitability increasingly are based on an integrated global business environment that also brings with it a series of interdependent risks. Consider these examples:

● **Just in Time.** Estimates suggest that the shift to just-in-time scheduling in the U.S. automotive industry alone has saved companies more than $1 billion a year in inventory carrying costs. The problem is that while costs have come down, risks have increased. If deliveries of critical components are delayed, the entire factory must shut down.

● **Extended Enterprise.** Increasingly, firms depend on a complicated network of customers, suppliers and partners that must all work together, and often no one person has oversight of the entire supply chain. In addition to day-to-day problems with forecasting, security, and information exchange, there is the increased risk of system failure if a key member of the network shuts down, even temporarily.

● **Outsourcing.** Although outsourcing can greatly reduce costs and often improve service levels, it can also compound risk as critical operations are managed outside the company and, increasingly, outside of the country.

Strategic Risk Management

Companies are turning to strategic risk management to improve outcomes while continuing to actively engage a volatile global business environment. More than just a checklist of safety measures, a strategic risk management approach identifies the core processes that drive a company's earnings and monitors both internal processes and external events to ensure that risk and reward are continually re-evaluated and rebalanced. The ultimate goal is, through an iterative process, to help companies evaluate their risk management process in the context of a structured "stages of excellence" approach.

As demonstrated in this summary, the dynamic drivers of the 21st century business conditions — imbued and turbocharged by extraordinary, ever-expansive technological innovation — underlie a world of continuous change and volatility. Those who fail to rigorously plan for and seize this future are abdicating their responsibility to their shareholders and stakeholders.

Stewards of the successful global corporation will not keep their corporate vessel docked at their home port waiting for calmer seas. Rather, with a constant eye on the telltale signs of changing conditions, and with all the expert input possible from a good crew and instrumentation alike, today's successful executive will ride the winds of change, meet the challenges they present, and realize the potential of these new global realities. ■

For additional information on the stages of excellence in risk management, go to http://my.summary.com